

KLA TENCOR CORP
Form 10-Q
April 27, 2018
Table of Contents

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

FORM 10-Q

(Mark one)

QUARTERLY
REPORT
PURSUANT
TO SECTION
x 13 or 15(d) OF
THE
SECURITIES
EXCHANGE
ACT OF 1934

For the quarterly period ended March 31, 2018
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 000-09992
KLA-Tencor Corporation
(Exact name of registrant as specified in its charter)

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

One Technology Drive, Milpitas, California 95035
(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 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 No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and

Edgar Filing: KLA TENCOR CORP - Form 10-Q

post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of April 13, 2018, there were 155,872,083 shares of the registrant's Common Stock, \$0.001 par value, outstanding.

Table of Contents

INDEX

	Page Number
PART I FINANCIAL INFORMATION	
Item 1 <u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2018 and June 30, 2017</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations for the Three Months and Nine Months Ended March 31, 2018 and 2017</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the Three Months and Nine Months Ended March 31, 2018 and 2017</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2018 and 2017</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>7</u>
Item 2 <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>35</u>
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>54</u>
Item 4 <u>Controls and Procedures</u>	<u>55</u>
PART II OTHER INFORMATION	
Item 1 <u>Legal Proceedings</u>	<u>56</u>
Item 1A <u>Risk Factors</u>	<u>56</u>
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>75</u>
Item 3 <u>Defaults Upon Senior Securities</u>	<u>75</u>
Item 4 <u>Mine Safety Disclosures</u>	<u>75</u>
Item 5 <u>Other Information</u>	<u>75</u>
Item 6 <u>Exhibits</u>	<u>76</u>
<u>SIGNATURES</u>	<u>77</u>
<u>EXHIBIT INDEX</u>	<u>78</u>

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
KLA-TENCOR CORPORATION
Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands)	March 31, 2018	June 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,255,682	\$1,153,051
Marketable securities	1,634,300	1,863,689
Accounts receivable, net	660,455	571,117
Inventories	858,924	732,988
Other current assets	131,153	71,221
Total current assets	4,540,514	4,392,066
Land, property and equipment, net	284,496	283,975
Goodwill	349,998	349,526
Deferred income taxes	193,953	291,967
Purchased intangibles, net	15,376	18,963
Other non-current assets	213,847	195,676
Total assets	\$5,598,184	\$5,532,173
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$169,459	\$147,380
Deferred system profit	258,142	180,861
Unearned revenue	56,141	65,507
Current portion of long-term debt	—	249,983
Other current liabilities	716,693	649,431
Total current liabilities	1,200,435	1,293,162
Non-current liabilities:		
Long-term debt	2,461,914	2,680,474
Unearned revenue	70,934	59,713
Other non-current liabilities	494,758	172,407
Total liabilities	4,228,041	4,205,756
Commitments and contingencies (Note 12 and Note 13)		
Stockholders' equity:		
Common stock and capital in excess of par value	561,677	529,283
Retained earnings	862,743	848,457
Accumulated other comprehensive income (loss)	(54,277)	(51,323)
Total stockholders' equity	1,370,143	1,326,417
Total liabilities and stockholders' equity	\$5,598,184	\$5,532,173

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

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

(In thousands, except per share amounts)	Three months ended		Nine months ended	
	March 31,		March 31,	
	2018	2017	2018	2017
Revenues:				
Product	\$797,797	\$721,016	\$2,320,171	\$1,966,502
Service	223,497	192,793	646,526	574,865
Total revenues	1,021,294	913,809	2,966,697	2,541,367
Costs and expenses:				
Costs of revenues	368,688	343,274	1,069,471	939,617
Research and development	153,284	130,170	456,761	390,315
Selling, general and administrative	113,518	96,252	326,777	284,172
Interest expense	28,119	30,472	86,067	91,828
Other expense (income), net	(8,298)	(5,508)	(21,821)	(12,779)
Income before income taxes	365,983	319,149	1,049,442	848,214
Provision for income taxes	59,102	65,587	595,944	178,300
Net income	\$306,881	\$253,562	\$453,498	\$669,914
Net income per share:				
Basic	\$1.96	\$1.62	\$2.90	\$4.28
Diluted	\$1.95	\$1.61	\$2.88	\$4.26
Cash dividends declared per share	\$0.59	\$0.54	\$1.77	\$1.60
Weighted-average number of shares:				
Basic	156,221	156,749	156,547	156,402
Diluted	157,201	157,746	157,539	157,297

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

KLA-TENCOR CORPORATION
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(In thousands)	Three months ended		Nine months ended	
	March 31,		March 31,	
	2018	2017	2018	2017
Net income	\$306,881	\$253,562	\$453,498	\$669,914
Other comprehensive income (loss):				
Currency translation adjustments:				
Change in currency translation adjustments	4,238	7,375	10,617	(6)
Change in income tax benefit or expense	(667)	(1,642)	(3,006)	226
Net change related to currency translation adjustments	3,571	5,733	7,611	220
Cash flow hedges:				
Change in net unrealized gains or losses	(581)	(3,526)	560	8,605
Reclassification adjustments for net gains or losses included in net income (loss)	(694)	(2,288)	(3,775)	396
Change in income tax benefit or expense	369	2,091	1,045	(3,238)
Net change related to cash flow hedges	(906)	(3,723)	(2,170)	5,763
Net change related to unrecognized losses and transition obligations in connection with defined benefit plans	(28)	152	(121)	1,216
Available-for-sale securities:				
Change in net unrealized gains or losses	(5,723)	1,278	(10,919)	(8,636)
Reclassification adjustments for net gains or losses included in net income (loss)	(2)	53	61	(181)
Change in income tax benefit or expense	1,333	(221)	2,584	1,419
Net change related to available-for-sale securities	(4,392)	1,110	(8,274)	(7,398)
Other comprehensive income (loss)	(1,755)	3,272	(2,954)	(199)
Total comprehensive income	\$305,126	\$256,834	\$450,544	\$669,715

See accompanying notes to condensed consolidated financial statements (unaudited).

Table of Contents

KLA-TENCOR CORPORATION

Condensed Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	Nine months ended	
	March 31, 2018	2017
Cash flows from operating activities:		
Net income	\$453,498	\$669,914
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	47,695	43,512
Asset impairment charges	1,000	358
Non-cash stock-based compensation expense	43,980	36,458
Net (gain) loss on sales of marketable securities and other investments	47	(832)
Changes in assets and liabilities, net of business acquisition:		
Accounts receivable, net	(78,592)	(127,136)
Inventories	(109,672)	(13,969)
Other assets	16,917	(27,589)
Accounts payable	21,375	33,256
Deferred system profit	77,281	14,965
Other liabilities	382,078	(11,909)
Net cash provided by operating activities	855,607	617,028
Cash flows from investing activities:		
Acquisition of non-marketable securities	(3,377)	(2,370)
Business acquisition	(5,490)	—
Capital expenditures, net	(44,119)	(27,926)
Proceeds from sale of assets	—	2,582
Purchases of available-for-sale securities	(438,673)	(1,212,600)
Proceeds from sale of available-for-sale securities	165,030	364,430
Proceeds from maturity of available-for-sale securities	489,569	471,724
Purchases of trading securities	(65,160)	(87,831)
Proceeds from sale of trading securities	67,063	85,464
Net cash provided by (used in) investing activities	164,843	(406,527)
Cash flows from financing activities:		
Proceeds from revolving credit facility, net of debt issuance costs	248,693	—
Repayment of debt	(721,250)	(105,000)
Issuance of common stock	20,571	23,694
Tax withholding payments related to vested and released restricted stock units	(26,623)	(19,169)
Common stock repurchases	(165,078)	—