UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

# FORM 10-Q

(Mark One)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: September 30, 2002

or

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from_____ to______

Commission File Number 0-9992

KLA-Tencor Corporation
(Exact name of registrant as specified in its charter)

| Delaware | 04-2564110 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

160 Rio Robles
San Jose, California
95134
(Address of principal executive offices)
(Zip Code)

(408) 875-3000
(Registrant's telephone number, including area code)

- ------------------------------------------------------------------------------

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No_____

As of October 31, 2002 there were 188,689,136 shares of the Registrant's Common Stock, $0.001 par value, outstanding.

INDEX

<TABLE>
<S> <S> <C>

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

<TABLE>
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KLA-TENCOR CORPORATION
Condensed Consolidated Balance Sheets
(Unaudited)

| (in thousands) | September 30, 2002 | June 30, 2002 |
|---|---|---|
| ASSETS | | |
| <S> | <C> | <C> |
| Current assets: | | |
| Cash and cash equivalents | $ 435,646 | $ 429,820 |
| Marketable securities | 316,206 | 243,526 |
| Accounts receivable, net | 256,174 | 277,006 |
| Inventories | 318,896 | 323,016 |
| Other current assets | 353,281 | 345,920 |
| Total current assets | 1,680,203 | 1,619,288 |
| Land, property and equipment, net | 294,025 | 300,560 |
| Marketable securities | 598,828 | 660,237 |
| Other assets | 132,999 | 137,633 |
| Total assets | $ 2,706,055 | $ 2,717,718 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 36,909 | $ 52,988 |
| Deferred profit | 172,264 | 193,852 |
| Unearned revenue | 55,034 | 54,886 |
| Other current liabilities | 399,378 | 385,764 |
| Total current liabilities | 663,585 | 687,490 |
| Commitments and contingencies (Note 6) | | |
| Stockholders' equity: | | |

| | | |
|---|---|---|
| Common stock and capital in excess of par value | 722,599 | 765,946 |
| Retained earnings | 1,310,960 | 1,259,695 |
| Accumulated other comprehensive income | 8,911 | 4,587 |
| Total stockholders' equity | 2,042,470 | 2,030,228 |
| Total liabilities and stockholders' equity | $ 2,706,055 | $ 2,717,718 |

</TABLE>

See accompanying notes to condensed consolidated financial statements.

<TABLE>
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KLA-TENCOR CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)

| (in thousands, except per share data) | Three months ended September 30, 2002 | 2001 |
|---|---|---|
| <S> | <C> | <C> |
| Revenues: | | |
| Product | $ 312,508 | $ 454,396 |
| Service | 63,012 | 48,436 |
| Total revenues | 375,520 | 502,832 |
| Costs and operating expenses: | | |
| Costs of goods sold | 186,344 | 244,368 |
| Engineering, research and development | 70,853 | 72,923 |
| Selling, general and administrative | 70,441 | 81,248 |
| Nonrecurring acquisition, restructuring and other, net | (9,402) | -- |
| Total costs and operating expenses | 318,236 | 398,539 |
| Income from operations | 57,284 | 104,293 |
| Interest income and other, net | 10,170 | 12,552 |
| Income before income taxes | 67,454 | 116,845 |
| Provision for income taxes | 16,189 | 30,380 |
| Net Income | $ 51,265 | $ 86,465 |
| Earnings per basic share: | | |
| Net income | $ 0.27 | $ 0.46 |
| Earnings per diluted share: | | |
| Net income | $ 0.26 | $ 0.44 |
| Weighted average number of shares: | | |
| Basic | 189,279 | 187,717 |
| Diluted | 194,090 | 195,079 |

</TABLE>

See accompanying notes to condensed consolidated financial statements.

<TABLE>
<CAPTION>

KLA-TENCOR CORPORATION
Condensed Consolidated Statements of Cash Flows
(Unaudited)

Three Months Ended

| (in thousands) | September 30, 2002 | 2001 |
|---|---|---|
| <S> | <C> | <C> |
| Cash flows from operating activities: | | |
| Net income | $ 51,265 | $ 86,465 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 17,639 | 17,889 |
| Deferred income taxes | -- | (2,645) |
| Net gain on sale of marketable securities | (1,911) | (642) |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | 20,830 | 33,463 |
| Inventories | 4,115 | 33,313 |
| Other assets | (6,092) | 8,084 |
| Accounts payable | (16,075) | (5,928) |
| Deferred profit | (21,588) | (73,490) |
| Other current liabilities | 16,592 | (77,115) |
| Net cash provided by operating activities | 64,775 | 19,394 |
| Cash flows from investing activities: | | |
| Purchase of land, property and equipment, net | (6,815) | (31,169) |
| Purchase of marketable securities | (308,167) | (381,608) |
| Proceeds from sale of marketable securities | 266,396 | 247,761 |
| Proceeds from maturity of marketable securities | 34,830 | 4,450 |
| Net cash used in investing activities | (13,756) | (160,566) |
| Cash flows from financing activities: | | |
| Issuance of common stock | 4,151 | 2,162 |
| Stock repurchases | (47,497) | (53,484) |
| Net borrowings under short-term debt obligations | -- | 409 |
| Net cash used in financing activities | (43,346) | (50,913) |
| Effect of exchange rate changes on cash and cash equivalents | (1,847) | 1,582 |
| Net increase (decrease) in cash and cash equivalents | 5,826 | (190,503) |
| Cash and cash equivalents at beginning of period | 429,820 | 529,674 |
| Cash and cash equivalents at end of period | $ 435,646 | $ 339,171 |
| Supplemental cash flow disclosures: | | |
| Income taxes (refunded) paid, net | $ (6,037) | $ 3,630 |
| Interest paid | $ 48 | $ 320 |

</TABLE>

See accompanying notes to condensed consolidated financial statements.

KLA-TENCOR CORPORATION
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation The condensed consolidated financial statements have been prepared by KLA-Tencor Corporation ("KLA-Tencor" or the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited interim financial statements reflect all adjustments (consisting only of normal, recurring adjustments) necessary for a fair presentation of the financial position, results of operations and cash flows for the periods indicated. These financial statements and notes, however, should be read in conjunction with the Item 8, "Financial Statements and Supplementary Data" included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002, filed with the SEC on September 20, 2002.

The results of operations for the three month period ended September 30, 2002 are not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year ending June 30, 2003.

Fair Value of Financial Instruments KLA-Tencor has evaluated the estimated fair value of financial instruments using available market information and valuation methodologies. The use of different market assumptions and/or estimation methodologies could have a significant effect on the estimated fair value amounts. The fair value of KLA-Tencor's cash, cash equivalents, accounts receivable, accounts payable and other current liabilities approximates the carrying amount due to the relatively short maturity of these items.

Marketable Securities Short-term marketable securities include debt and equity securities acquired with maturities exceeding three months but less than one year from the date of acquisition. Non-current marketable securities include debt securities acquired with maturities exceeding one year from the date of acquisition. While KLA-Tencor's intent is to hold debt securities to maturity, KLA-Tencor has classified all debt securities as available-for-sale, as the sale of such securities may be required prior to maturity to implement management strategies. Such securities are reported at fair value determined based on quoted market prices at the reporting date for those instruments, with unrealized gains and losses excluded from earnings and included in "Accumulated other comprehensive income," net of applicable taxes, until realized. KLA-Tencor has classified some equity securities that have readily determinable fair values in a similar manner. The cost of securities sold is based on the specific identification method. Realized gains or losses and declines in value, if any, judged to be other than temporary are reported in "Interest income and other, net" in the Condensed Consolidated Statements of Operations. For equity securities where KLA-Tencor has established a hedge against price fluctuation, KLA-Tencor classifies both the security and the hedge as trading assets. These trading assets are reported at fair value determined based on quoted market prices at the reporting date for those instruments, with unrealized gains or losses included in earnings for the applicable period. The net amount of such gains and losses for the three months ended September 30, 2002 was not material.

Intangible Assets Purchased technology, patents, trademarks, favorable leases and goodwill are presented at cost, net of accumulated amortization. Effective July 1, 2002, KLA-Tencor replaced ratable amortization of goodwill with periodic testing of goodwill for impairment in accordance with the provision of Statement of Financial Accounting Standard No. 142, "Goodwill and Intangible Assets." Intangible assets other than goodwill are amortized over their estimated useful lives using the straight-line method.

Impairment of Long-Lived Assets KLA-Tencor evaluates the carrying value of its long-lived assets whenever events or changes in circumstances indicate that the carrying value of the asset may be impaired in accordance with the provisions of Statement of Financial Accounting Standard No. 121, "Accounting for the Impairment of Long-Lived Assets." An impairment loss is recognized when estimated future cash flows expected to result from the use of the asset including disposition, is less than the carrying value of the asset.

Concentration of Credit Risk Financial instruments, which potentially subject KLA-Tencor to credit risk, consist principally of investments, accounts receivable and derivative financial instruments used in hedging activities.

Investments are maintained with high-quality institutions, and the composition and maturities of investments are regularly monitored by management. Generally, these securities are traded in a highly liquid market, may be redeemed upon demand and bear minimal risk. KLA-Tencor, by policy, limits the amount of credit exposure to any one financial institution or commercial issuer. KLA-Tencor has not experienced any material losses on its investments.

A majority of KLA-Tencor's trade receivables are derived from sales to large multinational semiconductor manufacturers throughout the world. Concentration of credit risk with respect to trade receivables is considered to be limited due to its customer base and the diversity of its geographic sales areas. KLA-Tencor performs ongoing credit evaluations of its customers' financial condition. KLA-Tencor maintains a reserve for potential credit losses based upon expected collectibility of all accounts receivable.

KLA-Tencor is exposed to credit loss in the event of nonperformance by counterparties on the foreign exchange contracts used in hedging activities. KLA-Tencor does not anticipate nonperformance by these counterparties.

Warranty KLA-Tencor provides warranty coverage to its systems for a period of time, providing labor and parts necessary to repair the systems during the warranty period. The Company accounts for the estimated warranty cost as a charge to cost of goods sold when revenue is recognized. The estimated warranty cost is based on its historical experience with the product's performance in the field. If actual warranty activities differ from its estimates, the Company records revisions to the estimated warranty liability as required.

Revenue Recognition In December 1999, the SEC issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." The SEC

Staff addressed several issues in SAB 101, including the timing of revenue recognition for sales that involve contractual customer acceptance provisions and installation of the product if these events occur after shipment and transfer of title. KLA-Tencor implemented the provisions of SAB 101 in the fourth fiscal quarter of 2001, retroactive to July 1, 2000. Prior to adoption of SAB 101, KLA-Tencor's general policy was to recognize revenue on shipment. Accordingly, KLA-Tencor did not have any formal centralized processes for tracking, obtaining and filing customer acceptance reports; therefore, pro forma amounts for the periods before July 1, 2000 were not presented as the effect of the change in accounting principle could not be reasonably determined.

KLA-Tencor derives revenue from four sources - system sales, spare part sales, service contracts and software license fees. System sales include hardware and software that is incidental to the product. SAB 101 has no impact on KLA-Tencor's revenue recognition policy for spare part sales, service contracts and software license fees.

Prior to the implementation of SAB 101, system revenue was generally recognized upon shipment. Effective July 1, 2000, KLA-Tencor changed its method of accounting for system sales to generally recognize revenue upon a positive affirmation by the customer that the system has been installed and is operating according to predetermined specifications. In certain limited cases, KLA-Tencor may deviate from the need for a written acceptance by the customer, as follows:

- When system sales to independent distributors have no installation, contain no acceptance agreement, and 100% payment is due upon shipment, revenue is recognized on shipment;

- When the system requires no integration and installation is inconsequential, revenue is recognized on shipment. In these cases we are required to perform the installation but we consider installation not essential to the functionality of the equipment, and there are no additional tests required to be performed on-site. In addition, third party distributors and customers regularly complete the installation of these tools;

- When the customer fab has already accepted the same tool, with the same specifications on the same process, for the same application, and it can be objectively demonstrated that it meets all of the required acceptance criteria upon shipment, a portion of revenue can be recognized at the time of shipment. Revenue recognized upon shipment is exclusive of the amount allocable to the installation element. Revenue attributable to the installation element is the higher of the payment amount due upon acceptance or the fair value of installation;

- When the system is performing in production and meets all published and contractually agreed specifications, but the customer withholds signature on our acceptance document due to warranty or other issues unrelated to product performance.

Total revenue recognized under conditions where KLA-Tencor deviates from the need for a written acceptance by the customer were less than 2.5% of total revenue for each of the three months ended September 30, 2002 and 2001.

In accordance with SAB 101, KLA-Tencor also allows for multiple element revenue arrangement in cases where certain elements of a sales contract are not delivered and accepted at the same time. In such cases, KLA-Tencor defers the fair value of the unaccepted element until that element is delivered to and accepted by the customer. To be considered a separate element, the product or service in question must represent a separate earnings process, and is not essential to the functionality of the delivered and accepted portion of the same sales contract. If the unaccepted element is essential to the functionality of the delivered and accepted portion, the whole amount of the sales contract is deferred until all elements are accepted.

Spare parts revenue is recognized when the product has been shipped, risk of loss has passed to the customer and collection of the resulting receivable is probable.

Service and maintenance revenue is recognized ratably over the term of the maintenance contract. If maintenance is included in an arrangement, which includes a software license agreement, amounts related to maintenance are allocated based on vendor specific objective evidence. Non-standard warranty includes services incremental to the standard 40-hour per week coverage for twelve months. Non-standard warranty is deferred as unearned revenue and is recognized ratably as revenue when the applicable warranty term period commences. Consulting and training revenue is recognized when the related services are performed.

Revenue from software license fees is typically recognized upon shipment if collection of the resulting receivable is probable, the fee is fixed or determinable, and vendor-specific objective evidence exists to allocate a portion of the total fee to any undelivered elements of the arrangement. Such undelivered elements in these arrangements typically consist of services and/or upgrades. If vendor-specific objective evidence does not exist for the undelivered elements of the arrangement, all revenue is deferred until such evidence does exist, or until all elements are delivered, whichever is earlier. In instances where an arrangement to deliver software requires significant modification or customization, license fees are recognized under the percentage of completion method of contract accounting. Allowances are established for potential product returns and credit losses. To date, revenue from license fees have been less than 10% of total revenue.

As a result of implementing SAB 101, KLA-Tencor changed its method of accounting for revenue recognition. This change resulted in cumulative deferred revenue of $660.9 million as of July 1, 2000, which was recorded as a non-cash charge of $306.4 million (after reduction for product and warranty costs of $207 million and income taxes of $147.5 million). The deferred profit balance as of September 30, 2002 was $172.3 million and equals the amount of system revenue that was invoiced and due on shipment but deferred under SAB 101 less applicable product and warranty costs. KLA-Tencor also defers the fair value of non-standard warranty bundled with equipment sales as unearned revenue. The unearned revenue balance at September 30, 2002 and 2001 was $55 million and $57 million, respectively.

Strategic Development Agreements Net engineering, research and development expenses were partially offset by $6.0 million and $2.8 million in external funding received under certain strategic development programs funded by KLA-Tencor's customers and government agencies in the three months ended September 30, 2002 and 2001, respectively.

Earnings Per Share Basic earnings per share ("EPS") is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated by using the weighted average number of common shares outstanding during the period and gives effect to all dilutive potential common shares outstanding during the period. The reconciling difference between the computation of basic and diluted earnings per share for all periods presented is the inclusion of the dilutive effect of stock options issued to employees under employee stock option plans.

During the three months ended September 30, 2002, options to purchase approximately 5,454,000 shares, respectively, at prices ranging from $41.32 to $68.00, were not included in the computation of diluted EPS because the exercise price was greater than the average market price of common shares. During the three months ended September 30, 2001, options to purchase approximately 866,000 shares at prices ranging from $49.58 to $68.00 were not included in the computation of diluted EPS because the exercise price was greater than the average market price of common shares.

Reclassifications Certain prior year balances have been reclassified to conform to the current financial statement presentation. These reclassifications had no impact on previously reported results of operations or stockholder's equity.

Recent Accounting Pronouncements We have adopted SFAS No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" and SFAS No. 144 "Accounting for the Impairment of Disposal of Long-Lived Assets". SFAS No. 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. Adoption of these pronouncements did not have a significant effect on our consolidated financial statements.

In June 2002, the FASB issued Statement No. 146 ("SFAS 146"), "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities, and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liabilities Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This Statement requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. SFAS 146 will be effective for exit or disposal activities that are initiated after December 31, 2002. The standard will in certain circumstances change the timing of recognition of restructuring costs.

NOTE 2 - INVENTORIES

Inventories are stated at the lower of standard cost (which approximates the first-in, first-out basis) or market. The components of inventories are as follows:
<TABLE>
<CAPTION>

| (in thousands) | September 30, 2002 | June 30, 2002 |
|---|---|---|
| Inventories | | |
| Customer service parts | $ 114,635 | $ 116,240 |
| Raw materials | 59,751 | 75,753 |
| Work-in-process | 66,252 | 53,542 |
| Demonstration equipment | 44,969 | 54,003 |
| Finished goods | 33,289 | 23,478 |
| Total | $ 318,896 | $ 323,016 |

</TABLE>

NOTE 3 - STOCK REPURCHASE PROGRAM

The Company has adopted a plan to repurchase shares of its Common Stock on the open market for the purpose of partially offsetting dilution created by employee stock options and stock purchase plans. During the three months ended September 30, 2002 and 2001, the Company repurchased 1,443,000 and 2,068,000 shares of its Common Stock at a cost of approximately $47 million and $74 million, of which $47 million and $53 million was paid, respectively.

NOTE 4 - COMPREHENSIVE INCOME

<TABLE>
<CAPTION>

The components of comprehensive income, net of tax, are as follows:

| (in thousands) | Three months ended September 30 2002 | 2001 |
|---|---|---|
| Net income | $ 51,265 | $ 86,465 |
| Other comprehensive income | | |
| Currency translation adjustments | (2,366) | 3,927 |
| Gains (losses) on cash flow hedging instruments | 2,825 | (2,742) |
| Unrealized gains (losses) on investment, net of tax benefits of $2,440 in 2002 and $201 in 2001 | 3,865 | (319) |
| Other comprehensive income | 4,324 | 866 |
| Total comprehensive income | $ 55,589 | $ 87,331 |

</TABLE>

NOTE 5 - NONRECURRING ACQUISITION, RESTRUCTURING AND OTHER COSTS

Restructuring and Other Costs

During the three months ended September 30, 2002, we restructured certain of our operations and facilities to accommodate the planned occupancy of our Livermore campus as well as to streamline our operations due to the industry downturn. Restructuring costs were classified into three main categories: facilities and other charges of $4.6 million and severance and benefits of $1.1 million. As part of our facilities consolidation, we are exiting several of our leased buildings and have included the remaining net book value of the related leasehold improvements as well as the future lease payments, net of anticipated sublease revenue, in the charge. Severance and benefits include involuntary termination of approximately 70 personnel from manufacturing, engineering, sales, marketing, and administration in the United States, Japan and Europe. The following table shows the details of the facilities, severance and other restructuring costs accrual as of September 30, 2002:

<TABLE>
<CAPTION>

| (in thousands) | Balance at June 30, 2002 | Non-recurring charges | Utilized | Balance at September 30, 2002 |
|---|---|---|---|---|
| Facilities and other | $ 405 | $ 4,623 | $ (215) | $ 4,813 |
| Severance and benefits | -- | 1,127 | (270) | 857 |

| | | | | |
|---|---|---|---|---|
| Total | $ 405 | $ 5,750 | $ (485) | $ 5,670 |

</TABLE>

In addition, during the first fiscal quarter of 2003, KLA-Tencor received $15.2 million as a second installment on the sale of software and intellectual property associated with its iSupport(TM) on-line customer support technology, which was netted against the above non-recurring charges, resulting in a reported net gain of $9.4 million.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

Facilities

KLA-Tencor leases certain of its facilities under operating leases, which qualify for operating lease accounting treatment under SFAS 13, "Accounting for Leases," and, as such, these facilities are not included on its Condensed Consolidated Balance Sheet.

The following is a schedule of operating leases payments (in thousands):

| Fiscal year ended June 30, | Amount |
|---|---|
| 2003 | $ 9,853 |
| 2004 | 5,503 |
| 2005 | 3,239 |
| 2006 | 1,618 |
| Thereafter | 1,089 |
| Total minimum lease payments | $ 21,302 |

The lease agreement for certain Milpitas and San Jose, California facilities has a term of five years ending in November 2002, with an option to extend up to two more years. Monthly payments under this lease vary based upon the London Interbank Offering Rate (LIBOR) plus 0.42%. In addition, under the terms of the lease, KLA-Tencor must maintain compliance with certain financial covenants. As of September 30, 2002, KLA-Tencor was in compliance with all of its covenants. Under the terms of the lease, KLA-Tencor, at its option, can acquire the properties at their original cost or arrange for the properties to be acquired. The Company plans to purchase the Milpitas and San Jose, California facilities at the end of the lease term. The purchase transaction would increase land and property by approximately $119.3 million and decrease cash by approximately the same amount.

Factoring

KLA-Tencor has an agreement with a bank to sell certain of its trade receivables and promissory notes without recourse. During the three months ended September 30, 2002, approximately $22 million of receivables were sold under these arrangements. As of September 30, 2002, approximately $33 million were outstanding. The total amount available under the facility is the Japanese yen equivalent of $49 million based upon exchange rates as of September 30, 2002. KLA-Tencor does not believe it is materially at risk for any losses as a result of this agreement.

Purchase Commitments

KLA-Tencor maintains certain open inventory purchase commitments with its suppliers to ensure a smooth and continuous supply chain for key components. KLA-Tencor's liability in these purchase commitments is generally restricted to a forecasted time-horizon as mutually agreed upon between the parties. This forecast time-horizon can vary amongst different suppliers. As such, it is difficult to accurately report its true open commitments at any particular point in time. However, the Company estimates its open inventory purchase commitment as of September 30, 2002 to be no more than $51 million.

Derivative Instruments

KLA-Tencor's foreign subsidiaries operate and sell KLA-Tencor's products in various global markets. As a result, KLA-Tencor is exposed to changes in foreign currency exchange rates. KLA-Tencor utilizes foreign currency forward exchange contracts to hedge against certain future movements in foreign exchange rates that affect certain foreign currency denominated sales and purchase transactions. KLA-Tencor does not use derivative financial instruments for speculative or trading purposes. At September 30, 2002, KLA-Tencor had foreign exchange forward contracts maturing throughout fiscal 2003 to sell and purchase $181 million and $42 million, respectively, in foreign currency, primarily Japanese yen.

Legal Matters

A discussion regarding certain pending legal proceedings is included in Part I, Item 3, "Legal Proceedings," included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2002. Since the fiscal year ended June 30, 2002, certain developments have occurred with respect to the legal proceedings described in our Annual Report as follows:

ADE Corporation

On October 11, 2000, ADE Corporation ("ADE"), a competitor, filed a patent infringement lawsuit against KLA-Tencor in the U.S. District Court in Delaware. ADE claimed damages and sought an injunction under U.S. Patent No. 6,118,525 (`525 patent). We filed a counterclaim in the same court alleging that ADE has infringed four of our patents. We are seeking damages and a permanent injunction against ADE. In addition, we are seeking a declaration from the District Court that ADE's patent is invalid and not infringed by KLA-Tencor. On October 22, 2001, we filed a separate action for declaratory judgment against ADE in the Northern District of California requesting a declaration that U.S. Patent No. 6,292,259 (`259 patent) is invalid and not infringed. That action has now been consolidated with the prior action in the Delaware proceeding, and ADE has amended its complaint in that proceeding to allege that KLA-Tencor is infringing the `259 patent. On August 8, 2002, the magistrate presiding over the action issued a recommendation that the court enter summary judgment in favor of KLA-Tencor on the issue of non-infringement under ADE's `525 patent. On the same day, the magistrate issued recommendations that the court enter summary judgment in favor of ADE on the issue of non-infringement of two of KLA-Tencor's patents. While we cannot predict the outcome, we believe that we have valid defenses and further believe that our counterclaims have merit.

Tokyo Seimitsu Co. Ltd.

On June 27, 2001,we sued Tokyo Seimitsu Co. Ltd. and TSK America Inc. ("TSK"), a competitor, in the U.S. District Court in the Northern District of California alleging that TSK infringes on one of the Company's patents. The suit seeks damages and an injunction under U.S. Patent No. 4,805,123 (`123 patent). TSK filed a counterclaim in the same court seeking a declaration that the `123 patent is invalid, unenforceable and not infringed, and also alleged violations of the antitrust and unfair competition laws.

Schlumberger, Inc. and Rigg Systems, Inc.

The Schlumberger, Inc. and Rigg Systems, Inc. actions have been dismissed under circumstances that the parties have agreed to treat as confidential.

NOTE 7 - GOODWILL AND OTHER INTANGIBLE ASSETS

Effective July 1, 2001, KLA-Tencor adopted Statement of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." Under these accounting standards, KLA-Tencor ceased amortization of goodwill recorded for business combinations consummated prior to July 1, 2001, and reclassified amounts attributed to workforce in acquisitions made prior to July 1, 2001 that did not meet the criteria for separate recognition as other intangible assets under SFAS 141 to goodwill.

The net carrying value of goodwill recorded through acquisitions is $15.1 million as of September 30, 2002. In accordance with SFAS 142, KLA-Tencor concluded there was no impairment of goodwill. The net carrying value of other intangible assets as of September 30, 2002 is $7.0 million; the components of which are as follows (in thousands):
<TABLE>
<CAPTION>

| | Gross Carrying Amount | Accumulated Amortization | Net Amount |
|---|---|---|---|
| Existing technology | $ 6,062 | $ 2,757 | $ 3,305 |
| Patents | 4,021 | 919 | 3,102 |
| Trademark | 625 | 198 | 427 |
| Favorable leases and other | 270 | 135 | 135 |
| Subtotal | $ 10,978 | $ 4,009 | $ 6,969 |

</TABLE>

Other intangible assets are amortized on a straight-line basis over their estimated useful lives. For the three months ended September 30, 2002 and 2001, amortization expense for other intangible assets was $0.6 million and $0.3 million, respectively. Estimated amortization expense for each of the four succeeding fiscal years is as follows:

| Fiscal year ended June 30:............................ | Amount |
|---|---|
| 2003 | 2,396 |
| 2004 | 2,396 |
| 2005 | 2,137 |

NOTE 8 -- GEOGRAPHIC INFORMATION

KLA-Tencor's has significant operations outside the United States, which include a manufacturing facility in Israel and sales, marketing and service offices in Western Europe, Japan, and the Asia Pacific region. For geographical revenue reporting, revenues are attributed to the geographic regions in which the customer is located. No single customer accounted for 10% or more of net revenues or accounts receivable in any of the periods presented. Long-lived assets consist of net property and equipment, goodwill, capitalized software and other intangibles, and other long-term assets, excluding long-term deferred tax assets and are attributed to the geographic region in which they are located. The following is a summary of operations by entities located within the indicated geographic regions for three months ended September 30, 2002 and 2001.

<TABLE>
<CAPTION>

| Three months ended September 30, (in thousands) | 2002 | 2001 |
|---|---|---|
| Revenues: | | |
| United States | $ 90,098 | $ 136,292 |
| Western Europe | 72,186 | 80,774 |
| Japan | 92,030 | 115,352 |
| Taiwan | 65,153 | 67,206 |
| Asia Pacific | 56,053 | 103,208 |
| Total | $ 375,520 | $ 502,832 |

<CAPTION>

| (in thousands) | September 30, 2002 | June 30, 2002 |
|---|---|---|
| Long-lived assets: | | |
| United States | $ 366,355 | $ 375,600 |
| Western Europe | 7,797 | 8,079 |
| Japan | 7,541 | 8,878 |
| Taiwan | 3,396 | 3,732 |
| Asia Pacific | 5,433 | 5,435 |
| Total | $ 390,522 | $ 401,724 |

</TABLE>

The following is a summary of revenues by major products for three months ended September 30, 2002 and 2001 (as a percentage of total revenue).

| Three months ended September 30, | 2002 | 2001 |
|---|---|---|
| Defect Inspection | 65% | 68% |
| Metrology | 16% | 16% |
| Service | 17% | 10% |
| Software and other | 2% | 6% |
| Total | 100% | 100% |

NOTE 9 - SUBSEQUENT EVENTS

On October 10, 2002, the Board of Directors authorized the repurchase of an additional 5.0 million shares under KLA-Tencor's Stock Repurchase Program. The Stock Repurchase Program allows the Company to systematically buy back its stock from the open market.

On November 1, 2002, KLA-Tencor exercised its purchase option under certain operating lease agreements to purchase the properties under the lease agreements for $119.3 million.

On November 8, 2002, the compensation committee authorized approximately 5.5 million options as part of the annual performance review cycle for KLA-Tencor. There were approximately 5.0 million options authorized to non-executive employees under the 2000 Stock Option Plan, and 0.5 million options authorized to executive employees under the 1982 Stock Option Plan. KLA-Tencor intends to grant these options in four quarterly installments. The first installment of 1.4 million options (1.3 million to non-executive employees and 0.1 million to executive employees) was granted on November 8, 2002. Additionally, 60 thousand options were granted on November 8, 2002 to outside directors under the 1998 Outside Director Option Plan.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements included in or incorporated by reference in this Quarterly Report on Form 10-Q, other than statements of historical fact, are forward-looking statements. Such forward-looking statements include, among others, those statements regarding the future results of our operations; technological trends in the semiconductor industry; our future product offerings and product features, as well as market acceptance of new products; anticipated revenue from various domestic and international regions; international sales and operations; maintenance of competitive advantage; success of our product offerings; creation of programs for research and development; attraction and retention of employees; management of risks involved in acquisitions of third parties, or the technology or assets thereof; benefits received from any acquisitions and development of acquired technologies; the outcome of any litigation to which we are a party; results of our investment in leading edge technologies and strategic acquisitions and alliances; our future income tax rate; sufficiency of our existing cash balance, investments and cash generated from operations to meet our operating and working capital requirements; and the effects of hedging transactions.

Our actual results may differ significantly from those projected in the forward-looking statements in this report. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this section and those set forth in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 1, "Business" in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002, filed with the SEC on September 20, 2002. You should carefully review these risks and also review the risks described in other documents we file from time to time with the Securities and Exchange Commission. You are cautioned not to place undue reliance on these forward-looking statements. We expressly disclaim any obligation to update or alter our forward-looking statements, whether, as a result of new information, future events or otherwise.

CRITICAL ACCOUNTING POLICIES

The preparation of our Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We based these estimates and assumptions on historical experience, and evaluate them on an on-going basis to ensure they remain reasonable under current conditions. Actual results could differ from those estimates. We discuss the development and selection of the critical accounting estimates with the audit committee of our board of directors on a quarterly basis, and the audit committee has reviewed the Company's critical accounting estimates as described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002, filed with the SEC on September 20, 2002. For the three months ended September 30, 2002 there have been no changes to these critical accounting policies.

RESULTS OF OPERATIONS

KLA-Tencor Corporation is the world's leading supplier of process control and yield management solutions for the semiconductor and related microelectronics industries. Our comprehensive portfolio of products, software, analysis, services and expertise is designed to help integrated circuit manufacturers manage yield throughout the entire wafer fabrication process - from research and development to final mass production yield analysis.

During the three months ended September 30, 2002, we continued to face a significant downturn in the semiconductor industry which started early in calendar year 2001. For several quarters, there has been a worldwide softening in demand for semiconductors resulting in excess capacity and reduced demand for semiconductor manufacturing equipment. In addition there has been limited visibility as to the timing of turnaround in demand growth.

New orders by region were as follows (in millions):

| | Three months ended September 30, 2002 |
|---|---|
| United States | $ 80 |
| Western Europe | 30 |
| Japan | 57 |
| Taiwan | 46 |

| | |
|---|---|
| Asia Pacific | 29 |
| Total orders | $ 242 |

KLA-Tencor's backlog for unshipped orders as of September 30, 2002 was approximately $529 million.

Revenues and Gross Margin

Product revenue decreased $141 million, or 31%, to $313 million for the three months ended September 30, 2002 from $454 million for the three months ended September 30, 2001. Product revenue declines were mostly the result of reduced capital spending as a result of a semiconductor industry downturn. For the three months ended September 30, 2002, international revenue slightly increased to 76% of revenue, from 73% for the three months ended September 30, 2001, due to higher demand in Japan, Taiwan and Europe, partially offset by lower demand in Asia Pacific.

Service revenue is generated from maintenance service contracts, as well as time and material billable service calls made to our customers after the expiration of the warranty period. Service revenues were $63 million and $48 million for the three months ended September 30, 2002 and 2001 respectively. Service revenue continued to increase throughout fiscal year 2002 and first quarter of 2003 as our installed base of equipment at our customers' sites continued to grow. The amount of service revenue generated is generally proportional to the number of post-warranty systems installed at our customers' sites and the degree of utilization of those systems.

Gross margins were 50% of revenues for the three months ended September 30, 2002, compared to 51% of revenues for the same period in the prior fiscal year. Gross margins declined year over year primarily due to reduced capacity utilization resulting from lower business volume and an increased percentage of sales in the lower margin service business. Given the downturn in the semiconductor industry we expect to have slightly decreased gross margins in the next few quarters, until we begin to experience higher business volume.

Engineering, Research and Development

Net engineering, research and development (R&D) expenses were $71 million for the three months ended September 30, 2002, compared to $73 million for the same period in the prior fiscal year. As a percentage of revenue, R&D expenses were 19% for the three months ended September 30, 2002, compared to 15% for the same period in the prior fiscal year. The absolute dollars for R&D investment decreased primarily due to company mandated time-off, reductions in temporary labor and discretionary spending as well as other cost saving measures implemented over the last several quarters in response to the industry slow down.

Gross engineering, research and development expenses were partially offset by $6 million and $3 million in external funding received under certain strategic development programs conducted with several of our customers and government grants for the three months ended 2002 and 2001, respectively.

Our future operating results will depend significantly on our ability to produce products and provide services that have a competitive advantage in our marketplace. To do this, we believe that we must continue to make substantial investments in our research and development efforts. We remain committed to product development in new and emerging technologies as we address the requirements of 0.18 micron and 0.13 micron feature sizes, real-time review, and the transition to copper technology. Our investments in new technology and existing product enhancements are intended to enable our customers to achieve a higher return on their capital investments and higher productivity through cost-effective, leading edge technology solutions.

Selling, General and Administrative

Selling, general and administrative expenses were $70 million (excluding a one-time gain, net of restructuring charges, of $9 million) for the three months ended September 30, 2002, compared to $81 million for the same period in the prior fiscal year. As a percentage of revenue, selling, general and administrative expenses were 19% for the three months ended September 30, 2002, compared to 16% for the same period in the prior fiscal year. The absolute dollars for selling, general and administrative expenses decreased primarily due to company mandated time-off, reductions in temporary labor and discretionary spending as well as other cost saving measures implemented over the last several quarters in response to the industry slowdown.

Restructuring and Other Costs

During the three months ended September 30, 2002, we restructured certain of our operations and facilities to accommodate the planned occupancy of our Livermore campus as well as to streamline our operations due to the industry downturn. Restructuring costs were classified into three main categories: facilities and other charges of $4.6 million and severance and benefits of $1.1 million. As part of our facilities consolidation, we are exiting several of our leased buildings and have included the remaining net book value of the related leasehold improvements as well as the future lease payments, net of anticipated sublease revenue, in the charge. If facilities rental rates continue to deteriorate or if it takes longer than expected to sublease these facilities, the actual loss could increase. Severance and benefits include involuntary termination of approximately 70 personnel from manufacturing, engineering, sales, marketing, and administration in the United States, Japan and Europe. The following table shows the details of the facilities, severance and other restructuring costs accrual as of September 30, 2002:

<TABLE>
<CAPTION>

| (in thousands) | Balance at June 30, 2002 | Non-recurring charges | Utilized | Balance at September 30, 2002 |
|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> |
| Facilities | $ 405 | $ 4,623 | $ (215) | $ 4,813 |
| Severance and benefits | -- | 1,127 | (270) | 857 |
| Total | $ 405 | $ 5,750 | $ (485) | $ 5,670 |

</TABLE>

In addition, during the first fiscal quarter of 2003, we received $15.2 million as a second installment on the sale of software and intellectual property associated with its iSupport(TM) on-line customer support technology, which was netted against the above non-recurring charges, resulting in a net reported gain of $9.4 million.

Interest Income and Other, Net

Interest income and other, net was $10 million and $13 million for the three months ended September 30, 2002, and 2001, respectively. Interest income and other, net is comprised primarily of gains realized on sales of marketable securities, interest income earned on the investment and cash portfolio, as well as income recognized upon settlement of certain foreign currency contracts and unrealized gains and losses from marking to market investments classified as trading securities. The decrease in fiscal 2002 as compared to fiscal 2001 was primarily due to decreased interest income resulting from declining interest rates and to a lesser extent, a decrease in income recognized upon the settlement of foreign currency contracts.

Provision for Income Taxes

Our effective tax rate for the three months ended September 30, 2002 was 24%. This was lower than the effective tax rate of 26% realized in the same period of the prior fiscal year. The overall reduction in our effective tax rate was primarily the result of more R&D credits and tax-exempt interest compared relatively to these same items as a percentage of pre-tax income of the prior year quarter. There currently is pending legislation to repeal export incentives provided by the United States Tax Code. If the legislation were to be approved it would increase our effective tax rate in future periods.

Stock Option and Incentive Plans

KLA-Tencor's stock option program is a broad-based, long-term retention program that is intended to attract and retain qualified management and technical employees ("knowledge employees"), and align stockholder and employee interests. The plans provide for awards in the form of stock options, stock appreciation rights, stock purchase rights, and performance shares. As of September 30, 2002, only stock options have been awarded under the plans. Under KLA-Tencor's stock option plans, options generally have vesting periods of four or five years, are exercisable for a period not to exceed ten years from the date of issuance and are granted at prices not less than the fair market value of KLA-Tencor's common stock at the grant date. This program consists of three plans: one under which non-employee directors may be granted options to purchase shares of our stock, another in which officers, key employees, consultants and all other employees may be granted options and one other in which consultants and all employees other than directors and officers may be granted options to purchase shares of our stock. Substantially all of our employees that meet established performance goals and that qualify as "knowledge employees" participate in one of our stock option plans. Options granted to employees from fiscal year 2000 through the three months ended September 30, 2002 are summarized as follows (in thousands):

<TABLE>
<CAPTION>

| | Three months ended September 30 2002 | Fiscal year ended June 30, 2002 | 2001 | 2000 |
|---|---|---|---|---|

| <S> | <C> | <C> | <C> | <C> |
|---|---|---|---|---|
| Weighted average number of shares outstanding | 189,279 | 187,677 | 185,860 | 182,177 |
| Total options granted during the period | 353 | 9,760 | 10,274 | 8,166 |
| Less options forfeited | (512) | (2,418) | (1,484) | (1,786) |
| Net options granted | (159) | 7,974 | 7,856 | 6,682 |
| Net grants during the period as a percentage of total shares outstanding | (0.1)% | 4.2% | 4.2% | 3.6% |
| Grants to top five officers during the period as a percentage of total shares outstanding | 0.0% | 0.3% | 0.2% | 0.2% |
| Grants to top five officers during the period as a percentage of total options granted | 0.0% | 6.0% | 4.0% | 5.0% |

</TABLE>

During the three months ended September 30, 2002, the Company granted options to purchase approximately 0.4 million shares of stock to employees, which was a net forfeiture of options of 0.2 million shares after deducting options forfeited of 0.5 million. The net options granted after forfeiture represented (0.1)% of total outstanding shares of approximately 189.3 million as of September 30, 2002.

During the three months ended September 30, 2002, there were no options granted to any of the top five officers, who represent the chief executive officer and each of the four other most highly compensated executive officers whose salary plus bonus exceeded $100,000 for the fiscal year ended June 30, 2002. All stock option grants to officers are made with a review by, and with the approval of the Compensation Committee of the Board of Directors. All members of the Compensation Committee are independent directors, as defined in the applicable rules for issuers traded on the NASDAQ Stock Market.

The following table summarizes stock options exercised by the top five officers during the three months ended September 30, 2002:
<TABLE>
<CAPTION>

| | | | Total Number of Securities Underlying Unexercised Options at September 30, 2002 | | Total Value of Unexercised, In-the-Money Options at September 20, 2002 (1) | |
|---|---|---|---|---|---|---|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| | Shares Acquired on Exercise | Value Realized | Vested | Unvested | Exercisable | Unexercisable |
| Kenneth Levy<br>Chairman of the Board | 0 | 0 | 886,011 | 98,217 | $12,531,077 | $70,734 |
| Kenneth L. Schroeder<br>Chief Executive Officer | 0 | 0 | 784,743 | 467,957 | $9,189,417 | $91,017 |
| Gary E. Dickerson<br>President & Chief Operating Officer | 0 | 0 | 193,212 | 204,153 | $772,129 | $66,611 |
| John Kispert<br>Executive Vice President and Chief Financial Officer | 0 | 0 | 55,249 | 112,951 | $142,824 | $21,407 |
| Dennis Fortino<br>Executive Vice President | 0 | 0 | 81,071 | 111,846 | $83,321 | $24,083 |

</TABLE>

(1) Total Value of vested options based on fair market value of Company's Common Stock of $27.94 per share as of September 30, 2002.

The following table summarizes KLA-Tencor's stock option plans as of September 30, 2002(1):
<TABLE>
<CAPTION>

| | Number of securities to be issued upon exercise of outstanding options | Weighted-average exercise price of outstanding options | Number of securitie remaining availabl or future issuance under stock option plan |
|---|---|---|---|

| <S> | <C> | <C> | <C> | <C> |
|---|---|---|---|---|
| Stock option plan approved by stockholders (3) | 23,966,066 | $ 27.29 | 12,067,495 | |
| Stock option plan not approved by stockholders(1)(2) | 5,660,648 | 35.38 | 7,440,047 | (1) |
| Total | 29,626,714 | $ 28.70 | 19,507,542 | |

</TABLE>

(1) In August 2002, the Board of Directors authorized an increase in the number of securities reserved for additional future issuance under the Company's stock option plans (other than the Company's [Director Stock Option Plan]) of an aggregate of 7,589,102 shares.

(2) Officers and directors are not eligible to receive options granted under this plan.

(3) In August 2002, the 1982 Stock Option plan, the Company reserved an additional 5,691,826 shares of its common stock in accordance with the provisions of the plan

The summary activity under the stock option plans, was as follows:

<TABLE>
<CAPTION>

| | Available For Grant | Options Outstanding | Weighted-Average Price |
|---|---|---|---|
| <S> | <C> | <C> | <C> |
| Balances at June 30, 2000 | 5,146,702 | 22,355,712 | $ 20.23 |
| Additional shares reserved | 11,216,391 | -- | -- |
| Options granted | (10,273,504) | 10,273,504 | 37.09 |
| Options canceled/expired | 2,418,485 | (2,418,485) | 36.15 |
| Options exercised | -- | (3,921,145) | 14.71 |
| Balances at June 30, 2001 | 8,508,074 | 26,289,586 | $ 26.18 |
| Additional shares reserved | 5,610,752 | -- | -- |
| Options granted | (9,760,303) | 9,760,303 | 31.83 |
| Options canceled/expired | 1,786,295 | (1,786,295) | 32.55 |
| Options exercised | --- | (4,173,887) | 19.36 |
| Balances at June 30, 2002 | 6,144,818 | 30,089,707 | $ 28.60 |
| Additional shares reserved | 13,280,928 | -- | -- |
| Options granted | (352,550) | 352,550 | 30.31 |
| Options canceled/expired | 511,686 | (511,686) | 34.14 |
| Options exercised | 303,857 | (303,857) | 14.00 |
| Balances at September 30, 2002 | 19,888,739 | 29,626,714 | $ 28.72 |

</TABLE>

LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents and short-term investments balances during the three months ended September 30, 2002 increased to $752 million from $673 million at June 30, 2002. In addition marketable securities classified as long-term at September 30, 2002 decreased to $599 million from $660 million at June 30, 2002. KLA-Tencor has historically financed its operations through cash generated from operations. Net cash provided by operating activities for the three months ended September 30, 2002 was $65 million, compared to $19 million of net cash from operating activities for the same period of the prior fiscal year. The increase primarily resulted from a lower accounts receivable balance and increase in other current liabilities balances. Accounts receivable declined primarily due to strong collections, as well as lower shipments. Net cash used in investing activities for the three months ended September 30, 2002 was $14 million, compared to $161 million for the same period of the prior fiscal year, primarily from decreased net purchases of marketable securities and to a lesser extent a decrease in capital expenditures.

Net cash used in financing activities for the three months ended September 30, 2002 was $43 million as compared to $51 million for the same period of the prior fiscal year. This decline was primarily due to decreases in stock repurchases. We paid $47 million for the repurchase of our common stock under our stock repurchase program during the three months ended September 30, 2002 compared to $53 million for the same period of the prior year.

The lease agreement for certain Milpitas and San Jose, California facilities has a term of five years ending in November 2002, with an option to extend up to two more years. Monthly payments under this lease vary based upon the London Interbank Offering Rate (LIBOR) plus 0.42%. Under the terms of the lease, KLA-Tencor, at its option, can acquire the properties at their original cost or arrange for the properties to be acquired. We plan to purchase the Milpitas and San Jose, California facilities at the end of the lease term. The purchase transaction would increase land and property by approximately $119.3 million and decrease cash by approximately the same amount.

The following is a schedule summarizing our significant commitments as of June 30, 2002 (in millions):
<TABLE>
<CAPTION>

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | 1 year | 2-3 years | 3-4 years | Over 5 years |
| Operating leases | $ 21.3 | $ 9.9 | $ 8.7 | $ 1.6 | $ 1.1 |
| Lease at maturity | 119.3 | 119.3 | - | - | - |
| | $ 140.6 | $ 129.2 | $ 8.7 | $ 1.6 | $ 1.1 |

</TABLE>

We have an agreement with a bank to sell certain of its trade receivables and promissory notes without recourse. During the three months ended September 30, 2002, approximately $22 million of receivables were sold under these arrangements. As of September 30, 2002, approximately $33 million were outstanding. The total amount available under the facility is the Japanese yen equivalent of $49 million based upon exchange rates as of September 30, 2002. We do not believe we are materially at risk for any losses as a result of this agreement.

Additionally, we maintain certain open inventory purchase commitments with our suppliers to ensure a smooth and continuous supply chain for key components. Our liability in these purchase commitments is generally restricted to a forecasted time-horizon as mutually agreed upon between the parties. This forecast time-horizon can vary amongst different suppliers. As such, it is difficult to accurately report our true open commitments at any particular point in time. However, we estimate our open inventory purchase commitment as of September 30, 2002 to be no more than $51 million.

Working capital increased to $1.02 billion as of September 30, 2002, compared to $932 million at June 30, 2002. We believe that existing liquid capital resources and funds generated from operations combined with the ability, if necessary, to borrow funds will be adequate to meet our business requirements for the foreseeable future, including potential acquisitions or strategic investments, capital expenditures for the expansion or upgrading of manufacturing capacity and working capital requirements. However, we can give no assurances that we will continue to generate sufficient funds from operations or that we will be able to borrow funds on reasonable terms in the future, if necessary.

FACTORS AFFECTING RESULTS, INCLUDING RISKS AND UNCERTAINTIES

Fluctuations in Operating Results and Stock Price

Our operating results have varied widely in the past, and our future operating results will continue to be subject to quarterly variations based upon a wide variety of factors, including those listed in this section and those set forth in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 1, "Business" in the Company's s Annual Report on Form 10-K for the fiscal year ended June 30, 2002, filed with the SEC on September 20, 2002. In addition, future operating results may not follow any past trends. We believe the factors that could make our results fluctuate and difficult to predict include:

- global economic uncertainty;
- the cyclical nature of the semiconductor industry;
- changing international economic conditions;
- competitive pressure;
- our ability to develop and implement new technologies and introduction of new products;
- our ability to manage our manufacturing requirements;
- intellectual property protection;
- the shortage of qualified workers in the areas in which we operate; and
- worldwide political instability.

Operating results also could be affected by sudden changes in customer requirements, currency exchange rate fluctuations and other economic conditions affecting customer demand and the cost of operations in one or more of the global markets in which we do business. As a result of these or other factors, we could fail to achieve our expectations as to future revenues, gross profit and income from operations. Our failure to meet the performance expectations set and published by external sources could result in a sudden and significant drop in the price of our stock, particularly on a short-term basis, and could negatively affect the value of any investment in our stock.

Global Economic Uncertainty

Our business is ultimately driven by the global demand for electronic devices by consumers and businesses. This end-user demand has been significantly depressed over the last few quarters, and there has been very limited visibility as to the timing of turnaround in demand growth, and from which sector this growth will come from. A protracted global economic slowdown will continue to exacerbate this issue and may adversely affect our business and results of operation.

Semiconductor Equipment Industry Volatility

The semiconductor equipment industry is highly cyclical. The purchasing decisions of our customers are highly dependent on the economies of both the local markets in which they are located and the semiconductor industry worldwide. The timing, length and severity of the up-and-down cycles in the semiconductor equipment industry are difficult to predict. This cyclical nature of the industry in which we operate affects our ability to accurately predict future revenue and, thus, future expense levels. When cyclical fluctuations result in lower than expected revenue levels, operating results may be adversely affected and cost reduction measures may be necessary in order for us to remain competitive and financially sound. During a down cycle, we must be in a position to adjust our cost and expense structure to prevailing market conditions and to continue to motivate and retain our key employees. In addition, during periods of rapid growth, we must be able to increase manufacturing capacity and personnel to meet customer demand. We can provide no assurance that these objectives can be met in a timely manner in response to industry cycles. If we fail to respond to industry cycles, our business could be seriously harmed.

Currently, we are in an industry down cycle. We are not able to predict when the semiconductor industry will recover. During a down cycle, the semiconductor industry typically experiences excess production capacity that causes semiconductor manufacturers to decrease capital spending. We generally do not have long-term volume production contracts with our customers, and we do not control the timing or volume of orders placed by our customers. Whether and to what extent our customers place orders for any specific products, as well as the mix and quantities of products included in those orders, are factors beyond our control. Insufficient orders, especially in our down cycles, will result in under-utilization of our manufacturing facilities and infrastructure and will negatively affect our operating results and financial condition.

International Trade and Economic Conditions

We serve an increasingly global market. A majority of our annual revenues are derived from outside the United States, and we expect that international revenues will continue to represent a substantial percentage of our revenues. Our international revenues and operations are affected by economic conditions specific to each country and region. Because of our significant dependence on international revenues, a decline in the economies of any of the countries or regions in which we do business could negatively affect our operating results.

Managing global operations and sites located throughout the world presents challenges associated with, among other things, cultural diversity and organizational alignment. Moreover, each region in the global semiconductor equipment market exhibits unique characteristics that can cause capital equipment investment patterns to vary significantly from period to period. Periodic local or international economic downturns, trade balance issues, political instability in regions where we have operations, such as Israel, and fluctuations in interest and currency exchange rates could negatively affect our business and results of operations. Although we attempt to manage near-term currency risks through the use of hedging instruments, there can be no assurance that such efforts will be adequate.

Competition

Our industry includes large manufacturers with substantial resources to support customers worldwide. Our future performance depends, in part, upon our ability to continue to compete successfully worldwide. Some of our competitors are diversified companies with greater financial resources and more extensive research, engineering, manufacturing, marketing and customer service and support capabilities than we can provide. We face competition from companies whose strategy is to provide a broad array of products and services, some of which compete with the products and services that we offer. These competitors may bundle their products in a manner that may discourage customers from purchasing our products. In addition, we face competition from smaller emerging semiconductor equipment companies whose strategy is to provide a portion of the products and services, which we offer, using innovative technology to sell products into specialized markets. Loss of competitive position could negatively impact our prices, customer orders, revenues, gross margins, and market share, any of which would negatively affect our operating results and financial condition. Our failure to compete successfully with these other companies would seriously harm our business.

Technological Change and Customer Requirements

Success in the semiconductor equipment industry depends, in part, on continual improvement of existing technologies and rapid innovation of new solutions. For example, the semiconductor industry continues to shrink the size of semiconductor devices which increasing wafer size and has begun to commercialize the process of copper-based interconnects. These and other evolving customer needs require us to respond with continued development programs and to cut back or discontinue older programs, which may no longer have industry-wide support. Technical innovations are inherently complex and require long development cycles and appropriate professional staffing. Our competitive advantage and future business success depend on our ability to accurately predict evolving industry standards, to develop and introduce new products which successfully address changing customer needs, to win market acceptance of these new products and to manufacture these new products in a timely and cost-effective manner. If we do not develop and introduce new products and technologies in a timely manner in response to changing market conditions or customer requirements, our business could be seriously harmed.

In this environment, we must continue to make significant investments in research and development in order to enhance the performance and functionality of our products, to keep pace with competitive products and to satisfy customer demands for improved performance, features and functionality. There can be no assurance that revenues from future products or product enhancements will be sufficient to recover the development costs associated with such products or enhancements or that we will be able to secure the financial resources necessary to fund future development. Substantial research and development costs typically are incurred before we confirm the technical feasibility and commercial viability of a product, and not all development activities result in commercially viable products. In addition, we cannot ensure that these products or enhancements will receive market acceptance or that we will be able to sell these products at prices that are favorable to us. Our business will be seriously harmed if we are unable to sell our products at favorable prices or if the market in which we operate does not accept our products.

Key Suppliers

We use a wide range of materials in the production of our products, including custom electronic and mechanical components, and we use numerous suppliers to supply materials. We generally do not have guaranteed supply arrangements with our suppliers. Because of the variability and uniqueness of customers' orders, we do not maintain an extensive inventory of materials for manufacturing. We seek to minimize the risk of production and service interruptions and/or shortages of key parts by selecting and qualifying alternative suppliers for key parts, monitoring the financial stability of key suppliers and maintaining appropriate inventories of key parts. Although we make reasonable efforts to ensure that parts are available from multiple suppliers, key parts may be available only from a single supplier or a limited group of suppliers. Our business would be harmed if we do not receive sufficient parts to meet our production requirements in a timely and cost-effective manner.

Manufacturing Disruption

Operations at our primary manufacturing facilities and our assembly subcontractors are subject to disruption for a variety of reasons, including work stoppages, terrorism, fire, earthquake, energy shortages, flooding or other natural disasters. In addition, last year California suffered from a severe energy shortage, causing rolling blackouts throughout the state. In recent months there has also been a marked increase in hostility in the Middle East. Such disruption could cause delays in shipments of products to our customers. We cannot ensure that alternate production capacity would be available if a major disruption were to occur or that, if it were available, it could be obtained on favorable terms. Such a disruption could result in cancellation of orders or loss of customers and could seriously harm our business.

Intellectual Property Obsolescence and Infringement

Our success is dependent in part on our technology and other proprietary rights. We own various United States and international patents and have additional pending patent applications relating to some of our products and technologies. The process of seeking patent protection is lengthy and expensive, and we cannot be certain that pending or future applications will actually result in issued patents or that issued patents will be of sufficient scope or strength to provide meaningful protection or commercial advantage to us. Other companies and individuals, including our larger competitors, may develop technologies that are similar or superior to our technology or may design around the patents we own.

We also maintain trademarks on certain of our products and services and claim copyright protection for certain proprietary software and documentation. However, we can give no assurance that our trademarks and copyrights will be upheld or successfully deter infringement by third parties.

While patent, copyright and trademark protection for our intellectual property is important, we believe our future success in highly dynamic markets is most dependent upon the technical competence and creative skills of our personnel. We attempt to protect our trade secrets and other proprietary information through confidentiality and other agreements with our customers, suppliers, employees and consultants and through other security measures. We also maintain exclusive and non-exclusive licenses with third parties for strategic technology used in certain products. However, these employees, consultants and third parties may breach these agreements, and we may not have adequate remedies for wrongdoing. In addition, the laws of certain territories in which we develop, manufacture or sell our products may not protect our intellectual property rights to the same extent, as do the laws of the United States.

As is typical in the semiconductor equipment industry, from time to time we have received communications from other parties asserting the existence of patent rights, copyrights, trademark rights or other intellectual property rights which they believe cover certain of our products, processes, technologies or information. Our customary practice is to evaluate such assertions and to consider whether to seek licenses where appropriate. However, we cannot ensure that licenses can be obtained or, if obtained, will be on acceptable terms or that costly litigation or other administrative proceedings will not occur. The inability to obtain necessary licenses or other rights on reasonable terms could seriously harm our operating results and financial condition.

Key Employees

Our employees are vital to our success, and our key management, engineering and other employees are difficult to replace. We generally do not have employment contracts with our key employees. Further, we do not maintain key person life insurance on any of our employees. The expansion of high technology companies worldwide has increased demand and competition for qualified personnel. If we are unable to retain key personnel, or if we are not able to attract, assimilate or retain additional highly qualified employees to meet our needs in the future, our business and operations could be harmed. These factors could seriously harm our business.

Acquisitions

In addition to our efforts to develop new technologies from internal sources, we also seek to acquire new technologies from external sources. As part of this effort, we may make acquisitions of, or significant investments in, businesses with complementary products, services and/or technologies. Acquisitions involve numerous risks, including management issues and costs in connection with the integration of the operations and personnel, technologies and products of the acquired companies, the possible write-downs of impaired assets, and the potential loss of key employees of the acquired companies. The inability to manage these risks effectively could seriously harm our business.

Litigation

From time to time we are involved in litigation of various types, including litigation that alleges infringement of intellectual property rights and other claims. Litigation tends to be expensive and requires significant management time and attention and could have a negative effect on our results of operations or business if we lose or have to settle a case on significantly adverse terms. If we lose in a dispute concerning intellectual property, a court could require us to pay substantial damages and/or royalties or could issue an injunction prohibiting us from using essential technologies. For these and other reasons, this type of litigation could have a material adverse effect on our business, financial condition and results of operations. Also, although we may seek to obtain a license under a third party's intellectual property rights in order to bring an end to certain claims or actions asserted against us, we may not be able to obtain such a license on reasonable terms or at all.

Terrorism and Political Instability

The threat of terrorism targeted at the regions of the world in which we do business, including the United States, increases the uncertainty in our markets and may delay any recovery in the general economy. Any delay in the recovery of the economy and the semiconductor industry could seriously impact our business.

Increased international political instability, as demonstrated by the September 2001 terrorist attacks, disruption in air transportation and further enhanced security measures as a result of the September 2001 terrorist attacks, the conflict in Afghanistan and the increasing tension in the Middle East, may hinder our ability to do business and may increase our costs of operations. To the extent this instability continues or otherwise increases, we could incur increased costs in transportation, make such transportation unreliable, increase insurance costs, and cause international currency markets to fluctuate. This same instability could have the same effects on our suppliers and their ability to timely deliver their products. If this international political instability continues or increases, our business and results of operations could be harmed.

Effects of Recent Accounting Pronouncements

We have adopted SFAS No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets" and SFAS No. 144 "Accounting for the Impairment of Disposal of Long-Lived Assets". SFAS No. 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. Adoption of these pronouncements did not have a significant effect on our consolidated financial statements.

In June 2002, the FASB issued Statement No. 146 ("SFAS 146"), "Accounting for Costs Associated with Exit or Disposal Activities." SFAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities, and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, Liabilities Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). This Statement requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. SFAS 146 will be effective for exit or disposal activities that are initiated after December 31, 2002. The standard will in certain circumstances change the timing of recognition of restructuring costs.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in interest rates, foreign currency exchange rates and marketable equity security prices. To mitigate these risks, we utilize derivative financial instruments. We do not use derivative financial instruments for speculative or trading purposes. All of the potential changes noted below are based on sensitivity analyses performed on our financial position at September 30, 2002 . Actual results may differ materially.

As of September 30, 2002, we had an investment portfolio of fixed income securities of $895 million excluding those classified as cash and cash equivalents. These securities, as with all fixed income instruments, are subject to interest rate risk and will fall in value if market interest rates increase. If market interest rates were to increase immediately and uniformly by 10% from levels as of September 30, 2002, the fair value of portfolio would decline by $7 million.

As of September 30, 2002, we had net forward contracts to sell U.S. dollar equivalent of $139 million in foreign currency in order to hedge our currency exposures. If we had entered into these contracts on September 30, 2002, the U.S. dollar equivalent would be $137 million. A 10% adverse move in currency exchange rates affecting the contracts from their September 30, 2002 would decrease the fair value of the contracts by $17 million. However, if this occurred, the fair value of the underlying exposures hedged by the contracts would increase by a similar amount. Accordingly, we believe that our hedging strategy should yield no material net impact to net income or cash flows.

Item 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Within 90 days prior to the date of this report (the Evaluation Date), the Company's Chief Executive Officer (principal executive officer) and Executive Vice President and Chief Financial Officer (principal financial officer), carried out an evaluation of the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c) and 15(d)-14(c)). Based on that evaluation, these officers have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and designed to ensure that material information relating to the Company and the Company's consolidated subsidiaries would be made known to them by others within those entities.

Changes in internal controls

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

A discussion regarding certain pending legal proceedings is included in Part I, Item 3, "Legal Proceedings," included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2002. Since the fiscal year ended June 30, 2002, certain developments have occurred with respect to the legal proceedings described in our Annual Report as follows:

ADE Corporation

On October 11, 2000, ADE Corporation ("ADE"), a competitor, filed a patent infringement lawsuit against KLA-Tencor in the U.S. District Court in Delaware. ADE claimed damages and sought an injunction under U.S. Patent No. 6,118,525 (`525 patent). We filed a counterclaim in the same court alleging that ADE has infringed four of our patents. We are seeking damages and a permanent injunction against ADE. In addition, we are seeking a declaration from the District Court that ADE's patent is invalid and not infringed by KLA-Tencor. On October 22, 2001, we filed a separate action for declaratory judgment against ADE in the Northern District of California requesting a declaration that U.S. Patent No. 6,292,259 (`259 patent) is invalid and not infringed. That action has now been consolidated with the prior action in the Delaware proceeding, and ADE has amended its complaint in that proceeding to allege that KLA-Tencor is infringing the `259 patent. On August 8, 2002, the magistrate presiding over the action issued a recommendation that the court enter summary judgment in favor of KLA-Tencor on the issue of non-infringement under ADE's `525 patent. On the same day, the magistrate issued recommendations that the court enter summary judgment in favor of ADE on the issue of non-infringement of two of KLA-Tencor's patents. While we cannot predict the outcome, we believe that we have valid defenses and further believe that our counterclaims have merit.

Tokyo Seimitsu Co. Ltd.

On June 27, 2001,we sued Tokyo Seimitsu Co. Ltd. and TSK America Inc. ("TSK"), a competitor, in the U.S. District Court in the Northern District of California alleging that TSK infringes on one of the Company's patents. The suit seeks damages and an injunction under U.S. Patent No. 4,805,123 (`123 patent). TSK filed a counterclaim in the same court seeking a declaration that the `123 patent is invalid, unenforceable and not infringed, and also alleged violations of the antitrust and unfair competition laws.

Schlumberger, Inc. and Rigg Systems, Inc.

The Schlumberger, Inc. and Rigg Systems, Inc. actions have been dismissed under circumstances that the parties have agreed to treat as confidential.

Although we cannot predict the outcome of these claims, we do not believe that any of these legal matters will have a material adverse effect on KLA-Tencor. Were an unfavorable ruling to occur in one or more of the pending claims, there exists the possibility of a material impact on our operating results for the period in which the ruling occurred.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

99.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Form 8-K

The Registrant filed a Report on Form 8-K dated September 25, 2002 to report an event under Item 5.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KLA-Tencor Corporation
(Registrant)

| | |
|---|---|
| November 13, 2002 | /s/ KENNETH L. SCHROEDER |
| (Date) | Kenneth L. Schroeder |

Chief Executive Officer and Director
(Principal Executive Officer)

November 13, 2002 /s/ JOHN H. KISPERT

- ------------------------------- ----------------------------------------

(Date) John H. Kispert
Executive Vice President
and Chief Financial Officer
(Principal Accounting Officer)

CERTIFICATIONS

I, Kenneth L. Schroeder certify that:

1. I have reviewed this quarterly report on Form 10-Q of KLA-Tencor Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 13, 2002 /s/ KENNETH L. SCHROEDER

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(Date) Kenneth L. Schroeder
Chief Executive Officer and Director
(Principal Executive Officer)

I, John H. Kispert certify that:

1. I have reviewed this quarterly report on Form 10-Q of KLA-Tencor Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

| | |
|---|---|
| November 13, 2002 | /s/ JOHN H. KISPERT |
| (Date) | John H. Kispert<br>Executive Vice President<br>and Chief Financial Officer<br>(Principal Accounting Officer) |

Exhibit 99.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Kenneth L. Schroeder, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of KLA-Tencor Corporation on Form 10-Q for the fiscal quarter ended September 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of KLA-Tencor Corporation.

By: /s/ Kenneth L. Schroeder
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Name: Kenneth L. Schroeder
Title: Chief Executive Officer

Exhibit 99.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, John H. Kispert, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of KLA-Tencor Corporation on Form 10-Q for the fiscal quarter ended September 30, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of KLA-Tencor Corporation.

By: /s/ John H. Kispert

Name: John H. Kispert
Title: Chief Financial Officer