KLA TENCOR CORP
Form 10-Q
January 24, 2014

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

FORM 10-Q

(Mark one)
T QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2013
or
£ TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 000-09992
KLA-Tencor Corporation
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	04-2564110 (I.R.S. Employer Identification No.)
One Technology Drive, Milpitas, California (Address of Principal Executive Offices)	95035 (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No £
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No £
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.

Large accelerated filer x	Accelerated filer £	Non-accelerated filer £ (Do not check if a smaller reporting company)	Smaller reporting company £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes £ No x
As of January 10, 2014, there were 166,577,223 shares of the registrant's Common Stock, $0.001 par value, outstanding.

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PART I. FINANCIAL INFORMATION

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

(In thousands)	December 31, 2013	June 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$793,382	$985,390
Marketable securities	2,157,279	1,933,491
Accounts receivable, net	573,077	524,610
Inventories	663,040	634,448
Deferred income taxes	200,614	198,525
Other current assets	120,142	75,039
Total current assets	4,507,534	4,351,503
Land, property and equipment, net	325,856	305,281
Goodwill	326,578	326,635
Purchased intangibles, net	26,098	34,515
Other non-current assets	254,668	269,423
Total assets	$5,440,734	$5,287,357
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$141,545	$115,680
Deferred system profit	243,603	157,965
Unearned revenue	47,629	60,838
Other current liabilities	495,222	527,049
Total current liabilities	927,999	861,532
Non-current liabilities:		
Long-term debt	747,647	747,376
Pension liabilities	57,621	57,959
Income tax payable	62,777	59,494
Unearned revenue	58,653	42,228
Other non-current liabilities	35,830	36,616
Total liabilities	1,890,527	1,805,205
Commitments and contingencies (Note 11 and Note 12)		
Stockholders' equity:		
Common stock and capital in excess of par value	1,193,654	1,159,565
Retained earnings	2,386,801	2,359,233
Accumulated other comprehensive income (loss)	(30,248)	(36,646)
Total stockholders' equity	3,550,207	3,482,152
Total liabilities and stockholders' equity	$5,440,734	$5,287,357

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

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

	Three months ended December 31,		Six months ended December 31,	
(In thousands, except per share data)	2013	2012	2013	2012
Revenues:				
Product	$544,183	$523,023	$1,045,923	$1,097,101
Service	160,946	149,988	317,543	296,619
Total revenues	705,129	673,011	1,363,466	1,393,720
Costs and operating expenses:				
Costs of revenues	285,814	303,915	563,471	621,140
Engineering, research and development	134,587	121,608	266,860	241,350
Selling, general and administrative	96,746	94,241	195,242	191,426
Total costs and operating expenses	517,147	519,764	1,025,573	1,053,916
Income from operations	187,982	153,247	337,893	339,804
Interest income and other, net	2,074	5,058	5,689	8,546
Interest expense	13,311	13,431	26,973	26,934
Income before income taxes	176,745	144,874	316,609	321,416
Provision for income taxes	37,499	38,244	66,166	79,419
Net income	$139,246	$106,630	$250,443	$241,997
Net income per share:				
Basic	$0.84	$0.64	$1.51	$1.45
Diluted	$0.83	$0.63	$1.49	$1.43
Cash dividends declared per share	$0.45	$0.40	$0.90	$0.80
Weighted-average number of shares:				
Basic	166,414	166,268	166,150	166,632
Diluted	168,206	169,076	168,478	169,702

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

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

	Three months ended December 31,		Six months ended December 31,	
(In thousands)	2013	2012	2013	2012
Net income	$139,246	$106,630	$250,443	$241,997
Other comprehensive income:				
Currency translation adjustments:				
Change in currency translation adjustments	(1,189)	(1,126)	3,921	5,496
Change in income tax benefit or expense	541	(1,035)	(774)	(2,712)
Net change related to currency translation adjustments	(648)	(2,161)	3,147	2,784
Cash flow hedges:				
Change in net unrealized gains or losses	3,864	2,242	3,573	2,001
Reclassification adjustments for gains or losses included in net income	(22)	(128)	(2,538)	964
Change in income tax benefit or expense	(1,377)	(753)	(371)	(1,056)
Net change related to cash flow hedges	2,465	1,361	664	1,909
Net change related to unrecognized losses and transition obligations in connection with defined benefit plans	200	160	400	317
Available-for-sale investments:				
Change in net unrealized gains or losses	659	(968)	4,797	2,949
Reclassification adjustments for gains or losses included in net income	(1,213)	(1,048)	(1,447)	(1,356)
Change in income tax benefit or expense	180	709	(1,163)	(518)
Net change related to available-for-sale securities	(374)	(1,307)	2,187	1,075
Other comprehensive income (loss)	1,643	(1,947)	6,398	6,085
Total comprehensive income	$140,889	$104,683	$256,841	$248,082

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

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

	Six months ended December 31,	
(In thousands)	2013	2012
Cash flows from operating activities:		
Net income	$250,443	$241,997
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	40,448	45,941
Asset impairment charges	1,374	1,327
Net gain on sale of assets	—	(1,160)
Non-cash stock-based compensation expense	34,089	33,942
Excess tax benefit from equity awards	(19,530)	(13,093)
Net gain on sale of marketable securities and other investments	(1,447)	(1,357)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable, net	(50,791)	89,583
Increase in inventories	(32,743)	(10,467)
Decrease (increase) in other assets	(39,993)	615
Increase (decrease) in accounts payable	25,939	(35,418)
Increase in deferred system profit	85,638	9,557
Decrease in other liabilities	(908)	(38,631)
Net cash provided by operating activities	292,519	322,836
Cash flows from investing activities:		
Capital expenditures, net	(36,216)	(37,363)
Proceeds from sale of assets	—	1,838
Purchase of available-for-sale securities	(796,808)	(823,053)
Proceeds from sale of available-for-sale securities	520,575	652,468
Proceeds from maturity of available-for-sale securities	50,889	137,182
Purchase of trading securities	(32,107)	(19,912)
Proceeds from sale of trading securities	30,879	19,438
Net cash used in investing activities	(262,788)	(69,402)
Cash flows from financing activities:		
Issuance of common stock	78,766	46,857
Tax withholding payments related to vested and released restricted stock units	(49,209)	(28,432)
Common stock repurchases	(120,806)	(136,600)
Payment of dividends to stockholders	(149,600)	(133,151)
Excess tax benefit from equity awards	19,530	13,093
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
Cash and cash equivalents at beginning of period	985,390	751,294
Cash and cash equivalents at end of period	$793,382	$767,313
Supplemental cash flow disclosures:		
Income taxes paid, net	$67,241	$76,204
Interest paid	$26,301	$26,915
Non-cash investing activities:		
Purchase of land, property and equipment	$5,923	$—

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

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

NOTE 1 – BASIS OF PRESENTATION

Basis of Presentation. The condensed consolidated financial statements have been prepared by KLA-Tencor Corporation ("KLA-Tencor" or the "Company") pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited interim financial statements reflect all adjustments (consisting only of normal, recurring adjustments) necessary for a fair statement of the financial position, results of operations, comprehensive income, and cash flows for the periods indicated. These financial statements and notes, however, should be read in conjunction with Item 8, "Financial Statements and Supplementary Data" included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013, filed with the SEC on August 8, 2013.

The condensed consolidated financial statements include the accounts of KLA-Tencor and its majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

The results of operations for the six months ended December 31, 2013 are not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year ending June 30, 2014.

Certain reclassifications have been made to the prior year's Condensed Consolidated Balance Sheet and notes to conform to the current year presentation. The reclassifications had no effect on the Condensed Consolidated Statements of Operations or Cash Flows.

Management Estimates. The preparation of the 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 the Company's accounting policies that affect the reported amounts of assets and liabilities (and related disclosure of contingent assets and liabilities) at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Revenue Recognition. KLA-Tencor recognizes 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. The Company derives revenue from three sources—sales of systems, spare parts and services. In general, the Company recognizes 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 the Company has demonstrated a history of successful installation and acceptance, the Company recognizes revenue upon customer acceptance. Under certain circumstances, however, the Company recognizes 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 the Company 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 the Company recognizes 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.

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In many instances, products are sold in stand-alone arrangements. Services are sold separately through renewals of annual maintenance contracts. The Company also allows 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, the Company allocates arrangement consideration based on the selling price hierarchy. For substantially all of the arrangements with multiple deliverables pertaining to products and services, the Company uses vendor-specific objective evidence (“VSOE”) or third-party evidence (“TPE”) to allocate the selling price to each deliverable. The Company determines TPE based on historical prices charged for products and services when sold on a stand-alone basis. When the Company is unable to establish relative selling price using VSOE or TPE, the Company uses estimated selling price (“ESP”) in its allocation of arrangement consideration. The objective of ESP is to determine the price at which the Company 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. The Company regularly reviews relative selling prices and maintains internal controls over the establishment and updates of these estimates. In a multiple element revenue arrangement, the Company defers 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 the control of the Company. 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. The Company estimates the value of the trade-in right and reduces 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.

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

The Company also defers 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 the Company's 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.

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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 the Company's 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 the Company's interim period ending September 30, 2014 and applied prospectively with early adoption permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

NOTE 2 – FAIR VALUE MEASUREMENTS

The Company's financial assets and liabilities are measured and recorded at fair value, except for equity investments in privately-held companies. These equity investments are generally accounted for under the cost method of accounting and are periodically assessed for other-than-temporary impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred. The Company's non-financial assets, such as goodwill, intangible assets, and land, property and equipment, are recorded at cost and are assessed for impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred.

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

Fair Value Hierarchy. The authoritative guidance for fair value measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1	Valuations based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
Level 2	Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.
Level 3	Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

All of the Company's financial instruments were classified within Level 1 or Level 2 of the fair value hierarchy as of December 31, 2013, because they were valued using quoted market prices, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. As of December 31, 2013, the types of instruments valued based on quoted market prices in active markets included money market funds, U.S. Treasury securities and certain U.S. Government agency securities and sovereign securities. Such instruments are generally classified within Level 1 of the fair value hierarchy.

As of December 31, 2013, the types of instruments valued based on other observable inputs included corporate debt securities, municipal securities and certain U.S. Government agency securities and sovereign securities. The market inputs used to value these instruments generally consist of market yields, reported trades and broker/dealer quotes. Such instruments are generally classified within Level 2 of the fair value hierarchy.

The principal market in which the Company executes its foreign currency contracts is the institutional market in an over-the-counter environment with a relatively high level of price transparency. The market participants usually are large commercial banks. The Company’s foreign currency contracts’ valuation inputs are based on quoted prices and quoted pricing intervals from public data sources and do not involve management judgment. These contracts are typically classified within Level 2 of the fair value hierarchy.

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Financial assets (excluding cash held in operating accounts and time deposits) and liabilities measured at fair value on a recurring basis as of the date indicated below were presented on the Company's Condensed Consolidated Balance Sheet as follows:

As of December 31, 2013 (In thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets			
Cash equivalents:			
U.S. Government agency securities	$19,997	$5,000	$14,997
Corporate debt securities	61,797	—	61,797
Money market and other	574,904	574,904	—
Marketable securities:			
U.S. Treasury securities	168,313	168,313	—
U.S. Government agency securities	731,636	709,647	21,989
Municipal securities	107,587	—	107,587
Corporate debt securities	1,107,255	—	1,107,255
Sovereign securities	36,439	8,498	27,941
Total cash equivalents and marketable securities(1)	2,807,928	1,466,362	1,341,566
Other current assets:			
Derivative assets	5,584	—	5,584
Other non-current assets:			
Executive Deferred Savings Plan	155,277	103,374	51,903
Total financial assets(1)	$2,968,789	$1,569,736	$1,399,053
Liabilities			
Other current liabilities:			
Derivative liabilities	$(708)	$—	$(708)
Executive Deferred Savings Plan	(155,433)	(102,554)	(52,879)
Total financial liabilities	$(156,141)	$(102,554)	$(53,587)

(1) Excludes cash of $122.8 million held in operating accounts and time deposits of $19.9 million as of December 31, 2013.

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Financial assets (excluding cash held in operating accounts and time deposits) and liabilities measured at fair value on a recurring basis as of the date indicated below were presented on the Company's Condensed Consolidated Balance Sheet as follows:

As of June 30, 2013 (In thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Assets			
Cash equivalents:			
Corporate debt securities	$3,800	$—	$3,800
Money market and other	817,608	817,608	—
Marketable securities:			
U.S. Treasury securities	93,787	93,787	—
U.S. Government agency securities	598,031	598,031	—
Municipal securities	103,455	—	103,455
Corporate debt securities	1,099,525	—	1,099,525
Sovereign securities	33,805	13,559	20,246
Total cash equivalents and marketable securities(1)	2,750,011	1,522,985	1,227,026
Other current assets:			
Derivative assets	4,016	—	4,016
Other non-current assets:			
Executive Deferred Savings Plan	136,461	96,180	40,281
Total financial assets(1)	$2,890,488	$1,619,165	$1,271,323
Liabilities			
Other current liabilities:			
Derivative liabilities	$(2,173)	$—	$(2,173)
Executive Deferred Savings Plan	(137,849)	(97,570)	(40,279)
Total financial liabilities	$(140,022)	$(97,570)	$(42,452)

(1) Excludes cash of $125.5 million held in operating accounts and time deposits of $43.4 million as of June 30, 2013.

There were no transfers in and out of Level 1 and Level 2 fair value measurements during the three and six months ended December 31, 2013. The Company did not have any assets or liabilities measured at fair value on a recurring basis within Level 3 fair value measurements as of December 31, 2013 or June 30, 2013.

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NOTE 3 – FINANCIAL STATEMENT COMPONENTS

Balance Sheet Components

(In thousands)	As of December 31, 2013	As of June 30, 2013
Accounts receivable, net:		
Accounts receivable, gross	$595,048	$546,745
Allowance for doubtful accounts	(21,971)	(22,135)
	$573,077	$524,610
Inventories:		
Customer service parts	$193,371	$180,749
Raw materials	229,186	229,233
Work-in-process	176,432	176,704
Finished goods	64,051	47,762
	$663,040	$634,448
Other current assets:		
Prepaid expenses	$33,023	$31,997
Prepaid income taxes	66,403	25,825
Other current assets	20,716	17,217
	$120,142	$75,039
Land, property and equipment, net:		
Land	$41,838	$41,850
Buildings and leasehold improvements	281,119	272,920
Machinery and equipment	496,203	476,747
Office furniture and fixtures	20,787	20,701
Construction-in-process	25,488	16,604
	865,435	828,822
Less: accumulated depreciation and amortization	(539,579)	(523,541)
	$325,856	$305,281
Other non-current assets:		
Executive Deferred Savings Plan(1)	$155,277	$136,461
Deferred tax assets – long-term	83,727	114,833
Other	15,664	18,129
	$254,668	$269,423
Other current liabilities:		
Warranty	$41,599	$42,603
Executive Deferred Savings Plan(1)	155,433	137,849
Compensation and benefits	154,092	195,793
Income taxes payable	13,565	11,076
Interest payable	8,769	8,769
Other accrued expenses	121,764	130,959
	$495,222	$527,049

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(1) KLA-Tencor has a non-qualified deferred compensation plan whereby certain executives and non-employee directors may defer a portion of their compensation. Participants are credited with returns based on their allocation of their account balances among measurement funds. The Company controls the investment of these funds, and the participants remain general creditors of KLA-Tencor. Distributions from the plan commence the quarter following a participant's retirement or termination of employment, except in cases where such distributions are required to be delayed in order to avoid a prohibited distribution under Internal Revenue Code Section 409A. As of December 31, 2013, the Company had a deferred compensation plan related asset and liability included as a component of other non-current assets and other current liabilities on the Condensed Consolidated Balance Sheet.

Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) ("AOCI") as of the dates indicated below were as follows:

(In thousands)	Currency Translation Adjustments	Unrealized Gains (Losses) on Available-for-Sale Investments	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Defined Benefit Plans	Total
Balance as of June 30, 2013	$(22,467)	$ (602)	$1,594	$(15,171)	$(36,646)
Other comprehensive income before reclassifications	3,921	4,797	3,573	—	12,291
Amounts reclassified from AOCI	—	(1,447)	(2,538)	628	(3,357)
Tax benefits	(774)	(1,163)	(371)	(228)	(2,536)
Other comprehensive income	3,147	2,187	664	400	6,398
Balance as of December 31, 2013	$(19,320)	$ 1,585	$2,258	$(14,771)	$(30,248)

The effects on net income of amounts reclassified from AOCI to the consolidated statement of operations for the indicated periods were as follows (in thousands):

AOCI Components	Location	Three months ended December 31, 2013	Six months ended December 31, 2013
Gains (losses) on cash flow hedges from foreign exchange contracts	Revenues	$(128)	$2,322
	Costs of revenues	150	216
	Total before tax	22	2,538
Unrealized gains on available-for-sale investments	Interest income and other, net	1,213	1,447
Unrealized losses on defined benefit plans	Total before tax	$(313)	$(628)
Total amount reclassified from AOCI		$922	$3,357

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NOTE 4 – MARKETABLE SECURITIES

The amortized cost and fair value of marketable securities as of the dates indicated below were as follows:

As of December 31, 2013 (In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Fair Value
U.S. Treasury securities	$168,354	$70	$(111	)	$168,313
U.S. Government agency securities	751,314	614	(295	)	751,633
Municipal securities	107,740	92			