LOGIC DEVICES INC
Form 10-Q
January 26, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended

December 31, 2004

Commission File Number

0-17187

LOGIC Devices Incorporated

(Exact name of registrant as specified in its charter)

California	**94-2893789**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

395 West Java Drive, Sunnyvale, California 94089

(Address of principal executive offices)

(Zip Code)

(408) 542-5400

(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 Exchange 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 ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ___ No _X_

Indicate the number of shares outstanding of the issuer's classes of common stock, as of the latest practicable date. On January 25, 2005, 6,743,188 shares of Common Stock, without par value, were issued and outstanding.

LOGIC Devices Incorporated

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

Balance Sheets

	December 31, 2004 (unaudited)	September 30, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,833,700	$ 1,788,900
Accounts receivable	707,400	729,000
Inventories	6,673,300	7,079,300
Prepaid expenses	288,300	143,100
Sales tax refund receivable	13,500	47,600
Total current assets	9,516,200	9,787,900
Property and equipment, net	817,400	862,000
Other assets, net	247,500	185,700
	$ 10,581,100	$ 10,835,600
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 52,500	$ 137,200
Accrued payroll and vacation	73,900	52,500
Accrued commissions	12,600	15,500
Other accrued expenses	61,800	-
Total current liabilities	200,800	205,200
Deferred rent	38,900	40,500
Total liabilities	239,700	245,700
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred stock, no par value; 1,000,000 shares authorized;		

5,000 designated as Series A; 0 shares issued and outstanding	-	-
Common stock, no par value; 10,000,000 shares authorized; 6,743,188 shares issued and outstanding	18,436,500	18,436,500
Additional paid-in capital	100,000	100,000
Accumulated deficit	(8,195,100)	(7,946,600)
Total shareholders' equity	10,341,400	10,589,900
	$ 10,581,100	$ 10,835,600

See accompanying notes to financial statements.

Statements of Operations

(unaudited)

	For the fiscal quarter ended: December 31, 2004	For the fiscal quarter ended: December 31, 2003
Net revenues	$ 1,000,900	$ 1,102,100
Cost of revenues	718,300	710,000
Gross margin	282,600	392,100
Operating expenses:		
Research and development	208,900	399,000
Selling, general, and administrative	326,100	514,300
Total operating expenses	535,000	913,300
Loss from operations	(252,400)	(521,200)
Interest income	4,700	6,400
Loss before provision for income taxes	(247,700)	(514,800)
Provision for income taxes	800	-
Net loss	$ (248,500)	$ (514,800)
Basic and diluted loss per common share	$ (0.04)	$ (0.08)
Basic and diluted weighted average common shares outstanding	6,743,188	6,654,021

See accompanying notes to financial statements.

Statements of Cash Flows

(unaudited)

The Company also allows for multiple element revenue arrangements in cases where certain elements of a sales arrangement ar
In many instances, products are sold in stand-alone arrangements. Services are sold separately through renewals of annual mai

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When the Company is unable to establish relative selling price using VSOE or TPE, the Company uses estimated selling price (
The Company regularly reviews relative selling prices and maintains internal controls over the establishment and updates of the
Recent Accounting Pronouncements. In September 2011, the FASB amended its guidance through the issuance of a revised acc
In June 2011, the FASB amended its guidance on the presentation of comprehensive income. Under the amended guidance, an
In May 2011, the FASB amended its guidance to converge fair value measurement and disclosure guidance about fair value me
In April 2010, the FASB amended its guidance on share-based payment awards with an exercise price denominated in certain c
In January 2010, the FASB issued authoritative guidance for fair value measurements. This guidance now requires a reporting e

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NOTE 2 – FAIR VALUE MEASUREMENTS

The Company’s financial assets and liabilities are measured and recorded at fair value, except for equity investments in private

Fair Value Hierarchy. The authoritative guidance for fair value measurements establishes a fair value hierarchy that prioritizes

Level 1

Level 2

Level 3

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the f

All of the Company’s financial instruments were classified within Level 1 or Level 2 of the fair value hierarchy as of Septembe

The types of instruments valued based on other observable inputs include commercial paper, corporate debt securities, municip

The principal market in which the Company executes its foreign currency contracts is the institutional market in an over-the-co

The types of instruments valued based on unobservable inputs included the auction rate securities that were held by the Compa

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Financial assets (excluding cash held in operating accounts and time deposits) and liabilities measured at fair value on a recurri

(In thousands)

Assets
Cash equivalents:
Money market and other
Marketable securities:
U.S. Treasury securities
U.S. Government agency securities
Municipal securities
Corporate debt securities
Sovereign securities
Total cash equivalents and marketable securities(1)
Other current assets:
Derivative assets
Other non-current assets:
Executive Deferred Savings Plan:
Money market and other
Mutual funds
Executive Deferred Savings Plan total
Total financial assets(1)
Other current liabilities:
Derivative liabilities
Total financial liabilities

(1) Excludes cash of $156.8 million held in operating accounts and time deposits of $45.1 million as of September 30, 2011.

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Financial assets (excluding cash held in operating accounts and time deposits) and liabilities measured at fair value on a recurri

(In thousands)

Assets
Cash equivalents:
U.S. Treasury securities
U.S. Government agency securities
Corporate debt securities
Money market and other
Marketable securities:
U.S. Treasury securities
U.S. Government agency securities
Municipal securities
Corporate debt securities
Sovereign securities
Total cash equivalents and marketable securities(1)
Other current assets:
Derivative assets
Other non-current assets:
Executive Deferred Savings Plan:
Money market and other
Mutual funds
Executive Deferred Savings Plan total
Total financial assets(1)
Other current assets:
Derivative liabilities
Total financial liabilities

(1) Excludes cash of $165.9 million held in operating accounts and time deposits of $65.4 million as of June 30, 2011.
Changes in the Company’s Level 3 securities for the three months ended September 30, 2011 and 2010 were as follows:

(In thousands)
Beginning aggregate fair value of Level 3 securities
Net settlements
Ending aggregate fair value of Level 3 securities
During the fiscal year ended June 30, 2010 (and in prior fiscal years), the Company’s investment portfolio included auction rat

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NOTE 3 – BALANCE SHEET COMPONENTS

(In thousands)

Accounts receivable, net:
Accounts receivable, gross
Allowance for doubtful accounts

Inventories, net:
Customer service parts
Raw materials
Work-in-process
Finished goods

Other current assets:
Prepaid expenses
Income tax related receivables
Other current assets

Land, property and equipment, net:
Land
Buildings and leasehold improvements
Machinery and equipment
Office furniture and fixtures
Construction in process

Less: accumulated depreciation and amortization

Other non-current assets:
Executive Deferred Savings Plan(1)
Deferred tax assets – long-term
Other

Other current liabilities:
Warranty
Executive Deferred Savings Plan(1)
Compensation and benefits
Income taxes payable
Interest payable
Accrued litigation costs
Other accrued expenses

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(1) KLA-Tencor has a non-qualified deferred compensation plan whereby certain executives and non-employee directors may c

NOTE 4 – MARKETABLE SECURITIES

The amortized cost and fair value of marketable securities as of September 30, 2011 and June 30, 2011 were as follows:

As of September 30, 2011 (In thousands)

U.S. Treasury securities
U.S. Government agency securities
Municipal securities
Corporate debt securities
Money market and other
Sovereign securities
Subtotal
Add: Time deposits(1)
Less: Cash equivalents
Marketable securities

As of June 30, 2011 (In thousands)

U.S. Treasury securities
U.S. Government agency securities
Municipal securities
Corporate debt securities
Money market and other
Sovereign securities
Subtotal
Add: Time deposits(1)
Less: Cash equivalents
Marketable securities

(1) Time deposits excluded from fair value measurements.

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KLA-Tencor's investment portfolio consists of both corporate and government securities that have a maximum maturity of thre

(In thousands)

U.S. Treasury securities
U.S. Government agency securities
Municipal securities
Corporate debt securities
Sovereign securities
Total

(1) As of September 30, 2011, the amount of total gross unrealized losses that had been in a continuous loss position for 12 mor

The contractual maturities of securities classified as available-for-sale as of September 30, 2011, regardless of their classificatio

(In thousands)

Due within one year
Due after one year through three years

Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations wit

NOTE 5 – GOODWILL AND PURCHASED INTANGIBLE ASSETS

Goodwill

The following table presents goodwill balances as of September 30, 2011 and June 30, 2011:

(In thousands)

Gross goodwill balance
Accumulated impairment losses
Net goodwill balance

The changes in the gross goodwill balance since June 30, 2011 resulted primarily from foreign currency translation adjustments

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acq

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Purchased Intangible Assets

The components of purchased intangible assets as of September 30, 2011 and June 30, 2011 were as follows:

(In thousands)

Category

Existing technology
Patents
Trade name/Trademark
Customer relationships
Other
Total

For the three months ended September 30, 2011 and 2010, amortization expense for other intangible assets was $8.0 million an

Fiscal year ending June 30:

2012 (remaining 9 months)
2013
2014
2015
2016
2017 and thereafter
Total

NOTE 6 – LONG-TERM DEBT

In April 2008, the Company issued $750 million aggregate principal amount of 6.90% senior, unsecured long-term debt due in

In certain circumstances involving a change of control followed by a downgrade of the rating of the Company's senior notes, th

Based on the trading prices of the debt on September 30, 2011 and June 30, 2011, the fair value of the debt as of September 30,

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NOTE 7 – STOCK-BASED COMPENSATION

Equity Incentive Program

Under the Company’s current equity incentive program, the Company issues equity awards from its 2004 Equity Incentive Plar

The following table summarizes the combined activity under the Company's equity incentive plans for the indicated period:

(In thousands)

Balances as of June 30, 2011(1)
Restricted stock units granted(2)(3)
Restricted stock units canceled(2)
Options canceled/expired/forfeited
Plan shares expired(4)
Balances as of September 30, 2011(1)

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(1) Includes shares available for issuance under the 2004 Plan, as well as under the Company’s 1998 Outside Director Option P
(2) The number of restricted stock units provided in this row reflects the application of the 1.8x multiple described above.
(3) Includes 0.2 million restricted stock units granted to senior management during the three months ended September 30, 2011
(4) Represents the portion of shares listed as “Options canceled/expired/forfeited” above that were issued under the Company’s

Except for options granted to non-employee Board members as part of their regular compensation package for service through

The fair value of stock-based awards is measured at the grant date and is recognized as expense over the employee’s requisite s

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The following table shows pre-tax stock-based compensation expense for the indicated periods:

(In thousands)

Stock-based compensation expense by:
Costs of revenues
Engineering, research and development
Selling, general and administrative
Total stock-based compensation expense
The following table shows stock-based compensation capitalized as inventory as of September 30, 2011 and June 30, 2011:

(In thousands)

Inventory
Stock Options
The following table summarizes the activity and weighted-average exercise price for stock options under all plans during the th

Stock Options

Outstanding stock options as of June 30, 2011
Granted
Exercised
Canceled/expired/forfeited
Outstanding stock options as of September 30, 2011
Vested and exercisable as of September 30, 2011
The Company has not issued any stock options since November 1, 2007. The weighted-average remaining contractual terms fo
The authoritative guidance on stock-based compensation permits companies to select the option-pricing model used to estimate
The following table shows the total intrinsic value of options exercised, total cash received from employees as a result of emplo

(In thousands)

Total intrinsic value of options exercised
Total cash received from employees as a result of employee stock option exercises
Tax benefits realized in connection with these exercises
As of September 30, 2011, the unrecognized stock-based compensation balance related to stock options was immaterial.

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The Company settles employee stock option exercises with newly issued common shares except in certain tax jurisdictions whe
Restricted Stock Units
The following table shows the applicable number of restricted stock units and weighted-average grant date fair value after estin

Restricted Stock Units

Outstanding restricted stock units as of June 30, 2011
Granted(2)
Vested and released
Withheld for taxes
Forfeited
Outstanding restricted stock units as of September 30, 2011(2)

(1) Share numbers reflect actual shares subject to awarded restricted stock units. Under the terms of the 2004 Plan, each of the s
(2) Includes 0.2 million restricted stock units granted to senior management during the three months ended September 30, 2011
The restricted stock units granted by the Company since the beginning of the fiscal year ended June 30, 2007 generally vest in t
The following table shows the grant date fair value after estimated forfeitures, weighted-average grant date fair value per unit a

(In thousands, except for weighted-average grant date fair value)

Grant date fair value after estimated forfeitures
Weighted-average grant date fair value per unit
Tax benefits realized in connection with vested and released restricted stock units
As of September 30, 2011, the unrecognized stock-based compensation expense balance related to restricted stock units was $1

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Employee Stock Purchase Plan

KLA-Tencor's Employee Stock Purchase Plan ("ESPP") provides that eligible employees may contribute up to 10% of their el

Effective January 1, 2010, the offering period (or length of the look-back period) under the ESPP has a duration of six months,

The Company estimates the fair value of purchase rights under the ESPP using a Black-Scholes valuation model. The fair valu

Stock purchase plan:	
Expected stock price volatility	
Risk-free interest rate	
Dividend yield	
Expected life of options (in years)	

The following table shows the tax benefits realized by the Company in connection with the disqualifying dispositions of share

(In thousands, except for weighted-average fair value per share)	
Tax benefits realized in connection with the disqualifying dispositions of shares purchased under the ESPP	
Weighted-average fair value per share based on Black-Scholes model	

The ESPP shares are replenished annually on the first day of each fiscal year by virtue of an evergreen provision. The provisio

NOTE 8 – STOCK REPURCHASE PROGRAM

Since July 1997, the Board of Directors has authorized the Company to systematically repurchase in the open market up to 72.

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Share repurchases for the three months ended September 30, 2011 and 2010 were as follows:

(In thousands)
Number of shares of common stock repurchased
Total cost of repurchases
As of September 30, 2011, $3.3 million of the total cost of repurchases set forth above remained unpaid and was recorded in ot
NOTE 9 – NET INCOME PER SHARE
Basic net income per share is calculated by dividing net income available to common stockholders by the weighted-average nu

(In thousands, except per share amounts)

Numerator:
Net income
Denominator:
Weighted-average shares-basic, excluding unvested restricted stock units
Effect of dilutive options and restricted stock units
Weighted-average shares-diluted
Basic net income per share
Diluted net income per share
Anti-dilutive securities excluded from the computation of diluted net income per share
The total amount of dividends paid during the three months ended September 30, 2011 and 2010 was $58.5 million and $41.8 r

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NOTE 10 – COMPREHENSIVE INCOME

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

(In thousands)

Net income

Other comprehensive income (loss):

Currency translation adjustments

Gains (losses) on cash flow hedging instruments

Change in unrecognized losses and transition obligation related to pension and post-retirement plans

Unrealized gains (losses) on investments

Other comprehensive income (loss)

Total comprehensive income

NOTE 11 – INCOME TAXES

The following table provides details of income taxes:

(Dollar amounts in thousands)

Income before income taxes

Provision for taxes

Effective tax rate

The Company's estimated annual effective tax rate for the fiscal year ending June 30, 2012 is approximately 25.0%.

The difference between the actual effective tax rate of 22.4% during the quarter and the estimated annual effective tax rate of 2

- Tax benefit of $18.3 million was recognized related to the settlement of a United States federal income tax examination for the
- Tax benefit of $18.0 million was recognized related to a decrease in reserves for uncertain tax positions taken in prior years.
- Tax expense of $23.6 million was recognized related to an inter-company licensing agreement in connection with the migratio
- Tax expense of $5.2 million was recognized related to a non-deductible decrease in the value of the assets held within the Com

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Tax expense was lower as a percentage of income during the three months ended September 30, 2011 compared to the three mo

- A tax benefit of $18.3 million recognized during the three months ended September 30, 2011 resulting from a decrease in the C
- A tax benefit of $18.0 million recognized during the three months ended September 30, 2011 resulting from a decrease in reser
- A decrease in tax expense of $6.9 million during the three months ended September 30, 2011 related to state income taxes; and
- A decrease in tax expense of $7.7 million during the three months ended September 30, 2011 related to an increase in the prop
- An increase in tax expense of $23.6 million during the three months ended September 30, 2011 related to a migration of a porti

In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. The Comp

NOTE 12 – LITIGATION AND OTHER LEGAL MATTERS

Indemnification Obligations. As a result of the Company's indemnification obligations in connection with the litigation and gov

Other Legal Matters. The Company is named from time to time as a party to lawsuits in the normal course of its business. Actio

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Factoring. KLA-Tencor has agreements with financial institutions to sell certain of its trade receivables and promissory notes fr

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The following table shows total receivables sold under factoring agreements and proceeds from sales of LCs for the three mont

(In thousands)

Receivables sold under factoring agreements
Proceeds from sales of LCs
Factoring and LC fees for the sale of certain trade receivables were recorded in interest income and other, net and were not mat
Facilities. KLA-Tencor leases certain of its facilities under arrangements that are accounted for as operating leases. Rent expen
The following is a schedule of expected operating lease payments:

Fiscal year ending June 30,

2012 (remaining 9 months)
2013
2014
2015
2016
2017 and thereafter
Total minimum lease payments
Purchase Commitments. KLA-Tencor maintains certain open inventory purchase commitments with its suppliers to ensure a sn
Guarantees. KLA-Tencor provides standard warranty coverage on its systems for 40 hours per week for twelve months, provid

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The following table provides the changes in the product warranty accrual for the three months ended September 30, 2011 and 2

(In thousands)

Beginning balance
Accruals for warranties issued during the period
Changes in liability related to pre-existing warranties
Settlements made during the period
Ending balance
The Company maintains guarantee arrangements available through various financial institutions for up to $20.8 million, of whi
KLA-Tencor is a party to a variety of agreements pursuant to which it may be obligated to indemnify the other party with respe
Subject to certain limitations, the Company is obligated to indemnify its current and former directors, officers and employees w
It is not possible to predict the maximum potential amount of future payments under these or similar agreements due to the con
NOTE 14 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES
The authoritative guidance requires companies to recognize all derivative instruments and hedging activities, including foreign

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KLA-Tencor’s foreign subsidiaries operate and sell KLA-Tencor’s products in various global markets. As a result, KLA-Tenco
For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the d
For derivative instruments that are not designated as accounting hedges, gains and losses are recognized in interest income and
Derivatives in Cash Flow Hedging Relationships: Foreign Exchange Contracts
The location and amounts of designated and non-designated derivative instruments’ gains and losses reported in the condensed

(In thousands)
Derivatives Designated as Hedging Instruments
Gains (losses) in accumulated OCI on derivatives (effective portion)
Gains (losses) reclassified from accumulated OCI into income (effective portion):

Gains (losses) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)
Derivatives Not Designated as Hedging Instruments
Losses recognized in income

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The U.S. dollar equivalent of all outstanding notional amounts of hedge contracts, with maximum maturity of 13 months, as of

(In thousands)

Cash flow hedge contracts
Purchase
Sell
Other foreign currency hedge contracts
Purchase
Sell
The location and fair value amounts of the Company's derivative instruments reported in its Condensed Consolidated Balance

(In thousands)
Derivatives designated as hedging instruments
Foreign exchange contracts
Total derivatives designated as hedging instruments
Derivatives not designated as hedging instruments
Foreign exchange contracts
Total derivatives not designated as hedging instruments
Total derivatives
The following table provides the balances and changes in the accumulated other comprehensive income (loss) related to derivat

(In thousands)
Beginning balance
Amount reclassified to income
Net change
Ending balance

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NOTE 15 – RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2011 and 2010, the Company purchased from, or sold to, several entities, where

(In thousands)

Total revenues
Total purchases

The Company's receivable balance from these parties was immaterial as of September 30, 2011 and was $0.2 million as of June

NOTE 16 – SEGMENT REPORTING AND GEOGRAPHIC INFORMATION

KLA-Tencor reports one reportable segment in accordance with the provisions of the authoritative guidance for segment report

The Company is engaged primarily in designing, manufacturing, and marketing process control and yield management solution

The Company’s significant operations outside the United States include manufacturing facilities in Israel and Singapore, and sa

The following is a summary of revenues by geographic region for the three months ended September 30, 2011 and 2010 (as a p

(Dollar amounts in thousands)
Revenues:
United States
Taiwan
Japan
Europe & Israel
Korea
Rest of Asia
Total

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The following is a summary of revenues by major products for the three months ended September 30, 2011 and 2010 (as a perc

(Dollar amounts in thousands)
Revenues:
Defect inspection
Metrology
Service
Other
Total
Two customers each accounted for greater than 10% of total revenues for the three months ended September 30, 2011 and 201
Long-lived assets by geographic region as of September 30, 2011 and June 30, 2011 were as follows:
(In thousands)
Long-lived assets:
United States
Taiwan
Japan
Europe & Israel
Korea
Rest of Asia
Total

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and S

Our actual results may differ significantly from those projected in the forward-looking statements in this report. Factors that mi

EXECUTIVE SUMMARY

KLA-Tencor Corporation is a leading supplier of process control and yield management solutions for the semiconductor and re

Our products and services are used by the vast majority of bare wafer, IC, lithography reticle ("reticle" or "mask") and disk mar

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As a supplier to the global semiconductor and semiconductor-related industries, we are subject to the cyclical capital spending
The growing use of increasingly sophisticated semiconductor devices in communications, consumer electronics, data processin
During the three months ended September 30, 2011, our customers reduced their purchases of process control and yield manag
The following table sets forth some of the key quarterly unaudited financial information that we use to manage our business:

(In thousands, except net income per share)

Total revenues	
Total costs and operating expenses	
Gross margin	
Income from operations	
Net income	
Net income per share:	
Basic (1)	
Diluted (1)	

(1) Basic and diluted earnings per share are computed independently for each of the quarters presented based on the weighted a

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CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of our Condensed Consolidated Financial Statements in conformity with accounting principles generally accep

- Revenue Recognition
- Inventories
- Warranty
- Allowance for Doubtful Accounts
- Stock-Based Compensation
- Contingencies and Litigation
- Goodwill and Intangible Assets
- Income Taxes

There were no significant changes in our critical accounting estimates and policies during the three months ended September 3(

Valuation of Goodwill and Intangible Assets

We assess goodwill for impairment annually as well as whenever events or changes in circumstances indicate that the carrying

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendere

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Recent Accounting Pronouncements

In September 2011, the FASB amended its guidance through the issuance of a revised accounting standard intended to simplify

In June 2011, the FASB amended its guidance on the presentation of comprehensive income. Under the amended guidance, an

In May 2011, the FASB amended its guidance, to converge fair value measurement and disclosure guidance about fair value m

In April 2010, the FASB amended its guidance on share-based payment awards with an exercise price denominated in certain c

In January 2010, the FASB issued authoritative guidance for fair value measurements. This guidance now requires a reporting

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RESULTS OF OPERATIONS
Revenues and Gross Margin

(Dollar amounts in thousands)

Revenues:
Product
Service
Total revenues
Costs of revenues
Gross margin percentage
Product revenues
Product revenues decreased during the three months ended September 30, 2011 compared to the three months ended June 30, 2
Product revenues increased during the three months ended September 30, 2011 compared to the three months ended September
Service revenues
Service revenues are generated from maintenance contracts, as well as billable time and material service calls made to our cust
Service revenues increased during the three months ended September 30, 2011 compared to the three months ended September

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Revenues by region

Revenues by region for the periods indicated were as follows:

(Dollar amounts in thousands)

United States
Taiwan
Japan
Europe & Israel
Korea
Rest of Asia
Total

A significant portion of our revenues continues to be generated in Asia, where a substantial portion of the world's semiconduct

Gross margin

Our gross margin fluctuates with revenue levels and product mix and is affected by variations in costs related to manufacturing

The following tables summarize the major factors that contributed to the changes in gross margin percentage:

	Gross Margin Percentage Three months ended			Gross Margin Percentage Three months ended	
June 30, 2011	60.1	%	September 30, 2010	61.3	%
Revenue volume of products and service	(1.0	)%	Revenue volume of products and service	(0.6	)%
Mix of products and services sold	0.1	%	Mix of products and services sold	(0.6	)%
Manufacturing labor, overhead and efficiencies	(0.7	)%	Manufacturing labor, overhead and efficiencies	0.1	%
Other service and manufacturing costs	(1.2	)%	Other service and manufacturing costs	(2.9	)%
September 30, 2011	57.3	%	September 30, 2011	57.3	%

Changes in gross margin percentage driven by revenue volume reflect our ability to leverage existing infrastructure to generate

Our gross margin declined to 57.3% during the three months ended September 30, 2011 from 60.1% during the three months en

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Our gross margin declined to 57.3% during the three months ended September 30, 2011 from 61.3% during the three months e
Engineering, Research and Development ("R&D")

(Dollar amounts in thousands)

R&D expenses
R&D expenses as a percentage of total revenues
R&D expenses during the three months ended September 30, 2011 increased compared to the three months ended June 30, 201
R&D expenses during the three months ended September 30, 2011 increased compared to the three months ended September 3
R&D expenses include the benefit of $3.6 million, $6.2 million and $2.8 million of external funding received during the three r
Our future operating results will depend significantly on our ability to produce products and provide services that have a compe
Selling, General and Administrative ("SG&A")

(Dollar amounts in thousands)

SG&A expenses
SG&A expenses as a percentage of total revenues
SG&A expenses during the three months ended September 30, 2011 increased compared to the three months ended June 30, 20
SG&A expenses during the three months ended September 30, 2011 increased compared to the three months ended September

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Interest Income and Other, Net and Interest Expense

(Dollar amounts in thousands)

Interest income and other, net
Interest expense
Interest income and other, net as a percentage of total revenues
Interest expense as a percentage of total revenues

Interest income and other, net is comprised primarily of interest income earned on our investment and cash portfolio, realized g

Interest expense is primarily attributable to the $750 million aggregate principal amount of senior fixed rate notes that we issue

Provision for Income Taxes

The following table provides details of income taxes:

(Dollar amounts in thousands)	Three months ended		
	September 30, 2011	June 30, 2011	September 30, 2010
Income before income taxes	$ 247,262	$ 334,043	$ 223,312
Provision for taxes	55,267	89,026	69,116
Effective tax rate	22.4 %	26.7 %	31.0 %

Our estimated annual effective tax rate for the fiscal year ending June 30, 2012 is approximately 25.0%.

The difference between the actual effective tax rate of 22.4% during the quarter and the estimated annual effective tax rate of 2

- Tax benefit of $18.3 million was recognized related to the settlement of a United States federal income tax examination for the
- Tax benefit of $18.0 million was recognized related to a decrease in reserves for uncertain tax positions taken in prior years.
- Tax expense of $23.6 million was recognized related to an inter-company licensing agreement in connection with the migratio
- Tax expense of $5.2 million was recognized related to a non-deductible decrease in the value of the assets held within our Exe

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Tax expense was lower as a percentage of income during the three months ended September 30, 2011 compared to the three mo
•A tax benefit of $18.3 million recognized during the three months ended September 30, 2011 resulting from a decrease in our u
•A tax benefit of $18.0 million recognized during the three months ended September 30, 2011 resulting from a decrease in reser
•A decrease in tax expense of $6.9 million during the three months ended September 30, 2011related to state income taxes; and
•A decrease in tax expense of $7.7 million during the three months ended September 30, 2011 related to an increase in the prop
•An increase in tax expense of $23.6 million during the three months ended September 30, 2011 related to a migration of a porti
Tax expense was lower as a percentage of income during the three months ended September 30, 2011 compared to the three mo
•A tax benefit of $18.0 million recognized during the three months ended September 30, 2011 resulting from a decrease in unrec
•A tax benefit of $18.0 million recognized during the three months ended September 30, 2011 resulting from a decrease in reser
•An increase in tax expense of $23.6 million during the three months ended September 30, 2011 relating to a migration of a port
In the normal course of business, we are subject to examination by taxing authorities throughout the world. We are subject to fe

LIQUIDITY AND CAPITAL RESOURCES

(Dollar amounts in thousands)
Cash and cash equivalents
Marketable securities
Total cash, cash equivalents and marketable securities
Percentage of total assets

(In thousands)
Cash flow:
Net cash provided by operating activities
Net cash provided by (used in) investing activities
Net cash used in financing activities
Effect of exchange rate changes on cash and cash equivalents
Net increase in cash and cash equivalents

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As of September 30, 2011, our cash, cash equivalents and marketable securities totaled $2.1 billion, which is an increase of $61
During the three months ended September 30, 2011, our Board of Directors declared a dividend of $0.35 per share of our outsta
The shares repurchased under our stock repurchase program have decreased our basic and diluted weighted-average shares outs
We have historically financed our liquidity requirements through cash generated from operations. Net cash provided by operati

- An increase in cash collections of approximately $210 million during the three months ended September 30, 2011 compared to
- An increase in vendor payments of approximately $65 million during the three months ended September 30, 2011 compared to
- An increase in payroll expenses of approximately $40 million during the three months ended September 30, 2011 compared to

Net cash used in investing activities during the three months ended September 30, 2011 increased compared to the three month
Net cash used in financing activities during the three months ended September 30, 2011 increased compared to the three month

- An increase in dividend payments of $16.7 million during the three months ended September 30, 2011 compared to the three m
- An increase in tax withholding payments related to vested and released restricted stock units of $8.4 million during the three m
- An increase in common stock repurchases of $4.2 million during the three months ended September 30, 2011 compared to the
- An increase in proceeds from the exercise of stock options of $6.8 million during the three months ended September 30, 2011.

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The following is a schedule summarizing our significant obligations to make future payments under contractual obligations as o

(In thousands)
Long-term debt obligations(1)
Interest expense associated with long-term debt obligations
Purchase commitments
Non-current income tax payable(3)
Operating leases
Pension obligations
Total contractual cash obligations

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(1) In April 2008, we issued $750 million aggregate principal amount of senior notes due in 2018.
(2) Remaining 9 months.
(3) Represents the non-current income tax payable obligation. We are unable to make a reasonably reliable estimate of the timin

We have agreements with financial institutions to sell certain of our trade receivables and promissory notes from customers wit

The following table shows total receivables sold under factoring agreements and proceeds from sales of LCs for the three mont

(In thousands)	Three months ended September 30, 2011	September 30, 2010
Receivables sold under factoring agreements	$ 168,724	$ 60,025
Proceeds from sales of LCs	$ 4,510	$ 50,831

Factoring and LC fees for the sale of certain trade receivables were recorded in interest income and other, net and were not mat

We maintain guarantee arrangements available through various financial institutions for up to $20.8 million, of which $18.7 mi

We maintain certain open inventory purchase commitments with our suppliers to ensure a smooth and continuous supply for ke

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We provide standard warranty coverage on our systems for 40 hours per week for twelve months, providing labor and parts nec
Working capital increased to $2.9 billion as of September 30, 2011, compared to $2.8 billion as of June 30, 2011. As of Septem
In April 2008, we issued $750 million aggregate principal amount of 6.90% senior, unsecured long-term debt due in 2018 with
Our credit ratings and outlooks as of October 10, 2011 are summarized below:

Rating Agency
Fitch
Moody's
Standard & Poor's

Factors that can affect our credit ratings include changes in our operating performance, the economic environment, conditions i

Off-Balance Sheet Arrangements

Under our foreign currency risk management strategy, we utilize derivative instruments to protect our interests from unanticipa

(In thousands)
Cash flow hedge contracts
Purchase
Sell
Other foreign currency hedge contracts
Purchase
Sell

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Indemnification Obligations. Subject to certain limitations, we are obligated to indemnify our current and former directors, offi
We are a party to a variety of agreements pursuant to which we may be obligated to indemnify the other party with respect to c
It is not possible to predict the maximum potential amount of future payments under these or similar agreements due to the con

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 e
As of September 30, 2011, we had an investment portfolio of fixed income securities of $1.3 billion, excluding those classified
As of September 30, 2011, we had net forward and option contracts to sell $106.2 million in foreign currency in order to hedge
In April 2008, we issued $750 million aggregate principal amount of 6.90% senior unsecured notes due in 2018. The fair mark

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See Note 4, “Marketable Securities,” to the Condensed Consolidated Financial Statements in Part I, Item 1; Management’s Dis

ITEM 4 CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures and Related CEO and CFO Certifications

Evaluation of Disclosure Controls and Procedures

The Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedure

Attached as exhibits to this Report are certifications of the CEO and CFO, which are required in accordance with Rule 13a-14 o

Definition of Disclosure Controls

Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in the C

Limitations on the Effectiveness of Controls

The Company’s management, including the CEO and CFO, does not expect that the Company’s Disclosure Controls or interna

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended September 30,

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth above under Note 12, “Litigation and Other Legal Matters,” to the Condensed Consolidated Financial

ITEM 1A. RISK FACTORS

A description of factors that could materially affect our business, financial condition or operating results is provided below.

Risks Associated with Our Industry

The semiconductor equipment industry is highly cyclical. The purchasing decisions of our customers are highly dependent on t

The timing, length and severity of the up-and-down cycles in the semiconductor equipment industry are difficult to predict. The

When cyclical fluctuations result in lower than expected revenue levels, operating results may be adversely affected and cost re

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In addition, our management typically provides quarterly forecasts for certain financial metrics, which, when made, are based c
Ongoing changes in the technology industry, as well as the semiconductor industry in particular, could expose our business to s
The semiconductor equipment industry and other industries that we serve are constantly developing and changing over time. M
In addition, we face a number of risks specific to ongoing changes in the semiconductor industry, as the significant majority of

- the increasing cost of building and operating fabrication facilities and the impact of such increases on our customers' investme
- differing market growth rates and capital requirements for different applications, such as memory, logic and foundry;
- the emergence of disruptive technologies that change the prevailing semiconductor manufacturing processes (or the economics
- the possible introduction of integrated products by our larger competitors that offer inspection and metrology functionality in a
- changes in semiconductor manufacturing processes that are extremely costly for our customers to implement and, accordingly,
- the bifurcation of the semiconductor manufacturing industry into (a) leading edge manufacturers driving continued research an
- the ever escalating cost of next-generation product development, which may result in joint development programs between us a
- the potential industry transition from 300mm to 450mm wafers; and
- the entry by some semiconductor manufacturers into collaboration or sharing arrangements for capacity, cost or risk with other

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Any of the changes described above may negatively affect our customers' rate of investment in the capital equipment that we p
We are exposed to risks associated with a highly concentrated customer base.
Our customer base, particularly in the semiconductor industry, historically has been, and is becoming increasingly, highly conc
Risks Related to Our Business Model and Capital Structure
If we do not develop and introduce new products and technologies in a timely manner in response to changing market conditio
Success in the semiconductor equipment industry depends, in part, on continual improvement of existing technologies and rapi
In this environment, we must continue to make significant investments in research and development in order to enhance the pe

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In addition, the complexity of our products exposes us to other risks. We regularly recognize revenue from a sale upon shipmen
Our success is dependent in part on our technology and other proprietary rights. If we are unable to maintain our lead or protect
Our success is dependent in part on our technology and other proprietary rights. We own various United States and internationa
We also maintain trademarks on certain of our products and services and claim copyright protection for certain proprietary soft
While patent, copyright and trademark protection for our intellectual property is important, we believe our future success in hig
Our future performance depends, in part, upon our ability to continue to compete successfully worldwide.
Our industry includes large manufacturers with substantial resources to support customers worldwide. Some of our competitors

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Our business would be harmed if we do not receive parts sufficient in number and performance to meet our production requiren
We use a wide range of materials in the production of our products, including custom electronic and mechanical components, a
If we fail to operate our business in accordance with our business plan, our operating results, business and stock price may be s
We attempt to operate our business in accordance with a business plan that is established annually, revised frequently (generall
Because our expenses are in most cases relatively fixed in the short term, any revenue shortfall below expectations could have a
In addition, our management is constantly striving to balance the requirements and demands of our customers with the availabi

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There can be no assurance that we will continue to declare cash dividends at all or in any particular amounts.
Our Board of Directors first instituted a quarterly dividend during the fiscal year ended June 30, 2005. Since that time, we have
There are risks associated with our outstanding indebtedness.
As of September 30, 2011, we had $750 million aggregate principal amount of outstanding indebtedness represented by our sen
In addition, changes by any rating agency to our outlook or credit rating could negatively affect the value and liquidity of both
In certain circumstances involving a change of control followed by a downgrade of the rating of our senior notes, we will be re
We are exposed to risks related to our commercial terms and conditions, including our indemnification of third parties, as well
Although our standard commercial documentation sets forth the terms and conditions that we intend to apply to commercial tra

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In addition, in our commercial agreements, from time to time in the normal course of business we indemnify third parties with
We are also exposed to potential costs associated with unexpected product performance issues. Our products and production pr
There are risks associated with our receipt of government funding for research and development.
We are exposed to additional risks related to our receipt of external funding for certain strategic development programs from va
We have recorded significant restructuring, inventory write-off and asset impairment charges in the past and may do so again in
During the fiscal year ended June 30, 2009, we recorded material restructuring charges of $38.7 million related to our global w

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As noted above, we recorded a material charge during the fiscal year ended June 30, 2009 related to the impairment of our goo
Any such additional material charges, whether related to restructuring or goodwill or purchased intangible asset impairment, m
We are exposed to risks related to our financial arrangements with respect to receivables factoring and banking arrangements.
We enter into factoring arrangements with financial institutions to sell certain of our trade receivables and promissory notes fro
We are subject to the risks of additional government actions in the event we were to breach the terms of any settlement arrange
In connection with the settlement of certain government actions and other legal proceedings related to our historical stock optio
General Commercial, Operational, Financial and Regulatory Risks
We are exposed to risks associated with a weakening in the condition of the financial markets and the global economy.
The severe tightening of the credit markets, turmoil in the financial markets and weakening of the global economy that were ex
The markets for semiconductors, and therefore our business, are ultimately driven by the global demand for electronic devices

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In addition, a decline in the condition of the global financial markets could adversely impact the market values or liquidity of o
If we are unable to timely and appropriately adapt to changes resulting from difficult macroeconomic conditions, our business,
A majority of our annual revenues are derived from outside the United States, and we maintain significant operations outside th
A majority of our annual revenues are derived from outside the United States, and we maintain significant operations outside th

- managing cultural diversity and organizational alignment;
- exposure to the unique characteristics of each region in the global semiconductor market, which can cause capital equipment in
- periodic local or international economic downturns;
- potential adverse tax consequences, including withholding tax rules that may limit the repatriation of our earnings, and higher e
- government controls, either by the United States or other countries, that restrict our business overseas or the import or export o
- tariffs or other trade barriers (including those applied to our products or to parts and supplies that we purchase);
- political instability, natural disasters, legal or regulatory changes, acts of war or terrorism in regions where we have operations
- fluctuations in interest and currency exchange rates (Although we attempt to manage near-term currency risks through the use o
- longer payment cycles and difficulties in collecting accounts receivable outside of the United States;
- difficulties in managing foreign distributors (including monitoring and ensuring our distributors' compliance with all applicable
- inadequate protection or enforcement of our intellectual property and other legal rights in foreign jurisdictions.

Any of the factors above could have a significant negative impact on our business and results of operations.
We might be involved in intellectual property disputes or other intellectual property infringement claims that may be costly to r
As is typical in the semiconductor equipment industry, from time to time we have received communications from other parties

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We are exposed to various risks related to the legal (including environmental), regulatory and tax environments in which we pe
We are subject to various risks related to compliance with new, existing, different, inconsistent or even conflicting laws, rules a
Our properties and many aspects of our business operations are subject to various domestic and international environmental lav
In addition, we may from time to time be involved in legal proceedings or claims regarding employment, contracts, product per
We depend on key personnel to manage our business effectively, and if we are unable to attract, retain and motivate our key em
Our employees are vital to our success, and our key management, engineering and other employees are difficult to replace. We

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We outsource a number of services to third-party service providers, which decreases our control over the performance of these
We outsource a number of services, including our transportation and logistics management of spare parts and certain accountin
We rely upon certain critical information systems for our daily business operation. Our inability to use or access these informat
Our global operations are linked by information systems, including telecommunications, the internet, our corporate intranet, ne
Acquisitions are an important element of our strategy but, because of the uncertainties involved, we may not find suitable acqu
In addition to our efforts to develop new technologies from internal sources, part of our growth strategy is to pursue acquisition

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If we are unable to successfully integrate and manage acquired businesses or if acquired businesses perform poorly, then our bu

- we may have to devote unanticipated financial and management resources to acquired businesses;
- the combination of businesses may cause the loss of key personnel or an interruption of, or loss of momentum in, the activities
- we may not be able to realize expected operating efficiencies or product integration benefits from our acquisitions;
- we may experience challenges in entering into new market segments for which we have not previously manufactured and sold
- we may face difficulties in coordinating geographically separated organizations, systems and facilities;
- the customers, distributors, suppliers, employees and others with whom the companies we acquire have business dealings may
- we may have to write-off goodwill or other intangible assets; and
- we may incur unforeseen obligations or liabilities in connection with acquisitions.

At times, we may also enter into strategic alliances with customers, suppliers or other business partners with respect to develop

Disruption of our manufacturing facilities or other operations, or in the operations of our customers, due to earthquake, flood, o

We have significant manufacturing operations in the United States, Singapore, Israel, Belgium and Germany. In addition, our b

For example, recent events in Japan, including earthquakes, tsunamis and the related damage, have affected the operations of so

In addition, as part of our cost-cutting actions, we have consolidated several operating facilities. Our California operations are r

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We are predominantly uninsured for losses and interruptions caused by terrorist acts and acts of war. If international political ir
The threat of terrorism targeted at, or acts of war in, the regions of the world in which we do business increases the uncertainty
We self insure certain risks including earthquake risk. If one or more of the uninsured events occurs, we could suffer major fina
We purchase insurance to help mitigate the economic impact of certain insurable risks; however, certain other risks are uninsur
We are exposed to foreign currency exchange rate fluctuations. Although we hedge certain currency risks, we may still be adve
We have exposure to fluctuations in foreign currency exchange rates, primarily the Euro and the Japanese Yen. We have intern
We are exposed to fluctuations in interest rates and the market values of our portfolio investments; impairment of our investme
Our investment portfolio primarily consists of both corporate and government debt securities that have a maximum effective m

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In addition, the market price for our common stock is volatile and has fluctuated significantly during recent years. The trading
We are exposed to risks in connection with tax audits in various jurisdictions.
We are subject to tax audits in various jurisdictions, and such jurisdictions may assess additional income or other taxes against
A change in our effective tax rate can have a significant adverse impact on our business.
A number of factors may adversely impact our future effective tax rates, such as the jurisdictions in which our profits are deter
Compliance with federal securities laws, rules and regulations, as well as NASDAQ requirements, is becoming increasingly co
Federal securities laws, rules and regulations, as well as NASDAQ rules and regulations, require companies to maintain extens
A change in accounting standards or practices or a change in existing taxation rules or practices (or changes in interpretations o
New accounting pronouncements and taxation rules and varying interpretations of accounting pronouncements and taxation rul
For example, the adoption of the authoritative guidance for stock-based compensation, which required us to measure all emplo

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Equity Repurchase Plans

The following is a summary of stock repurchases for the three months ended September 30, 2011 (1):

Period
July1, 2011 to July 31, 2011
August 1, 2011 to August 31, 2011
September 1, 2011 to September 30, 2011
Total

(1) In July 1997, our Board of Directors authorized us to systematically repurchase up to 17.8 million shares of our common sto
(2) All shares were purchased pursuant to the publicly announced repurchase program described in footnote 1 above.
(3) The stock repurchase program has no expiration date. Future repurchases of our common stock under our repurchase progra

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

10.43

31.1

31.2

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101.INS

101.SCH

101.CAL

101.DEF

101.LAB

101.PRE

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on i

October 27, 2011
(Date)

October 27, 2011
(Date)

October 27, 2011
(Date)

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KLA-TENCOR CORPORATION
EXHIBIT INDEX

Exhibit
Number

10.43

31.1

31.2

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101.INS

101.SCH

101.CAL

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101.LAB

101.PRE

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