Fidelity National Information Services, Inc.
Form S-4
May 04, 2009

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**As filed with the Securities and Exchange Commission on May 4, 2009**

**Registration No. 333-[ ]**

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

**Form S-4**

**REGISTRATION STATEMENT**
**Under**
**The Securities Act of 1933**

**FIDELITY NATIONAL INFORMATION SERVICES, INC.**
*(Exact Name of Registrant as Specified in its Charter)*

| | | |
|---|---|---|
| **Georgia** | **7389** | **37-1490331** |
| *(State or other jurisdiction of incorporation)* | *(Primary Standard Industrial Classification Code Number)* | *(I.R.S. Employer Identification Number)* |

**601 Riverside Avenue**
**Jacksonville, Florida 32204**
**(904) 854-5000**
*(Address, including Zip Code, and Telephone Number, including Area Code, of Registrant s Principal Executive Offices)*
**Ronald D. Cook**
**Executive Vice President, General Counsel and Corporate Secretary**
**601 Riverside Avenue**
**Jacksonville, Florida 32204**
**(904) 854-5000**
*(Name, Address, including Zip Code, and Telephone Number, including Area Code, of Agent for Service)*

***With copies to:***

**Donald W. Layden, Jr., Esq.**
**Senior Executive Vice President, General**
**Counsel and Corporate Secretary**
**Metavante Technologies, Inc.**
**4900 West Brown Deer Road**
**Milwaukee, Wisconsin 53223**
**(414) 357-2290**

**Lawrence S. Makow, Esq.**
**Matthew M. Guest, Esq.**
**Wachtell, Lipton, Rosen & Katz**
**51 West 52nd Street**
**New York, New York 10019**
**(212) 403-1000**

**Jeffrey Symons, Esq.**
**Yi Claire Sheng, Esq.**
**Kirkland & Ellis LLP**
**153 East 53rd Street**
**New York, New York 10022**
**(212) 446-4800**

**Approximate date of commencement of the proposed sale of the securities to the public:** As soon as practicable after this Registration Statement becomes effective and upon completion of the merger described in the enclosed document.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act of 1933, as amended, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

| Large accelerated filer þ | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

**CALCULATION OF REGISTRATION FEE**

| Title of Each Class of Securities to be Registered | Amount to be Registered(1) | Proposed Maximum Offering Price per Share of Common Stock | Proposed Maximum Aggregate Offering Price(2) | Amount of Registration Fee(3) |
|---|---|---|---|---|
| | 176,926,305 | N/A | $ 3,057,548,658.26 | $ 170,611.22 |

Common Stock, par value $0.01 per share

(1) Represents the maximum number of shares of FIS common stock estimated to be issuable upon the completion of the merger of Metavante with and into Cars Holdings, LLC, a Delaware limited liability company and wholly owned subsidiary of FIS, based on the number of shares of Metavante common stock, par value $0.01 per share, outstanding, or reserved for issuance under various plans, as of April 28, 2009, and the exchange of each such share of Metavante common stock for shares of FIS common stock pursuant to the formula set forth in the merger agreement.

(2) Pursuant to Rules 457(c) and 457(f) under the Securities Act of 1933, as amended, the registration fee is based on the average of the high and low sales prices ($23.33) of Metavante common stock, as reported on the New York Stock Exchange on May 1, 2009, and computed based on the estimated maximum number of shares 131,056,522 that may be exchanged for the FIS common stock being registered, including shares issuable upon exercise of outstanding options or other securities to acquire Metavante common stock.

(3) Determined in accordance with Section 6(b) of the Securities Act of 1933, as amended, at a rate equal to $55.80 per $1,000,000 of the proposed maximum aggregate offering price.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.**

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**PRELIMINARY    SUBJECT TO COMPLETION    DATED MAY 4, 2009**

**MERGER PROPOSED    YOUR VOTE IS VERY IMPORTANT**

The board of directors of Fidelity National Information Services, Inc., or FIS, and the board of directors of Metavante Technologies, Inc., or Metavante, have each approved a merger agreement which provides for the acquisition of Metavante by FIS. Following completion of the merger, Metavante will be wholly owned by FIS.

If the merger is completed, each share of Metavante common stock outstanding immediately before that time will automatically be converted into the right to receive 1.35 shares of FIS common stock. This exchange ratio is fixed and will not be adjusted. Based on the closing price of FIS common stock on the New York Stock Exchange on March 31, 2009, the last trading day before public announcement of the merger, the 1.35 exchange ratio represented $24.57 in value for each share of Metavante common stock. Based on the closing price of FIS common stock on the New York Stock Exchange on [          ], 2009, the latest practicable date before the date of this document, the exchange ratio represented $[     ] in value for each share of Metavante common stock. Shares of FIS common stock outstanding before the merger is completed will remain outstanding and will not be exchanged, converted or otherwise changed in the merger.

In connection with the proposed merger, FIS has entered into an equity capital investment agreement with affiliates of Thomas H. Lee Partners, L.P., or THL, and Fidelity National Financial, Inc., or FNF. We also refer to THL and FNF as the equity capital investors. Under the investment agreement, FIS, THL and FNF have agreed that, in connection with completion of the merger, FIS will issue approximately 16.1 million shares of FIS common stock in the aggregate to THL and to FNF in exchange for the payment to FIS of approximately $250 million in cash. The completion of these transactions is subject to the prior approval of the FIS shareholders, the completion of the merger and the other terms and conditions contained in the investment agreement.

The merger is intended to qualify as a   reorganization   under United States federal tax law. Accordingly, Metavante shareholders generally are not expected to recognize any gain or loss for United States federal income tax purposes on the exchange of shares of Metavante common stock for shares of FIS common stock in the merger, except with respect to any cash received instead of fractional shares of FIS common stock.

At a special meeting of FIS shareholders, FIS shareholders will be asked to vote on the issuance of FIS common stock to Metavante shareholders in the merger and on the issuance of FIS common stock to each of THL and FNF under the investment agreement. Approval of each proposal requires the affirmative vote of a majority of votes cast by the holders of FIS common stock, provided that the total votes cast represent a majority of the votes entitled to be cast on the proposal.

At a special meeting of Metavante shareholders, Metavante shareholders will be asked to vote on the approval and adoption of the merger agreement and the transactions it contemplates. Approval and adoption of the merger agreement and the transactions it contemplates requires the affirmative vote of a majority of all the votes entitled to be cast by the holders of Metavante common stock. WPM, L.P., or WPM, an affiliate of Warburg Pincus LLC, has entered into an agreement with FIS, Cars Holdings, LLC and Metavante under which, subject to the terms and conditions of that agreement, WPM has agreed to vote all of the Metavante shares it holds in favor of the merger. As of the date of this document, WPM holds in the aggregate approximately 25% of the outstanding shares of Metavante common stock.

**The FIS board of directors unanimously recommends that the FIS shareholders vote FOR the proposal to issue shares of FIS common stock in the merger and FOR the proposals to issue shares of FIS common stock to the equity capital investors.**

**The Metavante board of directors unanimously recommends that the Metavante shareholders vote FOR the proposal to approve and adopt the merger agreement and the transactions it contemplates.**

The obligations of FIS and Metavante to complete the merger are subject to the satisfaction or waiver of conditions set forth in the merger agreement. More information about FIS, Metavante and the merger, as well as the equity capital investment, is contained in this joint proxy statement/prospectus. **FIS and Metavante encourage you to read this entire joint proxy statement/prospectus carefully, including the section entitled Risk Factors beginning on page [ ].**

We look forward to the successful combination of FIS and Metavante.

| | |
|---|---|
| [ ] | [ ] |
| Lee A. Kennedy<br>President and Chief Executive Officer<br>Fidelity National Information Services, Inc. | Frank R. Martire<br>Chairman and Chief Executive Officer<br>Metavante Technologies, Inc. |

Neither the Securities and Exchange Commission, also referred to in this document as the SEC, nor any state securities commission has approved or disapproved of the securities to be issued under this document or determined that this document is accurate or complete. Any representation to the contrary is a criminal offense.

**This document is dated [ ], 2009 and is first being mailed to the shareholders of FIS and Metavante on or about [ ], 2009.**

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**Fidelity National Information Services, Inc.**
**601 Riverside Avenue**
**Jacksonville, Florida 32204**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

To the Shareholders of Fidelity National Information Services, Inc.:

Notice is hereby given that a Special Meeting of Shareholders of Fidelity National Information Services, Inc. will be held on [ ], 2009 at [ ], at [ ] to consider and vote upon the following matters:

a proposal to approve the issuance of shares of FIS common stock as contemplated by the Agreement and Plan of Merger, dated as of March 31, 2009, by and among Fidelity National Information Services, Inc., Cars Holdings, LLC, and Metavante Technologies, Inc., as such agreement may be amended from time to time;

a proposal to approve the issuance of 12,861,736 shares of FIS common stock to be purchased by affiliates of Thomas H. Lee Partners, L.P. as contemplated by the Investment Agreement, dated as of March 31, 2009, by and between FIS and the investors named therein, as such agreement may be amended from time to time;

a proposal to approve the issuance of 3,215,434 shares of FIS common stock to be purchased by Fidelity National Financial, Inc. as contemplated by the Investment Agreement, dated as of March 31, 2009, by and between FIS and the investors named therein, as such agreement may be amended from time to time; and

a proposal to approve the adjournment of the special meeting, including, if necessary or appropriate, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve any of the foregoing proposals.

The FIS board of directors has fixed the close of business on [ ], 2009 as the record date for the FIS special meeting. Only FIS shareholders of record at that time are entitled to notice of, and to vote at, the FIS special meeting, or any adjournment or postponement of the FIS special meeting. Approval of the proposal to issue shares of FIS common stock in the merger and the proposals to issue shares of FIS common stock to the equity capital investors each requires the approval by the affirmative vote of a majority of votes cast at the special meeting, provided that the total votes cast represent a majority of the votes entitled to be cast on the proposal.

**Whether or not you plan to attend the special meeting, please vote by one of the methods described below to ensure that your shares are represented and voted in accordance with your wishes.** Please vote as soon as possible by accessing the Internet site listed on the FIS proxy card, by calling the toll-free number listed on the FIS proxy card, or by submitting your proxy card by mail. To submit your proxy by mail, please complete, sign, date and return the accompanying proxy card in the enclosed self-addressed, stamped envelope. This will not prevent you from voting in person, but it will help to secure a quorum and avoid additional solicitation costs. Any holder of FIS common stock who is present at the FIS special meeting may vote in person instead of by proxy, thereby canceling any previous proxy. In any event, a proxy may be revoked in writing or by telephone or Internet at any time before the FIS special meeting in the manner described in the accompanying document.

**The FIS board of directors unanimously recommends that the FIS shareholders vote FOR the proposal to issue shares of FIS common stock in the merger and FOR the proposals to issue shares of FIS common stock to the equity capital investors.**

By Order of the Board of Directors,

[ ]
Ronald D. Cook
*Executive Vice President,*
*General Counsel and Corporate Secretary*

[ ], 2009

**YOUR VOTE IS IMPORTANT. PLEASE COMPLETE, SIGN, DATE AND RETURN YOUR PROXY CARD, OR SUBMIT YOUR VOTE VIA THE TELEPHONE OR INTERNET, WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING.**

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**Metavante Technologies, Inc.**
**4900 West Brown Deer Road**
**Milwaukee, Wisconsin 53223**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

To the Shareholders of Metavante Technologies, Inc:

Notice is hereby given that a Special Meeting of Shareholders of Metavante Technologies, Inc. will be held on [ ], 2009 at [ ], Central Time, at [ ] to consider and vote upon the following matters:

a proposal to approve and adopt the Agreement and Plan of Merger, dated as of March 31, 2009, by and among Fidelity National Information Services, Inc., Cars Holdings, LLC, and Metavante Technologies, Inc., as such agreement may be amended from time to time, and the transactions it contemplates; and

a proposal to approve the adjournment of the special meeting, including, if necessary or appropriate, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve the foregoing proposal.

The Metavante board of directors has fixed the close of business on [ ], 2009 as the record date for the Metavante special meeting. Only Metavante shareholders of record at that time are entitled to notice of, and to vote at, the Metavante special meeting, or any adjournment or postponement of the Metavante special meeting. Approval and adoption of the merger agreement and the transactions it contemplates requires the affirmative vote of a majority of all the votes entitled to be cast by the holders of Metavante common stock.

WPM, an affiliate of Warburg Pincus LLC, has entered into an agreement with FIS, Cars Holdings, LLC and Metavante under which, subject to the terms and conditions of that agreement, it has agreed to vote all of the Metavante shares it holds in favor of the merger. As of the date of this document, WPM holds in the aggregate approximately 25% of the outstanding shares of Metavante common stock.

**Whether or not you plan to attend the special meeting, please vote by one of the methods described below to ensure that your shares are represented and voted in accordance with your wishes.** Please vote as soon as possible by accessing the Internet site listed on the Metavante proxy card, by calling the toll-free number listed on the Metavante proxy card, or by submitting your proxy card by mail. To submit your proxy by mail, please complete, sign, date and return the accompanying proxy card in the enclosed self-addressed, stamped envelope. This will not prevent you from voting in person, but it will help to secure a quorum and avoid added solicitation costs. Any holder of Metavante common stock who is present at the Metavante special meeting may vote in person instead of by proxy, thereby canceling any previous proxy. In any event, a proxy may be revoked in writing or by telephone or Internet at any time before the Metavante special meeting in the manner described in the accompanying document.

**The Metavante board of directors unanimously recommends that the Metavante shareholders vote FOR the proposal to approve and adopt the merger agreement and the transactions it contemplates.**

By Order of the Board of Directors,

[ ]
Donald W. Layden, Jr.
*Senior Executive Vice President,*

*General Counsel and Secretary*

[ ], 2009

**YOUR VOTE IS IMPORTANT. PLEASE COMPLETE, SIGN, DATE AND RETURN YOUR PROXY CARD, OR SUBMIT YOUR VOTE VIA THE TELEPHONE OR INTERNET, WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING.**

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## ADDITIONAL INFORMATION

This document incorporates important business and financial information about FIS and Metavante from documents that are not included in or delivered with this document. You can obtain documents incorporated by reference in this document, other than certain exhibits to those documents, free of charge through the Securities and Exchange Commission s website (*www.sec.gov*) or by requesting them in writing or by telephone from the appropriate company at the following addresses:

| | |
|---|---|
| **Fidelity National Information Services, Inc.** | **Metavante Technologies, Inc.** |
| 601 Riverside Avenue | 4900 West Brown Deer Road |
| Jacksonville, Florida 32204 | Milwaukee, Wisconsin 53223 |
| (904) 854-3282 | (414) 357-2290 |
| Attn: Investor Relations | Attn: Investor Relations |

**If you would like to request any documents, please do so by [ ], 2009 in order to receive them before the FIS special meeting and by [ ], 2009 in order to receive them before the Metavante special meeting.**

*For more information, see Where You Can Find More Information beginning on page [ ].*

You should rely only on the information contained in or incorporated by reference into this document. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this document. This document is dated [ ], 2009. You should not assume that the information contained in, or incorporated by reference into, this document is accurate as of any date other than that date. Neither our mailing of this document to FIS shareholders or Metavante shareholders nor the issuance by FIS of common stock in connection with the merger will create any implication to the contrary.

Information on the websites of FIS or Metavante, or any subsidiary of FIS or Metavante, is not part of this document. You should not rely on that information in deciding how to vote.

**This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction. Information contained in this document regarding FIS has been provided by FIS and information contained in this document regarding Metavante has been provided by Metavante.**

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## APPENDICES

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## QUESTIONS AND ANSWERS

*The following are some questions that you, as a shareholder of FIS or Metavante, may have regarding the shareholders meetings and the answers to those questions. FIS and Metavante urge you to read the remainder of this document carefully because the information in this section does not provide all the information that might be important to you in determining how to vote. Additional important information is also contained in the appendices to, and the documents incorporated by reference into, this document.*

**Q: Why am I receiving this document?**

A: You are receiving this document because you were a shareholder of record of FIS or Metavante on the record date for the applicable FIS or Metavante special meeting. FIS and Metavante have agreed to the acquisition of Metavante by FIS under the terms of a merger agreement that is described in this document. A copy of the merger agreement is attached to this document as Appendix A. In order to complete the merger, FIS shareholders and Metavante shareholders must vote to approve the following proposals:

FIS shareholders must approve the issuance of shares of FIS common stock in the merger.

Metavante shareholders must approve and adopt the merger agreement and the transactions it contemplates.

FIS and Metavante will hold separate shareholders meetings to obtain these approvals. FIS shareholders will also consider and vote on proposals to issue shares of FIS common stock to be purchased by the equity capital investors as more fully described below under FIS Proposals 2 and 3: The Investments. A copy of the investment agreement is attached to this document as Appendix B.

This document contains important information about the merger, the equity capital investment and the meetings of the respective shareholders of FIS and Metavante, and you should read it carefully. The enclosed proxy card and instructions allow you to vote your shares without attending your respective shareholders meeting in person.

Your vote is important. We encourage you to vote as soon as possible.

**The FIS board of directors unanimously recommends that the FIS shareholders vote FOR the proposal to issue shares of FIS common stock in the merger and FOR the proposals to issue shares of FIS common stock to the equity capital investors.**

**The Metavante board of directors unanimously recommends that the Metavante shareholders vote FOR the proposal to approve and adopt the merger agreement and the transactions it contemplates.**

**Q: When and where will the shareholders meetings be held?**

A: The FIS special meeting will be held at [ ] on [ ], 2009 at [ ], local time.

The Metavante special meeting will be held at [ ], on [ ], 2009 at [ ], local time.

**Q: How do I vote?**

A:

If you are a shareholder of record of FIS as of the record date for the FIS special meeting or a shareholder of record of Metavante as of the record date for the Metavante special meeting, you may vote in person by attending your shareholders meeting or, to ensure your shares are represented at the meeting, you may vote by:

- accessing the Internet website specified on your proxy card;
- calling the toll-free number specified on your proxy card; or
- signing and returning the enclosed proxy card in the postage-paid envelope provided.

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If you hold FIS shares or Metavante shares in the name of a bank or broker, please see the discussion below.

**Q: If my shares are held in street name by my broker, will my broker vote my shares for me?**

A: If you hold your shares in a stock brokerage account or if your shares are held by a bank or nominee (that is, in street name), you must provide the record holder of your shares with instructions on how to vote your shares. Please follow the voting instructions provided by your bank or broker. Please note that you may not vote shares held in street name by returning a proxy card directly to FIS or Metavante or by voting in person at your shareholders meeting unless you provide a legal proxy, which you must obtain from your bank or broker. Further, brokers who hold shares of FIS or Metavante common stock on behalf of their customers may not give a proxy to FIS or Metavante to vote those shares on the Metavante merger proposal or the FIS share issuance proposals unless they have received voting instructions from their customers.

If you are a Metavante shareholder that holds shares in street name and you do not instruct your broker on how to vote your shares, your broker may not vote your shares, which will have the same effect as a vote against the proposal to approve and adopt the merger agreement and the transactions it contemplates.

**Q: What will happen if I fail to vote or I abstain from voting?**

A: If you are a FIS shareholder and fail to vote, or abstain, it will count against obtaining a quorum for the proposal to approve the issuance of shares of FIS common stock in the merger and the proposals to issue shares of FIS common stock to the equity capital investors, which requires that the total votes cast represent a majority of the votes entitled to be cast on the proposal. If a quorum is present, the failure to vote or abstention will not count as a vote against the proposal to approve the issuance of shares of FIS common stock in the merger or the proposals to issue shares of FIS common stock to the equity capital investors.

If you are a Metavante shareholder and fail to vote, or abstain, it will have the same effect as a vote against the proposal to approve and adopt the merger agreement and the transactions it contemplates.

**Q: What will happen if I return my proxy card without indicating how to vote?**

A: If you return your signed proxy card without indicating how to vote on any particular proposal, the FIS or Metavante common stock represented by your proxy will be voted in accordance with management s recommendation on that proposal.

**Q: Can I change my vote after I have returned a proxy or voting instruction card?**

A: Yes. You can change your vote at any time before your proxy is voted at your respective shareholders meeting. You can do this in one of three ways:

you can send a signed notice of revocation;

you can grant a new, valid proxy by proxy card, Internet or telephone, with a later date; or

if you are a holder of record, you can attend your shareholders meeting and vote in person, which will automatically cancel any proxy previously given, or you may revoke your proxy in person, but your attendance alone will not revoke any proxy that you have previously given.

If you choose either of the first two methods, you must submit your notice of revocation or your new signed proxy to the Corporate Secretary of FIS or Metavante, as appropriate, to be received no later than the beginning of the applicable shareholders meeting. If your shares are held in street name by your bank or broker, you should contact your broker to change your vote.

**Q: What do I need to do now?**

A: Carefully read and consider the information contained in and incorporated by reference into this document, including its appendices.

In order for your shares to be represented at your shareholders meeting:

you can attend your shareholders meeting in person;

you can vote through the Internet or by telephone by following the instructions included on your proxy card; or

you can indicate on the enclosed proxy card how you would like to vote and return the signed proxy card in the accompanying pre-addressed postage paid envelope.

**Q: Do I have dissenter s rights or appraisal rights?**

A: No. Under Georgia law, holders of FIS common stock are not entitled to appraisal rights in connection with the share issuance proposal. Under Wisconsin law, the holders of Metavante common stock are not entitled to appraisal rights in connection with the merger.

**Q: Is the merger expected to be taxable to Metavante shareholders or to FIS and/or Metavante?**

A: Generally, no. The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the United States Internal Revenue Code of 1986, as amended, which we refer to as the Code, and holders of Metavante common stock generally are not expected to recognize any gain or loss for United States federal income tax purposes on the exchange of shares of Metavante common stock for shares of FIS common stock in the merger, except with respect to cash received instead of fractional shares of FIS common stock. In addition, none of FIS, Metavante or Merger Sub will recognize any gain or loss for United States federal income tax purposes as a result of the merger. You should read Material United States Federal Income Tax Consequences of the Merger beginning on page [ ] for a more complete discussion of the United States federal income tax consequences of the merger. Tax matters can be complicated and the tax consequences of the merger to you will depend on your particular tax situation. **We urge you to consult your tax advisor to determine the tax consequences of the merger to you.**

**Q: Should I send in my Metavante stock certificates now?**

A: No. Metavante shareholders should not send in any stock certificates now. After the merger is completed, FIS exchange agent will send former Metavante shareholders a letter of transmittal explaining what they must do to exchange their Metavante stock certificates for the merger consideration payable to them. The shares of FIS common stock that Metavante shareholders receive in the merger will be issued in book-entry form.

If you are a FIS shareholder, you are not required to take any action with respect to your FIS stock certificates.

**Q: Who can help answer my questions?**

A: FIS or Metavante shareholders who have questions about the merger or the other matters to be voted on at the shareholders meetings or who desire additional copies of this document or additional proxy cards should contact:

Georgeson
199 Water Street, 26th Floor
New York, NY 10038
Banks and brokers call (212) 440-9800
FIS shareholders call toll-free (800) 891-3214
Metavante shareholders call toll-free (866) 257-5565

## SUMMARY

*This summary highlights information contained elsewhere in this document. It may not contain all of the information that is important to you. We urge you to carefully read the entire document and the other documents to which we refer in order to fully understand the merger and the related transactions. See Where You Can Find More Information on page [ ]. Each item in this summary refers to the page of this document on which that subject is discussed in more detail.*

### The Merger (See page [ ])

A copy of the merger agreement is attached as Appendix A to this document. FIS and Metavante encourage you to read the entire merger agreement carefully because it is the principal document governing the merger.

### Structure of the Merger (See page [ ])

Subject to the terms and conditions of the merger agreement and in accordance with Wisconsin law and Delaware law, at the effective time of the merger, Metavante will be merged with and into Cars Holdings, LLC, a direct, wholly owned subsidiary of FIS formed for the purposes of the merger (referred to in this document as Merger Sub), with Merger Sub surviving the merger and remaining a wholly owned subsidiary of FIS. The effect of the merger will be that Metavante will be acquired by FIS and shares of Metavante common stock will no longer be publicly traded.

### Consideration to be Received in the Merger (See page [ ])

Upon completion of the merger, each share of Metavante common stock outstanding immediately prior to completion of the merger will automatically be converted into the right to receive 1.35 shares of FIS common stock. The 1.35 exchange ratio is fixed and will not be adjusted based on changes following the date of the merger agreement in the market value of the common stock of Metavante or FIS or based on other changes. Because of this, the implied dollar value of the consideration to Metavante shareholders will fluctuate with changes in the market price of a share of FIS common stock. Based on the closing price of FIS common stock on the New York Stock Exchange on March 31, 2009, the last trading day before public announcement of the merger, the 1.35 exchange ratio represented $24.57 in value for each share of Metavante common stock. Based on the closing price of FIS common stock on the New York Stock Exchange on [ ], 2009, the latest practicable date before the date of this document, the exchange ratio represented $[ ] in value for each share of Metavante common stock. FIS will not issue any fractional shares of FIS common stock in the merger. Holders of Metavante common stock who would otherwise be entitled to a fractional share of FIS common stock will instead receive an amount in cash calculated by multiplying the fraction of a share by the average closing sale prices of FIS common stock on the New York Stock Exchange for the five full trading days preceding (but not including) the effective date of the merger. Shares of FIS common stock outstanding before the merger is completed will remain outstanding and will not be exchanged, converted or otherwise changed in the merger.

### Treatment of Metavante Stock Awards (See page [ ])

The merger agreement specifies how equity compensation awards issued by Metavante prior to completion of the merger will be treated in the merger. Upon completion of the merger:

- each outstanding option issued by Metavante to acquire Metavante common stock will be converted into an option to purchase a number of shares of FIS common stock equal to the number of shares of Metavante common stock underlying such option immediately prior to the merger multiplied by the exchange ratio, with an exercise price that equals the exercise price of such option immediately prior to the merger divided by the exchange ratio;

each restricted share of Metavante common stock will be converted into a number of restricted shares of FIS common stock equal to the number of shares of Metavante common stock underlying such restricted share multiplied by the exchange ratio;

each performance share denominated in shares of Metavante common stock will be converted into a number of restricted shares of FIS common stock equal to the number of shares of Metavante common stock underlying such performance share, at target, as of immediately prior to the merger multiplied by a fraction, the numerator of which is the number of whole calendar months remaining in the performance period and the denominator of which is the total number of calendar months in the performance period, multiplied by the exchange ratio, and a cash amount based upon the portion of the performance period that has been completed; and

each stock unit denominated in shares of Metavante common stock will be converted into a number of shares of FIS common stock equal to the number of shares of Metavante common stock underlying such unit immediately prior to the merger multiplied by the exchange ratio.

FIS has generally agreed to assume at completion of the merger Metavante s obligations with respect to the Metavante stock options, restricted shares, performance shares and stock units that are converted into FIS stock options and restricted shares as described above in accordance with the terms of the plans and agreements under which they have been granted.

**Material United States Federal Income Tax Consequences of the Merger (See page [ ])**

The merger is intended to qualify as a reorganization within the meaning of Section 368(a) of the Code, and it is a condition to the parties respective obligations to complete the merger that each of FIS and Metavante receive a tax opinion to that effect. Accordingly, if you are a holder of Metavante common stock, the merger generally will be tax-free to you for United States federal income tax purposes as to the shares of FIS common stock that you receive in exchange for your shares of Metavante common stock in the merger, except for any gain or loss that may result from the receipt of cash instead of fractional shares of FIS common stock that you would otherwise be entitled to receive. In addition, none of FIS, Metavante or Merger Sub will recognize any gain or loss for United States federal income tax purposes as a result of the merger.

*The United States federal income tax consequences described above may not apply to all holders of Metavante common stock. Your tax consequences will depend on your individual situation. Accordingly, we strongly urge you to consult your tax advisor for a full understanding of the particular tax consequences of the merger to you.*

**Opinions of Financial Advisors**

***FIS (See page [ ])***

*Goldman Sachs.* Goldman, Sachs & Co. delivered its opinion to the FIS board of directors that, as of the date of the written fairness opinion, and based upon and subject to the factors and assumptions set forth therein, the exchange ratio of 1.350 shares of FIS common stock to be issued in exchange for each share of Metavante common stock pursuant to the merger agreement was fair from a financial point of view to FIS. The full text of the written opinion of Goldman Sachs, dated March 31, 2009, which sets forth assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Appendix C. Goldman Sachs provided its opinion for the information and assistance of the FIS board of directors in connection with its consideration of the merger. The Goldman Sachs opinion is not a recommendation as to how any holder of shares of FIS common stock should vote with respect to the merger or any other matter.

*Banc of America Securities.* In connection with the merger, Banc of America Securities LLC, FIS financial advisor, delivered to the FIS board of directors a written opinion, dated March 31, 2009, as to the fairness, from a financial point of view and as of the date of the opinion, of the exchange ratio of 1.350 shares of FIS common stock to be issued in exchange for each share of Metavante common stock as provided for in the merger. The full text of the written opinion, dated March 31, 2009, of Banc of America Securities, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as Appendix D to this document and is incorporated by reference herein in its entirety. Banc of America Securities provided its opinion to the FIS board of directors for the benefit and use of FIS board of directors in connection with its evaluation of the merger. Banc of America Securities opinion addresses only the fairness to FIS of the exchange ratio of 1.350 shares of FIS common stock to be issued in exchange for each share of Metavante common stock pursuant to the merger agreement from a financial point of view and does not constitute a recommendation to any shareholder as to how to vote or act in connection with the proposed merger.

***Metavante (See page [ ])***

On March 31, 2009, Barclays Capital Inc., or Barclays Capital, provided its opinion to Metavante s board of directors that, as of such date and based upon and subject to the qualifications, limitations and assumptions stated in its opinion, from a financial point of view, the exchange ratio to be offered to the shareholders of Metavante in the merger was fair to such shareholders.

The full text of Barclays Capital s written opinion, dated as of March 31, 2009, which sets forth, among other things, the assumptions made, procedures followed, factors considered and limitations upon the review undertaken by Barclays Capital in rendering its opinion, is attached to this document as Appendix E. Holders of shares of Metavante common stock are encouraged to read the opinion carefully in its entirety. Barclays Capital provided its opinion for the use and benefit of Metavante s board of directors in connection with its consideration of the merger. Barclays Capital s opinion addresses only the fairness, from a financial point of view, of the exchange ratio to be offered to the shareholders of Metavante in the merger and does not constitute a recommendation to any shareholder of Metavante as to how such shareholder should vote with respect to the proposed transaction or any other matter.

**Interests of Certain Persons in the Merger (See page [ ])**

Metavante s executive officers and directors have interests in the merger as individuals that are different from, or in addition to, the interests of Metavante s shareholders generally. The Metavante board of directors was aware of these interests and considered them, among other matters, in approving and adopting the merger agreement and the transactions it contemplates. Messrs. David Coulter, James Neary and Adarsh Sarma, who are currently members of the Metavante board of directors, are also managing directors of Warburg Pincus LLC. As discussed below under the caption The Merger Agreement Agreements with an Entity Affiliated with Warburg Pincus LLC, WPM, which is affiliated with Warburg Pincus LLC, has entered into certain agreements with FIS, Merger Sub and Metavante in connection with the execution of the merger agreement. Stock options, restricted stock, performance shares and stock units in respect of Metavante stock will generally be assumed by FIS and converted into awards denominated in FIS common stock, as adjusted for the exchange ratio in the merger. Certain executive officers have change of control agreements with Metavante that provide them with severance and other benefits in connection with a qualifying termination of employment following a change of control such as the merger. Mr. Frank R. Martire, the current Chairman and Chief Executive Officer of Metavante, and Mr. Michael D. Hayford, the current President and Chief Operating Officer of Metavante, have each entered into an employment agreement and relocation letter agreement with FIS in connection with the entry into the merger agreement. Each employment agreement and relocation letter agreement is effective upon, and subject to, the closing of the merger and will amend, restate and supersede the executive s existing employment and change of control agreement with Metavante. Upon completion of the merger, Mr. Martire will become one of the nine members of the board of directors of FIS. See FIS Proposal 1 and Metavante Proposal 1: The Merger Board of Directors and Management of FIS following Completion of the Merger. Metavante s executive officers and directors also have rights to indemnification and directors and officers liability insurance that will survive completion of the merger.

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**Board of Directors of FIS Following Completion of the Merger (See page [ ])**

Upon completion of the merger, the board of directors of FIS will consist of nine members comprised of:

Mr. William P. Foley, the current chairman of the board of FIS, Mr. Lee Kennedy, the current President and Chief Executive Officer of FIS, plus four current non-employee directors of FIS designated by FIS (which will include the THL designee in the event the THL investment is completed);

Mr. Frank R. Martire, the current Chairman and Chief Executive Officer of Metavante, plus one current non-employee director of Metavante designated by Metavante; and

one individual designated by WPM.

**Regulatory Approvals Required for the Merger (See page [ ])**

We have agreed to use our reasonable best efforts to obtain all regulatory approvals required to complete the transactions contemplated by the merger agreement. These approvals include the termination or expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder, collectively referred to in this document as the HSR Act. FIS and Metavante have completed, or will complete, the filing of applications and notifications to obtain the required regulatory approvals. On April 17, 2009, FIS and Metavante each filed its notification and report form under the HSR Act with the Antitrust Division of the United States Department of Justice, referred to in this document as the Antitrust Division, and the United States Federal Trade Commission, referred to in this document as the FTC.

Although we do not know of any reason why we cannot obtain these regulatory approvals in a timely manner, we cannot be certain when or if we will obtain them.

**Conditions That Must Be Satisfied or Waived for the Merger to Occur (See page [ ])**

We currently expect to complete the merger in the third quarter of 2009. However, as more fully described in this document and in the merger agreement, whether or when the merger will be completed depends on a number of conditions being satisfied or, where legally permissible, waived. These conditions include, among others:

obtaining the approval of the issuance of FIS common stock in the merger from the FIS shareholders and the approval of the merger agreement and the transactions it contemplates from the Metavante shareholders;

the approval of FIS common stock to be issued in the merger for listing on the New York Stock Exchange;

obtaining required governmental and regulatory approvals;

the absence of any legal prohibition on consummation of the merger;

that none of the required governmental and regulatory approvals results in the imposition of conditions that would reasonably be expected to have a material adverse effect (measured on a scale relative to Metavante) on either party or the surviving company of the merger;

the receipt of tax opinions in form and substance reasonably satisfactory to FIS and Metavante regarding the impact of the merger on the tax treatment of Metavante s spin-off of Marshall & Ilsley Corporation, or M&I, on November 1, 2007 and FIS spin-off of Lender Processing Services, Inc., or LPS, on July 2, 2008;

the accuracy of the representations and warranties of the parties to the merger agreement (subject to the materiality standards set forth in the merger agreement);

material performance of all the covenants of the parties to the merger agreement; and

the receipt of customary tax opinions as to the United States federal income tax treatment of the merger.

Several of the conditions to the obligations of the parties to close are beyond our control and we cannot be certain when, or if, the conditions to the merger will be satisfied or waived. The obligations of FIS or Metavante to proceed with the merger are not conditioned upon the completion of either of the investments.

**Termination of the Merger Agreement (See page [ ])**

We may agree to terminate the merger agreement without completing the merger, even after shareholder approval, as long as the termination is approved by each of our boards of directors.

In addition, the merger agreement may be terminated by either party in the following circumstances:

- if any of the required governmental and regulatory approvals are denied (and the denial is final and nonappealable);
- if a governmental entity has issued a final and nonappealable order permanently enjoining or prohibiting the merger;
- if the merger has not been completed on or before December 31, 2009, unless the failure to complete the merger by that date is due to a breach of the merger agreement by the party seeking to terminate the agreement;
- if there is a breach by the other party that would cause the closing conditions described above not to be satisfied, unless the breach is capable of being, and is, cured within 30 days of notice of the breach;
- if the other party fails to recommend the approval of the transaction to its shareholders, modifies its recommendation in a manner adverse to the other party or recommends (or fails to recommend against) an alternative transaction;
- if the other party fails to substantially comply with its obligations relating to obtaining its shareholder vote or relating to not soliciting alternative transactions;
- if either requisite shareholder approval is not obtained; or
- to enter into a definitive agreement with respect to a superior proposal, if prior to obtaining its requisite shareholder approval, a party (1) receives a superior proposal from a third party that was not obtained in violation of such party s obligation to refrain from soliciting alternative transactions, (2) notifies the other party of its intention to terminate the merger agreement and negotiates in good faith with the other party (to the extent the other party desires to negotiate) during a five day period to revise the terms of the merger agreement so that the other proposal ceases to be a superior proposal and (3) pays the termination fee.

**Expenses and Termination Fees (See pages [ ] and [ ])**

Generally, all fees and expenses incurred in connection with the merger agreement and the transactions contemplated by the merger agreement will be paid by the party incurring those expenses, subject to the specific exceptions discussed in this document. Upon termination of the merger agreement under specified circumstances, FIS or Metavante may be required to pay the other party a termination fee of $175 million. See The Merger Agreement Termination Fee beginning on page [ ] for a complete discussion of the circumstances under which a party may be required to pay a termination fee.

**The Rights of Metavante Shareholders Will Be Governed by Georgia Law and by the FIS Governing Documents after the Merger (See page [  ])**

The rights of Metavante shareholders will change as a result of the merger due to differences in FIS and Metavante s governing documents and due to the fact that the companies are incorporated in different states (Metavante in Wisconsin and FIS in Georgia). Metavante shareholders will become FIS shareholders and their legal rights as shareholders will, following completion of the merger, be governed by Georgia law, the FIS amended and restated articles of incorporation and the FIS amended and restated bylaws. This document contains a description of the material differences in shareholder rights beginning on page [  ].

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**No Appraisal Rights (See page [ ])**

Under Georgia law, holders of FIS common stock are not entitled to appraisal rights in connection with the share issuances. Under Wisconsin law, the holders of Metavante common stock are not entitled to appraisal rights in connection with the merger.

**Comparative Market Prices and Share Information (See page [ ])**

FIS common stock is quoted on the New York Stock Exchange under the symbol FIS. Metavante common stock is quoted on the New York Stock Exchange under the symbol MV. The following table shows the closing sale prices of FIS common stock and Metavante common stock as reported on the New York Stock Exchange on March 31, 2009, the last trading day before we announced the merger, and on [ ], 2009, the last practicable trading day before the distribution of this document. This table also shows the implied value of the merger consideration proposed for each share of Metavante common stock, which we calculated by multiplying the closing price of FIS common stock on those dates by 1.35, the exchange ratio.

| | FIS Common Stock | Metavante Common Stock | Implied Value of One Share of Metavante Common Stock |
|---|---|---|---|
| At March 31, 2009 | $ 18.20 | $ 19.96 | $ 24.57 |
| At [ ], 2009 | $ | $ | $ |

*The market price of FIS common stock and Metavante common stock will fluctuate prior to the special meetings and before the merger is completed, which will affect the implied value of the merger consideration to Metavante shareholders. You should obtain current market quotations for the shares.*

**Agreements with an Entity Affiliated with Warburg Pincus LLC (See page [ ])**

In connection with the merger agreement, on March 31, 2009, WPM entered into a support agreement with FIS, Merger Sub and Metavante under which, subject to the terms and conditions thereof, WPM has agreed to vote all of the shares of Metavante common stock it holds in favor of the merger and against any proposal relating to alternative business combination transactions involving Metavante. As of the date of this document, WPM holds in the aggregate approximately 25% of the outstanding shares of Metavante common stock. In connection with the merger and based upon certain existing rights of WPM in respect of its investment in Metavante, WPM and FIS also entered into a shareholders agreement and a stock purchase right agreement. Subject to the terms and conditions set forth in the shareholders agreement, following completion of the merger, WPM will be entitled to nominate and have appointed one director to the board of directors of FIS and will be subject to certain limitations on its ability to transfer its shares of FIS common stock until 180 days after the closing date of the merger. The stock purchase right agreement, which is similar to an agreement WPM currently has with Metavante, provides WPM after the merger with the right to purchase from FIS shares of FIS common stock in accordance with formulas set forth in the stock purchase right agreement if employee stock options that were outstanding immediately prior to Metavante s spin-off of M&I and which will be assumed by FIS in connection with the merger are exercised following the merger. The stock purchase right agreement with FIS would supersede WPM s similar existing agreement with Metavante if and when the merger is consummated. In connection with these transactions, Metavante has agreed to reimburse WPM s reasonable out-of-pocket expenses incurred by WPM and its affiliates in connection with the negotiation and completion of the transactions contemplated by these agreements. The reimbursement of such expenses is subject to a cap of $1.2 million in the aggregate.

**Litigation Related to the Merger (See page [ ])**

Certain litigation is pending in connection with the merger. See FIS Proposal 1 and Metavante Proposal 1: The Merger Litigation Related to the Merger beginning on page [ ].

**The Investments and the Investment Agreement**

In connection with entering into the merger agreement, FIS has entered into an investment agreement providing for an equity capital investment in shares of FIS common stock by the equity capital investors.

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Under the investment agreement, immediately after the merger, (a) THL will purchase 12,861,736 shares of FIS common stock for an aggregate purchase price of approximately $200 million and (b) FNF will purchase 3,215,434 shares of FIS common stock for an aggregate purchase price of approximately $50 million. The price per share of FIS common stock under each of the THL and FNF investments is $15.55.

The consummation of the investments is subject to the satisfaction or waiver of certain conditions, including, among others, approval by FIS shareholders of the issuance of shares of FIS common stock to each of THL and FNF, the receipt of required governmental approvals and expiration of applicable waiting periods, the accuracy of the representations and warranties of the other party (subject to a material adverse effect standard), material compliance by the other party with its obligations under the investment agreement, and the consummation of the merger. While the obligations of FIS and the equity capital investors to proceed with the investment are conditioned upon the occurrence of the merger between FIS and Metavante, the obligations of FIS or Metavante to proceed with the merger are not conditioned upon the completion of either of the investments.

Following the completion of the investments, pursuant to the terms of the investment agreement and contingent upon THL maintaining specified ownership levels in FIS common stock, THL will have the right to designate one member to the FIS board of directors. The investment agreement also provides that neither THL nor FNF may transfer the shares purchased in the investments, subject to limited exceptions, for 180 days after the completion of the investments, and after such time provides THL and FNF with certain rights to have the offering of their shares of FIS common stock registered with the Securities and Exchange Commission.

In consideration for entering into the investment agreement, FIS has agreed to pay each of THL and FNF a transaction fee equal to 3% of their respective investments at the completion of the investments.

A copy of the investment agreement is attached as Appendix B to this document. We encourage you to read the entire agreement carefully.

**Interests of Certain Persons in the Investments (see page [ ])**

Certain of FIS executive officers and directors have interests in the transactions contemplated by the investment agreement as a result of the existing relationships between each of THL and FNF with FIS.

## The Shareholder Meetings

**The FIS Special Meeting (See page [ ])**

The FIS special meeting will be held at [ ], on [ ], 2009 at [ ], local time. At the FIS special meeting, FIS shareholders will be asked to:

- approve the issuance of FIS common stock to Metavante shareholders in the merger, as contemplated by the merger agreement;
- approve the issuance of FIS common stock in connection with the investment by THL, as contemplated by the investment agreement;
- approve the issuance of FIS common stock in connection with the investment by FNF, as contemplated by the investment agreement; and

consider and vote upon a proposal to approve the adjournment of the special meeting, including, if necessary or appropriate, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve any of the foregoing proposals.

The FIS board of directors has fixed the close of business on [ ], 2009 as the record date for the FIS special meeting. Only FIS shareholders of record at that time are entitled to notice of, and to vote at, the FIS special meeting, or any adjournment or postponement of the FIS special meeting. As of the record date, there were [ ] shares of FIS common stock entitled to vote at the FIS special meeting.

Each share of FIS common stock outstanding on the record date entitles the holder to one vote on each matter to be voted upon by shareholders at the special meeting. The proposal to approve the issuance of shares of common stock in the merger and the proposals to issue shares of FIS common stock to the equity capital investors each requires the affirmative vote of a majority of all votes cast by the holders of common stock at the meeting. A FIS shareholder s failure to vote, a broker non-vote or an abstention will count against obtaining a quorum for those proposals, which requires that the total votes cast represent a majority of the votes entitled to be cast on such proposal. If a quorum is present, a FIS shareholder s failure to vote, a broker non-vote or an abstention will not count as a vote against the proposal to approve the issuance of shares of FIS common stock in the merger or the proposals to issue shares of FIS common stock to the equity capital investors.

As of the FIS record date, directors and executive officers of FIS and their affiliates had the right to vote [ ] shares of FIS common stock, or approximately [ ]% of the outstanding FIS common stock entitled to be voted at the FIS special meeting.

The FIS board of directors believes that the merger is in the best interests of FIS and its shareholders and has unanimously approved and adopted the merger agreement and the transactions it contemplates. The FIS board of directors also believe that the equity capital investments are in the best interests of FIS and its shareholders and has unanimously approved and adopted the investment agreement and the transactions it contemplates. For the factors considered by the FIS board of directors in reaching its decision to approve the merger agreement and the investment agreement and the transactions each agreement contemplates, see FIS Proposal 1 and Metavante Proposal 1: The Merger FIS Reasons for the Merger and the Investments; Recommendation of the FIS Board of Directors. **The FIS board of directors unanimously recommends that the FIS shareholders vote FOR the proposal to issue shares of FIS common stock in the merger and FOR the proposals to issue shares of FIS common stock to the equity capital investors.**

**The Metavante Special Meeting (See page [ ])**

The Metavante special meeting will be held at [ ], on [ ], 2009 at [ ], local time. At the Metavante special meeting, Metavante shareholders will be asked to:

- consider and vote upon the approval and adoption of the merger agreement and the transactions it contemplates; and

- consider and vote upon a proposal to approve the adjournment of the special meeting, including, if necessary or appropriate, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve the foregoing proposal.

The Metavante board of directors has fixed the close of business on [ ], 2009 as the record date for the Metavante special meeting. Only Metavante shareholders of record at that time are entitled to notice of, and to vote at, the Metavante special meeting, or any adjournment or postponement of the Metavante special meeting. As of the record date, there were [ ] shares of Metavante common stock outstanding and entitled to vote at the Metavante special meeting.

Each share of Metavante common stock outstanding on the record date entitles the holder to one vote on each matter to be voted upon by shareholders at the special meeting. Approval and adoption of the merger agreement and the transactions it contemplates requires the affirmative vote of a majority of all the votes entitled to be cast by the holders of Metavante common stock. Because the affirmative vote of a majority of all the votes entitled to be cast by the holders of Metavante common stock is needed for us to proceed with the merger, the failure to vote by proxy or in person will have the same effect as a vote against the merger. Abstentions also will have the same effect as a vote against the merger.

As of the Metavante record date, directors and executive officers of Metavante and their affiliates had the right to vote [ ] shares of Metavante common stock, or approximately [ ]% of the outstanding Metavante common stock entitled to vote at the Metavante special meeting.

WPM has entered into an agreement with FIS, Merger Sub and Metavante whereby, subject to the terms and conditions of that agreement, it has agreed to vote all of the Metavante shares it holds in favor of the

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merger. As of the date of this document, WPM holds in the aggregate approximately 25% of the outstanding shares of Metavante common stock.

The Metavante board of directors believes that the merger is in the best interests of Metavante and its shareholders and has unanimously approved and adopted the merger agreement and the transactions it contemplates. For the factors considered by the Metavante board of directors in reaching its decision to approve the merger agreement and the transactions it contemplates, see FIS Proposal 1 and Metavante Proposal 1: The Merger Metavante s Reasons for the Merger; Recommendation of the Metavante Board of Directors. **The Metavante board of directors unanimously recommends that the Metavante shareholders vote FOR the proposal to approve and adopt the merger agreement and the transactions it contemplates.**

## The Companies

### Fidelity National Information Services, Inc. (See page [ ])

FIS is a leading provider of technology solutions, processing services and information-based services to the financial services industry. FIS offers a diversified service mix and benefits from the opportunity to cross-sell multiple services across its broad customer base. FIS is a member of the Standard and Poor s 500 Index. As of December 31, 2008, FIS had over 14,000 customers in over 90 countries spanning all segments of the financial services industry. These customers include 40 of the top 50 world banks, including nine of the top 10, as ranked by Bankalmanac.com as of April 30, 2008, as well as mid-tier and community banks, credit unions, commercial lenders, automotive financial institutions, retailers and international customers. The company is located on the web at *www.fidelityinfoservices.com*. The principal executive offices of FIS are located at 601 Riverside Avenue, Jacksonville, Florida 32204, and its telephone number is (904) 854-5000.

Additional information about FIS and its subsidiaries is included in documents incorporated by reference in this document. See Where You Can Find More Information on page [ ].

### Metavante Technologies, Inc. (See page [ ])

Metavante s wholly owned operating subsidiary, Metavante Corporation, delivers banking and payments technologies to approximately 8,000 financial services firms and businesses worldwide. Metavante products and services drive account processing for deposit, loan and trust systems, image-based and conventional check processing, electronic funds transfer, consumer healthcare payments, electronic presentment and payment transactions, outsourcing, and payment network solutions including the NYCE® Payment Network, an ATM/PIN debit network. Metavante began operations in 1964 as a wholly owned subsidiary of M&I providing community and regional banks with dependable, outsourced account processing services with a high level of client service. Since then, Metavante has become a provider of innovative, high quality products and services to the financial services, commercial, and health care insurance industries. With over 50 locations, Metavante recorded approximately $1.7 billion in revenue for the year ended December 31, 2008. The company is located on the web at *www.metavante.com*. The principal executive offices of Metavante are located at 4900 West Brown Deer Road, Milwaukee, Wisconsin 53223, and its telephone number is (414) 357-2290.

Additional information about Metavante and its subsidiaries is included in documents incorporated by reference in this document. See Where You Can Find More Information on page [ ].

### Cars Holdings, LLC (See page [ ])

Cars Holdings, LLC, also referred to as Merger Sub, is a newly formed Delaware limited liability company and a direct, wholly owned subsidiary of FIS. The company was formed solely for the purpose of effecting the proposed merger with Metavante and has not carried on any activities other than in connection with the proposed merger. Merger Sub s address is 601 Riverside Avenue, Jacksonville, Florida 32204, and its telephone number is (904) 854-5000.

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## SELECTED HISTORICAL FINANCIAL DATA OF FIS

Set forth below are highlights from FIS consolidated financial data as of and for the years ended December 31, 2004 through 2008. On February 1, 2006, FIS completed the merger of FIS and Certegy Inc. For accounting and financial reporting purposes, the merger with Certegy was treated as a reverse acquisition of Certegy by FIS and purchase accounting was applied to the acquired assets and liabilities of Certegy pursuant to generally accepted accounting principles. Accordingly, FIS historical financial information for periods prior to the merger with Certegy is the historical financial information of FIS. On July 2, 2008, FIS completed the spin-off of its former lender processing services segment into a separate publicly traded company, Lender Processing Services, Inc., or LPS. For accounting purposes the results of LPS are presented as discontinued operations. Accordingly, all prior periods have been restated to present the results of FIS on a stand alone basis and include the results of LPS up to July 1, 2008 as discontinued operations. You should read this information in conjunction with FIS consolidated financial statements and related notes included in FIS Annual Report on Form 10-K, as amended by the Annual Report on Form 10-K/A, for the year ended December 31, 2008, which are incorporated by reference in this document and from which this information is derived. See Where You Can Find More Information on page [ ].

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2008(1)(2) | 2007(1)(2) | 2006(2) | 2005 | 2004 |
| | (In millions, except per share data) | | | | |
| Statement of Earnings Data: | | | | | |
| Processing and services revenues | $ 3,446.0 | $ 2,921.0 | $ 2,416.5 | $ 1,258.8 | $ 981.8 |
| Cost of revenues | 2,636.9 | 2,265.8 | 1,872.2 | 939.0 | 733.1 |
| Gross profit | 809.1 | 655.2 | 544.3 | 319.8 | 248.7 |
| Selling, general and administrative expenses | 389.4 | 302.9 | 279.8 | 179.9 | 186.3 |
| Research and development costs | 84.8 | 70.4 | 70.9 | 85.7 | 40.3 |
| Operating income | 334.9 | 281.9 | 193.6 | 54.2 | 22.1 |
| Other income (expense) | (155.7) | 102.1 | (188.4) | (127.3) | 19.3 |
| Earnings before income taxes, equity in earnings (loss) of unconsolidated entities, minority interest and discontinued operations | 179.2 | 384.0 | 5.2 | (73.1) | 41.4 |
| Provision for income taxes | 57.6 | 136.2 | (2.9) | (32.9) | 12.7 |
| Equity in earnings (loss) of unconsolidated entities | (0.2) | 2.8 | 5.8 | 5.0 | (3.3) |
| Minority interest | (4.0) | 0.1 | 1.7 | (6.7) | (3.7) |
| Net earnings from continuing operations | 117.4 | 250.7 | 15.6 | (41.9) | 21.7 |
| Earnings from discontinued operations, net of tax | 97.4 | 310.5 | 243.5 | 238.5 | 167.7 |
| Net earnings | $ 214.8 | $ 561.2 | $ 259.1 | $ 196.6 | $ 189.4 |
| | $ 0.61 | $ 1.30 | $ 0.08 | $ (0.33) | $ 0.17 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Net earnings per share basic from continuing operation(3) | | | | | | | | | | |
| Net earnings per share basic from discontinued operations(3) | | 0.51 | | 1.61 | | 1.31 | | 1.86 | | 1.31 |
| Net earnings per share basic(3) | $ | 1.12 | $ | 2.91 | $ | 1.39 | $ | 1.54 | $ | 1.48 |
| Weighted average shares basic | | 191.6 | | 193.1 | | 185.9 | | 127.9 | | 127.9 |
| Net earnings per share diluted from continuing operations(3) | $ | 0.61 | $ | 1.28 | $ | 0.08 | $ | (0.33) | $ | 0.17 |
| Net earnings per share diluted from discontinued operations(3) | | 0.50 | | 1.58 | | 1.29 | | 1.86 | | 1.31 |
| Net earnings per share diluted(3) | $ | 1.11 | $ | 2.86 | $ | 1.37 | $ | 1.53 | $ | 1.48 |
| Weighted average shares diluted | | 193.5 | | 196.5 | | 189.2 | | 128.4 | | 127.9 |

(1) eFunds Corporation s results of operations are included in earnings from September 12, 2007, the eFunds acquisition date.

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(2) Certegy s results of operations are included in earnings from February 1, 2006, the date of the merger with Certegy.

(3) Net earnings per share are calculated, for all periods prior to 2006, using the shares outstanding following FIS formation as a holding company, adjusted as converted by the exchange ratio (0.6396) in the Certegy merger.

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2008(1) | 2007 | 2006 | 2005(2) | 2004 |
| | (In millions, except per share data) | | | | |
| Balance Sheet Data: | | | | | |
| Cash and cash equivalents | $ 220.9 | $ 355.3 | $ 211.8 | $ 133.2 | $ 190.9 |
| Goodwill | 4,194.0 | 5,326.8 | 3,737.5 | 1,787.7 | 1,757.8 |
| Other intangible assets | 924.3 | 1,030.6 | 1,010.0 | 508.8 | 629.2 |
| Total assets | 7,514.0 | 9,794.6 | 7,630.6 | 4,189.0 | 4,002.9 |
| Total long-term debt | 2,514.5 | 4,275.4 | 3,009.5 | 2,564.1 | 431.2 |
| Minority interest | 164.2 | 14.2 | 13.0 | 13.1 | 13.6 |
| Total stockholders equity | 3,532.8 | 3,781.2 | 3,142.7 | 694.6 | 2,754.8 |
| Cash dividends declared per share | $ 0.20 | $ 0.20 | $ 0.20 | $ | $ |

(1) FIS LPS business was spun-off as of July 2, 2008.

(2) On March 8, 2005, FIS paid a dividend to Fidelity National Financial, Inc., its former parent, of $2.7 billion as part of a recapitalization transaction.

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## SELECTED HISTORICAL FINANCIAL DATA OF METAVANTE

The following table of selected financial data presents Metavante and its consolidated subsidiaries as of and for the years ended December 31, 2008 and 2007, and Metavante Corporation and its consolidated subsidiaries as of and for the years ended December 31, 2006, 2005, and 2004. Metavante Corporation was a wholly owned subsidiary of M&I until the completion of Metavante s spin-off of M&I on November 1, 2007. You should read this information in conjunction with Metavante s consolidated financial statements and related notes included in Metavante s Annual Report on Form 10-K, as amended by the Annual Report on Form 10-K/A, for the year ended December 31, 2008, which are incorporated by reference in this document and from which this information is derived. See Where You Can Find More Information on page [ ]

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| | (In millions, except per share data) | | | | |
| **Results of operations information:** | | | | | |
| Total revenue | $ 1,707.3 | $ 1,598.1 | $ 1,504.2 | $ 1,285.0 | $ 1,015.4 |
| Income from operations(1) | 337.6 | 152.9 | 272.0 | 228.5 | 146.5 |
| Income before income taxes(1) | 230.7 | 120.0 | 240.5 | 192.9 | 125.8 |
| Provision for income taxes | 83.3 | 70.6 | 80.4 | 73.3 | 49.0 |
| Net income(1) | 147.4 | 49.5 | 160.1 | 119.5 | 76.8 |
| Net earnings per share(2): | | | | | |
| Basic | $ 1.24 | $ 0.42 | | | |
| Diluted | $ 1.23 | $ 0.41 | | | |
| Weighted average shares, basic | 119.1 | 118.9 | | | |
| Weighted average shares, diluted | 119.9 | 119.9 | | | |
| **Financial condition information (at period end):** | | | | | |
| Current assets | $ 1,099.0 | $ 1,013.5 | $ 940.6 | $ 905.5 | $ 816.7 |
| Total assets | 3,157.0 | 3,100.0 | 3,015.3 | 2,857.8 | 2,413.6 |
| Current liabilities | 825.1 | 856.5 | 571.1 | 647.2 | 659.6 |
| Long-term debt | 1,719.4 | 1,737.0 | 982.0 | 982.4 | 1,024.3 |
| Shareholders equity | 361.0 | 299.4 | 1,262.1 | 1,035.7 | 576.1 |
| **Other information:** | | | | | |
| Cash flow from operating activities | $ 302.5 | $ 345.4 | $ 292.4 | $ 250.3 | $ 211.2 |
| Capital expenditures | 137.5 | 143.4 | 109.4 | 112.0 | 87.5 |
| Depreciation | 38.7 | 40.5 | 40.9 | 40.4 | 35.7 |
| Amortization | 116.1 | 114.9 | 103.6 | 98.7 | 94.9 |

(1) 2007 includes non-cash impairment charges of goodwill and other long-lived assets and non-recurring charges associated with the separation from M&I.

(2) Weighted average shares for 2007 was calculated from November 2, 2007 through December 31, 2007, which represents the actual number of days that shares of Metavante s common stock were publicly traded. Net earnings per share were not calculated for 2006, 2005, and 2004 because Metavante was a wholly owned subsidiary of

M&I.

## SELECTED UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The unaudited pro forma condensed combined statement of earnings combines the historical consolidated statements of earnings of FIS and Metavante, giving effect to the merger and the equity capital investments, as if they had occurred on January 1, 2008. The unaudited pro forma condensed combined balance sheet combines the historical consolidated balance sheets of FIS and Metavante, giving effect to the merger and the equity capital investments as if they had occurred on December 31, 2008. The historical consolidated financial information has been adjusted in the unaudited pro forma condensed financial statements to give effect to pro forma events that are (1) directly attributable to the merger, (2) factually supportable, and (3) with respect to the statement of earnings, expected to have a continuing impact on the combined results. The unaudited selected pro forma combined financial information has been derived from and should be read in conjunction with the consolidated financial statements and the related notes of both FIS and Metavante, which are incorporated in this document by reference and more detailed unaudited pro forma condensed combined financial information, including the notes thereto, appearing elsewhere in this document. See Where You Can Find More Information on page [ ] and Unaudited Pro Forma Condensed Combined Financial Information on page [ ].

The unaudited pro forma condensed combined financial information is presented for illustrative purposes only and does not indicate the financial results of the combined companies had the companies actually been combined at the beginning of each period presented, nor the impact of possible business model changes. The unaudited pro forma condensed combined financial information also does not consider any potential impacts of current market conditions on revenues, expense efficiencies, asset dispositions, and share repurchases, among other factors. In addition, as explained in more detail in the accompanying notes to the unaudited pro forma condensed combined financial information, the preliminary allocation of the pro forma purchase price reflected in the unaudited pro forma condensed combined financial information is subject to adjustment and may vary significantly from the actual purchase price allocation that will be recorded upon completion of the merger.

| | For The Year Ended December 31, 2008 (In millions, except per share data) | |
|---|---|---|
| **Unaudited Pro Forma Condensed Combined Statement of Earnings Data:** | | |
| Processing and services revenues | $ | 5,072.1 |
| Cost of revenues | $ | 3,805.4 |
| Operating Income | $ | 517.3 |
| Net earnings from continuing operations | $ | 160.6 |
| Net earnings per share basic from continuing operations | $ | 0.44 |
| Net earnings per share diluted from continuing operations | $ | 0.43 |
| Weighted average shares outstanding basic | | 368.6 |
| Weighted average shares outstanding diluted | | 377.1 |

| | As of December 31, 2008 (In millions) |
|---|---|

| **Unaudited Pro Forma Condensed Combined Balance Sheet Data:** | | |
|---|---|---|
| Cash and cash equivalents | $ | 373.5 |
| Total current assets | $ | 2,162.6 |
| Working capital | $ | 556.5 |
| Total assets | $ | 13,373.7 |
| Long-term debt, excluding current portion | $ | 3,812.4 |
| Total stockholders equity | $ | 6,840.4 |

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## COMPARATIVE PER SHARE DATA

The following table sets forth for FIS common stock and Metavante common stock certain historical, pro forma and pro forma-equivalent per share financial information. The pro forma and pro forma-equivalent per share information give effect to the merger and equity capital investments as if they had occurred on the dates presented, in the case of the book value data, and as if it had occurred on January 1, 2008, in the case of the net income and dividends paid data. The unaudited pro forma data in the tables assume that the merger is accounted for using the acquisition method of accounting and represents a current estimate based on available information of the combined company s results of operations. The pro forma financial adjustments record the assets and liabilities of Metavante at their estimated fair values and are subject to adjustment as additional information becomes available and as additional analyses are performed. See Unaudited Pro Forma Condensed Combined Financial Information on page [ ]. The information in the following table is based on, and should be read together with, the historical financial information that we have presented in the prior filings of FIS and Metavante with the SEC. See Where You Can Find More Information on page [ ].

We anticipate that the merger will provide the combined company with financial benefits that include reduced operating expenses and revenue enhancement opportunities. The unaudited pro forma information, while helpful in illustrating the financial characteristics of the combined company under one set of assumptions, does not reflect the impact of possible business model changes as a result of current market conditions which may impact revenues, expense efficiencies, asset dispositions, share repurchases and other factors. It also does not necessarily reflect what the historical results of the combined company would have been had our companies been combined during these periods nor is it indicative of the results of operations in future periods or the future financial position of the combined company. The Comparative Per Share Data Table for the year ended December 31, 2008 combines the historical income per share data of FIS and subsidiaries and Metavante and subsidiaries giving effect to the transactions as if the merger, using the acquisition method of accounting, and the equity capital investments had become effective on January 1, 2008. The pro forma adjustments are based upon available information and certain assumptions that FIS management believes are reasonable. Upon completion of the merger, the operating results of Metavante will be reflected in the consolidated financial statements of FIS on a prospective basis.

| | FIS Historical | Metavante Historical | Pro Forma Combined | Equivalent Pro Forma Amount per share of Metavante(1) |
|---|---|---|---|---|
| **As of and for the Year Ended December 31, 2008** | | | | |
| Basic net income per share of common stock from continuing operations | $ 0.61 | $ 1.24 | $ 0.44 | $ 0.59 |
| Diluted net income per share of common stock from continuing operations | $ 0.61 | $ 1.23 | $ 0.43 | $ 0.57 |
| Book value per share of common stock | $ 18.51 | $ 3.01 | $ 18.56 | 25.06 |

| | | | | |
|---|---|---|---|---|
| Cash dividends declared per share of common stock | $ 0.20 | $ | $ 0.20 | 0.27 |

(1) Reflects Metavante shares at the exchange ratio of 1.35

## RISK FACTORS

*In addition to the other information included in and incorporated by reference into this document, including the risk factors and other information set forth in the Annual Report on Form 10-K of FIS for the fiscal year ended December 31, 2008, filed with the SEC on February 27, 2009 (as amended on March 10, 2009), and in the Annual Report on Form 10-K of Metavante for the fiscal year ended December 31, 2008, filed with the SEC on February 20, 2009 (as amended on April 30, 2009), and the matters addressed in Cautionary Statement Regarding Forward-Looking Statements, you should carefully consider the following risk factors before deciding whether to vote for the approval and adoption of the merger agreement and the transactions it contemplates, in the case of Metavante shareholders, or for the issuances of shares of FIS common stock, in the case of FIS shareholders. For further discussion of these and other risk factors, please see FIS and Metavante s periodic reports and other documents incorporated by reference into this document. See Where You Can Find More Information , beginning on page [ ].*

***Because the exchange ratio is fixed and will not be adjusted, and the market price of shares of FIS common stock will fluctuate, Metavante and FIS shareholders cannot be sure of the market value of the shares of FIS common stock at the time they are issued in the merger.***

The exchange ratio in the merger is fixed and will not be adjusted to reflect any increase or decrease in the price of FIS common stock or Metavante common stock. If the price of FIS common stock has declined from currently prevailing levels as of the date the merger is completed, the market value of the FIS shares received by Metavante shareholders upon completion of the merger will decline commensurately relative to the value on the date of this document. The market price of a share of FIS common stock on the date of the completion of the merger is likely to be different, and may be lower, than it was on the date of this document or on the date of the FIS and Metavante shareholder meetings.

Stock price changes may result from a variety of factors (many of which may not be within FIS or Metavante s control), including;

general market and economic conditions;

changes in the businesses, operations and prospects of FIS or Metavante;

investor behavior and strategies, including assessments as to whether and when the merger will be completed; and

governmental, litigation and/or regulatory developments or considerations.

Shareholders of FIS and Metavante are urged to obtain current market quotations for FIS and Metavante common stock.

***We may fail to realize the anticipated cost savings and other financial benefits of the merger on the anticipated schedule, if at all.***

To achieve planned financial benefits of the merger, FIS will need to successfully integrate Metavante s operations into its own in a timely and efficient manner and will need to execute transitional matters successfully, including integrating new members of FIS management and the retention of key Metavante personnel. Currently, each company operates as an independent public company. Achieving the anticipated cost savings and financial benefits of the merger will depend in part upon whether FIS integrates Metavante s businesses in an efficient and effective manner. There can be no assurance that FIS will be able to accomplish this integration process smoothly or successfully. In addition, the integration of certain operations following the merger will require the dedication of significant management resources, which will compete for management s attention with its efforts to manage the day-to-day business of the combined company. Any inability to realize the full extent of, or any of, the anticipated cost savings and financial benefits of the merger, as well as any delays encountered in the integration process, could have an adverse effect on the business and results of operations of the combined company, which may affect the market price of FIS common stock.

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***Members of Metavante s and FIS management and certain directors have interests in the merger and the investments, respectively, that are different from, or in addition to, your interests.***

Executive officers of FIS and Metavante negotiated the terms of the merger agreement, and the FIS and Metavante boards approved the merger, and recommended that their respective shareholders vote to approve, the issuance of shares in connection with the merger or the merger itself, as applicable. In addition, executive officers of FIS negotiated the terms of the investment agreement, and the FIS board approved, and recommended that its shareholders vote to approve, the issuance of shares in connection with the investments. In considering these facts and the other information contained in this document, you should be aware that some members of Metavante s and FIS management and certain members of their boards have economic interests in the merger and the investments, respectively, that are different from, or in addition to, the interests of FIS and Metavante shareholders generally. Please see FIS Proposal 1 and Metavante Proposal 1: The Merger Interests of Certain Persons in the Merger and FIS Proposal 2 and Proposal 3: The Investments Interests of Certain Persons in the Investments for information about these economic interests.

***The merger is subject to the receipt of consents and approvals from government entities. Such approvals may not be obtained or may impose conditions that could have an adverse effect on the combined company following the merger.***

Completion of the merger is conditioned, among other things, upon the receipt of certain governmental approvals, including the expiration or termination of the applicable waiting period under the HSR Act. Although FIS and Metavante have agreed in the merger agreement to use their reasonable best efforts to obtain the requisite governmental approvals, there can be no assurance that these approvals will be obtained. In addition, the governmental authorities from which these approvals are required may impose conditions on the completion of the merger or require changes to the terms of the merger. Although FIS and Metavante do not currently expect that any such conditions or changes would be imposed, there can be no assurance that they will not be, and such conditions or changes could have the effect of delaying completion of the merger or imposing additional costs on or limiting the revenues of FIS following the merger. In addition, under the terms of the merger agreement, neither party is obligated to complete the merger if any such condition or change would reasonably be expected to have a material adverse effect (as measured on a scale relative to Metavante) on either party or the surviving company in the merger.

***The shares of FIS common stock to be received by Metavante shareholders as a result of the merger will have different rights from the shares of Metavante common stock.***

Upon the completion of the merger, Metavante shareholders will become FIS shareholders and their rights as shareholders will be governed by the amended and restated articles of incorporation and bylaws of FIS and by the applicable laws of the State of Georgia, where FIS is incorporated. The rights associated with Metavante common stock are different from the rights associated with FIS common stock. Please see Comparison of Rights of FIS and Metavante Shareholders beginning on page [ ] for a discussion of the different rights associated with FIS common stock.

***Failure to complete the merger could negatively impact FIS and Metavante.***

If the merger is not completed, the ongoing businesses of FIS or Metavante may be adversely affected and there may be various consequences, including:

- the business of each party may have been adversely impacted by the failure to pursue other beneficial opportunities due to the focus on the merger, without realizing any of the anticipated benefits of the merger; and the market price of the common stock of FIS and/or Metavante may be negatively impacted.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document contains or incorporates by reference certain forward-looking statements, including statements about the financial condition, results of operations, earnings outlook and prospects of each of FIS and Metavante and the benefits of the merger between FIS and Metavante, which are subject to numerous assumptions, risks, and uncertainties. These forward-looking statements are found at various places throughout this document, including in the section entitled Risk Factors beginning on page [ ]. You can find many of these statements by looking for words such as plan, believe, expect, intend, anticipate, estimate, project, potential, possible or other similar Actual results could differ materially from those contained or implied by such statements for a variety of factors, including:

- the effect of governmental regulations, including the possibility that there are unexpected delays in obtaining regulatory approvals;
- any changes in economic conditions;
- competitive pressures on product pricing and services;
- the risk that the merger may fail to achieve beneficial synergies or that it may take longer than expected to do so;
- the risk of reduction in revenue from the elimination of existing and potential customers due to consolidation in the banking, retail and financial services industries and its impact on the customer bases of FIS and Metavante;
- the failure to adapt to changes in technology or in the marketplace;
- the failure to obtain approval of FIS and Metavante s shareholders;
- the effect of litigation on the companies or the completion of the merger;
- delays associated with integrating the companies, including employees and operations, after the merger is completed;
- actions that may be taken by the competitors, customers and suppliers of FIS or Metavante that may cause the merger to be delayed or not completed; and
- other risks discussed and identified in public filings with the SEC made by FIS or Metavante.

All forward-looking statements included in this document are based on information available at the time of the document. Neither FIS nor Metavante assumes any obligation to update any forward-looking statement.

For additional information about factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements, please see the reports that FIS and Metavante have filed with the SEC as described under Where You Can Find More Information beginning on page [ ].

## THE FIS SPECIAL MEETING

This section contains information from FIS for FIS shareholders about the special meeting of FIS shareholders that has been called to consider and vote upon the proposal to approve the issuance of FIS common stock in the merger and the proposals to approve the issuance of shares of FIS common stock to the equity capital investors.

Together with this document, we are also sending you a notice of the FIS special meeting and a form of proxy that is solicited by the FIS board of directors. The FIS special meeting will be held at [ ] on [ ], 2009 at [ ], local time.

**Matters to Be Considered**

The purpose of the FIS special meeting is to consider and vote on:

a proposal to approve the issuance of FIS common stock to Metavante shareholders in the merger, as contemplated by the merger agreement;

a proposal to approve the issuance of FIS common stock in connection with the purchase by THL, as contemplated by the investment agreement;

a proposal to approve the issuance of FIS common stock in connection with the purchase by FNF, as contemplated by the investment agreement; and

a proposal to approve the adjournment of the special meeting, including, if necessary or appropriate, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve any of the foregoing proposals.

**Proxies**

Each copy of this document mailed to holders of FIS common stock is accompanied by a form of proxy with instructions for voting by mail, by telephone or through the Internet. If you hold stock in your name as a shareholder of record and are voting by mail, you should complete and return the proxy card accompanying this document to ensure that your vote is counted at the special meeting, or at any adjournment or postponement of the special meeting, regardless of whether you plan to attend the special meeting. You may also vote your shares by telephone or through the Internet. Information and applicable deadlines for voting by telephone or through the Internet are set forth in the enclosed proxy card instructions. If you hold your stock in street name through a bank or broker, you must direct your bank or broker to vote in accordance with the instructions you have received from your bank or broker.

If you hold stock in your name as a shareholder of record, you may revoke any proxy at any time before it is voted by signing and returning a proxy card with a later date, delivering a written revocation letter to FIS Corporate Secretary, or by attending the special meeting in person, notifying the Corporate Secretary that you are revoking your proxy, and voting by ballot at the special meeting. If you have voted your shares by telephone or through the Internet, you may revoke your prior telephone or Internet vote by recording a different vote, or by signing and returning a proxy card dated as of a date that is later than your last telephone or Internet vote.

Any shareholder entitled to vote in person at the special meeting may vote in person regardless of whether a proxy has been previously given, but the mere presence (without notifying the Corporate Secretary) of a shareholder at the special meeting will not constitute revocation of a previously given proxy. Written notices of revocation and other communications about revoking your proxy should be addressed to:

Fidelity National Information Services, Inc.
601 Riverside Avenue
Jacksonville, Florida 32204

Attention: Ronald D. Cook
Executive Vice President,
General Counsel and Corporate Secretary

If your shares are held in street name by a bank or broker, you should follow the instructions of your bank or broker regarding the revocation of proxies.

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All shares represented by valid proxies that we receive through this solicitation, and that are not revoked, will be voted in accordance with the instructions you provide on the proxy card or as you instruct via Internet or telephone. **If you make no specification on your proxy card as to how you want your shares voted before signing and returning it, your proxy will be voted FOR approval of the issuance of shares of FIS common stock in the merger, FOR approval of the proposals to issue shares of FIS common stock to the equity capital investors, and FOR approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies**. According to the FIS amended and restated bylaws, only business within the purpose or purposes described in the notice of special meeting may be conducted at the meeting.

**Solicitation of Proxies**

In accordance with the merger agreement, the cost of proxy solicitation for the FIS special meeting will be borne by FIS, except that FIS and Metavante will share equally all expenses incurred in connection with the filing of the registration statement of which this document forms a part with the SEC and the printing and mailing of this document. FIS and Metavante have also made arrangements with Georgeson to assist them in soliciting proxies and have agreed to pay them $[ ], plus reasonable expenses for these services. If necessary, FIS may use several of its regular employees, who will not be specially compensated, to solicit proxies from FIS shareholders, either personally or by telephone, facsimile, letter or other electronic means. FIS will also request brokerage firms, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners of shares held of record on [ ], 2009 and will provide customary reimbursement to such firms for the cost of forwarding these materials.

**Record Date**

The close of business on [ ], 2009 has been fixed as the record date for determining the FIS shareholders entitled to receive notice of and to vote at the special meeting. At that time, [ ] shares of FIS common stock were outstanding, held by approximately [ ] holders of record.

**Quorum**

In order to conduct voting at the special meeting, there must be a quorum. The proposal to approve the issuance of shares of FIS common stock in the merger and the proposals to issue shares of FIS common stock to the equity capital investors each have a quorum requirement, under the applicable New York Stock Exchange rules, that the total votes cast represent a majority of the votes entitled to be cast on such proposal; therefore a FIS shareholder s failure to vote on one of the proposals, a broker non-vote on one of the proposals or an abstention will count against obtaining a quorum for such proposal.

**Vote Required**

Each share of FIS common stock outstanding on the record date entitles the holder to one vote on each matter to be voted upon by shareholders at the special meeting. The proposal to approve the issuance of shares of FIS common stock in the merger and the proposals to issue shares of FIS common stock to the equity capital investors each requires the affirmative vote of a majority of all votes cast by the holders of common stock at a meeting. If a quorum is present, a FIS shareholder s failure to vote, a broker non-vote or an abstention will not count as a vote against the proposal to approve the issuance of shares of FIS common stock in the merger or the proposals to issue shares of FIS common stock to the equity capital investors because approval of each proposal is based on the affirmative vote of a majority of votes cast.

The special meeting may be adjourned by the holders of a majority of the voting shares represented at the meeting, whether or not a quorum is present, to reconvene at a specific time and place, but no later than 120 days after the date fixed for the original meeting.

**The FIS board of directors urges FIS shareholders to promptly vote by: accessing the Internet site listed in the proxy card instructions if voting through the Internet; calling the toll-free number listed in the proxy card instructions if voting by telephone; or completing, dating, and signing the accompanying proxy card and**

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**returning it promptly in the enclosed postage-paid envelope.** If you hold your stock in street name through a bank or broker, please vote by following the voting instructions of your bank or broker.

Shareholders will vote at the meeting by ballot. Votes cast at the meeting, in person or by proxy, will be tallied by FIS inspector of election.

As of the record date, directors and executive officers of FIS had the right to vote approximately [ ] shares of FIS common stock, or approximately [ ]% of the outstanding FIS shares entitled to vote at the special meeting. FIS currently expects that these individuals will vote their shares of FIS common stock in favor of the proposals to be presented at the special meeting.

**Recommendation of the FIS Board of Directors**

The FIS board of directors believes that the merger is in the best interests of FIS and its shareholders and has unanimously approved and adopted the merger agreement and the transactions it contemplates. The FIS board of directors also believes that the equity capital investments are in the best interests of FIS and its shareholders and has unanimously approved and adopted the investment agreement and the transactions it contemplates. For the factors considered by the FIS board of directors in reaching its decision to approve the merger agreement and the investment agreement and the transactions they each contemplate, see FIS Proposal 1 and Metavante Proposal 1: The Merger FIS Reasons for the Merger and the Investments; Recommendation of the FIS Board of Directors. **The FIS board of directors unanimously recommends that the FIS shareholders vote FOR the proposal to issue shares of FIS common stock in the merger and FOR the proposals to issue shares of FIS common stock to the equity capital investors**.

**Attending the Meeting**

All holders of FIS common stock, including shareholders of record and shareholders who hold their shares through banks, brokers, nominees or any other holder of record, are invited to attend the special meeting. Shareholders of record can vote in person at the special meeting. If you are not a shareholder of record, you must obtain a proxy executed in your favor, from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the special meeting. If you plan to attend the special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership and you must bring a form of personal photo identification with you in order to be admitted. FIS reserves the right to refuse admittance to anyone without proper proof of share ownership and without proper photo identification.

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## THE METAVANTE SPECIAL MEETING

This section contains information from Metavante for Metavante shareholders about the special meeting of Metavante shareholders that has been called to consider a proposal to approve and adopt the merger agreement and the transactions it contemplates.

Together with this document, we are also sending you a notice of the Metavante special meeting and a form of proxy that is solicited by the Metavante board of directors. The Metavante special meeting will be held at [ ], on [ ], 2009 at [ ], local time.

### Matters to Be Considered

The purpose of the Metavante special meeting is to consider and vote on:

- a proposal to approve and adopt the merger agreement and the transactions it contemplates; and
- a proposal to approve the adjournment of the special meeting, including, if necessary or appropriate, to solicit additional proxies in the event that there are not sufficient votes at the time of the special meeting to approve the foregoing proposal.

### Proxies

Each copy of this document mailed to holders of Metavante common stock is accompanied by a form of proxy with instructions for voting by mail, by telephone or through the Internet. If you hold stock in your name as a shareholder of record and are voting by mail, you should complete and return the proxy card accompanying this document to ensure that your vote is counted at the special meeting, or at any adjournment or postponement of the special meeting, regardless of whether you plan to attend the special meeting. You may also vote your shares by telephone or through the Internet. Information and applicable deadlines for voting by telephone or through the Internet are set forth in the enclosed proxy card instructions. If you hold your stock in street name through a bank or broker, you must direct your bank or broker to vote in accordance with the instructions you have received from your bank or broker.

If you hold stock in your name as a shareholder of record, you may revoke any proxy at any time before it is voted by signing and returning a proxy card with a later date, delivering a written revocation letter to Metavante s Secretary, or by attending the special meeting in person, notifying the Secretary that you are revoking your proxy, and voting by ballot at the special meeting. If you have voted your shares by telephone or through the Internet, you may revoke your prior telephone or Internet vote by recording a different vote, or by signing and returning a proxy card dated as of a date that is later than your last telephone or Internet vote.

Any shareholder entitled to vote in person at the special meeting may vote in person regardless of whether a proxy has been previously given, but the mere presence (without notifying the Secretary) of a shareholder at the special meeting will not constitute revocation of a previously given proxy. Written notices of revocation and other communications about revoking your proxy should be addressed to:

Metavante Technologies, Inc.
4900 West Brown Deer Road
Milwaukee, Wisconsin 53223
Attention: Donald W. Layden, Jr.

Senior Executive Vice President,
General Counsel and Secretary

If your shares are held in street name by a bank or broker, you should follow the instructions of your bank or broker regarding the revocation of proxies.

All shares represented by valid proxies that we receive through this solicitation, and that are not revoked, will be voted in accordance with the instructions you provide on the proxy card or as you instruct via Internet or telephone. **If you make no specification on your proxy card as to how you want your shares voted before signing and returning it, your proxy will be voted FOR approval and adoption of the merger agreement and the**

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**transactions it contemplates, and FOR approval of the proposal to adjourn the special meeting, if necessary or appropriate, to solicit additional proxies**. Under Wisconsin law, only business within the purpose described in the notice of special meeting may be conducted at the meeting.

**Solicitation of Proxies**

In accordance with the merger agreement, the cost of proxy solicitation for the Metavante special meeting will be borne by Metavante, except that FIS and Metavante will share equally all expenses incurred in connection with the filing of the registration statement of which this document forms a part with the SEC and the printing and mailing of this document. In addition to the use of the mail, proxies may be solicited by officers and directors and regular employees of Metavante, without additional remuneration, by personal interview, telephone, letter, facsimile or other electronic means. FIS and Metavante have also made arrangements with Georgeson to assist them in soliciting proxies and have agreed to pay them $[ ], plus reasonable expenses for these services. Metavante will also request brokerage firms, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners of shares held of record on [ ], 2009 and will provide customary reimbursement to such firms for the cost of forwarding these materials.

**Record Date**

The close of business on [ ], 2009 has been fixed as the record date for determining the Metavante shareholders entitled to receive notice of and to vote at the special meeting. At that time, [ ] shares of Metavante common stock were outstanding, held by approximately [ ] holders of record.

**Quorum**

A majority of the votes entitled to be cast by the shares entitled to vote must be present or represented by proxy to constitute a quorum for action on the matters to be voted upon at the special meeting. All shares of Metavante common stock represented at the Metavante special meeting, including abstentions and broker non-votes, will be treated as present for purposes of determining the presence or absence of a quorum for all matters voted on at the Metavante special meeting.

**Vote Required**

Each share of Metavante common stock outstanding on the record date entitles the holder to one vote on each matter to be voted upon by shareholders at the special meeting. Approval and adoption of the merger agreement and the transactions it contemplates requires the affirmative vote of a majority of all the votes entitled to be cast by holders of outstanding shares of Metavante common stock. Because the affirmative vote of a majority of all the votes entitled to be cast by the holders of Metavante common stock is needed for us to proceed with the merger, the failure to vote by proxy or in person will have the same effect as a vote against the merger. Abstentions also will have the same effect as a vote against the merger. **Accordingly, the Metavante board of directors urges Metavante shareholders to promptly vote by completing, dating, and signing the accompanying proxy card and returning it promptly in the enclosed postage-paid envelope, or, if you hold your stock in street name through a bank or broker, by following the voting instructions of your bank or broker.** If you hold stock in your name as a shareholder of record, you may complete, sign, date and mail your proxy card in the enclosed postage paid return envelope as soon as possible, vote by calling the toll-free number listed on the Metavante proxy card, vote by accessing the Internet site listed on the Metavante proxy card or vote in person at the Metavante special meeting. If you hold your stock in street name through a bank or broker, you must direct your bank or broker to vote in accordance with the voting instruction form included with these materials and forwarded to you by your bank or broker. This voting instruction form provides instructions on voting by mail, telephone or on the Internet.

Any adjournments of the special meeting by vote of shareholders for the purpose of soliciting additional proxies or for any other purpose must be approved by the affirmative vote of a majority of the shares represented at the special meeting.

Shareholders will vote at the meeting by ballot. Votes cast at the meeting, in person or by proxy, will be tallied by Metavante s inspector of election.

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As of the record date, directors and executive officers of Metavante had the right to vote approximately [ ] shares of Metavante common stock, or approximately [ ]% of the outstanding Metavante shares entitled to vote at the special meeting. Metavante currently expects that these individuals will vote their shares of Metavante common stock in favor of the proposals to be presented at the special meeting.

WPM has entered into an agreement with FIS, Merger Sub and Metavante whereby, subject to the terms and conditions of that agreement, it has agreed to vote all of the Metavante shares it holds in favor of the merger. As of the date of this document, WPM holds in the aggregate approximately 25% of the outstanding shares of Metavante common stock.

**Recommendation of the Metavante Board of Directors**

The Metavante board of directors has approved and adopted the merger agreement and the transactions it contemplates, including the merger. The Metavante board of directors determined that the merger agreement and the transactions it contemplates are advisable and in the best interests of Metavante and its shareholders. **The Metavante board of directors unanimously recommends that the Metavante shareholders vote FOR the proposal to approve and adopt the merger agreement and the transactions it contemplates.** See FIS Proposal 1 and Metavante Proposal 1: The Merger Metavante s Reasons for the Merger; Recommendation of the Metavante Board of Directors on page [ ] for a more detailed discussion of the Metavante board of directors recommendation.

**Attending the Meeting**

All holders of Metavante common stock, including shareholders of record and shareholders who hold their shares through banks, brokers, nominees or any other holder of record, are invited to attend the special meeting. Shareholders of record can vote in person at the special meeting. If you are not a shareholder of record, you must obtain a proxy executed in your favor, from the record holder of your shares, such as a broker, bank or other nominee, to be able to vote in person at the special meeting. If you plan to attend the special meeting, you must hold your shares in your own name or have a letter from the record holder of your shares confirming your ownership and you must bring a form of personal photo identification with you in order to be admitted. Metavante reserves the right to refuse admittance to anyone without proper proof of share ownership and without proper photo identification.

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## INFORMATION ABOUT THE COMPANIES

### Fidelity National Information Services, Inc.

FIS is a leading provider of technology solutions, processing services and information-based services to the financial services industry. FIS offers a diversified service mix and benefits from the opportunity to cross-sell multiple services across its broad customer base. FIS is a member of the Standard and Poor s 500 Index. As of December 31, 2008, FIS had over 14,000 customers in over 90 countries spanning all segments of the financial services industry. These customers include 40 of the top 50 world banks, including nine of the top 10, as ranked by Bankalmanac.com as of April 30, 2008, as well as mid-tier and community banks, credit unions, commercial lenders, automotive financial institutions, retailers and international customers. The company is located on the web at *www.fidelityinfoservices.com*

Additional information about FIS and its subsidiaries is included in documents incorporated by reference in this document. See Where You Can Find More Information on page [ ].

The principal executive office of FIS is located at 601 Riverside Avenue, Jacksonville, Florida 32204, and its telephone number is (904) 854-5000.

### Metavante Technologies, Inc.

Metavante Technologies wholly owned operating subsidiary, Metavante Corporation, delivers banking and payments technologies to approximately 8,000 financial services firms and businesses worldwide. Metavante products and services drive account processing for deposit, loan and trust systems, image-based and conventional check processing, electronic funds transfer, consumer healthcare payments, electronic presentment and payment transactions, outsourcing, and payment network solutions including the NYCE® Payment Network, an ATM/PIN debit network. Metavante began operations in 1964 as a wholly owned subsidiary of M&I providing community and regional banks with dependable, outsourced account processing services with a high level of client service. Since then, Metavante has become a provider of innovative, high quality products and services to the financial services, commercial, and health care insurance industries. With over 50 locations, Metavante recorded approximately $1.7 billion in revenue for the year ended December 31, 2008. The company is located on the web at *www.metavante.com*.

Additional information about Metavante and its subsidiaries is included in documents incorporated by reference in this document. See Where You Can Find More Information on page [ ].

The principal executive office of Metavante is located at 4900 West Brown Deer Road, Milwaukee, Wisconsin 53223, and its telephone number is (414) 357-2290.

### Cars Holdings, LLC

Cars Holdings, LLC, also referred to as Merger Sub, is a newly formed Delaware limited liability company and a wholly owned subsidiary of FIS. The company was formed solely for the purpose of effecting the proposed merger with Metavante and has not carried on any activities other than in connection with the proposed merger.

The principal executive office of Merger Sub is located at 601 Riverside Avenue, Jacksonville, Florida 32204, and its telephone number is (904) 854-5000.

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## RECENT DEVELOPMENTS

**Fidelity National Information Services, Inc. Unaudited First Quarter Results**

On April 28, 2009, FIS reported its financial results for the first quarter of 2009. The consolidated revenue of FIS of $797.8 million declined 3.9% in U.S. dollars and increased 0.3% in constant currency compared to $830.3 million in the first quarter of 2008. GAAP net earnings from continuing operations attributable to common stockholders totaled $34.3 million, or $0.18 per share, compared to $0.06 per share in the first quarter of 2008. The increase was attributable to improved operating performance, lower interest expense and a lower share count, partially offset by a slightly higher tax rate.

**Metavante Technologies, Inc. Unaudited First Quarter Results**

On April 24, 2009, Metavante announced first quarter earnings of $40.3 million, or $0.34 per share, compared to $35.0 million, or $0.29 per share, in the first quarter of 2008. Metavante also reported first quarter revenue of $426.9 million, up 1 percent compared to $424.6 million in the first quarter of 2008. Organic growth was driven by higher processing activity that more than offset lower termination fees and software license revenue. Metavante s segment operating income for the first quarter of 2009 was $123.2 million compared to $119.3 million in the first quarter of 2008. Segment operating margin for the first quarter of 2009 improved to 28.9 percent, an increase of 0.8 percentage points compared to the first quarter of 2008.

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## UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The unaudited pro forma condensed combined statement of earnings combines the historical consolidated statements of earnings of FIS and Metavante, giving effect to the merger and the equity capital investments, as if they had occurred on January 1, 2008. The unaudited pro forma condensed combined balance sheet combines the historical consolidated balance sheets of FIS and Metavante, giving effect to the merger and the equity capital investments as if they had occurred on December 31, 2008. The historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined financial statements to give effect to pro forma events that are (1) directly attributable to the merger, (2) factually supportable, and (3) with respect to the statement of earnings, expected to have a continuing impact on the combined results. The unaudited pro forma condensed combined financial information should be read in conjunction with the accompanying notes to the unaudited pro forma condensed combined financial statements. In addition, the unaudited pro forma condensed combined financial information was based on and should be read in conjunction with the:

- separate historical financial statements of FIS as of and for the year ended December 31, 2008 and the related notes included in FIS Annual Report on Form 10-K for the year ended December 31, 2008, as amended by the Annual Report on Form 10-K/A, which is incorporated by reference into this joint proxy statement/prospectus, and

- separate historical financial statements of Metavante as of and for the year ended December 31, 2008 and the related notes included in Metavante s Annual Report on Form 10-K for the year ended December 31, 2008, as amended by the Annual Report on Form 10-K/A, which is incorporated by reference into this joint proxy statement/prospectus.

The unaudited pro forma condensed combined financial information has been presented for informational purposes only. The pro forma information is not necessarily indicative of what the combined company s financial position or results of operations actually would have been had the merger and the equity capital investments been completed as of the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined company. Transactions between FIS and Metavante during the periods presented in the unaudited pro forma condensed combined financial statements have been eliminated.

The unaudited pro forma condensed combined financial information has been prepared using the acquisition method of accounting under existing U.S. generally accepted accounting principles ( GAAP ), which are subject to change and interpretation. FIS has been treated as the acquirer in the merger for accounting purposes. The acquisition accounting is dependent upon certain valuations and other studies that have yet to commence or progress to a stage where there is sufficient information for a definitive measurement. Accordingly, the pro forma adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information. Differences between these preliminary estimates and the final acquisition accounting will occur and these differences could have a material impact on the accompanying unaudited pro forma condensed combined financial statements and the combined company s future results of operations and financial position.

The unaudited pro forma condensed combined financial information does not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the merger or the costs to integrate the operations of FIS and Metavante or the costs necessary to achieve these cost savings, operating synergies and revenue enhancements.

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**Unaudited Pro Forma Condensed Combined Balance Sheet**

**As of December 31, 2008**
**(in millions)**

| | FIS | Metavante | Pro Forma Adjustments | Pro Forma Combined |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ 220.9 | $ 268.8 | $ (116.2) (a) | $ 373.5 |
| Settlement deposits | 31.4 | 404.2 | | 435.6 |
| Trade receivables, net | 538.1 | 256.1 | | 794.2 |
| Settlement receivables | 52.1 | 79.0 | | 131.1 |
| Other receivables | 121.1 | | | 121.1 |
| Receivable from related party | 10.1 | | | 10.1 |
| Prepaid expenses and other current assets | 115.1 | 57.1 | | 172.2 |
| Deferred income taxes | 91.0 | 33.8 | | 124.8 |
| Total current assets | 1,179.8 | 1,099.0 | (116.2) | 2,162.6 |
| Property and equipment, net | 272.6 | 136.0 | | 408.6 |
| Goodwill | 4,194.0 | 1,310.1 | 2,540.5 (b) | 8,044.6 |
| Intangible assets, net | 924.3 | 260.3 | 364.1 (c) | 1,548.7 |
| Computer software, net | 617.0 | 215.8 | | 832.8 |
| Deferred contract costs | 241.2 | 42.5 | (42.5) (d) | 241.2 |
| Long-term note receivable from FNF | 5.5 | | | 5.5 |
| Other noncurrent assets | 79.6 | 93.3 | (43.2) (e)(h) | 129.7 |
| Total assets | $ 7,514.0 | $ 3,157.0 | $ 2,702.7 | $ 13,373.7 |
| **Liabilities and Stockholders Equity** | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued liabilities | $ 480.5 | $ 247.0 | | $ 727.5 |
| Settlement payables | 83.3 | 402.3 | | 485.6 |
| Current portion of long-term debt | 105.5 | 17.5 | | 123.0 |
| Deferred revenues | 182.9 | 158.3 | $ (71.2) (f) | 270.0 |
| Total current liabilities | 852.2 | 825.1 | (71.2) | 1,606.1 |
| Deferred revenues | 86.7 | | | 86.7 |
| Deferred income taxes | 346.3 | 140.7 | 143.3 (g) | 630.3 |
| Long-term debt, excluding current portion | 2,409.0 | 1,719.4 | (316.0) (h) | 3,812.4 |
| Other long-term liabilities | 122.8 | 95.4 | | 218.2 |
| Total liabilities | 3,817.0 | 2,780.6 | (243.9) | 6,353.7 |
| Minority interest | 164.2 | 15.4 | | 179.6 |

| | | | | | |
|---|---|---|---|---|---|
| Stockholders equity: | | | | | |
| Preferred stock | | | | | |
| Common stock | 2.0 | 1.2 | 0.6 | (i) | 3.8 |
| Treasury stock, at cost | (402.8) | (0.7) | 0.7 | (j) | (402.8) |
| Additional paid-in capital | 2,959.8 | 1,482.6 | 1,879.9 | (k) | 6,322.3 |
| Retained earnings (deficit) | 1,076.1 | (1,023.5) | 966.8 | (l) | 1,019.4 |
| Accumulated other comprehensive earnings | (102.3) | (98.6) | 98.6 | (j) | (102.3) |
| Total stockholders equity | 3,532.8 | 361.0 | 2,946.6 | | 6,840.4 |
| Total liabilities and stockholders equity | $ 7,514.0 | $ 3,157.0 | $ 2,702.7 | | $ 13,373.7 |

See the accompanying notes to the unaudited pro forma condensed combined financial statements, which are an integral part of these statements. The pro forma adjustments are explained in *Note 6. Pro Forma Adjustments* beginning on page [ ].

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**Unaudited Pro Forma Condensed Combined Statement of Earnings**

**For the Year Ended December 31, 2008**
**(In millions, except per share data)**

| | FIS | Metavante | Pro Forma Adjustments | | Pro Forma Combined |
|---|---|---|---|---|---|
| Processing and services revenues | $ 3,446.0 | $ 1,707.2 | $ (81.1) | (f)(m) | $ 5,072.1 |
| Cost of revenues | 2,636.9 | 1,118.5 | 50.0 | (m)(n)(q) | 3,805.4 |
| Gross profit | 809.1 | 588.7 | (131.1) | | 1,266.7 |
| Selling, general and administrative expenses | 389.4 | 251.1 | (27.2) | (o) | 613.3 |
| Research and development costs | 84.8 | | 51.3 | (q) | 136.1 |
| Operating income | 334.9 | 337.6 | (155.2) | | 517.3 |
| Other income, (expense): | | | | | |
| Interest and other income (expense), net | 7.8 | (0.9) | | | 6.9 |
| Interest expense | (163.5) | (106.0) | (7.9) | (h) | (277.4) |
| Total other income (expense) | (155.7) | (106.9) | (7.9) | | (270.5) |
| Earnings before income taxes, equity in earnings of unconsolidated entities, and minority interest | 179.2 | 230.7 | (163.1) | | 246.8 |
| Provision for income tax | 57.6 | 83.3 | (58.9) | (p) | 82.0 |
| Earnings before equity in earnings of unconsolidated entities, and minority interest | 121.6 | 147.4 | (104.2) | | 164.8 |
| Equity in earnings of unconsolidated entities | (0.2) | | | | (0.2) |
| Minority interest | (4.0) | | | | (4.0) |
| Net earnings from continuing operations | $ 117.4 | $ 147.4 | $ (104.2) | | $ 160.6 |
| Net earnings per share basic from continuing operations | $ 0.61 | $ 1.24 | $ | | $ 0.44 |
| Weighted average shares outstanding basic | 191.6 | 119.1 | 57.9 | (r) | 368.6 |
| Net earnings per share diluted from continuing operations | $ 0.61 | $ 1.23 | $ | | $ 0.43 |
| | 193.5 | 119.9 | 63.7 | (r) | 377.1 |

Weighted average shares outstanding
diluted

See the accompanying notes to the unaudited pro forma condensed combined financial statements, which are an integral part of these statements. The pro forma adjustments are explained in *Note 6. Pro Forma Adjustments* beginning on page [ ].

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## NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

### 1. Description of Transaction

*Merger Agreement*

On March 31, 2009, FIS and Metavante entered into the merger agreement, pursuant to which Metavante will be merged with and into a wholly owned subsidiary of FIS.

Subject to the terms and conditions of the merger agreement, which has been approved by the boards of directors of both FIS and Metavante, if the merger is completed, each share of Metavante common stock will be converted into the right to receive 1.35 (the Exchange Ratio ) shares of FIS common stock. In addition, as of the consummation of the merger, outstanding Metavante stock options and other stock-based awards (other than performance shares) will be converted into stock options and other stock-based awards with respect to shares of FIS common stock, with adjustments in the number of shares and exercise price (in the case of stock options) to reflect the Exchange Ratio. Each outstanding Metavante performance share will be assumed by FIS and converted into the right to receive restricted shares of FIS common stock (with adjustments to reflect the Exchange Ratio) and an amount in cash.

The merger agreement contains certain termination rights for FIS and Metavante, including the right, subject to certain conditions, to terminate the merger agreement if the merger is not completed by December 31, 2009. The merger agreement further provides that, upon termination of the merger agreement under specified circumstances (including a termination by either party in order to enter into a definitive agreement with respect to an alternative transaction that the board of directors of such party has determined to be a superior proposal, subject to compliance with certain conditions), either Metavante or FIS would be required to pay the other party a termination fee of $175 million.

Consummation of the merger is subject to certain customary conditions, including, among others, the approval of the merger by the shareholders of Metavante, the approval of the issuance of FIS common stock in connection with the merger by the shareholders of FIS, the receipt of required governmental and regulatory approvals and expiration of applicable waiting periods, the accuracy of the representations and warranties of the other party (generally subject to a material adverse effect standard), material compliance by the other party with its obligations under the merger agreement, the delivery of tax opinions as to the tax treatment of the merger, and the receipt of certain tax opinions regarding the impact of the merger on the tax treatment of certain past transactions. The merger is expected to be completed during the third quarter of 2009.

*Investment Agreement*

On March 31, 2009, FIS entered into an investment agreement with THL and FNF, pursuant to which, subject to the terms and conditions of the investment agreement, FIS will issue and sell (a) to THL in a private placement 12,861,736 shares of FIS common stock for an aggregate purchase price of approximately $200 million and (b) to FNF in a private placement 3,215,434 shares of FIS common stock for an aggregate purchase price of approximately $50 million. Pursuant to the terms of the investment agreement, FIS will pay each of THL and FNF a transaction fee equal to 3% of their respective investments. The effect of the investments has been included in the pro forma condensed combined financial information. (See entries (i), (k) and (r) in Note 6, *Pro Forma Adjustments*).

The investment agreement contains (a) customary representations and warranties of FIS, THL and FNF; (b) covenants of FIS to conduct its businesses in the ordinary course until the completion of the investments; and (c) covenants of FIS not to take certain actions during such period. Consummation of the investments is subject to certain conditions, including, among others, approval of the shareholders of FIS of the issuance of shares of common stock to each of

THL and FNF and the consummation of the merger.

Following the completion of the investments, pursuant to the terms of the investment agreement and contingent upon THL maintaining certain ownership levels in FIS common stock, THL will have the right to designate one member to the Company s board of directors. The investment agreement also provides that neither THL nor

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FNF may transfer the shares purchased in the investments, subject to limited exceptions, for 180 days after the closing, and after such time provides THL and FNF with certain registration rights.

## 2. Basis of Presentation

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting and was based on the historical financial statements of FIS and Metavante. Certain reclassifications have been made to the historical financial statements of Metavante to conform with FIS presentation, primarily related to the presentation of restricted funds, EFD processing receivables, unbilled revenues and research and development costs.

The acquisition method of accounting is based on Statement of Financial Accounting Standard (SFAS) No. 141(R), *Business Combinations*, ( SFAS 141(R) ) which FIS adopted on January 1, 2009 and uses the fair value concepts defined in SFAS No. 157, *Fair Value Measurements*, ( SFAS 157 ) which FIS has adopted as required. The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting, under these existing U.S. GAAP standards, which are subject to change and interpretation.

SFAS 141(R) requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. In addition, SFAS 141(R) establishes that the consideration transferred be measured at the closing date of the merger at the then-current market price; this particular requirement will likely result in a per share equity component that is different from the amount assumed in these unaudited pro forma condensed combined financial statements.

SFAS 157 defines the term fair value and sets forth the valuation requirements for any asset or liability measured at fair value, expands related disclosure requirements and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined in SFAS 157 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This is an exit price concept for the valuation of the asset or liability. In addition, market participants are assumed to be buyers and sellers in the principal (or the most advantageous) market for the asset or liability. Fair value measurements for an asset assume the highest and best use by these market participants. As a result of these standards, FIS may be required to record assets which are not intended to be used or sold and/or to value assets at fair value measures that do not reflect FIS intended use of those assets. Many of these fair value measurements can be highly subjective and it is also possible that others applying reasonable judgment to the same facts and circumstances could develop and support a range of alternative estimated amounts.

Under the acquisition method of accounting, the assets acquired and liabilities assumed will be recorded as of the completion of the merger, at their respective fair values and added to those of FIS. Financial statements and reported results of operations of FIS issued after completion of the merger will reflect these values, but will not be retroactively restated to reflect the historical financial position or results of operations of Metavante.

Under SFAS 141(R), acquisition-related transaction costs (*i.e.*, advisory, legal, valuation, other professional fees) and certain acquisition-related restructuring charges impacting the target company are not included as a component of consideration transferred but are accounted for as expenses in the periods in which the costs are incurred. Total acquisition-related transaction costs expected to be incurred by FIS are estimated to be approximately $70 million and are reflected in these unaudited pro forma condensed combined financial statements as a reduction to cash and retained earnings, net of the estimated tax effect of $13.3 million at a statutory rate of 38.5% applied to deductible amounts. The unaudited pro forma condensed combined financial statements do not reflect any acquisition-related restructuring charges to be incurred in connection with the merger but these charges are expected to be in the range of $85 to $100 million. These costs will be expensed as incurred.

In connection with the merger, the vesting of certain stock-based awards granted under one of the existing FIS stock award plans will accelerate under the change in control provisions relating to those grants. The charge to

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compensation expense that will be recorded upon the consummation of the merger relating to those grants is approximately $25.0 million if measured based on a July 1, 2009 closing date. This amount is included in the total estimated restructuring charges indicated above.

### 3. Accounting Policies

Upon consummation of the merger, FIS will review Metavante s accounting policies. As a result of that review, it may become necessary to harmonize the combined entity s financial statements to conform to those accounting policies that are determined to be more appropriate for the combined entity. The unaudited pro forma condensed combined financial statements do not assume any differences in accounting policies.

### 4. Estimate of Consideration Expected to be Transferred

The following is a preliminary estimate of consideration expected to be transferred to effect the acquisition of Metavante:

| | Conversion Calculation | Estimated Fair Value | Form of Consideration |
|---|---|---|---|
| | (In millions, except per share amounts) | | |
| Number of shares of Metavante common stock outstanding as of December 31, 2008 | 119.2 | | |
| Multiplied by an assumed FIS stock price of $19.00, multiplied by the exchange ratio of 1.35 ($19.00 * 1.35) | $ 25.65 | $ 3,056.6 | FIS common stock |
| Number of shares of Metavante stock options vested as of December 31, 2008 expected to be canceled and exchanged for FIS options | 7.9 | | |
| Multiplied by exchange ratio of 1.35 multiplied by estimated fair value of $6.10 ($6.10 * 1.35) | $ 8.23 | 65.2 | FIS stock options |
| Estimate of consideration expected to be transferred (a) | | $ 3,121.8 | |

(a) The estimated consideration expected to be transferred reflected in these unaudited pro forma condensed combined financial statements does not purport to represent what the actual consideration transferred will be when the merger is consummated. In accordance with SFAS 141(R), the fair value of equity securities issued as part of the consideration transferred will be measured on the closing date of the merger at the then-current market price. This requirement will likely result in a per share equity component different from the $19.00 assumed in these unaudited pro forma condensed combined financial statements and that difference may be material. For example, a 10% change in the estimated consideration transferred would be an increase or decrease of approximately $312 million. FIS stock has traded within a range of $19.00 plus or minus 10% since the announcement of the merger agreement.

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## 5. Estimate of Assets to be Acquired and Liabilities to be Assumed

The following is a preliminary estimate of the assets to be acquired and the liabilities to be assumed by FIS in the merger, reconciled to the estimate of consideration expected to be transferred:

| | | (In millions) |
|---|---|---|
| assets acquired at 3 | $ | 361.0 |
| sting goodwill, nd deferred | | (1,612.9) |
| ue of net assets | $ | (1,251.9) |
| ble assets (I) | | 624.4 |
| ssets | | (53.2) |
| | | 71.2 |
| axes (II) | | (143.3) |
| | | 24.0 |
| ontingencies (III) | | |
| | | 3,850.6 |

&nbsf;padding-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;">

| | | | |
|---|---|---|---|
| | | (245 ) | 10 |
| urities | 1,166,754 | 2,967 | (66 |
| other | 574,904 | — | — |
| es | 36,442 | 15 | (18 |
| | 2,805,508 | 3,758 | (1, |
| s[1] | 19,942 | — | — |
| ents | 670,591 | — | — |
| ies | $2,154,859 | $3,758 | $( |

| As of June 30, 2013 (In thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| U.S. Treasury securities | $93,940 | $53 | $(206 ) | $93,787 |
| U.S. Government agency securities | 598,471 | 569 | (1,009 ) | 598,031 |
| Municipal securities | 103,686 | 71 | (302 ) | 103,455 |
| Corporate debt securities | 1,103,438 | 2,353 | (2,466 ) | 1,103,325 |
| Money market and other | 817,608 | — | — | 817,608 |
| Sovereign securities | 33,799 | 25 | (19 ) | 33,805 |
| Subtotal | 2,750,942 | 3,071 | (4,002 ) | 2,750,011 |
| Add: Time deposits[1] | 43,413 | — | — | 43,413 |
| Less: Cash equivalents | 859,933 | — | — | 859,933 |
| Marketable securities | $1,934,422 | $3,071 | $(4,002 ) | $1,933,491 |

(1) Time deposits excluded from fair value measurements.

KLA-Tencor's investment portfolio consists of both corporate and government securities that have a maximum maturity of three years. The longer the duration of these securities, the more susceptible they are to changes in market interest rates and bond yields. As yields increase, those securities with a lower yield-at-cost show a mark-to-market unrealized loss. All unrealized losses are due to changes in market interest rates, bond yields and/or credit ratings. The Company has the ability to realize the full value of all of these investments upon maturity. The following table summarizes the fair value and gross unrealized losses of the Company's investments that were in an unrealized loss position as of the date indicated below:

| As of December 31, 2013 (In thousands) | Fair Value | Gross Unrealized Losses[(1)] |
| --- | --- | --- |
| U.S. Treasury securities | $68,423 | $(111) |
| U.S. Government agency securities | 249,078 | (295) |
| Municipal securities | 55,784 | (245) |
| Corporate debt securities | 310,332 | (669) |
| Sovereign securities | 21,238 | (18) |
| Total | $704,855 | $(1,338) |

(1) Of the total gross unrealized losses, the amount of total gross unrealized losses related to investments that had been in a continuous loss position for 12 months or more was immaterial.

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The contractual maturities of securities classified as available-for-sale, regardless of their classification on the Company's Condensed Consolidated Balance Sheet, as of the date indicated below were as follows:

| As of December 31, 2013 (In thousands) | Amortized Cost | Fair Value |
|---|---|---|
| Due within one year | $532,278 | $533,124 |
| Due after one year through three years | 1,622,581 | 1,624,155 |
| | $2,154,859 | $2,157,279 |

Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Realized gains on available-for-sale securities for the three months ended December 31, 2013 and December 31, 2012 were $1.2 million and $1.1 million, respectively. Realized gains on available-for-sale securities for the six months ended December 31, 2013 and December 31, 2012 were $1.5 million and $1.4 million, respectively. Realized losses on available-for-sale securities for the three and six months ended December 31, 2013 and December 31, 2012 were immaterial.

NOTE 5 – GOODWILL AND PURCHASED INTANGIBLE ASSETS

Goodwill

The following table presents goodwill balances as of the dates indicated below:

| (In thousands) | As of December 31, 2013 | As of June 30, 2013 |
|---|---|---|
| Gross goodwill balance | $604,148 | $604,205 |
| Accumulated impairment losses | (277,570) | (277,570) |
| Net goodwill balance | $326,578 | $326,635 |

The changes in the gross goodwill balance since June 30, 2013 resulted 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 acquired in each business combination.

The Company has four reporting units: Defect Inspection, Metrology, Service and Other. As of December 31, 2013, substantially all of the goodwill balance resided in the Defect Inspection reporting unit.

The fair value of each of the Company's reporting units was substantially in excess of its estimated carrying amount as of the most recent quantitative analysis of goodwill impairment performed in the three months ended December 31, 2010. There have been no triggering events or changes in circumstances since that quantitative analysis to indicate that the fair value of any of the Company's reporting units would be less than its carrying amount.

The Company performed a qualitative assessment of the goodwill by reporting unit as of November 30, 2013 during the three months ended December 31, 2013 and concluded that it was more likely than not that the fair value of each of the reporting units exceeded its carrying amount. As a result of the Company's determination following its qualitative assessment, it was not necessary to perform the two-step quantitative goodwill impairment test at this time. In assessing the qualitative factors, the Company considered the impact of these key factors: change in industry and competitive environment, market capitalization, stock price, earnings multiples, budgeted-to-actual revenue performance from prior year, gross margin and cash flow from operating activities.

Based on the Company's assessment, goodwill in the reporting units was not impaired as of December 31, 2013 or 2012.

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Purchased Intangible Assets

The components of purchased intangible assets as of the dates indicated below were as follows:

| (In thousands) | | As of December 31, 2013 | | | As of June 30, 2013 | | |
|---|---|---|---|---|---|---|---|
| Category | Range of Useful Lives | Gross Carrying Amount | Accumulated Amortization and Impairment | Net Amount | Gross Carrying Amount | Accumulated Amortization and Impairment | Net Amount |
| Existing technology | 4-7 years | $133,659 | $122,848 | $10,811 | $133,659 | $119,106 | $14,553 |
| Patents | 6-13 years | 57,648 | 52,740 | 4,908 | 57,648 | 51,068 | 6,580 |
| Trade name/Trademark | 4-10 years | 19,893 | 16,677 | 3,216 | 19,893 | 15,928 | 3,965 |
| Customer relationships | 6-7 years | 54,680 | 47,517 | 7,163 | 54,680 | 45,263 | 9,417 |
| Other | 0-1 year | 16,200 | 16,200 | — | 16,200 | 16,200 | — |
| Total | | $282,080 | $255,982 | $26,098 | $282,080 | $247,565 | $34,515 |

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable.

For the three months ended December 31, 2013 and 2012, amortization expense for intangible assets was $3.9 million and $4.6 million, respectively. For the six months ended December 31, 2013 and 2012, amortization expense for intangible assets was $8.4 million and $11.8 million, respectively. Based on the intangible assets recorded as of December 31, 2013, and assuming no subsequent additions to, or impairment of, the underlying assets, the remaining estimated amortization expense is expected to be as follows:

| Fiscal year ending June 30: | Amortization (In thousands) |
|---|---|
| 2014 (remaining 6 months) | $6,950 |
| 2015 | 12,752 |
| 2016 | 5,564 |
| 2017 | 806 |
| 2018 | 26 |
| Total | $26,098 |

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 2018 with an effective interest rate of 7.00%. The discount on the debt amounted to $5.4 million and is being amortized over the life of the debt using the straight-line method as opposed to the interest method due to immateriality. Interest is payable semi-annually on November 1 and May 1. The debt indenture includes covenants that limit the Company's ability to grant liens on its facilities and to enter into sale and leaseback transactions, subject to significant allowances under which certain sale and leaseback transactions are not restricted. The Company was in compliance with all of its covenants as of December 31, 2013.

In certain circumstances involving a change of control followed by a downgrade of the rating of the Company's senior notes, the Company will be required to make an offer to repurchase the senior notes at a purchase price equal to 101% of the aggregate principal amount of the notes, plus accrued and unpaid interest. The Company's ability to repurchase the senior notes in such event may be limited by law, by the indenture associated with the senior notes, by the Company's then-available financial resources or by the terms of other agreements to which the Company may be party at such time. If the Company fails to repurchase the senior notes as required by the indenture, it would constitute an event of default under the indenture governing the senior notes which, in turn, may also constitute an event of default under other obligations.

Based on the trading prices of the debt on the applicable dates, the fair value of the debt as of December 31, 2013 and June 30, 2013 was $874.9 million and $872.3 million, respectively. While the debt is recorded at cost, the fair value of the long-term debt was determined based on quoted prices in markets that are not active; accordingly, the long-term debt is categorized as Level 2 for purposes of the fair value measurement hierarchy.

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NOTE 7 – EQUITY AND LONG-TERM INCENTIVE COMPENSATION PLANS

Equity Incentive Program

Under the Company’s current equity incentive program, the Company issues equity awards from its 2004 Equity Incentive Plan (the “2004 Plan”), which provides for the grant of options to purchase shares of its common stock, stock appreciation rights, restricted stock units, performance shares, performance units and deferred stock units to its employees, consultants and members of its Board of Directors. The 2004 Plan currently permits the issuance of up to 34.9 million shares of common stock, including 2.9 million additional shares approved by the Company's stockholders on November 6, 2013. Any 2004 Plan awards of restricted stock units, performance shares, performance units or deferred stock units with a per share or unit purchase price lower than 100% of fair market value on the grant date are counted against the total number of shares issuable under the 2004 Plan as follows, based on the grant date of the applicable award: (a) for any such awards granted before November 6, 2013, the awards counted against the 2004 Plan share reserve as 1.8 shares for every one share subject thereto; and (b) for any such awards granted on or after November 6, 2013, the awards count against the 2004 Plan share reserve as 2.0 shares for every one share subject thereto.

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

| (In thousands) | Available For Grant |
|---|---|
| Balances as of June 30, 2013[1] | 6,696 |
| Plan shares increased | 2,900 |
| Restricted stock units granted[2][3] | (1,259) |
| Restricted stock units canceled[2] | 221 |
| Options canceled/expired/forfeited | 44 |
| Plan shares expired[4] | (35) |
| Balances as of December 31, 2013[1] | 8,567 |

(1) Includes shares available for issuance under the 2004 Plan, as well as under the Company’s 1998 Outside Director Option Plan (the “Outside Director Plan”), which only permits the issuance of stock options to the Company’s non-employee members of the Board of Directors. As of December 31, 2013, 1.7 million shares were available for grant under the Outside Director Plan.

(2) The number of restricted stock units provided in this row reflects the application of the full value award multiplier described above (1.8x or 2.0x depending on the grant date of the applicable award).

(3) Includes 0.3 million (reflected as 0.6 million shares in this table due to the application of the 1.8x multiple described above, as all of these awards were granted before November 6, 2013) restricted stock units granted to senior management during the six months ended December 31, 2013 with performance-based vesting criteria (in addition to service-based vesting criteria for any of such restricted stock units that are deemed to have been earned). As of December 31, 2013, it had not yet been determined the extent to which (if at all) the performance-based vesting criteria of such restricted stock units had been satisfied. Therefore, this line item includes all such performance-based restricted stock units granted during the six months ended December 31, 2013, reported at the maximum possible number of shares that may ultimately be issuable under such restricted stock units if all applicable performance-based criteria are achieved at their maximum and all applicable service-based criteria are fully satisfied.

(4) Represents the portion of shares listed as “Options canceled/expired/forfeited” above that were issued under the Company’s equity incentive plans other than the 2004 Plan or the Outside Director Plan. Because the Company is only currently authorized to issue equity awards under the 2004 Plan and the Outside Director Plan, any equity awards that are canceled, expire or are forfeited under any other Company equity incentive plans do not result in additional shares being available to the Company for future grant.

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Except for stock options granted to non-employee Board members as part of their regular compensation package for service through the end of the first quarter of fiscal year 2008, the Company has granted only restricted stock units under its equity incentive program since September 2006. For the preceding several years until September 30, 2006, stock options were granted at the market price of the Company's common stock on the date of grant (except for the previously disclosed retroactively priced options which were granted primarily prior to the fiscal year ended June 30, 2002), generally with a vesting period of five years and an exercise period not to exceed seven years (ten years for options granted prior to July 1, 2005) from the date of issuance. Restricted stock units may be granted with varying criteria such as service-based and/or performance-based vesting.

The fair value of stock-based awards is measured at the grant date and is recognized as an expense over the employee's requisite service period. The fair value is determined using a Black-Scholes valuation model for purchase rights under the Company's Employee Stock Purchase Plan and using the closing price of the Company's common stock on the grant date for restricted stock units, adjusted to exclude the present value of dividends which do not accrue on restricted stock units granted by the Company to date. In November 2013, the Company's stockholders approved amendments to the 2004 Plan that included, among other things, giving the plan administrator the ability to grant "dividend equivalent" rights in connection with awards of restricted stock units, performance shares, performance units and deferred stock units, which represent the right to receive accrued dividends on such awards once the underlying awards vest. As of December 31, 2013, the Company had not granted dividend equivalent rights in connection with any such awards.

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

| (In thousands) | Three months ended December 31, 2013 | 2012 | Six months ended December 31, 2013 | 2012 |
|---|---|---|---|---|
| Stock-based compensation expense by: | | | | |
| Costs of revenues | $2,321 | $2,624 | $5,498 | $5,899 |
| Engineering, research and development | 3,877 | 4,270 | 9,285 | 9,733 |
| Selling, general and administrative | 8,672 | 8,064 | 19,306 | 18,310 |
| Total stock-based compensation expense | $14,870 | $14,958 | $34,089 | $33,942 |

The following table shows stock-based compensation capitalized as inventory as of the dates indicated below:

| (In thousands) | As of December 31, 2013 | As of June 30, 2013 |
|---|---|---|
| Inventory | $8,338 | $8,098 |

Stock Options

The following table summarizes the activity and weighted-average exercise price for stock options under all plans during the six months ended December 31, 2013:

| Stock Options | Shares (In thousands) | Weighted-Average Exercise Price |
|---|---|---|
| Outstanding stock options as of June 30, 2013 | 1,663 | $ 48.97 |
| Granted | — | $ — |
| Exercised | (1,147 ) | $ 50.94 |
| Canceled/expired/forfeited | (44 ) | $ 51.76 |
| Outstanding stock options as of December 31, 2013 (all outstanding and all vested and exercisable) | 472 | $ 43.94 |

The Company has not issued any stock options since November 1, 2007. The weighted-average remaining contractual terms for total options outstanding under all plans, and for total options vested and exercisable under all plans, as of December 31, 2013 were each 0.6 years. The aggregate intrinsic values for total options outstanding under all plans, and for total options vested and exercisable under all plans, as of December 31, 2013 were each $9.7 million.

The authoritative guidance on stock-based compensation permits companies to select the option-pricing model used to estimate the fair value of their stock-based compensation awards. The Black-Scholes option-pricing model requires the input of assumptions, including the option's expected term and the expected price volatility of the underlying stock. For purposes of the fair value estimates presented in this report, the Company has based its expected stock price volatility assumption on the market-based implied volatility from traded options of the Company's common stock. As of December 31, 2013, the Company had no unrecognized stock-based compensation balance related to stock options.
The following table shows the total intrinsic value of options exercised, total cash received from employees and non-employee Board members as a result of stock option exercises and tax benefits realized by the Company in connection with these stock option exercises for the indicated periods:

| | Three months ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| (In thousands) | 2013 | 2012 | 2013 | 2012 |
| Total intrinsic value of options exercised | $3,431 | $847 | $11,314 | $4,774 |
| Total cash received from employees and non-employee Board members as a result of stock option exercises | $15,684 | $3,467 | $56,731 | $26,718 |
| Tax benefits realized by the Company in connection with these exercises | $1,061 | $285 | $3,678 | $1,579 |

The Company generally settles employee stock option exercises with newly issued common shares, except in certain tax jurisdictions where settling such exercises with treasury shares provides the Company or one of its subsidiaries with a tax benefit.
Restricted Stock Units
The following table shows the applicable number of restricted stock units and weighted-average grant date fair value for restricted stock units granted, vested and released, withheld for taxes, and forfeited during the six months ended December 31, 2013 and restricted stock units outstanding as of December 31, 2013 and June 30, 2013:

| Restricted Stock Units | Shares (In thousands) [1] | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Outstanding restricted stock units as of June 30, 2013[2] | 5,374 | $ 34.39 |
| Granted[3] | 698 | $ 53.27 |
| Vested and released | (1,508) | $ 32.60 |
| Withheld for taxes | (827) | $ 32.60 |
| Forfeited | (124) | $ 35.23 |
| Outstanding restricted stock units as of December 31, 2013[2] [3] | 3,613 | $ 39.17 |

(1) Share numbers reflect actual shares subject to awarded restricted stock units. As described above, under the terms of the 2004 Plan, the number of shares subject to each award reflected in this number is multiplied by either 1.8 or 2.0 (depending on the grant date of the award) to calculate the impact of the award on the share reserve under the 2004 Plan.

(2) Includes 0.3 million restricted stock units granted to senior management during the six months ended December 31, 2012 with performance-based vesting criteria (in addition to service-based vesting criteria for any of such restricted stock units that are deemed to have been earned). As of December 31, 2013, it had not yet been determined the extent to which (if at all) the performance-based vesting criteria of such restricted stock units had been satisfied. Therefore, this line item includes all such performance-based restricted stock units, reported at the maximum possible number of shares that may ultimately be issuable under such restricted stock units if all applicable performance-based criteria are achieved at their maximum and all applicable service-based criteria are fully satisfied.

(3) Includes 0.3 million restricted stock units granted to senior management during the six months ended December 31, 2013 with performance-based vesting criteria (in addition to service-based vesting criteria for any of such restricted stock units that are deemed to have been earned). As of December 31, 2013, it had not yet been

determined the extent to which (if at all) the performance-based vesting criteria of such restricted stock units had been satisfied. Therefore, this line item includes all such performance-based restricted stock units, reported at the maximum possible number of shares that may ultimately be issuable under such restricted stock units if all applicable performance-based criteria are achieved at their maximum and all applicable service-based criteria are fully satisfied.

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The restricted stock units granted by the Company since the beginning of the fiscal year ended June 30, 2013 generally vest (a) with respect to awards with only service-based vesting criteria, in four equal installments on the first, second, third and fourth anniversaries of the grant date and (b) with respect to awards with both performance-based and service-based vesting criteria, in two equal installments on the third and fourth anniversaries of the grant date, in each case subject to the recipient remaining employed by the Company as of the applicable vesting date. The restricted stock units granted by the Company from the beginning of the fiscal year ended June 30, 2007 through the fiscal year ended June 30, 2012 generally vest in two equal installments on the second and fourth anniversaries of the grant date, subject to the recipient remaining employed by the Company as of the applicable vesting date. The fair value is determined using the closing price of the Company’s common stock on the grant date for restricted stock units, adjusted to exclude the present value of dividends which do not accrue on restricted stock units granted by the Company to date. In November 2013, the Company's stockholders approved amendments to the 2004 Plan that included, among other things, giving the plan administrator the ability to grant "dividend equivalent" rights in connection with awards of restricted stock units, performance shares, performance units and deferred stock units, which represent the right to receive accrued dividends on such awards once the underlying awards vest. As of December 31, 2013, the Company had not granted dividend equivalent rights in connection with any such awards. The restricted stock units have been awarded under the 2004 Plan, and each unit will entitle the recipient to one share of common stock when the applicable vesting requirements for that unit are satisfied. However, for each share actually issued under the awarded restricted stock units, the share reserve under the 2004 Plan will be reduced by 1.8 shares (for awards granted before November 6, 2013) or 2.0 shares (for awards granted on or after November 6, 2013), as provided under the terms of the 2004 Plan.

The following table shows the weighted-average grant date fair value per unit for the restricted stock units granted and tax benefits realized by the Company in connection with vested and released restricted stock units for the indicated periods:

| | Three months ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| (In thousands, except for weighted-average grant date fair value) | 2013 | 2012 | 2013 | 2012 |
| Weighted-average grant date fair value per unit | $62.85 | $41.85 | $53.27 | $46.41 |
| Tax benefits realized by the Company in connection with vested and released restricted stock units | $1,485 | $10,153 | $42,091 | $28,024 |

As of December 31, 2013, the unrecognized stock-based compensation expense balance related to restricted stock units was $103.2 million, excluding the impact of estimated forfeitures, and will be recognized over a weighted-average remaining contractual term and an estimated weighted-average amortization period of 1.6 years. The intrinsic value of outstanding restricted stock units as of December 31, 2013 was $232.9 million.

Cash-Based Long-Term Incentive Compensation

Starting in fiscal year 2013, the Company adopted a cash-based long-term incentive program for many of its employees as part of the Company's employee compensation program. During the six months ended December 31, 2013, the Company approved cash-based long-term incentive (“Cash LTI”) awards of $63.4 million under the Company's Cash Long-Term Incentive Plan (“Cash LTI Plan”). Cash LTI awards issued to employees under the Cash LTI Plan will vest in four equal installments, with 25% of the aggregate amount of the Cash LTI award vesting on each yearly anniversary of the grant date over a four-year period. In order to receive payments under a Cash LTI award, participants must remain employed by the Company as of the applicable award vesting date. Executives and non-employee Board members are not participating in this program. During the three months ended December 31, 2013 and 2012, the Company recognized $7.3 million and $3.5 million, respectively, in compensation expense under the Cash LTI Plan. During the six months ended December 31, 2013 and 2012, the Company recognized $11.4 million and $3.5 million, respectively, in compensation expense under the Cash LTI Plan. As of December 31, 2013, the unrecognized compensation balance related to the Cash LTI Plan was $101.0 million, excluding the impact of estimated forfeitures.

Employee Stock Purchase Plan

KLA-Tencor's Employee Stock Purchase Plan ("ESPP") provides that eligible employees may contribute up to 10% of their eligible earnings toward the semi-annual purchase of KLA-Tencor's common stock. The ESPP is qualified under Section 423 of the Internal Revenue Code. The employee's purchase price is derived from a formula based on the closing price of the common stock on the first day of the offering period versus the closing price on the date of purchase (or, if not a trading day, on the immediately preceding trading day).

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Effective January 1, 2010, the offering period (or length of the look-back period) under the ESPP has a duration of six months, and the purchase price with respect to each offering period beginning on or after such date is, until otherwise amended, equal to 85% of the lesser of (i) the fair market value of the Company's common stock at the commencement of the applicable six-month offering period or (ii) the fair market value of the Company's common stock on the purchase date.

The Company estimates the fair value of purchase rights under the ESPP using a Black-Scholes valuation model. The fair value of each purchase right under the ESPP was estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach with the following weighted-average assumptions:

| | Three months ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Stock purchase plan: | | | | |
| Expected stock price volatility | 29.1 % | 30.2 % | 29.1 % | 30.2 % |
| Risk-free interest rate | 0.1 % | 0.1 % | 0.1 % | 0.1 % |
| Dividend yield | 2.9 % | 3.3 % | 2.9 % | 3.3 % |
| Expected life of options (in years) | 0.5 | 0.5 | 0.5 | 0.5 |

The following table shows total cash received from employees for the issuance of shares under the ESPP, the number of shares purchased by employees through the ESPP, the tax benefits realized by the Company in connection with the disqualifying dispositions of shares purchased under the ESPP and the weighted-average fair value per share for the indicated periods:

| (In thousands, except for weighted-average fair value per share) | Three months ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Total cash received from employees for the issuance of shares under the ESPP | $22,035 | $20,139 | $22,035 | $20,139 |
| Number of shares purchased by employees through the ESPP | 469 | 496 | 469 | 496 |
| Tax benefits realized by the Company in connection with the disqualifying dispositions of shares purchased under the ESPP | $87 | $68 | $873 | $674 |
| Weighted-average fair value per share based on Black-Scholes model | $11.80 | $10.54 | $11.80 | $10.54 |

The ESPP shares are replenished annually on the first day of each fiscal year by virtue of an evergreen provision. The provision allows for share replenishment equal to the lesser of 2.0 million shares or the number of shares which KLA-Tencor estimates will be required to be issued under the ESPP during the forthcoming fiscal year. As of December 31, 2013, after giving effect to the ESPP purchase that occurred on such date, a total of 1.2 million shares were reserved and available for issuance under the ESPP. As of the date of this report, no additional shares have been added to the ESPP with respect to the fiscal year ending June 30, 2014.

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 80.8 million shares of its common stock under a repurchase program, including 8.0 million shares authorized in November 2012. The intent of this program is to offset the dilution from KLA-Tencor's equity incentive plans and employee stock purchase plan, as well as to return excess cash to the Company's stockholders. Subject to market conditions, applicable legal requirements and other factors, the repurchases will be made from time to time in the open market in compliance with applicable securities laws, including the Securities Exchange Act of 1934 and the rules promulgated thereunder, such as Rule 10b-18. As of December 31, 2013, 3.9 million shares were available for repurchase under the Company's repurchase program.

Share repurchases for the indicated periods (based on the settlement date of the applicable repurchase) were as follows:

| | Three months ended December 31, | Six months ended December 31, |
|---|---|---|

| (In thousands) | 2013 | 2012 | 2013 | 2012 |
|---|---|---|---|---|
| Number of shares of common stock repurchased | 959 | 1,465 | 1,997 | 2,826 |
| Total cost of repurchases | $60,302 | $68,283 | $120,806 | $136,600 |

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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 number of common shares outstanding during the period. Diluted net income per share is calculated by using the weighted-average number of common shares outstanding during the period, increased to include the number of additional shares of common stock that would have been outstanding if the shares of common stock underlying the Company's outstanding dilutive stock options and restricted stock units had been issued. The dilutive effect of outstanding options and restricted stock units is reflected in diluted net income per share by application of the treasury stock method. Under the treasury stock method, the amount the employee must pay for exercising stock options, the amount of compensation cost for future service that the Company has not yet recognized, and the amount of tax benefits that is to be recorded in additional paid-in capital when the award becomes deductible are assumed to be used to repurchase shares. The following table sets forth the computation of basic and diluted net income per share:

| (In thousands, except per share amounts) | Three months ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Numerator: | | | | |
| Net income | $139,246 | $106,630 | $250,443 | $241,997 |
| Denominator: | | | | |
| Weighted-average shares-basic, excluding unvested restricted stock units | 166,414 | 166,268 | 166,150 | 166,632 |
| Effect of dilutive options and restricted stock units | 1,792 | 2,808 | 2,328 | 3,070 |
| Weighted-average shares-diluted | 168,206 | 169,076 | 168,478 | 169,702 |
| Basic net income per share | $0.84 | $0.64 | $1.51 | $1.45 |
| Diluted net income per share | $0.83 | $0.63 | $1.49 | $1.43 |
| Anti-dilutive securities excluded from the computation of diluted net income per share | — | 1,618 | 200 | 1,830 |

The total amount of dividends paid by the Company during the three months ended December 31, 2013 and 2012 was $75.0 million and $66.5 million, respectively. The total amount of dividends paid by the Company during the six months ended December 31, 2013 and 2012 was $149.6 million and $133.2 million, respectively.

NOTE 10 – INCOME TAXES

The following table provides details of income taxes:

| (Dollar amounts in thousands) | Three months ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Income before income taxes | $176,745 | $144,874 | $316,609 | $321,416 |
| Provision for income taxes | $37,499 | $38,244 | $66,166 | $79,419 |
| Effective tax rate | 21.2 % | 26.4 % | 20.9 % | 24.7 % |

The Company's estimated annual effective tax rate for the fiscal year ending June 30, 2014 is approximately 21.4%. There is no material difference between the tax expense as a percentage of income during the three months ended December 31, 2013 and the estimated annual effective tax rate.

Tax expense was lower as a percentage of income before taxes during the three months ended December 31, 2013 compared to the three months ended December 31, 2012 primarily due to the impact of the following items:

- Tax expense was decreased by $4.7 million during the three months ended December 31, 2013 due to an increase in the proportion of the Company's earnings generated in jurisdictions with tax rates lower than the U.S. statutory tax rate;
- Tax expense was decreased by $1.7 million during the three months ended December 31, 2013 related to the U.S. federal research credit. The research credit was not available during the three months ended December 31, 2012, because the credit expired on December 31, 2011. On January 2, 2013, the American Taxpayer Relief Act of 2012 reinstated the research credit and extended the credit through December 31, 2013; and

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- Tax expense was decreased by $2.6 million during the three months ended December 31, 2013 related to a non-taxable increase in the value of the assets held within the Company's Executive Deferred Savings Plan.

Tax expense was lower as a percentage of income before taxes during the six months ended December 31, 2013 compared to the six months ended December 31, 2012 primarily due to the impact of the following items:

- Tax expense was decreased by $7.4 million during the six months ended December 31, 2013 due to an increase in the proportion of the Company's earnings generated in jurisdictions with tax rates lower than the U.S. statutory tax rate;
- Tax expense was decreased by $3.1 million during the six months ended December 31, 2013 related to the U.S. federal research credit. The research credit was not available during the six months ended December 31, 2012, because the credit expired on December 31, 2011. On January 2, 2013, the American Taxpayer Relief Act of 2012 reinstated the research credit and extended the credit through December 31, 2013; and
- Tax expense was decreased by $3.6 million during the six months ended December 31, 2013 related to a non-taxable increase in the value of the assets held within the Company's Executive Deferred Savings Plan.

In the normal course of business, the Company is subject to examination by tax authorities throughout the world. The Company is subject to U.S. federal income tax examination for all years beginning from the fiscal year ended June 30, 2010. The Company is subject to state income tax examinations for all years beginning from the fiscal year ended June 30, 2009. The Company is also subject to examinations in other major foreign jurisdictions, including Singapore, for all years beginning from the fiscal year ended June 30, 2009. It is possible that certain examinations may be concluded in the next twelve months. The Company believes it is possible that it may recognize up to $7.2 million of its existing unrecognized tax benefits within the next twelve months as a result of the lapse of statutes of limitations and the resolution of examinations with various tax authorities.

NOTE 11 – LITIGATION AND OTHER LEGAL MATTERS

The Company is named from time to time as a party to lawsuits and other types of legal proceedings and claims in the normal course of its business. Actions filed against the Company include commercial, intellectual property, customer, and labor and employment related claims, including complaints of alleged wrongful termination and potential class action lawsuits regarding alleged violations of federal and state wage and hour and other laws. In general, legal proceedings and claims regardless of their merit, and associated internal investigations (especially those relating to intellectual property or confidential information disputes) are often expensive to prosecute, defend or conduct and may divert management's attention and other company resources. Moreover, the results of legal proceedings are difficult to predict, and the costs incurred in litigation can be substantial, regardless of outcome. The Company believes the amounts provided in its condensed consolidated financial statements are adequate in light of the probable and estimated liabilities. However, because such matters are subject to many uncertainties, the ultimate outcomes are not predictable, and there can be no assurances that the actual amounts required to satisfy alleged liabilities from the matters described above will not exceed the amounts reflected in the Company's condensed consolidated financial statements or will not have a material adverse effect on its financial condition, results of operations, comprehensive income or cash flows.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Factoring. KLA-Tencor has agreements (referred to as “factoring agreements”) with financial institutions to sell certain of its trade receivables and promissory notes from customers without recourse. The Company does not believe it is at risk for any material losses as a result of these agreements. In addition, the Company periodically sells certain letters of credit (“LCs”), without recourse, received from customers in payment for goods.

The following table shows total receivables sold under factoring agreements for the indicated periods:

| | Three months ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| (In thousands) | 2013 | 2012 | 2013 | 2012 |
| Receivables sold under factoring agreements | $10,412 | $37,026 | $56,294 | $85,560 |

Factoring fees for the sale of certain trade receivables were recorded in interest income and other, net and were not material for the periods presented.

Facilities. KLA-Tencor leases certain of its facilities under arrangements that are accounted for as operating leases. Rent expense was $2.3 million and $2.4 million for the three months ended December 31, 2013 and 2012, respectively. Rent expense was $4.4 million and $4.6 million for the six months ended December 31, 2013 and 2012, respectively.

The following is a schedule of expected operating lease payments:

| Fiscal year ending June 30, | Amount (In thousands) |
|---|---|
| 2014 (remaining 6 months) | $4,093 |
| 2015 | 7,084 |
| 2016 | 5,667 |
| 2017 | 4,521 |
| 2018 | 3,261 |
| 2019 and thereafter | 3,070 |
| Total minimum lease payments | $27,696 |

Purchase Commitments. KLA-Tencor maintains certain open inventory purchase commitments with its suppliers to ensure a smooth and continuous supply for key components. The Company's liability under these purchase commitments is generally restricted to a forecasted time-horizon as mutually agreed upon between the parties. This forecasted time-horizon can vary among different suppliers. The Company's open inventory purchase commitments were approximately $262.9 million as of December 31, 2013 and are primarily due within the next 12 months. Actual expenditures will vary based upon the volume of the transactions and length of contractual service provided. In addition, the amounts paid under these arrangements may be less in the event that the arrangements are renegotiated or canceled. Certain agreements provide for potential cancellation penalties.

Cash Long-Term Incentive Plan. As of December 31, 2013, the Company had committed $108.7 million to future payment obligations under its Cash LTI Plan. The calculation of compensation expense related to the Cash LTI Plan includes estimated forfeiture rate assumptions. Cash LTI awards issued to employees under the Cash LTI Plan vest in four equal installments, with 25% of the aggregate amount of the Cash LTI award vesting on each yearly anniversary of the grant date over a four-year period. In order to receive payments under a Cash LTI award, participants must remain employed by the Company as of the applicable award vesting date.

Warranties, Guarantees and Contingencies. KLA-Tencor provides standard warranty coverage on its systems for 40 hours per week for 12 months, 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 costs of revenues when revenue is recognized. The estimated warranty cost is based on historical product performance and field expenses. Utilizing actual service records, the Company calculates the average service hours and parts expense per system and applies the actual labor and overhead rates to determine the estimated warranty charge. The Company updates these estimated charges on a quarterly basis. The actual product performance and/or field expense profiles may differ, and in those cases the Company adjusts its warranty accruals accordingly.

The following table provides the changes in the product warranty accrual for the indicated periods:

| | Three months ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| (In thousands) | 2013 | 2012 | 2013 | 2012 |
| Beginning balance | $37,314 | $46,192 | $42,603 | $46,496 |
| Accruals for warranties issued during the period | 15,988 | 9,862 | 25,296 | 20,508 |
| Changes in liability related to pre-existing warranties | (2,424) | (620) | (5,808) | 1,732 |
| Settlements made during the period | (9,279) | (13,516) | (20,492) | (26,818) |
| Ending balance | $41,599 | $41,918 | $41,599 | $41,918 |

The Company maintains guarantee arrangements available through various financial institutions for up to $26.5 million, of which $24.6 million had been issued as of December 31, 2013, primarily to fund guarantees to customs authorities for value-added tax ("VAT") and other operating requirements of the Company's subsidiaries in Europe and

Asia.

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KLA-Tencor is a party to a variety of agreements pursuant to which it may be obligated to indemnify the other party with respect to certain matters. Typically, these obligations arise in connection with contracts and license agreements or the sale of assets, under which the Company customarily agrees to hold the other party harmless against losses arising from, or provides customers with other remedies to protect against, bodily injury or damage to personal property caused by the Company's products, non-compliance with the Company's product performance specifications, infringement by the Company's products of third-party intellectual property rights and a breach of warranties, representations and covenants related to matters such as title to assets sold, validity of certain intellectual property rights, non-infringement of third-party rights, and certain income tax-related matters. In each of these circumstances, payment by the Company is typically subject to the other party making a claim to and cooperating with the Company pursuant to the procedures specified in the particular contract. This usually allows the Company to challenge the other party's claims or, in case of breach of intellectual property representations or covenants, to control the defense or settlement of any third-party claims brought against the other party. Further, the Company's obligations under these agreements may be limited in terms of amounts, activity (typically at the Company's option to replace or correct the products or terminate the agreement with a refund to the other party), and duration. In some instances, the Company may have recourse against third parties and/or insurance covering certain payments made by the Company.

Subject to certain limitations, the Company is obligated to indemnify its current and former directors, officers and employees with respect to certain litigation matters and investigations that arise in connection with their service to the Company. These obligations arise under the terms of the Company's certificate of incorporation, its bylaws, applicable contracts, and Delaware and California law. The obligation to indemnify generally means that the Company is required to pay or reimburse the individuals' reasonable legal expenses and possibly damages and other liabilities incurred in connection with these matters.

In addition, the Company may in limited circumstances enter into agreements that contain customer-specific pricing, discount, rebate or credit commitments offered by the Company. Furthermore, the Company may give these customers limited audit or inspection rights to enable them to confirm that the Company is complying with these commitments. If a customer elects to exercise its audit or inspection rights, the Company may be required to expend significant resources to support the audit or inspection, as well as to defend or settle any dispute with a customer that could potentially arise out of such audit or inspection. To date, the Company has made no accruals in its condensed consolidated financial statements for this contingency. While the Company has not in the past incurred significant expenses for resolving disputes regarding these types of commitments, the Company cannot make any assurance that it will not incur any such liabilities in the future.

It is not possible to predict the maximum potential amount of future payments under these or similar agreements due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under these agreements have not had a material effect on its business, financial condition, results of operations or cash flows.

NOTE 13 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The authoritative guidance requires companies to recognize all derivative instruments and hedging activities, including foreign currency exchange contracts, as either assets or liabilities at fair value on the balance sheet. Changes in the fair value of derivatives that do not qualify for hedge treatment, as well as the ineffective portion of any hedges, are reflected in the Condensed Consolidated Statement of Operations. In accordance with the guidance, the Company designates foreign currency forward exchange and option contracts as cash flow hedges of certain forecasted foreign currency denominated sales and purchase transactions.

KLA-Tencor’s foreign subsidiaries operate and sell KLA-Tencor’s products in various global markets. As a result, KLA-Tencor is exposed to risks relating to changes in foreign currency exchange rates. KLA-Tencor utilizes foreign currency forward exchange contracts and option contracts to hedge against future movements in foreign exchange rates that affect certain existing and forecasted foreign currency denominated sales and purchase transactions, such as the Japanese yen, the euro, Taiwan dollar and the Israeli new shekel. The Company routinely hedges its exposures to certain foreign currencies with various financial institutions in an effort to minimize the impact of certain currency exchange rate fluctuations. These currency forward exchange contracts and options, designated as cash flow hedges, generally have maturities of less than 18 months. Cash flow hedges are evaluated for effectiveness monthly, based on changes in total fair value of the derivatives. If a financial counterparty to any of the Company's hedging arrangements experiences financial difficulties or is otherwise unable to honor the terms of the foreign currency hedge, the Company may experience material losses.

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For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gains or losses on the derivative is reported as a component of accumulated other comprehensive income (loss) ("OCI") and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of currency forward exchange and option contracts due to changes in time value are excluded from the assessment of effectiveness. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

For derivative instruments that are not designated as accounting hedges, gains and losses are recognized in interest income and other, net. The Company uses foreign currency forward contracts to hedge certain foreign currency denominated assets or liabilities. The gains and losses on these derivatives are largely offset by the changes in the fair value of the assets or liabilities being hedged.

Derivatives in Cash Flow Hedging Relationships: Foreign Exchange Contracts

The locations and amounts of designated and non-designated derivative instruments' gains and losses reported in the condensed consolidated financial statements for the indicated periods were as follows:

| | | Three months ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|---|
| (In thousands) | Location in Financial Statements | 2013 | 2012 | 2013 | 2012 |
| Derivatives Designated as Hedging Instruments | | | | | |
| Gains in accumulated OCI on derivatives (effective portion) | Accumulated OCI | $3,864 | $2,242 | $3,573 | $2,001 |
| Gains (losses) reclassified from accumulated OCI into income (effective portion): | Revenues | $(128) | $(82) | $2,322 | $(574) |
| | Costs of revenues | 150 | 210 | 216 | (390) |
| | Total gains (losses) reclassified from accumulated OCI into income (effective portion) | $22 | $128 | $2,538 | $(964) |
| Gains (losses) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing) | Interest income and other, net | $44 | $(40) | $26 | $11 |
| Derivatives Not Designated as Hedging Instruments | | | | | |
| Gains recognized in income | Interest income and other, net | $2,722 | $9,220 | $5,348 | $9,894 |

The U.S. dollar equivalent of all outstanding notional amounts of hedge contracts, with maximum maturity of 13 months, as of the dates indicated below was as follows:

| (In thousands) | As of December 31, 2013 | As of June 30, 2013 |
|---|---|---|
| Cash flow hedge contracts | | |
| Purchase | $20,288 | $14,641 |
| Sell | $69,197 | $35,178 |
| Other foreign currency hedge contracts | | |
| Purchase | $101,064 | $99,175 |
| Sell | $68,876 | $97,901 |

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The locations and fair value amounts of the Company's derivative instruments reported in its Condensed Consolidated Balance Sheets as of the dates indicated below were as follows:

| | Asset Derivatives | | | Liability Derivatives | | |
|---|---|---|---|---|---|---|
| | Balance Sheet Location | As of December 31, 2013 | As of June 30, 2013 | Balance Sheet Location | As of December 31, 2013 | As of June 30, 2013 |
| (In thousands) | | Fair Value | | | Fair Value | |
| Derivatives designated as hedging instruments | | | | | | |
| Foreign exchange contracts | Other current assets | $3,199 | $362 | Other current liabilities | $3 | $384 |
| Total derivatives designated as hedging instruments | | $3,199 | $362 | | $3 | $384 |
| Derivatives not designated as hedging instruments | | | | | | |
| Foreign exchange contracts | Other current assets | $2,385 | $3,654 | Other current liabilities | $705 | $1,789 |
| Total derivatives not designated as hedging instruments | | $2,385 | $3,654 | | $705 | $1,789 |
| Total derivatives | | $5,584 | $4,016 | | $708 | $2,173 |

The following table provides the balances and changes in accumulated other comprehensive income (loss), before taxes, related to derivative instruments for the indicated periods:

| | Three months ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| (In thousands) | 2013 | 2012 | 2013 | 2012 |
| Beginning balance | $(323) | $(111) | $2,484 | $(962) |
| Amount reclassified to income | (22) | (128) | (2,538) | 964 |
| Net change | 3,864 | 2,242 | 3,573 | 2,001 |
| Ending balance | $3,519 | $2,003 | $3,519 | $2,003 |

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Offsetting of Derivative Assets and Liabilities

KLA-Tencor presents derivatives at gross fair values in the Condensed Consolidated Balance Sheets. The Company has entered into arrangements with each of its counterparties, which reduce credit risk by permitting net settlement of transactions with the same counterparty under certain conditions. As of December 31, 2013 and June 30, 2013, information related to the offsetting arrangements was as follows (in thousands):

| As of December 31, 2013 | | | | Gross Amounts of Derivatives Not Offset in the Consolidated Balance Sheets | | |
|---|---|---|---|---|---|---|
| Description | Gross Amounts of Derivatives | Gross Amounts of Derivatives Offset in the Consolidated Balance Sheets | Net Amount of Derivatives Presented in the Consolidated Balance Sheets | Financial Instruments | Cash Collateral Received | Net Amount |
| Derivatives - Assets | $5,584 | $— | $5,584 | $(708) | $— | $4,876 |
| Derivatives - Liabilities | $(708) | $— | $(708) | $708 | $— | $— |

| As of June 30, 2013 | | | | Gross Amounts of Derivatives Not Offset in the Consolidated Balance Sheets | | |
|---|---|---|---|---|---|---|
| Description | Gross Amounts of Derivatives | Gross Amounts of Derivatives Offset in the Consolidated Balance Sheets | Net Amount of Derivatives Presented in the Consolidated Balance Sheets | Financial Instruments | Cash Collateral Received | Net Amount |
| Derivatives - Assets | $4,016 | $— | $4,016 | $(1,520) | $— | $2,496 |
| Derivatives - Liabilities | $(2,173) | $— | $(2,173) | $1,520 | $— | $(653) |

NOTE 14 – RELATED PARTY TRANSACTIONS

During the three and six months ended December 31, 2013 and 2012, the Company purchased from, or sold to, several entities, where one or more executive officers of the Company or members of the Company's Board of Directors, or their immediate family members, also serves as an executive officer or board member, including Cisco Systems, Inc., Freescale Semiconductor, Inc., Avago Technologies Ltd., NetApp, Inc. and SAP AG. The following table provides the transactions with these parties for the indicated periods (for the portion of such period that they were considered related):

| | Three months ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| (In thousands) | 2013 | 2012 | 2013 | 2012 |
| Total revenues | $178 | $1,899 | $563 | $4,771 |
| Total purchases | $332 | $69 | $788 | $2,452 |

The receivable balance from these parties as of December 31, 2013 was immaterial. The Company had a receivable balance from these parties of $0.9 million as of June 30, 2013. Management believes that such transactions are at arm's length and on similar terms as would have been obtained from unaffiliated third parties.

NOTE 15 – SEGMENT REPORTING AND GEOGRAPHIC INFORMATION

KLA-Tencor reports one reportable segment in accordance with the provisions of the authoritative guidance for segment reporting. Operating segments are defined as components of an enterprise about which separate financial information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. KLA-Tencor's chief operating decision maker is the Chief Executive Officer.

The Company is engaged primarily in designing, manufacturing, and marketing process control and yield management solutions for the semiconductor and related nanoelectronics industries. All operating segments have been aggregated due to their inter-dependencies, commonality of long-term economic characteristics, products and services, the production processes, class of customer and distribution processes. The Company’s service products are an extension of the system product portfolio and provide customers with spare parts and fab management services (including system preventive maintenance and optimization services) to improve yield, increase production uptime and throughput, and lower the cost of ownership. Since the Company operates in one reportable segment, all financial segment information required by the authoritative guidance can be found in the condensed consolidated financial statements.

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The Company's significant operations outside the United States include manufacturing facilities in Singapore, Israel, Belgium, Germany and China and sales, marketing and service offices in Western Europe, Japan and the Asia Pacific regions. For geographical revenue reporting, revenues are attributed to the geographic location in which the customer is located. Long-lived assets consist primarily of land, property and equipment, net and are attributed to the geographic region in which they are located.

The following is a summary of revenues by geographic region, based on ship-to location, for the indicated periods (as a percentage of total revenues):

| (Dollar amounts in thousands) | Three months ended December 31, 2013 | | | 2012 | | | Six months ended December 31, 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | | | | | | |
| North America | $148,233 | 21 | % | $169,629 | 25 | % | $327,628 | 24 | % | $319,617 | 23 | % |
| Taiwan | 148,825 | 21 | % | 223,493 | 33 | % | 266,116 | 20 | % | 499,792 | 36 | % |
| Japan | 64,223 | 9 | % | 92,849 | 14 | % | 145,635 | 11 | % | 181,564 | 13 | % |
| Europe & Israel | 70,295 | 10 | % | 59,753 | 9 | % | 191,782 | 14 | % | 118,913 | 9 | % |
| Korea | 152,750 | 22 | % | 57,259 | 9 | % | 230,027 | 17 | % | 127,506 | 9 | % |
| Rest of Asia | 120,803 | 17 | % | 70,028 | 10 | % | 202,278 | 14 | % | 146,328 | 10 | % |
| Total | $705,129 | 100 | % | $673,011 | 100 | % | $1,363,466 | 100 | % | $1,393,720 | 100 | % |

The following is a summary of revenues by major products for the indicated periods (as a percentage of total revenues):

| (Dollar amounts in thousands) | Three months ended December 31, 2013 | | | 2012 | | | Six months ended December 31, 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | | | | | | |
| Defect inspection | $394,702 | 56 | % | $367,696 | 55 | % | $737,865 | 55 | % | $756,184 | 54 | % |
| Metrology | 130,012 | 18 | % | 116,600 | 17 | % | 262,994 | 19 | % | 259,083 | 19 | % |
| Service | 160,946 | 23 | % | 149,988 | 22 | % | 317,543 | 23 | % | 296,619 | 21 | % |
| Other | 19,469 | 3 | % | 38,727 | 6 | % | 45,064 | 3 | % | 81,834 | 6 | % |
| Total | $705,129 | 100 | % | $673,011 | 100 | % | $1,363,466 | 100 | % | $1,393,720 | 100 | % |

Four customers each accounted for greater than 10% of total revenues for the three months ended December 31, 2013. One customer accounted for greater than 10% of total revenues for the three months ended December 31, 2012. Three customers each accounted for greater than 10% of total revenues for the six months ended December 31, 2013. Two customers each accounted for greater than 10% of total revenues for the six months ended December 31, 2012. Three customers each accounted for greater than 10% of net accounts receivable as of December 31, 2013. Two customers each accounted for greater than 10% of net accounts receivable as of June 30, 2013.

Long-lived assets by geographic region as of the dates indicated below were as follows:

| (In thousands) | As of December 31, 2013 | As of June 30, 2013 |
|---|---|---|
| Long-lived assets: | | |
| United States | $223,603 | $215,136 |
| Europe | 44,100 | 49,556 |
| Israel | 32,036 | 28,374 |
| Singapore | 48,769 | 44,957 |
| Rest of Asia | 11,351 | 9,736 |
| Total | $359,859 | $347,759 |

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

### 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 Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact may be forward-looking statements. You can identify these and other forward-looking statements by the use of words such as "may," "will," "could," "would," "should," "expects," "plans," "anticipates," "relies," "believes," "estimates," "predict "potential," "continue," "thinks," "seeks," or the negative of such terms, or other comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Such forward-looking statements include, among others, forecasts of the future results of our operations; orders for our products and capital equipment generally; sales of semiconductors; the allocation of capital spending by our customers (and, in particular, the percentage of spending that our customers allocate to process control); growth of revenue in the semiconductor industry, the semiconductor capital equipment industry and our business; technological trends in the semiconductor industry; future developments or trends in the global capital and financial markets; our future product offerings and product features; the success and market acceptance of new products; timing of shipment of backlog; the future of our product shipments and our product and service revenues; our future gross margins; our future research and development expenses and selling, general and administrative expenses; our ability to successfully maintain cost discipline; international sales and operations; our ability to maintain or improve our existing competitive position; success of our product offerings; creation and funding of programs for research and development; attraction and retention of employees; results of our investment in leading edge technologies; the effects of hedging transactions; the effect of the sale of trade receivables and promissory notes from customers; our future income tax rate; future payments of dividends to our stockholders; the completion of any acquisitions of third parties, or the technology or assets thereof; benefits received from any acquisitions and development of acquired technologies; sufficiency of our existing cash balance, investments and cash generated from operations to meet our operating and working capital requirements; and the adoption of new accounting pronouncements.

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 Part II, Item 1A, "Risk Factors" in this report as well as in Item 1, "Business" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended June 30, 2013, filed with the Securities and Exchange Commission on August 8, 2013. 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, and we expressly assume no obligation and do not intend to update the forward-looking statements in this report after the date hereof.

### EXECUTIVE SUMMARY

KLA-Tencor Corporation is a leading supplier of process control and yield management solutions for the semiconductor and related nanoelectronics industries. Our broad portfolio of defect inspection and metrology products and related service, software and other offerings primarily supports integrated circuit ("IC" or "chip") manufacturers throughout the entire semiconductor fabrication process, from research and development to final volume production. We provide leading-edge equipment, software and support that enable IC manufacturers to identify, resolve and manage significant advanced technology manufacturing process challenges and obtain higher finished product yields at lower overall cost. In addition to serving the semiconductor industry, we also provide a range of technology solutions to a number of other high technology industries, including the light emitting diode ("LED") and data storage industries, as well as general materials research.

Our products and services are used by the vast majority of bare wafer, IC, lithography reticle ("reticle" or "mask") and disk manufacturers around the world. Our products, services and expertise are used by our customers to measure and control nanometric-level manufacturing processes, and to detect, analyze and resolve critical product defects that arise in that environment. Our revenues are driven largely by our customers' spending on capital equipment and related maintenance services necessary to support key transitions in their underlying product technologies, or to increase their production volumes in response to market demand. Our semiconductor customers generally operate in one or more of the three major semiconductor markets - memory, foundry and logic. All three of these markets are characterized by rapid technological changes and sudden shifts in end-user demand, which influence the level and pattern of our customers' spending on our products and services. Although capital spending in all three semiconductor markets has historically been very cyclical, the demand for more advanced and lower cost chips used in a growing number of consumer electronics, communications, data processing, and industrial and automotive products has resulted over the long term in a favorable demand environment for our process control and yield management solutions.

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As a supplier to the global semiconductor and semiconductor-related industries, we are subject to the cyclical capital spending that characterizes these industries. The timing, length, intensity and volatility of the capacity-oriented capital spending cycles of our customers are unpredictable. In addition, our customer base continues to become more highly concentrated over time, thereby increasing the potential impact of a sudden change in capital spending by a major customer on our revenues and profitability. As our customer base becomes increasingly more concentrated, large orders from a relatively limited number of customers account for a substantial portion of our sales, which potentially exposes us to more volatility for revenues and earnings.

However, in addition to these trends of cyclicality and consolidation, the semiconductor industry has also been significantly impacted by constant technological innovation. The growing use of increasingly sophisticated semiconductor devices has caused many of our customers to invest in additional semiconductor manufacturing capabilities and capacity. These investments have included process control and yield management equipment and services and have had a significant favorable impact on our revenues over the long term.

Our revenues during the three months ended December 31, 2013 increased compared to the three months ended September 30, 2013 and December 31, 2012, primarily due to higher levels of shipments during the period resulting from higher shipment backlog at the beginning of the period, relative to the three months ended September 30, 2013 and December 31, 2012. In the near term, we continue to expect a robust level of new orders for process control and yield management equipment spanning all of our three primary markets -- memory, foundry and logic. We believe that, over the long term, our customers will continue to invest in advanced technologies and new materials to enable smaller design rules and higher density application, as well as to reduce cost. We anticipate that this in turn will drive long-term increased adoption of process control equipment and services that reduce semiconductor defectivity and improve manufacturing yields, reinforcing the longer-term growth drivers in our industry.

The following table sets forth some of our key quarterly unaudited financial information that we use to manage our business:

| (In thousands, except net income per share) | Three months ended December 31, 2013 | September 30, 2013 | June 30, 2013 | March 31, 2013 | December 31, 2012 | September 30, 2012 |
|---|---|---|---|---|---|---|
| Total revenues | $705,129 | $658,337 | $720,032 | $729,029 | $673,011 | $720,709 |
| Total costs and operating expenses | $517,147 | $508,426 | $532,397 | $526,783 | $519,764 | $534,152 |
| Gross margin | $419,315 | $380,680 | $413,228 | $419,521 | $369,096 | $403,484 |
| Income from operations | $187,982 | $149,911 | $187,635 | $202,246 | $153,247 | $186,557 |
| Net income | $139,246 | $111,197 | $134,770 | $166,382 | $106,630 | $135,367 |
| Net income per share: | | | | | | |
| Basic (1) | $0.84 | $0.67 | $0.81 | $1.00 | $0.64 | $0.81 |
| Diluted (1) | $0.83 | $0.66 | $0.80 | $0.98 | $0.63 | $0.80 |

(1) Basic and diluted earnings per share are computed independently for each of the quarters presented based on the weighted-average basic and fully diluted shares outstanding for each quarter. Therefore, the sum of quarterly basic and diluted per share information may not equal annual (or other multiple-quarter calculations of) basic and diluted earnings per share.

## CRITICAL ACCOUNTING ESTIMATES AND 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 in applying our accounting policies that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Note 1 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013 describes the significant accounting policies and methods used in preparation of the Consolidated Financial Statements. We base these estimates and assumptions on historical experience, and evaluate them on an on-going basis to ensure that 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 our related disclosure in this Quarterly Report on Form 10-Q. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

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- Revenue Recognition
- Inventories
- Warranty
- Allowance for Doubtful Accounts
- Equity and Cash-Based Long-Term Incentive Compensation Plans
- Contingencies and Litigation
- Goodwill and Intangible Assets
- Income Taxes
- Valuation of Marketable Securities

There were no significant changes in our critical accounting estimates and policies during the three months ended December 31, 2013. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended June 30, 2013 for a more complete discussion of our critical accounting policies and estimates.

Valuation of Goodwill and Intangible Assets

We have four reporting units: Defect Inspection, Metrology, Service and Other. As of December 31, 2013, substantially all of the goodwill balance resided in the Defect Inspection reporting unit. The fair value of each of our reporting units was substantially in excess of its estimated carrying amount at the time of the most recent quantitative analysis of goodwill impairment performed during the three months ended December 31, 2010. There have been no triggering events or changes in circumstances since that quantitative analysis to indicate that the fair value of any of our reporting units would be less than its carrying amount.

We performed a qualitative assessment of the goodwill by reporting unit as of November 30, 2013 during the three months ended December 31, 2013 and concluded that there was no impairment. We assess goodwill for impairment annually as well as whenever events or changes in circumstances indicate that the carrying amount of goodwill in any reporting unit may not be recoverable. Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that the assets' carrying amount may not be recoverable.

Our next annual assessment of the goodwill by reporting unit will be performed during the three months ending December 31, 2014. If we were to encounter challenging economic conditions, such as a decline in our operating results, an unfavorable industry or macroeconomic environment, a substantial decline in our stock price, or any other adverse change in market conditions, we may be required to perform the two-step quantitative goodwill impairment analysis. In addition, if such conditions have the effect of changing one of the critical assumptions or estimates we use to calculate the value of our goodwill or intangible assets, we may be required to record goodwill and/or intangible asset impairment charges in future periods, whether in connection with our next annual impairment assessment in the second quarter of fiscal year 2015 or prior to that, if any triggering event occurs outside of the quarter during which the annual goodwill impairment assessment is performed. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material to our results of operations.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the selling price is fixed or determinable, and collectibility is reasonably assured. We derive revenue from three sources—sales of systems, spare parts and services. In general, we recognize revenue for systems when the system has been installed, is operating according to predetermined specifications and is accepted by the customer. When a customer delays installation for delivered products for which we have demonstrated a history of successful installation and acceptance, we recognize revenue upon customer acceptance. Under certain circumstances, however, we recognize revenue upon shipment, prior to acceptance from the customer, as follows:

- When the customer fab has previously accepted the same tool, with the same specifications, and when we can objectively demonstrate that the tool meets all of the required acceptance criteria.
- When system sales to independent distributors have no installation requirement, contain no acceptance agreement, and 100% payment is due based upon shipment.
- When the installation of the system is deemed perfunctory.
-

When the customer withholds acceptance due to issues unrelated to product performance, in which case revenue is recognized when the system is performing as intended and meets predetermined specifications.

In circumstances in which we recognize revenue prior to installation, the portion of revenue associated with installation is deferred based on estimated fair value, and that revenue is recognized upon completion of the installation.

In many instances, products are sold in stand-alone arrangements. Services are sold separately through renewals of annual maintenance contracts. We also allow for multiple element revenue arrangements in cases where certain elements of a sales arrangement are not delivered and accepted in one reporting period. To determine the relative fair value of each element in a revenue arrangement, we allocate arrangement consideration based on the selling price hierarchy. For substantially all of the arrangements with multiple deliverables pertaining to products and services, we use vendor-specific objective evidence ("VSOE") or third-party evidence ("TPE") to allocate the selling price to each deliverable. We determine TPE based on historical prices charged for products and services when sold on a stand-alone basis. When we are unable to establish relative selling price using VSOE or TPE, we use estimated selling price ("ESP") in our allocation of arrangement consideration. The objective of ESP is to determine the price at which we would transact a sale if the product or service were sold on a stand-alone basis. ESP could potentially be used for new or customized products. We regularly review relative selling prices and maintain internal controls over the establishment and updates of these estimates. In a multiple element revenue arrangement, we defer revenue recognition associated with the relative fair value of the undelivered elements until that element is delivered to the customer. To be considered a separate element, the product or service in question must represent a separate unit of accounting, which means that such product or service must fulfill the following criteria: (a) the delivered item(s) has value to the customer on a stand-alone basis; and (b) if the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control. If the arrangement does not meet all the above criteria, the entire amount of the sales contract is deferred until all elements are accepted by the customer.

Trade-in rights are occasionally granted to customers to trade in tools in connection with subsequent purchases. We estimate the value of the trade-in right and reduce the revenue recognized on the initial sale. This amount is recognized at the earlier of the exercise of the trade-in right or the expiration of the trade-in right.

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 contract revenue is recognized ratably over the term of the maintenance contract. Revenue from services performed in the absence of a maintenance contract, including consulting and training revenue, is recognized when the related services are performed and collectibility is reasonably assured.

We sell stand-alone software that is subject to the software revenue recognition guidance. We periodically review selling prices to determine whether VSOE exists, and in some situations where we are unable to establish VSOE for undelivered elements such as post-contract service, revenue is recognized ratably over the term of the service contract.

We also defer the fair value of non-standard warranty bundled with equipment sales as unearned revenue.

Non-standard warranty includes services incremental to the standard 40-hour per week coverage for 12 months.

Non-standard warranty is recognized ratably as revenue when the applicable warranty term period commences.

The deferred system profit balance equals the amount of deferred system revenue that was invoiced and due on shipment, less applicable product and warranty costs. Deferred system revenue represents the value of products that have been shipped and billed to customers which have not met our revenue recognition criteria. Deferred system profit does not include the profit associated with product shipments to customers in Japan, to whom title does not transfer until customer acceptance. Shipments to customers in Japan are classified as inventory at cost until the time of acceptance.

We enter into sales arrangements that may consist of multiple deliverables of our products and services where certain elements of the sales arrangement are not delivered and accepted in one reporting period. Judgment is required to properly identify the accounting units of the multiple deliverable transactions and to determine the manner in which revenue should be allocated among the accounting units. Additionally, judgment is required to interpret various commercial terms and determine when all criteria of revenue recognition have been met in order for revenue recognition to occur in the appropriate accounting period. While changes in the allocation of the estimated selling price between the accounting units will not affect the amount of total revenue recognized for a particular arrangement, any material changes in these allocations could impact the timing of revenue recognition, which could have a material effect on our financial position and results of operations.

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Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued an accounting standard update that provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists. Under the new standard update, in most circumstances, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in our financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward. This accounting standard update will be effective for our interim period ending September 30, 2014 and applied prospectively with early adoption permitted. We are currently evaluating the impact of this accounting standard update on our consolidated financial statements.

RESULTS OF OPERATIONS

Revenues and Gross Margin

| (Dollar amounts in thousands) | Three months ended December 31, 2013 | September 30, 2013 | December 31, 2012 | Q2 FY14 vs. Q1 FY14 | | Q2 FY14 vs. Q2 FY13 | |
|---|---|---|---|---|---|---|---|
| Revenues: | | | | | | | |
| Product | $544,183 | $501,740 | $523,023 | $42,443 | 8 % | $21,160 | 4 % |
| Service | 160,946 | 156,597 | 149,988 | 4,349 | 3 % | 10,958 | 7 % |
| Total revenues | $705,129 | $658,337 | $673,011 | $46,792 | 7 % | $32,118 | 5 % |
| Costs of revenues | $285,814 | $277,657 | $303,915 | $8,157 | 3 % | $(18,101) | (6)% |
| Gross margin percentage | 59 % | 58 % | 55 % | | | | |

| (Dollar amounts in thousands) | Six months ended December 31, 2013 | December 31, 2012 | Q2 FY14 YTD vs. Q2 FY13 YTD | |
|---|---|---|---|---|
| Revenues: | | | | |
| Product | $1,045,923 | $1,097,101 | $(51,178) | (5)% |
| Service | 317,543 | 296,619 | 20,924 | 7 % |
| Total revenues | $1,363,466 | $1,393,720 | $(30,254) | (2)% |
| Costs of revenues | $563,471 | $621,140 | $(57,669) | (9)% |
| Gross margin percentage | 59 % | 55 % | | |

Product revenues

Our business is cyclical with respect to the capital equipment procurement practices of semiconductor manufacturers, with revenues impacted by the investment patterns of such manufacturers. Our product revenues in any particular quarter are significantly impacted by the amount of new orders that we receive during that quarter and, due to the duration of manufacturing and installation cycles, in the preceding quarters.

Product revenues increased during the three months ended December 31, 2013 compared to the three months ended September 30, 2013, as we experienced higher levels of shipments during the period, primarily due to higher shipment backlog at the beginning of the period relative to the three months ended September 30, 2013. The higher shipment backlog was largely attributable to an increase in demand as our customers adopted new device architectures and process technologies at the leading edge.

Product revenues increased during the three months ended December 31, 2013 compared to the three months ended December 31, 2012, primarily due to higher levels of shipments during the period resulting from higher shipment backlog at the beginning of the period relative to the three months ended December 31, 2012, partially offset by a lower level of previously deferred revenues recognized during the three months ended December 31, 2013 from certain customers that had experienced liquidity challenges. The higher shipment backlog was largely attributable to an increase in demand as our customers adopted new device architectures and process technologies at the leading edge. The growth in revenues reflected increases in both of our primary reporting units, defect inspection and metrology.

Product revenues decreased during the six months ended December 31, 2013 compared to the six months ended December 31, 2012, primarily due to a lower level of shipment backlog at the beginning of the period as well as a higher proportion of our shipments being latest generation products that have not yet qualified for revenue upon shipment, in each case relative to the six months ended December 31, 2012. In addition, revenues during the six months ended December 31, 2012 reflected the recognition, upon satisfaction of collectibility criteria, of previously deferred revenues from certain customers that had experienced liquidity challenges.

Service revenues

Service revenues are generated from maintenance contracts, as well as billable time and material service calls made to our customers after the expiration of the warranty period. The amount of service revenues is typically a function of the number of post-warranty systems installed at our customers' sites and the utilization of those systems, but it is also impacted by other factors, such as our rate of service contract renewals, the types of systems being serviced and fluctuations in foreign exchange rates. Service revenues during the three and six months ended December 31, 2013 increased compared to the three months ended September 30, 2013 and three and six months ended December 31, 2012, respectively, primarily due to an increase in the number of post-warranty systems installed at our customers' sites.

Revenues by region

The following is a summary of revenues by geographic region, based on ship-to location, for the indicated periods (as a percentage of total revenues):

| | Three months ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (Dollar amounts in thousands) | December 31, 2013 | | | September 30, 2013 | | | December 31, 2012 | | |
| North America | $148,233 | 21 | % | $179,395 | 28 | % | $169,629 | 25 | % |
| Taiwan | 148,825 | 21 | % | 117,291 | 18 | % | 223,493 | 33 | % |
| Japan | 64,223 | 9 | % | 81,412 | 12 | % | 92,849 | 14 | % |
| Europe & Israel | 70,295 | 10 | % | 121,487 | 18 | % | 59,753 | 9 | % |
| Korea | 152,750 | 22 | % | 77,278 | 12 | % | 57,259 | 9 | % |
| Rest of Asia | 120,803 | 17 | % | 81,474 | 12 | % | 70,028 | 10 | % |
| Total | $705,129 | 100 | % | $658,337 | 100 | % | $673,011 | 100 | % |

A significant portion of our revenues continues to be generated in Asia, where a substantial portion of the world's semiconductor manufacturing capacity is located, and we expect that trend to continue.

Gross margin

Our gross margin fluctuates with revenue levels and product mix and is affected by variations in costs related to manufacturing and servicing our products, including our ability to scale our operations efficiently and effectively in response to prevailing business conditions.

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

| | Gross Margin Percentage | | | Gross Margin Percentage | | | |
|---|---|---|---|---|---|---|---|
| | Three months ended | | | Three months ended | | Six months ended | |
| September 30, 2013 | 57.8 | % | December 31, 2012 | 54.8 | % | 55.4 | % |
| Revenue volume of products and service | 0.8 | % | Revenue volume of products and service | 0.3 | % | (0.9 | )% |
| Mix of products and services sold | (0.2 | )% | Mix of products and services sold | 0.1 | % | 1.1 | % |
| Manufacturing labor, overhead and efficiencies | 1.0 | % | Manufacturing labor, overhead and efficiencies | 1.2 | % | 0.7 | % |
| Other service and manufacturing costs | 0.1 | % | Other service and manufacturing costs | 3.1 | % | 2.4 | % |
| December 31, 2013 | 59.5 | % | December 31, 2013 | 59.5 | % | 58.7 | % |

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Changes in gross margin percentage driven by revenue volume reflect our ability to leverage existing infrastructure to generate higher revenues. It also includes the effect of fluctuations in foreign exchange rates, average customer pricing and customer revenue deferrals associated with volume purchase agreements. Changes in gross margin percentage from mix of products and services sold reflect the impact of changes in the composition within product and service offerings. Changes in gross margin percentage from manufacturing labor, overhead and efficiencies reflect our ability to manage costs and drive productivity as we scale our manufacturing activity to respond to customer requirements; this includes the impact of capacity utilization, use of overtime and variability of cost structure. Changes in gross margin percentage from other service and manufacturing costs include the impact of customer support costs, including the efficiencies with which we deliver services to our customers, and the effectiveness with which we manage our production plans and inventory risk.

Our gross margin increased to 59.5% during the three months ended December 31, 2013 from 57.8% during the three months ended September 30, 2013, primarily due to higher revenue volume of products and service and increase in capacity utilization, partially offset by a less favorable mix of products and services sold.

Our gross margin increased to 59.5% during the three months ended December 31, 2013 from 54.8% during the three months ended December 31, 2012, primarily due to higher revenue volume of products and service, efficiencies from manufacturing and overhead spending and a lower requirement for excess and obsolescence inventory reserves.

Our gross margin increased to 58.7% during the six months ended December 31, 2013 from 55.4% during the six months ended December 31, 2012, primarily due to a more favorable mix of products and services sold, a lower requirement for excess and obsolescence inventory reserves and a decrease in customer support costs, partially offset by lower revenue volume.

Engineering, Research and Development ("R&D")

| | Three months ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (Dollar amounts in thousands) | December 31, 2013 | | September 30, 2013 | | December 31, 2012 | | Q2 FY14 vs. Q1 FY14 | | |
| R&D expenses | $134,587 | | $132,273 | | $121,608 | | $2,314 | 2 | % |
| R&D expenses as a percentage of total revenues | 19 | % | 20 | % | 18 | % | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |

| (Dollar amounts in thousands) | Q2 FY14 vs. Q2 FY13 | | |
|---|---|---|---|
| R&D expenses | $12,979 | 11 | % |

| | Six months ended | | | | | | |
|---|---|---|---|---|---|---|---|
| (Dollar amounts in thousands) | December 31, 2013 | | December 31, 2012 | | Q2 FY14 YTD vs. Q2 FY13 YTD | | |
| R&D expenses | $266,860 | | $241,350 | | $25,510 | 11 | % |
| R&D expenses as a percentage of total revenues | 20 | % | 17 | % | | | |

In recent years, our R&D expenses have generally increased over time, primarily due to higher costs associated with advanced product and technology development projects. We incur significant costs associated with these projects, including engineering material costs, headcount and other expenses, as technological innovation is essential to our success. During certain periods, R&D expenses may fluctuate relative to product development phases and project timing.

R&D expenses during the three months ended December 31, 2013 increased compared to the three months ended September 30, 2013, primarily due to the stage and timing of our development projects, as described in the previous paragraph. R&D expenses during the three months ended December 31, 2013 were impacted by an increase in employee-related expenses of $3.7 million as a result of additional engineering headcount and variable compensation, partially offset by a reduction in materials spending of $2.2 million due to the timing of project spending.

R&D expenses during the three months ended December 31, 2013 increased compared to the three months ended December 31, 2012, primarily due to the stage and timing of our development projects, as described above. R&D expenses during the three months ended December 31, 2013 were impacted by an increase in employee-related expenses of $13.4 million as a result of additional engineering headcount and variable compensation and a lower level of subsidies for R&D, partially offset by an increase in the benefit to R&D expenses from external funding of $3.7 million.

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R&D expenses during the six months ended December 31, 2013 increased compared to the six months ended December 31, 2012, primarily due to the stage and timing of our development projects, as described above. R&D expenses during the six months ended December 31, 2013 were impacted by an increase in employee-related expenses of $22.3 million as a result of additional engineering headcount and variable compensation, a lower level of subsidies for R&D and an increase in depreciation of property and equipment of $2.0 million, partially offset by an increase in the benefit to R&D expenses from external funding of $3.2 million.

R&D expenses include the benefit of $4.2 million, $3.6 million and $0.5 million of external funding received from government grants during the three months ended December 31, 2013, September 30, 2013 and December 31, 2012, respectively, for certain strategic development programs.

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. We remain committed to product development in new and emerging technologies as we address the yield challenges our customers face at future technology nodes.

Selling, General and Administrative ("SG&A")

| (Dollar amounts in thousands) | Three months ended December 31, 2013 | September 30, 2013 | December 31, 2012 | Q2 FY14 vs. Q1 FY14 | | Q2 FY14 vs. Q2 FY13 | |
|---|---|---|---|---|---|---|---|
| SG&A expenses | $96,746 | $98,496 | $94,241 | $(1,750) | (2)% | $2,505 | 3% |
| SG&A expenses as a percentage of total revenues | 14% | 15% | 14% | | | | |

| (Dollar amounts in thousands) | Six months ended December 31, 2013 | December 31, 2012 | Q2 FY14 YTD vs. Q2 FY13 YTD | |
|---|---|---|---|---|
| SG&A expenses | $195,242 | $191,426 | $3,816 | 2% |
| SG&A expenses as a percentage of total revenues | 14% | 14% | | |

SG&A expenses during the three months ended December 31, 2013 decreased compared to the three months ended September 30, 2013, primarily due to our receipt of $1.1 million in proceeds from a class action settlement as well as our recovery of $1.1 million in receivables that had been previously classified as bad debt during the three months ended December 31, 2013.

SG&A expenses during the three months ended December 31, 2013 increased compared to the three months ended December 31, 2012, primarily due to an increase in employee-related expenses of $7.0 million as a result of additional headcount and variable compensation expense, partially offset by a decrease in legal expenses of $3.1 million that was partly attributable to the receipt of class action settlement proceeds described above.

SG&A expenses during the six months ended December 31, 2013 increased compared to the six months ended December 31, 2012, primarily due to an increase in employee-related expenses of $12.5 million as a result of additional headcount and higher variable compensation, partially offset by a decrease in consulting expenses of $3.2 million and a decrease in legal expenses of $3.5 million that was partly attributable to the receipt of class action settlement proceeds described above during the three months ended December 31, 2013.

Interest Income and Other, Net and Interest Expense

| (Dollar amounts in thousands) | Three months ended December 31, 2013 | | September 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|---|---|
| Interest income and other, net | $2,074 | | $3,615 | | $5,058 | |
| Interest expense | $13,311 | | $13,662 | | $13,431 | |
| Interest income and other, net as a percentage of total revenues | — | % | 1 | % | 1 | % |
| Interest expense as a percentage of total revenues | 2 | % | 2 | % | 2 | % |

| (Dollar amounts in thousands) | Six months ended December 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| Interest income and other, net | $5,689 | | $8,546 | |
| Interest expense | $26,973 | | $26,934 | |
| Interest income and other, net as a percentage of total revenues | — | % | 1 | % |
| Interest expense as a percentage of total revenues | 2 | % | 2 | % |

Interest income and other, net is comprised primarily of interest income earned on our investment and cash portfolio, realized gains or losses on sales of marketable securities, gains or losses from revaluations of certain foreign currency denominated assets and liabilities as well as foreign currency contracts, impairments associated with equity investments in privately-held companies, and interest-related accruals (such as interest and penalty accruals related to our tax obligations).

Interest income and other, net during the three months ended December 31, 2013 decreased compared to the three months ended September 30, 2013 and December 31, 2012, in each case primarily due to an impairment charge of $1.4 million related to an equity investment in a privately-held company that was deemed to be an other-than-temporary impairment recognized during the three months ended December 31, 2013.

The decrease in interest income and other, net during the six months ended December 31, 2013 compared to the six months ended December 31, 2012 was primarily due to an impairment charge of $1.4 million related to an equity investment in a privately-held company and a decrease in interest income of $1.4 million driven by lower interest rates.

Interest expense is primarily attributable to the $750 million aggregate principal amount of senior fixed rate notes that we issued in the fourth quarter of the fiscal year ended June 30, 2008.

Provision for Income Taxes

The following table provides details of income taxes:

| (Dollar amounts in thousands) | Three months ended December 31, | | | | Six months ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2013 | | 2012 | |
| Income before income taxes | $176,745 | | $144,874 | | $316,609 | | $321,416 | |
| Provision for income taxes | $37,499 | | $38,244 | | $66,166 | | $79,419 | |
| Effective tax rate | 21.2 | % | 26.4 | % | 20.9 | % | 24.7 | % |

Our estimated annual effective tax rate for the fiscal year ending June 30, 2014 is approximately 21.4%.

There is no material difference between the tax expense as a percentage of income during the three months ended December 31, 2013 and the estimated annual effective tax rate.

Tax expense was lower as a percentage of income before income taxes during the three months ended December 31, 2013 compared to the three months ended December 31, 2012 primarily due to the impact of the following items:

- Tax expense was decreased by $4.7 million during the three months ended December 31, 2013 due to an increase in the proportion of our earnings generated in jurisdictions with tax rates lower than the U.S. statutory tax rate;

- Tax expense was decreased by $1.7 million during the three months ended December 31, 2013 related to the U.S. federal research credit. The research credit was not available during the three months ended December 31, 2012,

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because the credit expired on December 31, 2011. On January 2, 2013, the American Taxpayer Relief Act of 2012 reinstated the research credit and extended the credit through December 31, 2013; and

- Tax expense was decreased by $2.6 million during the three months ended December 31, 2013 related to a non-taxable increase in the value of the assets held within our Executive Deferred Savings Plan.

Tax expense was lower as a percentage of income before income taxes during the six months ended December 31, 2013 compared to the six months ended December 31, 2012 primarily due to the impact of the following items:

- Tax expense was decreased by $7.4 million during the six months ended December 31, 2013 due to an increase in the proportion of our earnings generated in jurisdictions with tax rates lower than the U.S. statutory tax rate;
- Tax expense was decreased by $3.1 million during the six months ended December 31, 2013 related to the U.S. federal research credit. The research credit was not available during the six months ended December 31, 2012, because the credit expired on December 31, 2011. On January 2, 2013, the American Taxpayer Relief Act of 2012 reinstated the research credit and extended the credit through December 31, 2013.
- Tax expense was decreased by $3.6 million during the six months ended December 31, 2013 related to a non-taxable increase in the value of the assets held within our Executive Deferred Savings Plan.

In the normal course of business, we are subject to examination by tax authorities throughout the world. We are subject to U.S. federal income tax examination for all years beginning from the fiscal year ended June 30, 2010. We are subject to state income tax examinations for all years beginning from the fiscal year ended June 30, 2009. We are also subject to examinations in other major foreign jurisdictions, including Singapore, for all years beginning from the fiscal year ended June 30, 2009. It is possible that certain examinations may be concluded in the next twelve months. We believe it is possible that we may recognize up to $7.2 million of our existing unrecognized tax benefits within the next twelve months as a result of the lapse of statutes of limitations and the resolution of examinations with various tax authorities.

LIQUIDITY AND CAPITAL RESOURCES

| (Dollar amounts in thousands) | As of December 31, 2013 | As of June 30, 2013 |
|---|---|---|
| Cash and cash equivalents | $793,382 | $985,390 |
| Marketable securities | 2,157,279 | 1,933,491 |
| Total cash, cash equivalents and marketable securities | $2,950,661 | $2,918,881 |
| Percentage of total assets | 54 % | 55 % |

| | Six months ended December 31, | |
|---|---|---|
| (In thousands) | 2013 | 2012 |
| Cash flow: | | |
| Net cash provided by operating activities | $292,519 | $322,836 |
| Net cash used in investing activities | (262,788) | (69,402) |
| Net cash used in financing activities | (221,319) | (238,233) |
| Effect of exchange rate changes on cash and cash equivalents | (420) | 818 |
| Net increase (decrease) in cash and cash equivalents | $(192,008) | $16,019 |

As of December 31, 2013, our cash, cash equivalents and marketable securities totaled $3.0 billion, which is an increase of $31.8 million from June 30, 2013. As of December 31, 2013, $1.2 billion of our $3.0 billion of cash, cash equivalents and marketable securities were held by our foreign subsidiaries and branch offices. We currently intend to permanently reinvest $1.0 billion of the cash held by our foreign subsidiaries and branch offices. If, however, a portion of these funds were to be needed for our operations in the United States, we would be required to accrue and pay U.S. and foreign taxes of approximately 30%-50% of the funds repatriated. The amount of taxes due will depend on the amount and manner of the repatriation, as well as the location from where the funds are repatriated. We have accrued (but have not paid) U.S. taxes on the remaining cash of $139.0 million of the $1.2 billion held by our foreign subsidiaries and branch offices. As such, these funds can be returned to the U.S. without accruing any additional U.S. tax expense.

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During the three months ended December 31, 2013, our Board of Directors declared a dividend of $0.45 per share of our outstanding common stock, which was paid on December 2, 2013 to our stockholders of record as of the close of business on November 18, 2013. During the same period in fiscal year 2013, our Board of Directors declared and paid a quarterly cash dividend of $0.40 per share. The total amount of dividends paid during the three months ended December 31, 2013 and 2012 was $75.0 million and $66.5 million, respectively. The total amount of dividends paid during the six months ended December 31, 2013 and 2012 was $149.6 million and $133.2 million, respectively. The increase in the amount of dividends paid during the three and six months ended December 31, 2013 reflects the increase in the level of our quarterly dividend from $0.40 to $0.45 per share that was instituted during the three months ended September 30, 2013.

The shares repurchased under our stock repurchase program have allowed our basic and diluted weighted-average shares outstanding for the three months ended December 31, 2013, compared to the three months ended December 31, 2012, to remain relatively unchanged. The share repurchase program decrease partially offsets shares issued in connection with the exercise of employee stock options, purchases under our ESPP program and the vesting of employee restricted stock units.

We have historically financed our liquidity requirements through cash generated from operations. Net cash provided by operating activities during the six months ended December 31, 2013 decreased compared to the six months ended December 31, 2012 primarily as a result of the following factors:

- A decrease in collections of approximately $11 million during the six months ended December 31, 2013 compared to the six months ended December 31, 2012,
- An increase in payroll payments of approximately $21 million during the six months ended December 31, 2013 compared to the six months ended December 31, 2012, and
- Payments of approximately $15 million upon the vesting of cash-based long-term incentive ("Cash LTI") awards during the six months ended December 31, 2013 under our Cash LTI employee compensation plan, where no such payments occurred during the six months ended December 31, 2012, partially offset by
- A decrease in accounts payable payments of approximately $28 million during the six months ended December 31, 2013 compared to the six months ended December 31, 2012.

Net cash used in investing activities during the six months ended December 31, 2013 increased compared to the six months ended December 31, 2012 primarily as a result of a $193 million increase in the use of cash for purchase of available-for-sale and trading securities, net of sales and maturities.

Net cash used in financing activities during the six months ended December 31, 2013 decreased by $17 million compared to the six months ended December 31, 2012. Net cash used in financing activities was impacted by:

- An increase in proceeds from the issuance of common stock of $32 million during the six months ended December 31, 2013 compared to the six months ended December 31, 2012 due to an increase in employee stock option exercises, and
- A decrease in common stock repurchases of $16 million during the six months ended December 31, 2013 compared to the six months ended December 31, 2012, which were partially offset by
- An increase in dividend payments of $16 million during the six months ended December 31, 2013 compared to the six months ended December 31, 2012, reflecting an increase in our quarterly dividend from $0.40 to $0.45 per share that was instituted during the three months ended September 30, 2013, and
- An increase of $21 million in payroll tax withholding payments related to the net share settlement of vested and released restricted stock units during the six months ended December 31, 2013 compared to the six months ended December 31, 2012.

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The following is a schedule summarizing our significant obligations to make future payments under contractual obligations as of December 31, 2013:

| | Fiscal year ending June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands) | Total | 2014 (2) | 2015 | 2016 | 2017 | 2018 | Thereafter | Other |
| Long-term debt obligations(1) | $750,000 | $— | $— | $— | $— | $750,000 | $— | $— |
| Interest payment associated with long-term debt obligations | 224,250 | 25,875 | 51,750 | 51,750 | 51,750 | 43,125 | — | — |
| Purchase commitments | 262,896 | 245,118 | 15,955 | 1,823 | — | — | — | — |
| Non-current income tax payable(3) | 69,578 | — | — | — | — | — | — | 69,578 |
| Operating leases | 27,696 | 4,093 | 7,084 | 5,667 | 4,521 | 3,261 | 3,070 | — |
| Cash long-term incentive program(4) | 108,730 | 601 | 30,781 | 30,781 | 30,781 | 15,786 | — | — |
| Pension obligations | 20,692 | 674 | 1,607 | 1,615 | 1,506 | 1,865 | 13,425 | — |
| Total contractual cash obligations | $1,463,842 | $276,361 | $107,177 | $91,636 | $88,558 | $814,037 | $16,495 | $69,578 |

(1) In April 2008, we issued $750 million aggregate principal amount of senior notes due in 2018.
(2) Remaining 6 months.
(3) Represents the non-current income tax payable obligation and related accrued interest. We are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes.
(4) Represents the amount committed under our cash long-term incentive program. Expected payment after estimated forfeitures is approximately $99.2 million.

Starting in fiscal year 2013 we adopted a cash-based long-term incentive program for many of our employees as part of our employee compensation program. Cash-based long-term incentive (“Cash LTI”) awards issued to date to employees under our Cash Long-Term Incentive Plan (“Cash LTI Plan”) vest in four equal installments, with 25% of the aggregate amount of the Cash LTI award vesting on each yearly anniversary of the grant date over a four-year period. In order to receive payments under the Cash LTI Plan, participants must remain employed by us as of the applicable award vesting date.

We have agreements with financial institutions to sell certain of our trade receivables and promissory notes from customers without recourse. In addition, we periodically sell certain letters of credit (“LCs”), without recourse, received from customers in payment for goods.

The following table shows total receivables sold under factoring agreements for the indicated periods:

| | Three months ended December 31, | | Six months ended December 31, | |
|---|---|---|---|---|
| (In thousands) | 2013 | 2012 | 2013 | 2012 |
| Receivables sold under factoring agreements | $10,412 | $37,026 | $56,294 | $85,560 |

Factoring fees for the sale of certain trade receivables were recorded in interest income and other, net and were not material for the periods presented.

We maintain guarantee arrangements available through various financial institutions for up to $26.5 million, of which $24.6 million had been issued as of December 31, 2013, primarily to fund guarantees to customs authorities for value-added tax ("VAT") and other operating requirements of our subsidiaries in Europe and Asia.

We maintain certain open inventory purchase commitments with our suppliers to ensure a smooth and continuous supply for key components. Our liability under these purchase commitments is generally restricted to a forecasted time-horizon as mutually agreed upon between the parties. This forecasted time-horizon can vary among different suppliers. Our open inventory purchase commitments were approximately $262.9 million as of December 31, 2013 and are primarily due within the next 12 months. Actual expenditures will vary based upon the volume of the transactions and length of contractual service provided. In addition, the amounts paid under these arrangements may be less in the event that the arrangements are renegotiated or canceled. Certain agreements provide for potential cancellation penalties.

We provide standard warranty coverage on our systems for 40 hours per week for 12 months, providing labor and parts necessary to repair the systems during the warranty period. We account for the estimated warranty cost as a charge to costs of revenues when revenue is recognized. The estimated warranty cost is based on historical product performance and field expenses. The actual product performance and/or field expense profiles may differ, and in those cases we adjust our warranty accruals accordingly. The difference between the estimated and actual warranty costs tends to be larger for new product introductions as there is limited historical product performance to estimate warranty expense; our warranty charge estimates for more mature products with longer product performance histories tend to be more stable. Non-standard warranty coverage generally includes services incremental to the standard 40 hours per week coverage for 12 months. See Note 12, "Commitments and Contingencies," to the condensed consolidated financial statements for a detailed description.

Working capital was $3.6 billion as of December 31, 2013, which is an increase of $89.6 million compared to our working capital as of June 30, 2013. As of December 31, 2013, our principal source of liquidity consisted of $3.0 billion of cash, cash equivalents and marketable securities. Our liquidity is affected by many factors, some of which are based on the normal ongoing operations of the business, and others of which relate to the uncertainties of global and regional economies and the semiconductor and the semiconductor equipment industries. Although cash requirements will fluctuate based on the timing and extent of these factors, we believe that cash generated from operations, together with the liquidity provided by existing cash and cash equivalents balances, will be sufficient to satisfy our liquidity requirements for at least the next 12 months.

Our credit ratings and outlooks as of December 31, 2013 are summarized below:

| Rating Agency | Rating | Outlook |
|---|---|---|
| Fitch | BBB | Stable |
| Moody's | Baa1 | Stable |
| Standard & Poor's | BBB | Stable |

Factors that can affect our credit ratings include changes in our operating performance, the economic environment, conditions in the semiconductor and semiconductor equipment industries, our financial position, and changes in our business strategy.

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Off-Balance Sheet Arrangements

Under our foreign currency risk management strategy, we utilize derivative instruments to protect our interests from unanticipated fluctuations in earnings and cash flows caused by volatility in currency exchange rates. This financial exposure is monitored and managed as an integral part of our overall risk management program which focuses on the unpredictability of financial markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on our operating results. We continue our policy of hedging our current and forecasted foreign currency exposures with hedging instruments having tenors of up to 18 months (see Note 13, "Derivative Instruments and Hedging Activities," to the condensed consolidated financial statements for a detailed description). Our outstanding hedge contracts, with maximum maturity of 18 months, were as follows:

| (In thousands) | As of December 31, 2013 | As of June 30, 2013 |
|---|---|---|
| Cash flow hedge contracts | | |
| Purchase | $20,288 | $14,641 |
| Sell | $69,197 | $35,178 |
| Other foreign currency hedge contracts | | |
| Purchase | $101,064 | $99,175 |
| Sell | $68,876 | $97,901 |

Indemnification Obligations and Certain Contractual Commitments. Subject to certain limitations, we are obligated to indemnify our current and former directors, officers and employees with respect to certain litigation matters and investigations that arise in connection with their service to us. These obligations arise under the terms of our certificate of incorporation, our bylaws, applicable contracts, and Delaware and California law. The obligation to indemnify generally means that we are required to pay or reimburse the individuals' reasonable legal expenses and possibly damages and other liabilities incurred in connection with these matters. For example, we have paid or reimbursed legal expenses incurred in connection with the investigation of our historical stock option practices and the related litigation and government inquiries by a number of our current and former directors, officers and employees. Although the maximum potential amount of future payments we could be required to make under the indemnification obligations generally described in this paragraph is theoretically unlimited, we believe the fair value of this liability, to the extent estimable, is appropriately considered within the reserve we have established for currently pending legal proceedings.

We are a party to a variety of agreements pursuant to which we may be obligated to indemnify the other party with respect to certain matters. Typically, these obligations arise in connection with contracts and license agreements or the sale of assets, under which we customarily agree to hold the other party harmless against losses arising from, or provide customers with other remedies to protect against, bodily injury or damage to personal property caused by our products, non-compliance with our product performance specifications, infringement by our products of third-party intellectual property rights and a breach of warranties, representations and covenants related to matters such as title to assets sold, validity of certain intellectual property rights, non-infringement of third-party rights, and certain income tax-related matters. In each of these circumstances, payment by us is typically subject to the other party making a claim to and cooperating with us pursuant to the procedures specified in the particular contract. This usually allows us to challenge the other party's claims or, in case of breach of intellectual property representations or covenants, to control the defense or settlement of any third-party claims brought against the other party. Further, our obligations under these agreements may be limited in terms of amounts, activity (typically at our option to replace or correct the products or terminate the agreement with a refund to the other party), and duration. In some instances, we may have recourse against third parties and/or insurance covering certain payments made by us.

In addition, we may in limited circumstances enter into agreements that contain customer-specific pricing, discount, rebate or credit commitments offered by us. Furthermore, we may give these customers limited audit or inspection rights to enable them to confirm that we are complying with these commitments. If a customer elects to exercise its audit or inspection rights, we may be required to expend significant resources to support the audit or inspection, as well as to defend or settle any dispute with a customer that could potentially arise out of such audit or inspection. To date, we have made no accruals in our consolidated financial statements for this contingency. While we have not in the past incurred significant expenses for resolving disputes regarding these types of commitments, we cannot make any assurance that we will not incur any such liabilities in the future. One significant customer recently notified us of its intent to exercise its audit rights, and we cannot predict the outcome of that audit at this time.

It is not possible to predict the maximum potential amount of future payments under these or similar agreements due to the conditional nature of our obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by us under these agreements have not had a material effect on our business, financial condition, results of operations or cash flows.

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, such as foreign currency hedges. All of the potential changes noted below are based on sensitivity analyses performed on our financial position as of December 31, 2013. Actual results may differ materially.

As of December 31, 2013, we had an investment portfolio of fixed income securities of $2.2 billion. 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 December 31, 2013, the fair value of the portfolio would have declined by $1.2 million.

As of December 31, 2013, we had net forward and option contracts to sell $16.7 million in foreign currency in order to hedge certain currency exposures (see Note 13, “Derivative Instruments and Hedging Activities,” to the condensed consolidated financial statements for a detailed description). If we had entered into these contracts on December 31, 2013, the U.S. dollar equivalent would have been $11.8 million. A 10% adverse move in all currency exchange rates affecting the contracts would decrease the fair value of the contracts by $20.3 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, as a result of the hedging of certain of our foreign currency exposure, changes in most relevant foreign currency exchange rates should have no material impact on our income or cash flows.

In April 2008, we issued $750 million aggregate principal amount of 6.90% senior, unsecured long-term debt due in 2018. The fair market value of long-term fixed interest rate debt is subject to interest rate risk. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. As of December 31, 2013, the book value and the fair value of our fixed rate debt were $747.6 million and $874.9 million, respectively.

See Note 4, “Marketable Securities,” to the condensed consolidated financial statements in Part I, Item 1; Management’s Discussion and Analysis of Financial Condition and Results of Operations, “Liquidity and Capital Resources,” in Part I, Item 2; and Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q for a description of recent market events that may affect the value of the investments in our portfolio that we held as of December 31, 2013.

## 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 procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) ("Disclosure Controls") as of the end of the period covered by this Quarterly Report on Form 10-Q (this "Report") required by Exchange Act Rules 13a-15(b) or 15d-15(b). The controls evaluation was conducted under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO have concluded that as of the end of the period covered by this Report the Company's Disclosure Controls were effective at a reasonable assurance level.

Attached as exhibits to this Report are certifications of the CEO and CFO, which are required in accordance with Rule 13a-14 of the Exchange Act. This Controls and Procedures section includes the information concerning the controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

#### Definition of Disclosure Controls

Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in the Company's reports filed under the Exchange Act, such as this Report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. The Company's Disclosure Controls include components of its internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of its financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States. To the extent that components of the Company's internal control over financial reporting are included within its Disclosure Controls, they are included in the scope of the Company's annual controls evaluation.

#### 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 internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

#### 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 December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The information set forth above under Note 11, "Litigation and Other Legal Matters," to the Condensed Consolidated Financial Statements in Item 1 of Part 1 is incorporated herein by reference.

### 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 the economies of both the local markets in which they are located and the semiconductor industry worldwide. If we fail to respond to industry cycles, our business could be seriously harmed.

The timing, length and severity of the up-and-down cycles in the semiconductor equipment industry are difficult to predict. The cyclical nature of the primary industry in which we operate is largely a function of our customers' capital spending patterns and need for expanded manufacturing capacity, which in turn are affected by factors such as capacity utilization, consumer demand for products, inventory levels and our customers' access to capital. This cyclicality affects our ability to accurately predict future revenue and, in some cases, future expense levels. During down cycles in our industry, the financial results of our customers may be negatively impacted, which could result not only in a decrease in, or cancellation or delay of, orders (which are generally subject to cancellation or delay by the customer with limited or no penalty) but also a weakening of their financial condition that could impair their ability to pay for our products or our ability to recognize revenue from certain customers. Our ability to recognize revenue from a particular customer may also be negatively impacted by the customer's funding status, which could be weakened not only by adverse business conditions or inaccessibility to capital markets for any number of macroeconomic or company-specific reasons, but also by funding limitations imposed by the customer's unique corporate structure. Any of these factors could negatively impact our business, operating results and financial condition.

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 periods of declining revenues, as was experienced during fiscal year 2009, 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. If we fail to respond, or if our attempts to respond fail to accomplish our intended results, then our business could be seriously harmed. Furthermore, any workforce reductions and cost reduction actions that we adopt in response to down cycles may result in additional restructuring charges, disruptions in our operations and loss of key personnel. 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. Each of these factors could adversely impact our operating results and financial condition.

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In addition, our management typically provides quarterly forecasts for certain financial metrics, which, when made, are based on business and operational forecasts that are believed to be reasonable at the time. However, largely due to the cyclicality of our business and the industries in which we operate, and the fact that business conditions in our industries can change very rapidly as part of these cycles, our actual results may vary (and have varied in the past) from forecasted results. These variations can occur for any number of reasons, including, but not limited to, unexpected changes in the volume or timing of customer orders, product shipments or product acceptances; an inability to adjust our operations rapidly enough to adapt to changing business conditions; or a different than anticipated effective tax rate. The impact on our business of delays or cancellations of customer orders may be exacerbated by the short lead times that our customers expect between order placement and product shipment. This is because order delays and cancellations may lead not only to lower revenues, but also, due to the advance work we must do in anticipation of receiving a product order in order to meet the expected lead times, to significant inventory write-offs and manufacturing inefficiencies that decrease our gross margin. Any of these factors could materially and adversely affect our financial results for a particular quarter and could cause those results to differ materially from financial forecasts we have previously provided. We provide these forecasts with the intent of giving investors and analysts a better understanding of management's expectations for the future, but parties reviewing such forecasts must recognize that such forecasts are comprised of, and are themselves, forward-looking statements subject to the risks and uncertainties described in this Item 1A and elsewhere in this report and in our other public filings and public statements. If our operating or financial results for a particular period differ from our forecasts or the expectations of investment analysts, or if we revise our forecasts, the market price of our common stock could decline.

Ongoing changes in the technology industry, as well as the semiconductor industry in particular, could expose our business to significant risks.

The semiconductor equipment industry and other industries that we serve are constantly developing and changing over time. Many of the risks associated with operating in these industries are comparable to the risks faced by all technology companies, such as the uncertainty of future growth rates in the industries that we serve, pricing trends in the end-markets for consumer electronics and other products (which place a growing emphasis on our customers' cost of ownership), changes in our customers' capital spending patterns and, in general, an environment of constant change and development, including decreasing product and component dimensions; use of new materials; and increasingly complex device structures, applications and process steps. If we fail to appropriately adjust our cost structure and operations to adapt to any of these trends, or, with respect to technological advances, if we do not timely develop new technologies and products that successfully anticipate and address these changes, we could experience a material adverse effect on our business, financial condition and operating results.

In addition, we face a number of risks specific to ongoing changes in the semiconductor industry, as the significant majority of our sales are made to semiconductor manufacturers. Some of the trends that our management monitors in operating our business include the following:

- the increasing cost of building and operating fabrication facilities and the impact of such increases on our customers' investment decisions;
- 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 associated with semiconductor manufacturing) and, as a result, also impact the inspection and metrology requirements associated with such processes;
- the possible introduction of integrated products by our larger competitors that offer inspection and metrology functionality in addition to managing other semiconductor manufacturing processes;
- changes in semiconductor manufacturing processes that are extremely costly for our customers to implement and, accordingly, impact the amount of their budgets that are available for process control equipment;
- the possibility that next-generation technological advances within the semiconductor manufacturing industry could actually reverse the historical trend of declining cost per transistor, and the impact that such reversal would have upon our industry and business;
- the bifurcation of the semiconductor manufacturing industry into (a) leading edge manufacturers driving continued research and development into next-generation products and technologies and (b) other manufacturers that are content

with existing (including previous generation) products and technologies;

- the ever escalating cost of next-generation product development, which may result in joint development programs between us and our customers to help fund such programs that could restrict our control of, ownership of and profitability from the products and technologies developed through those programs;
- 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 manufacturers, as well as increased outsourcing of their manufacturing activities, and greater focus only on specific markets or applications, whether in response to adverse market conditions or other market pressures.

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Any of the changes described above may negatively affect our customers' rate of investment in the capital equipment that we produce, which could result in downward pressure on our prices, customer orders, revenues and gross margins. If we do not successfully manage the risks resulting from any of these or other potential changes in our industries, our business, financial condition and operating results could be adversely impacted.

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 concentrated. In this environment, orders from a relatively limited number of manufacturers have accounted for, and are expected to continue to account for, a substantial portion of our sales. This increasing concentration exposes our business, financial condition and operating results to a number of risks, including the following:

- The mix and type of customers, and sales to any single customer, may vary significantly from quarter to quarter and from year to year, which exposes our business and operating results to increased volatility tied to individual customers.
- New orders from our foundry customers in the past several years constituted a significant portion of our total orders. This concentration increases the impact that future business or technology changes within the foundry industry may have on our business, financial condition and operating results.
- In a highly concentrated business environment, if a particular customer does not place an order, or if they delay or cancel orders, we may not be able to replace the business. Furthermore, because our products are configured to customer specifications, any changes, delays or cancellations of orders may result in significant, non-recoverable costs.
- In recent years, our customer base has become increasingly concentrated due to corporate consolidation, acquisitions and business closures. As a result of this consolidation, the customers that survive the consolidation represent a greater portion of our sales. Those surviving customers may have more aggressive policies regarding engaging alternative, second-source suppliers for the products we serve and, in addition, may seek, and on occasion receive, pricing, payment, intellectual property-related, or other commercial terms that are less favorable to us. Any of these changes could negatively impact our prices, customer orders, revenues and gross margins.
- Certain customers have undergone significant ownership changes, experienced management changes or have outsourced manufacturing activities, any of which may result in additional complexities in managing customer relationships and transactions.
- The highly concentrated business environment also increases our exposure to risks related to the financial condition of each of our customers. For example, as a result of the challenging economic environment during fiscal year 2009, we were (and in some cases continue to be) exposed to additional risks related to the continued financial viability of certain of our customers. To the extent our customers experience liquidity issues in the future, we may be required to incur additional bad debt expense with respect to receivables owed to us by those customers. In addition, customers with liquidity issues may be forced to discontinue operations or may be acquired by one of our customers, and in either case such event would have the effect of further consolidating our customer base.

Any of these factors could have a material adverse effect on our business, financial condition and operating results.

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 conditions or customer requirements, our business could be seriously harmed.

Success in the semiconductor equipment industry depends, in part, on continual improvement of existing technologies and rapid innovation of new solutions. For example, the size of semiconductor devices continues to shrink, and the industry is currently transitioning to the use of new materials and innovative fab processes. While we expect these trends will increase our customers' reliance on diagnostic products such as ours, we cannot be sure that these trends will directly improve our business. 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 staffing of highly qualified employees. Our competitive advantage and future business success depend on our ability to accurately predict evolving industry standards, to develop and introduce new products that 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.

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In this environment, we must continue to make significant investments in research and development in order to enhance the performance, features and functionality of our products, to keep pace with competitive products and to satisfy customer demands. Substantial research and development costs typically are incurred before we confirm the technical feasibility and commercial viability of a new product, and not all development activities result in commercially viable products. 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. In addition, we cannot be sure 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.

In addition, the complexity of our products exposes us to other risks. We regularly recognize revenue from a sale upon shipment of the applicable product to the customer (even before receiving the customer's formal acceptance of that product) in certain situations, including sales of products for which installation is considered perfunctory, transactions in which the product is sold to an independent distributor and we have no installation obligations, and sales of products where we have previously delivered the same product to the same customer location and that prior delivery has been accepted. However, our products are very technologically complex and rely on the interconnection of numerous subcomponents (all of which must perform to their respective specifications), so it is conceivable that a product for which we recognize revenue upon shipment may ultimately fail to meet the overall product's required specifications. In such a situation, the customer may be entitled to certain remedies, which could materially and adversely affect our operating results for various periods and, as a result, our stock price.

Our success is dependent in part on our technology and other proprietary rights. If we are unable to maintain our lead or protect our proprietary technology, we may lose valuable assets.

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 and obtain patents relating to our business that are similar or superior to our technology or may design around the patents we own, adversely affecting our business. In addition, we at times engage in collaborative technology development efforts with our customers and suppliers, and these collaborations may constitute a key component of certain of our ongoing technology and product research and development projects. The termination of any such collaboration, or delays caused by disputes or other unanticipated challenges that may arise in connection with any such collaboration, could significantly impair our research and development efforts, which could have a material adverse impact on our business and operations.

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. In any event, the extent to which we can protect our trade secrets through the use of confidentiality agreements is limited, and our success will depend to a significant extent on our ability to innovate ahead of our competitors.

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 are diversified companies with greater financial resources and more extensive research, engineering, manufacturing, marketing, and customer service and support capabilities than we possess. 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, including pricing such competitive tools significantly below our product offerings. In addition, we face competition from smaller emerging semiconductor equipment companies whose strategy is to provide a portion of the products and services that we offer, using innovative technology to sell products into specialized markets. The strength of our competitive positions in many of our existing markets is largely due to our leading technology, which is the result of continuing significant investments in product research and development. However, we may enter new markets, whether through acquisitions or new internal product development, in which competition is based primarily on product pricing, not technological superiority. Further, some new growth markets that emerge may not require leading technologies. Loss of competitive position in any of the markets we serve, or an inability to sell our products on favorable commercial terms in new markets we may enter, could negatively affect our prices, customer orders, revenues, gross margins and market share, any of which would negatively affect our operating results and financial condition.
Our business would be harmed if we do not receive parts sufficient in number and performance to meet our production requirements and product specifications in a timely and cost-effective manner.
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 these 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. Through our business interruption planning, we seek to minimize the risk of production and service interruptions and/or shortages of key parts by, among other things, monitoring the financial stability of key suppliers, identifying (but not necessarily qualifying) possible alternative 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. Also, key parts we obtain from some of our suppliers incorporate the suppliers' proprietary intellectual property; in those cases we are increasingly reliant on third parties for high-performance, high-technology components, which reduces the amount of control we have over the availability and protection of the technology and intellectual property that is used in our products. In addition, if certain of our key suppliers experience liquidity issues and are forced to discontinue operations, which is a heightened risk during economic downturns, that would affect their ability to deliver parts and could result in delays for our products. Similarly, especially with respect to suppliers of high-technology components, our suppliers themselves have increasingly complex supply chains, and delays or disruptions at any stage of their supply chains may prevent us from obtaining parts in a timely manner and result in delays for our products. Our operating results and business may be adversely impacted if we are unable to obtain parts to meet our production requirements and product specifications, or if we are only able to do so on unfavorable terms. Furthermore, a supplier may discontinue production of a particular part for any number of reasons, including the supplier's financial condition or business operational decisions, which would require us to purchase, in a single transaction, a large number of such discontinued parts in order to ensure that a continuous supply of such parts remains available to our customers. Such "end-of-life" parts purchases could result in significant expenditures by us in a particular period, and ultimately any unused parts may result in a significant inventory write-off in a future period, either of which could have a material and adverse impact on our financial condition and results of operations for the applicable periods.
If we fail to operate our business in accordance with our business plan, our operating results, business and stock price may be significantly and adversely impacted.
We attempt to operate our business in accordance with a business plan that is established annually, revised frequently (generally quarterly), and reviewed by management even more frequently (at least monthly). Our business plan is developed based on a number of factors, many of which require estimates and assumptions, such as our expectations

of the economic environment, future business levels, our customers' willingness and ability to place orders, lead-times, and future revenue and cash flow. Our budgeted operating expenses, for example, are based in part on our future revenue expectations. However, our ability to achieve our anticipated revenue levels is a function of numerous factors, including the volatile and cyclical nature of our primary industry, customer order cancellations, macroeconomic changes, operational matters regarding particular agreements, our ability to manage customer deliveries and resources for the installation and acceptance of our products (for products where customer acceptance is required before we can recognize revenue from such sales), our ability to manage delays or accelerations by customers in taking deliveries and the acceptance of our products (for products where customer acceptance is required before we can recognize revenue from such sales), our ability to operate our business and sales processes effectively, and a number of the other risk factors set forth in this Item 1A.

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Because our expenses are in most cases relatively fixed in the short term, any revenue shortfall below expectations could have an immediate and significant adverse effect on our operating results. Similarly, if we fail to manage our expenses effectively or otherwise fail to maintain rigorous cost controls, we could experience greater than anticipated expenses during an operating period, which would also negatively affect our results of operations. If we fail to operate our business consistent with our business plan, our operating results in any period may be significantly and adversely impacted. Such an outcome could cause customers, suppliers or investors to view us as less stable, or could cause us to fail to meet financial analysts' revenue or earnings estimates, any of which could have a material adverse impact on our business, financial condition or stock price.

In addition, our management is constantly striving to balance the requirements and demands of our customers with the availability of resources, the need to manage our operating model and other factors. In furtherance of those efforts, we often must exercise discretion and judgment as to the timing and prioritization of manufacturing, deliveries, installations and payment scheduling. Any such decisions may impact our ability to recognize revenue, including the fiscal period during which such revenue may be recognized, with respect to such products, which could have a material adverse effect on our business, financial condition or stock price.

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 announced several increases in the amount of our quarterly dividend level. We intend to continue to pay quarterly dividends subject to capital availability and periodic determinations by our Board of Directors that cash dividends are in the best interest of our stockholders and are in compliance with all laws and agreements applicable to the declaration and payment of cash dividends by us. Future dividends may be affected by, among other factors: our views on potential future capital requirements for investments in acquisitions and the funding of our research and development; legal risks; stock repurchase programs; changes in federal and state income tax laws or corporate laws; and changes to our business model. Our dividend payments may change from time to time, and we cannot provide assurance that we will continue to declare dividends at all or in any particular amounts. A reduction in our dividend payments could have a negative effect on our stock price.

There are risks associated with our outstanding indebtedness.

As of December 31, 2013, we had $750 million aggregate principal amount of outstanding indebtedness represented by our senior notes that will mature in 2018, and we may incur additional indebtedness in the future. Our ability to pay interest and repay the principal for our indebtedness is dependent upon our ability to manage our business operations and the other risk factors discussed in this section. There can be no assurance that we will be able to manage any of these risks successfully.

In addition, changes by any rating agency to our outlook or credit rating could negatively affect the value and liquidity of both our debt and equity securities. Factors that can affect our credit rating include changes in our operating performance, the economic environment, conditions in the semiconductor and semiconductor equipment industries, our financial position, and changes in our business strategy.

In certain circumstances involving a change of control followed by a downgrade of the rating of our senior notes, we will be required to make an offer to repurchase the senior notes at a purchase price equal to 101% of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest. We cannot make any assurance that we will have sufficient financial resources at such time or will be able to arrange financing to pay the repurchase price of the senior notes. Our ability to repurchase the senior notes in such event may be limited by law, by the indenture associated with the senior notes, or by the terms of other agreements to which we may be party at such time. If we fail to repurchase the senior notes as required by the indenture, it would constitute an event of default under the indenture governing the senior notes which, in turn, may also constitute an event of default under other of our obligations.

We are exposed to risks related to our commercial terms and conditions, including our indemnification of third parties, as well as the performance of our products.

Although our standard commercial documentation sets forth the terms and conditions that we intend to apply to commercial transactions with our business partners, counterparties to such transactions may not explicitly agree to our terms and conditions. In situations where we engage in business with a third party without an explicit master agreement regarding the applicable terms and conditions, or where the commercial documentation applicable to the transaction is subject to varying interpretations, we may have disputes with those third parties regarding the applicable terms and conditions of our business relationship with them. Such disputes could lead to a deterioration of our commercial relationship with those parties, costly and time-consuming litigation, or additional concessions or obligations being offered by us to resolve such disputes, or could impact our revenue or cost recognition. Any of these outcomes could materially and adversely affect our business, financial condition and results of operations.

In addition, in our commercial agreements, from time to time in the normal course of business we indemnify third parties with whom we enter into contractual relationships, including customers and lessors, with respect to certain matters. We have agreed, under certain conditions, to hold these third parties harmless against specified losses, such as those arising from a breach of representations or covenants, other third party claims that our products when used for their intended purposes infringe the intellectual property rights of such other third parties, or other claims made against certain parties. We may be compelled to enter into or accrue for probable settlements of alleged indemnification obligations, or we may be subject to potential liability arising from our customers' involvements in legal disputes. In addition, notwithstanding the provisions related to limitations on our liability that we seek to include in our business agreements, the counterparties to such agreements may dispute our interpretation or application of such provisions, and a court of law may not interpret or apply such provisions in our favor, any of which could result in an obligation for us to pay material damages to third parties and engage in costly legal proceedings. It is difficult to determine the maximum potential amount of liability under any indemnification obligations, whether or not asserted, due to our limited history of prior indemnification claims and the unique facts and circumstances that are likely to be involved in any particular claim. Our business, financial condition and results of operations in a reported fiscal period could be materially and adversely affected if we expend significant amounts in defending or settling any purported claims, regardless of their merit or outcomes.

We are also exposed to potential costs associated with unexpected product performance issues. Our products and production processes are extremely complex and thus could contain unexpected product defects, especially when products are first introduced. Unexpected product performance issues could result in significant costs being incurred by us, including increased service or warranty costs, providing product replacements for (or modifications to) defective products, litigation related to defective products, product recalls, or product write-offs or disposal costs. These costs could be substantial and could have an adverse impact upon our business, financial condition and operating results. In addition, our reputation with our customers could be damaged as a result of such product defects, which could reduce demand for our products and negatively impact our business.

Furthermore, we occasionally enter into volume purchase agreements with our larger customers, and these agreements may provide for certain volume purchase incentives, such as credits toward future purchases. We believe that these arrangements are beneficial to our long-term business, as they are designed to encourage our customers to purchase higher volumes of our products. However, these arrangements could require us to recognize a reduced level of revenue for the products that are initially purchased, to account for the potential future credits or other volume purchase incentives. As a result, these volume purchase arrangements, while expected to be beneficial to our business over time, could materially and adversely affect our results of operations in near-term periods, including the revenue we can recognize on product sales and therefore our gross margins.

In addition, we may in limited circumstances enter into agreements that contain other types of customer-specific pricing, discount, rebate or credit commitments offered by us, which may adversely impact our revenues, margins or financial results. Furthermore, we may give these customers limited audit or inspection rights to enable them to confirm that we are complying with these commitments. If a customer elects to exercise its audit or inspection rights, we may be required to expend significant resources to support the audit or inspection, as well as to defend or settle any dispute with a customer that could potentially arise out of such audit or inspection. To date, we have made no accruals in our consolidated financial statements for this contingency. While we have not in the past incurred significant expenses for resolving disputes regarding these types of commitments, we cannot make any assurance that we will not incur any such liabilities in the future. One significant customer recently notified us of its intent to exercise its audit rights, and we cannot predict the outcome of that audit at this time. Our business, financial condition and results of operations in a reported fiscal period could be materially and adversely affected if we expend significant amounts in supporting an audit or inspection, or defending or settling any purported claims, regardless of their merit or outcomes.

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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 various governments and government agencies, both domestically and internationally. Governments and government agencies typically have the right to terminate funding programs at any time in their sole discretion, so there is no assurance that these sources of external funding will continue to be available to us in the future. In addition, under the terms of these government grants, the applicable granting agency typically has the right to audit the costs that we incur, directly and indirectly, in connection with such programs. Any such audit could result in modifications to, or even termination of, the applicable government funding program. For example, if an audit were to identify any costs as being improperly allocated to the applicable program, those costs would not be reimbursed, and any such costs that had already been reimbursed would have to be refunded. We do not know the outcome of any future audits. Any adverse finding resulting from any such audit could lead to penalties (financial or otherwise), termination of funding programs, suspension of payments, fines and suspension or prohibition from receiving future government funding from the applicable government or government agency, any of which could adversely impact our operating results, financial condition and ability to operate our business.
We have recorded significant restructuring, inventory write-off and asset impairment charges in the past and may do so again in the future, which could have a material negative impact on our business.
During the fiscal year ended June 30, 2009, we recorded material restructuring charges of $38.7 million related to our global workforce reduction, large excess inventory write-offs of $85.6 million, and material impairment charges of $446.7 million related to our goodwill and purchased intangible assets. If we again encounter challenging economic conditions once again, we may implement additional cost reduction actions, discontinue certain business operations or make other organizational changes, which would require us to take additional, potentially material, restructuring charges related to, among other things, employee terminations or exit costs. We may also be required to write off additional inventory if our product build plans or usage of service inventory decline. Also, as our lead times from suppliers increase (due to the increasing complexity of the parts and components they provide) and the lead times demanded by our customers decrease (due to the time pressures they face when introducing new products or technology or bringing new facilities into production), we may be compelled to increase our commitments, and therefore our risk exposure, to inventory purchases to meet our customers' demands in a timely manner, and that inventory may need to be written-off if demand for the underlying product declines for any reason. Such additional write-offs could constitute material charges.
As noted above, we recorded a material charge during the fiscal year ended June 30, 2009 related to the impairment of our goodwill and purchased intangible assets. Goodwill represents the excess of costs over the net fair value of net assets acquired in a business combination. Goodwill is not amortized, but is instead tested for impairment at least annually in accordance with authoritative guidance for goodwill. Purchased intangible assets with estimable useful lives are amortized over their respective estimated useful lives using the straight-line method, and are reviewed for impairment in accordance with authoritative guidance for long-lived assets. The valuation of goodwill and intangible assets requires assumptions and estimates of many critical factors, including revenue and market growth, operating cash flows, market multiples, and discount rates. A substantial decline in our stock price, or any other adverse change in market conditions, particularly if such change has the effect of changing one of the critical assumptions or estimates we previously used to calculate the value of our goodwill or intangible assets (and, as applicable, the amount of any previous impairment charge), could result in a change to the estimation of fair value that could result in an additional impairment charge.
Any such additional material charges, whether related to restructuring or goodwill or purchased intangible asset impairment, may have a material negative impact on our operating results and related financial statements.
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 from customers without recourse. In addition, we maintain bank accounts with several domestic and foreign financial institutions, any of which may prove not to be financially viable. If we were to stop entering into these factoring arrangements, our operating results, financial condition and cash flows could be adversely impacted by

delays or failures in collecting trade receivables. However, by entering into these arrangements, and by engaging these financial institutions for banking services, we are exposed to additional risks. If any of these financial institutions experiences financial difficulties or is otherwise unable to honor the terms of our factoring or deposit arrangements, we may experience material financial losses due to the failure of such arrangements or a lack of access to our funds, any of which could have an adverse impact upon our operating results, financial condition and cash flows.

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We are subject to the risks of additional government actions in the event we were to breach the terms of any settlement arrangement into which we have entered.

In connection with the settlement of certain government actions and other legal proceedings related to our historical stock option practices, we have explicitly agreed as a condition to such settlements that we will comply with certain laws, such as the books and records provisions of the federal securities laws. If we were to violate any such law, we might not only be subject to the significant penalties applicable to such violation, but our past settlements may also be impacted by such violation, which could give rise to additional government actions or other legal proceedings. Any such additional actions or proceedings may require us to expend significant management time and incur significant accounting, legal and other expenses, and may divert attention and resources from the operation of our business. These expenditures and diversions, as well as an adverse resolution of any such action or proceeding, could have a material adverse effect on our business, financial condition and results of operations.

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 experienced during the fiscal year ended June 30, 2009 contributed to slowdowns in the industries in which we operate, which slowdowns could recur or worsen if economic conditions were to deteriorate again.

The markets for semiconductors, and therefore our business, are ultimately driven by the global demand for electronic devices by consumers and businesses. Economic uncertainty frequently leads to reduced consumer and business spending, which caused our customers to decrease, cancel or delay their equipment and service orders from us in the economic slowdown during fiscal year 2009. In addition, the tightening of credit markets and concerns regarding the availability of credit that accompanied that slowdown made it more difficult for our customers to raise capital, whether debt or equity, to finance their purchases of capital equipment, including the products we sell. Reduced demand, combined with delays in our customers' ability to obtain financing (or the unavailability of such financing), has at times in the past several years adversely affected our product and service sales and revenues and therefore has harmed our business and operating results, and our operating results and financial condition may again be adversely impacted if economic conditions decline from their current levels.

In addition, a decline in the condition of the global financial markets could adversely impact the market values or liquidity of our investments. Our investment portfolio includes corporate and government securities, money market funds and other types of debt and equity investments. Although we believe our portfolio continues to be comprised of sound investments due to the quality and (where applicable) credit ratings and government guarantees of the underlying investments, a decline in the capital and financial markets would adversely impact the market value of our investments and their liquidity. If the market value of such investments were to decline, or if we were to have to sell some of our investments under illiquid market conditions, we may be required to recognize an impairment charge on such investments or a loss on such sales, either of which could have an adverse effect on our financial condition and operating results.

If we are unable to timely and appropriately adapt to changes resulting from difficult macroeconomic conditions, our business, financial condition or results of operations may be materially and adversely affected.

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A majority of our annual revenues are derived from outside the United States, and we maintain significant operations outside the United States. We are exposed to numerous risks as a result of the international nature of our business and operations.

A majority of our annual revenues are derived from outside the United States, and we maintain significant operations outside the United States. We expect that these conditions will continue in the foreseeable future. Managing global operations and sites located throughout the world presents a number of challenges, including but not limited to:

- managing cultural diversity and organizational alignment;
- exposure to the unique characteristics of each region in the global semiconductor market, which can cause capital equipment investment patterns to vary significantly from period to period;
- periodic local or international economic downturns;
- potential adverse tax consequences, including withholding tax rules that may limit the repatriation of our earnings, and higher effective income tax rates in foreign countries where we do business;
- government controls, either by the United States or other countries, that restrict our business overseas or the import or export of semiconductor products or increase the cost of our operations;
- compliance with customs regulations in the countries in which we do business;
- 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 or where we do business;
- fluctuations in interest and currency exchange rates. Fluctuations in currency exchange rates may adversely impact our ability to compete on price with local providers or the value of revenues we generate from our international business. 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;
- 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 United States and local laws); and
- 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 claims or disputes related to intellectual property or other confidential information that may be costly to resolve, prevent us from selling or using the challenged technology and seriously harm our operating results and financial condition.

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. In addition, we occasionally receive notification from customers who believe that we owe them indemnification or other obligations related to intellectual property claims made against such customers by third parties. With respect to intellectual property infringement disputes, our customary practice is to evaluate such infringement 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 results of operations and financial condition. Furthermore, we may potentially be subject to claims by customers, suppliers or other business partners, or by governmental law enforcement agencies, related to our receipt, distribution and/or use of third-party intellectual property or confidential information. Legal proceedings and claims, regardless of their merit, and associated internal investigations with respect to intellectual property or confidential information disputes are often expensive to prosecute, defend or conduct; may divert management's attention and other company resources; and/or may result in restrictions on our ability to sell our products, settlements on significantly adverse terms or adverse judgments for damages, injunctive relief, penalties and fines, any of which could have a significant negative effect on our business, results of operations and financial condition. There can be no assurance regarding the outcome of future legal proceedings, claims or investigations. The instigation of legal proceedings or claims, our inability to favorably resolve or settle such proceedings or claims, or the determination of any adverse findings against us or any of our employees in connection with such proceedings or claims could materially and adversely affect our business, financial condition and results of operations, as well as our business reputation.

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We are exposed to various risks related to the legal (including environmental), regulatory and tax environments in which we perform our operations and conduct our business.

We are subject to various risks related to compliance with new, existing, different, inconsistent or even conflicting laws, rules and regulations enacted by legislative bodies and/or regulatory agencies in the countries in which we operate and with which we must comply, including environmental, safety, antitrust, anti-corruption/anti-bribery, unclaimed property and export control regulations. Our failure or inability to comply with existing or future laws, rules or regulations, or changes to existing laws, rules or regulations (including changes that result in inconsistent or conflicting laws, rules or regulations), in the countries in which we operate could result in violations of contractual or regulatory obligations that may adversely affect our operating results, financial condition and ability to conduct our business. From time to time, we may receive inquiries or audit notices from governmental or regulatory bodies, or we may participate in voluntary disclosure programs, related to legal, regulatory or tax compliance matters, and these inquiries, notices or programs may result in significant financial cost (including investigation expenses, defense costs, assessments and penalties), reputational harm and other consequences that could materially and adversely affect our operating results and financial condition.

Our properties and many aspects of our business operations are subject to various domestic and international environmental laws and regulations, including those that control and restrict the use, transportation, emission, discharge, storage and disposal of certain chemicals, gases and other substances. Any failure to comply with applicable environmental laws, regulations or requirements may subject us to a range of consequences, including fines, suspension of certain of our business activities, limitations on our ability to sell our products, obligations to remediate environmental contamination, and criminal and civil liabilities or other sanctions. In addition, changes in environmental regulations (including regulations relating to climate change and greenhouse gas emissions) could require us to invest in potentially costly pollution control equipment, alter our manufacturing processes or use substitute (potentially more expensive and/or rarer) materials. Further, we use hazardous and other regulated materials that subject us to risks of strict liability for damages caused by any release, regardless of fault. We also face increasing complexity in our manufacturing, product design and procurement operations as we adjust to new and prospective requirements relating to the materials composition of our products, including restrictions on lead and other substances and requirements to track the sources of certain metals and other materials. The cost of complying, or of failing to comply, with these and other regulatory restrictions or contractual obligations could adversely affect our operating results, financial condition and ability to conduct our business.

In addition, we may from time to time be involved in legal proceedings or claims regarding employment, contracts, product performance, product liability, antitrust, environmental regulations, securities, unfair competition and other matters (in addition to proceedings and claims related to intellectual property matters, which are separately discussed elsewhere in this Item 1A). These legal proceedings and claims, regardless of their merit, may be time-consuming and expensive to prosecute or defend, divert management’s attention and resources, and/or inhibit our ability to sell our products. There can be no assurance regarding the outcome of current or future legal proceedings or claims, which could adversely affect our operating results, financial condition and ability to operate our business.

Recent regulations related to “conflict minerals” may force us to incur additional expenses, may result in damage to our business reputation and may adversely impact our ability to conduct our business.

In August 2012, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the SEC adopted new requirements for companies that use certain minerals and derivative metals (referred to as “conflict minerals,” regardless of their actual country of origin) in their products. Some of these metals are commonly used in electronic equipment and devices, including our products. These new requirements require companies to investigate, disclose and report whether or not such metals originated from the Democratic Republic of Congo or adjoining countries. We have an extremely complex supply chain, with numerous suppliers (many of whom are not obligated by the new law to investigate their own supply chains) for the components and parts used in each of our products. As a result, we may incur significant costs to comply with the diligence and disclosure requirements, including costs related to determining the source of any of the relevant metals used in our products. In addition, because our supply chain is so complex, we may not be able to sufficiently verify the origin of all the relevant metals used in our products through the due diligence procedures that we implement, which may harm our business reputation. Though we do not anticipate that our customers will need to know our conflict mineral status to satisfy their own SEC reporting obligations (if any), we may also face difficulties in satisfying customers if they nonetheless require that we prove or certify that our products are "conflict free." Key components and parts that can be shown to be "conflict free" may not be available to us in sufficient quantity, or at all, or may only be available at significantly higher cost to us. If we are not able to meet customer requirements, customers may choose to disqualify us as a supplier. Any of these outcomes could adversely impact our business, financial condition or operating results.

We depend on key personnel to manage our business effectively, and if we are unable to attract, retain and motivate our key employees, our sales and product development could be harmed.

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 and retain additional highly qualified employees to meet our needs in the future, our business and operations could be harmed.

We outsource a number of services to third-party service providers, which decreases our control over the performance of these functions. Disruptions or delays at our third-party service providers could adversely impact our operations.

We outsource a number of services, including our transportation and logistics management of spare parts and certain accounting functions, to domestic and overseas third-party service providers. While outsourcing arrangements may lower our cost of operations, they also reduce our direct control over the services rendered. It is uncertain what effect such diminished control will have on the quality or quantity of products delivered or services rendered, on our ability to quickly respond to changing market conditions, or on our ability to ensure compliance with all applicable domestic and foreign laws and regulations. In addition, many of these outsourced service providers, including certain hosted software applications that we use for confidential data storage, employ “cloud computing” technology for such storage (which refers to an information technology hosting and delivery system in which data is not stored within the user's physical infrastructure but instead are delivered to and consumed by the user as an Internet-based service). These providers' cloud computing systems may be susceptible to “cyber incidents,” such as intentional cyber attacks aimed at theft of sensitive data or inadvertent cyber-security compromises, that are outside of our control. If we do not effectively develop and manage our outsourcing strategies, if required export and other governmental approvals are not timely obtained, if our third-party service providers do not perform as anticipated, or do not adequately protect our data from cyber-related security breaches, or if there are delays or difficulties in enhancing business processes, we may experience operational difficulties (such as limitations on our ability to ship products), increased costs, manufacturing or service interruptions or delays, loss of intellectual property rights or other sensitive data, quality and compliance issues, and challenges in managing our product inventory or recording and reporting financial and management information, any of which could materially and adversely affect our business, financial condition and results of operations.

We rely upon certain critical information systems for our daily business operation. Our inability to use or access these information systems at critical points in time could unfavorably impact the timeliness and efficiency of our business operations.

Our global operations are linked by information systems, including telecommunications, the internet, our corporate intranet, network communications, email and various computer hardware and software applications. Despite our implementation of network security measures, our tools and servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems and tools located at customer sites, or could be subject to system failures or malfunctions for other reasons. System failures or malfunctioning, such as difficulties with our customer relationship management (“CRM”) system, could disrupt our operations and our ability to timely and accurately process and report key components of our financial results. Our enterprise resource planning (“ERP”) system is integral to our ability to accurately and efficiently maintain our books and records, record transactions, provide critical information to our management, and prepare our financial statements. Any disruptions or difficulties that may occur in connection with our ERP system or other systems (whether in connection with the regular operation, periodic enhancements, modifications or upgrades of such systems or the integration of our acquired businesses into such systems) could adversely affect our ability to complete important business processes, such as the evaluation of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. Any such event could have an adverse effect on our business, operating results and financial condition.

Acquisitions are an important element of our strategy but, because of the uncertainties involved, we may not find suitable acquisition candidates and we may not be able to successfully integrate and manage acquired businesses. We are also exposed to risks in connection with strategic alliances into which we may enter.

In addition to our efforts to develop new technologies from internal sources, part of our growth strategy is to pursue acquisitions and 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. There can be no assurance that we will find suitable acquisition candidates or that acquisitions we complete will be successful. In addition, we may use equity to finance future acquisitions, which would increase our number of shares outstanding and be dilutive to current stockholders.

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If we are unable to successfully integrate and manage acquired businesses or if acquired businesses perform poorly, then our business and financial results may suffer. It is possible that the businesses we have acquired, as well as businesses that we may acquire in the future, may perform worse than expected or prove to be more difficult to integrate and manage than expected. In addition, we may lose key employees of the acquired companies. As a result, risks associated with acquisition transactions may give rise to a material adverse effect on our business and financial results for a number of reasons, including:

- 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 of our company and/or the acquired business;
- 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 products;
- 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 have a potentially adverse reaction to the acquisition;
- 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 development of technology and intellectual property. These alliances typically require significant investments of capital and exchange of proprietary, highly sensitive information. The success of these alliances depends on various factors over which we may have limited or no control and requires ongoing and effective cooperation with our strategic partners. Mergers and acquisitions and strategic alliances are inherently subject to significant risks, and the inability to effectively manage these risks could materially and adversely affect our business, financial condition and operating results.

Disruption of our manufacturing facilities or other operations, or in the operations of our customers, due to earthquake, flood, other natural catastrophic events, health epidemics or terrorism could result in cancellation of orders, delays in deliveries or other business activities, or loss of customers and could seriously harm our business.

We have significant manufacturing operations in the United States, Singapore, Israel, Belgium, Germany and China. In addition, our business is international in nature, with our sales, service and administrative personnel and our customers located in numerous countries throughout the world. Operations at our manufacturing facilities and our assembly subcontractors, as well as our other operations and those of our customers, are subject to disruption for a variety of reasons, including work stoppages, acts of war, terrorism, health epidemics, fire, earthquake, volcanic eruptions, energy shortages, flooding or other natural disasters. Such disruption could cause delays in, among other things, shipments of products to our customers, our ability to perform services requested by our customers, or the installation and acceptance of our products at customer sites. We cannot ensure that alternate means of conducting our operations (whether through alternate production capacity or service providers or otherwise) would be available if a major disruption were to occur or that, if such alternate means were available, they could be obtained on favorable terms.

In addition, as part of our cost-cutting actions, we have consolidated several operating facilities. Our California operations are now primarily centralized in our Milpitas facility. The consolidation of our California operations into a single campus could further concentrate the risks related to any of the disruptive events described above, such as acts of war or terrorism, earthquakes, fires or other natural disasters, if any such event were to impact our Milpitas facility.

We are predominantly uninsured for losses and interruptions caused by terrorist acts and acts of war. If international political instability continues or increases, our business and results of operations could be harmed.

The threat of terrorism targeted at, or acts of war in, the regions of the world in which we do business increases the uncertainty in our markets. Any act of terrorism or war that affects the economy or the semiconductor industry could adversely affect our business. Increased international political instability in various parts of the world, disruption in air transportation and further enhanced security measures as a result of terrorist attacks may hinder our ability to do business and may increase our costs of operations. We maintain significant manufacturing and research and development operations in Israel, an area that has historically experienced a high degree of political instability, and we are therefore exposed to risks associated with future instability in that region. Such instability could directly impact our ability to operate our business (or our customers' ability to operate their business) in the affected region, cause us to incur increased costs in transportation, make such transportation unreliable, increase our 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 international political instability continues or increases in any region in which we do business, our business and results of operations could be harmed. We are predominantly uninsured for losses and interruptions caused by terrorist acts and acts of war.

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We self insure certain risks including earthquake risk. If one or more of the uninsured events occurs, we could suffer major financial loss.

We purchase insurance to help mitigate the economic impact of certain insurable risks; however, certain other risks are uninsurable or are insurable only at significant cost or cannot be mitigated with insurance. An earthquake could significantly disrupt our manufacturing operations, a significant portion of which are conducted in California, an area highly susceptible to earthquakes. It could also significantly delay our research and engineering efforts on new products, much of which is also conducted in California. We take steps to minimize the damage that would be caused by an earthquake, but there is no certainty that our efforts will prove successful in the event of an earthquake. We self insure earthquake risks because we believe this is a prudent financial decision based on our large cash reserves and the high cost and limited coverage available in the earthquake insurance market. Certain other risks are also self-insured either based on a similar cost-benefit analysis, or based on the unavailability of insurance. If one or more of the uninsured events occurs, we could suffer major financial loss.

We are exposed to foreign currency exchange rate fluctuations. Although we hedge certain currency risks, we may still be adversely affected by changes in foreign currency exchange rates or declining economic conditions in these countries.

We have some exposure to fluctuations in foreign currency exchange rates, primarily the Euro and the Japanese Yen. We have international subsidiaries that operate and sell our products globally. In addition, an increasing proportion of our manufacturing activities are conducted outside of the United States, and many of the costs associated with such activities are denominated in foreign currencies. We routinely hedge our exposures to certain foreign currencies with certain financial institutions in an effort to minimize the impact of certain currency exchange rate fluctuations, but these hedges may be inadequate to protect us from currency exchange rate fluctuations. To the extent that these hedges are inadequate, or if there are significant currency exchange rate fluctuations in currencies for which we do not have hedges in place, our reported financial results or the way we conduct our business could be adversely affected. Furthermore, if a financial counterparty to our hedges experiences financial difficulties or is otherwise unable to honor the terms of the foreign currency hedge, we may experience material financial losses.

We are exposed to fluctuations in interest rates and the market values of our portfolio investments; impairment of our investments could harm our earnings. In addition, we and our stockholders are exposed to risks related to the volatility of the market for our common stock.

Our investment portfolio primarily consists of both corporate and government debt securities that have a maximum effective maturity of three years. The longer the duration of these securities, the more susceptible they are to changes in market interest rates and bond yields. As market interest rates and bond yields increase, those securities with a lower yield-at-cost show a mark-to-market unrealized loss. We have the ability to realize the full value of all these investments upon maturity. However, an impairment of the fair market value of our investments, even if unrealized, must be reflected in our financial statements for the applicable period and may therefore have a material adverse effect on our results of operations for that period.

In addition, the market price for our common stock is volatile and has fluctuated significantly during recent years. The trading price of our common stock could continue to be highly volatile and fluctuate widely in response to various factors, including without limitation conditions in the semiconductor industry and other industries in which we operate, fluctuations in the global economy or capital markets, our operating results or other performance metrics, or adverse consequences experienced by us as a result of any of the risks described elsewhere in this Item 1A. Volatility in the market price of our common stock could cause an investor in our common stock to experience a loss on the value of their investment in us and could also adversely impact our ability to raise capital through the sale of our common stock or to use our common stock as consideration to acquire other companies.

We are exposed to risks in connection with tax and regulatory compliance audits in various jurisdictions.

We are subject to tax and regulatory compliance audits (such as related to customs or product safety requirements) in various jurisdictions, and such jurisdictions may assess additional income or other taxes, penalties, fines or other prohibitions against us. Although we believe our tax estimates are reasonable and that our products and practices comply with applicable regulations, the final determination of any such audit and any related litigation could be materially different from our historical income tax provisions and accruals related to income taxes and other contingencies. The results of an audit or litigation could have a material adverse effect on our operating results or cash flows in the period or periods for which that determination is made.

A change in our effective tax rate can have a significant adverse impact on our business.

We earn profits in, and are therefore potentially subject to taxes in, the U.S. and numerous foreign jurisdictions, including Singapore, Israel and the Cayman Islands, the countries in which we earn the majority of our non-U.S. profits. Due to economic, political or other conditions, tax rates in those jurisdictions may be subject to significant change. A number of factors may adversely impact our future effective tax rates, such as the jurisdictions in which our profits are determined to be earned and taxed; changes in the tax rates imposed by those jurisdictions; the resolution of issues arising from tax audits with various tax authorities; changes in the valuation of our deferred tax assets and liabilities; adjustments to estimated taxes upon finalization of various tax returns; increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development and impairment of goodwill in connection with acquisitions; changes in available tax credits; changes in stock-based compensation expense; changes in tax laws or the interpretation of such tax laws (for example, proposals for fundamental United States international tax reform); changes in generally accepted accounting principles; and the repatriation of earnings from outside the United States for which we have not previously provided for United States taxes. A change in our effective tax rate can materially and adversely impact our results from operations.

Compliance with federal securities laws, rules and regulations, as well as NASDAQ requirements, is becoming increasingly complex, and the significant attention and expense we must devote to those areas may have an adverse impact on our business.

Federal securities laws, rules and regulations, as well as NASDAQ rules and regulations, require companies to maintain extensive corporate governance measures, impose comprehensive reporting and disclosure requirements, set strict independence and financial expertise standards for audit and other committee members and impose civil and criminal penalties for companies and their chief executive officers, chief financial officers and directors for securities law violations. These laws, rules and regulations have increased, and in the future are expected to continue to increase, the scope, complexity and cost of our corporate governance, reporting and disclosure practices, which could harm our results of operations and divert management’s attention from business operations.

A change in accounting standards or practices or a change in existing taxation rules or practices (or changes in interpretations of such standards, practices or rules) can have a significant effect on our reported results and may even affect reporting of transactions completed before the change is effective.

New accounting pronouncements and taxation rules and varying interpretations of accounting pronouncements and taxation rules have occurred and will continue to occur in the future. Changes to (or revised interpretations or applications of) existing tax or accounting rules or the questioning of current or past practices may adversely affect our reported financial results or the way we conduct our business.

For example, the adoption of the authoritative guidance for stock-based compensation, which required us to measure all employee stock-based compensation awards using a fair value method beginning in fiscal year 2006 and record such expense in our consolidated financial statements, has had a material impact on our consolidated financial statements, as reported under accounting principles generally accepted in the United States.

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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 December 31, 2013 (1):

| Period | Total Number of Shares Purchased (2) | Average Price Paid per Share | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (3) |
|---|---|---|---|
| October 1, 2013 to October 31, 2013 | 340,640 | $ 62.05 | 4,473,472 |
| November 1, 2013 to November 30, 2013 | 299,105 | $ 63.86 | 4,174,367 |
| December 1, 2013 to December 31, 2013 | 319,395 | $ 62.83 | 3,854,972 |
| Total | 959,140 | $ 62.87 | |

(1) In July 1997, our Board of Directors authorized us to systematically repurchase up to 17.8 million shares of our common stock in the open market. This plan was put into place to reduce the dilution from our employee benefit and incentive plans, such as our equity incentive and employee stock purchase plans, and to return excess cash to our stockholders. Our Board of Directors has authorized us to repurchase additional shares of our common stock under the repurchase program in February 2005 (up to 10.0 million shares), February 2007 (up to 10.0 million shares), August 2007 (up to 10.0 million shares), June 2008 (up to 15.0 million shares), February 2011 (up to 10.0 million shares), and November 2012 (up to 8.0 million shares), in each case in addition to the originally authorized 17.8 million shares described in the first sentence of this footnote.

(2) All shares were purchased pursuant to the publicly announced repurchase program described in footnote 1 above. Shares are reported based on the settlement date of the applicable repurchase.

(3) The stock repurchase program has no expiration date. Future repurchases of our common stock under our repurchase program may be effected through various different repurchase transaction structures, including isolated open market transactions or systematic repurchase plans.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

| Exhibit Number | Exhibit Description | Incorporated by Reference Form | File Number | Exhibit Number | Filing Date |
|---|---|---|---|---|---|
| 10.45 | 2004 Equity Incentive Plan (as amended and restated (as of November 6, 2013)) * | DEF14A | No. 000-09992 | App. A | September 26, 2013 |
| 10.46 | KLA-Tencor Corporation Performance Bonus Plan * | DEF14A | No. 000-09992 | App. B | September 26, 2013 |
| 31.1 | Certification of Chief Executive Officer Under Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 | | | | |
| 31.2 | Certification of Chief Financial Officer Under Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934 | | | | |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 | | | | |
| 101.INS | XBRL Instance Document | | | | |
| 101.SCH | XBRL Taxonomy Extension Schema Document | | | | |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document | | | | |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | | | | |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | | | | |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document | | | | |

* Denotes a management contract, plan or arrangement

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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 its behalf by the undersigned thereunto duly authorized.

| | |
|---|---|
| | KLA-Tencor Corporation<br>(Registrant) |
| January 23, 2014<br>(Date) | /s/ RICHARD P. WALLACE<br>Richard P. Wallace<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| January 23, 2014<br>(Date) | /s/ BREN D. HIGGINS<br>Bren D. Higgins<br>Executive Vice President and Chief Financial Officer<br>(Principal Financial Officer) |
| January 23, 2014<br>(Date) | /s/ VIRENDRA A. KIRLOSKAR<br>Virendra A. Kirloskar<br>Senior Vice President and Chief Accounting Officer<br>(Principal Accounting Officer) |

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KLA-TENCOR CORPORATION
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