Financial Results September Quarter 2012

October 31, 2012

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Business Overview September Quarter 2012

Gabi Seligsohn
President & Chief Executive Officer

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Revenues inline with expectations

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- **Revenues of $24.4M**
  - EPS modestly above guidance due to tighter expense control given overall market softness
- **Delays in next phase of 28nm ramp cause softness:**
  - TSMC reaffirmed previously communicated plans to more than double 28nm; 20nm ramp will also begin next year
  - Overall delay by about one quarter
  - Most other foundries also planning to increase 28nm capacity and are qualifying 20nm
  - Another leading customer upgrading fab to support 28nm demand – expect multiple SA and IM orders
- **Overall market still lacking significant capacity at the high-end**
  - Yield issues must be overcome in order to continue ramp
  - Effects our short term business results
- **Customers working with us on 3-4 technology nodes at once to secure their future position**
- **Recent announcements:**
  - Multiple orders from multiple customers for Nova V2600 – expect to gain momentum as market transitions to TSV
  - Shipped first 450mm tool to major OEM for early development

Memory to remain soft

- Expect continued strength from smart phone and tablet markets
  - New market entrants with multiple price points to increase TAM
- Significant increase in die size for high end device processors
  - Requires increase in amount of silicon consumed – more wafers needed
- 4G/LTE device penetration drives move to 28nm to mitigate dies size increase
  - 4G infrastructure should increase logic and memory consumption
- Initial transition to 20nm in H2/13 increases cost per 1,000 wafers X 1.3
- Expect memory to remain weak longer than previously anticipated
  - PC's have slowed down
  - Transition to 20nm DRAM is challenging but needs to happen for power efficiency
- NAND capacity is sufficient for now – next gen development is tough
  - Optical CD is an enabling technology for next generation

Continue to focus on key customers

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Positive inflection point for process control

- We will continue to deliver innovation:
  - Increase data content, allow extended sampling schemes, keep improving CoO
- Process control at a positive inflection point:
  - Within Wafer Non Uniformity specs reaching limits of process tools
  - Patterning challenges require inventive new process flows – EUV delays are not helping
  - Subtle changes during process have large influence on instability
- Customers need to measure more during processing with no reduction of output
- As leader in integrated process control we are well positioned to take advantage
  - In the process of developing several new SW capabilities to extend lead
  - Stand alone wins at highest nodes – fastest and most reliable
  - Customer intimacy and local presence

Business Outlook

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- **28nm capacity needs to double**
- **Taking longer than anticipated – achieving yields is very challenging**
- **Optical CD is an enabling technology and its role will continue to expand**
- **Memory expected to remain slow – recent technology wins position us well for next ramp**
- **We expect foundry order momentum to resume during the 4th quarter to support the next phase of ramp up**
- **Guidance for the 3rd quarter of 2012:**
  - Management expects revenues of $18.5-$22.0 million, with diluted earnings per share of $0.00-$0.08 on a non GAAP basis

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Dror David
Chief Financial Officer

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- **Quarterly revenues of $24.4 million, -10% Q/Q**
  - Decrease in integrated metrology revenues
  - Service revenues stable at the $5M level
- **Products bookings breakdown:**
  - Foundry/Memory - 60%/40% (H1 2012 – 75%/25%)
  - Asia Pacific - 78%; US - 20%; Europe - 2%
- **Blended gross margins of 53%**
  - Products gross margins of 59%
  - Services gross margins of 31%

September Quarter Financial Results

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- Operating expenses of $9.9 million, flat Q/Q
- Operating margins of 12%
- GAAP net income of $2.9M, or $0.11 per diluted share
- NON-GAAP net income of $3.7M, or $0.14 per diluted share
- Positive cash flow from operating activities $4.3M

Key Balance Sheet Metrics

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Key Metrics	Three Months Ended	
	Sep 12	**Jun 12**
Total Cash Reserves	$94.0M	$90.5M
Accounts Receivables	$14.9M	$17.5M
DSO	60	60
Inventory	$19.4M	$16.1M
Inventory Turns	2.6	3.4
Deferred Revenues	$4.7M	$4.1M
Capital Investments (gross)	$1.2M	$1.2M
Depreciation	$0.8M	$0.6M

Fourth Quarter Guidance (clarifications)

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- **Revenues**
  - Range expanded due to market and new products revenue recognition visibility (depending on the timing of formal customer acceptance)
- **Operating expenses increase by 5%**
  - Strong dependency on development programs progress
- **Tax update**
  - Net Operating Losses ~$15M, recreation of deferred tax assets, effective tax rate expected to remain 25% (GAAP)
  - Long term effective consolidated tax rate expected to be 15%

Thank you

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