



partnering for process control

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## **Company Press Release**

### **NOVA ANNOUNCES 2012 SECOND QUARTER RESULTS**

**Rehovot, Israel – July 31, 2012 - Nova Measuring Instruments Ltd. (Nasdaq: NVMI)**, provider of leading edge stand alone metrology and the market leader of integrated metrology solutions to the semiconductor process control market, today reported its 2012 second quarter results.

#### **Highlights for the Second Quarter of 2012**

- Quarterly revenues of \$27.1 million, up 20% over the first quarter of 2012
- Blended gross margin of 54%
- GAAP Net income of \$3.7 million, or \$0.14 per diluted share
- Non-GAAP Net income of \$5.4 million, or \$0.20 per diluted share
- Positive cash flow from operations of \$4.5 million

#### **Management Comments**

“Our results during the second quarter exceeded the high end of our revenues and earnings per share guidance,” said Gabi Seligsohn, President and CEO of Nova. “Our ability to outperform the industry during the quarter is attributed to our strong position in the market segments that are experiencing the highest demand, and which are facing the most challenging process yield requirements.

“The need for additional foundry capacity and yield improvement at 28nm continued to drive strong demand for our solutions. Looking ahead, we expect process control to continue to account for a higher share of overall capital expenditures as foundries are planning a move to 20nm, 14nm and beyond, with associated process complexity and yield requirements. We also believe that these manufacturing and development complexities will continue to drive foundry customers towards buying fully configured tools with significant software content.



“We are able to fully capitalize on current demand because we invested aggressively in 28nm technology three years ago and followed with good execution. We have already announced several wins for the more advanced process nodes and enjoy good traction with our recently announced products as well”, Mr. Seligsohn noted. “In addition, during the past several months, we have identified additional areas in which we plan to further invest, in order to remain at the forefront of this dynamic industry. Our strong relationships and track record of execution, combined with a further ramp in research and development expenses during the second half of the year, will position us for future growth, while also remaining solidly profitable.”

### **2012 Third Quarter Guidance**

For the third quarter of 2012, management expects revenues of \$23.0-\$25.5 million, with operating margins of 3%-10%, and with GAAP diluted earnings per share of \$0.02-\$0.10.

On a Non-GAAP basis, which excludes adjustments of deferred income tax assets and stock based compensation expenses, management expects diluted earnings per share of \$0.04-\$0.12 for the third quarter of 2012.

### **2012 Second Quarter Results**

Total revenues for the second quarter of 2012 were \$27.1 million, a decrease of 9% relative to the second quarter of 2011, and an increase of 20% relative to the first quarter of 2012.

Gross margin for the second quarter of 2012 was 54%, compared with 58% in the second quarter of 2011 and 56% in the first quarter of 2012.

Operating expenses in the second quarter of 2012 were \$9.9 million, compared with \$8.2 million in the second quarter of 2011 and \$9.3 million in the first quarter of 2012.

On a GAAP basis, the company reported net income of \$3.7 million, or \$0.14 per diluted share, in the second quarter of 2012. This compares to a net income of \$9.2 million, or \$0.34 per diluted share, in the second quarter of 2011, and a net income of \$2.7 million, or \$0.10 per diluted share, in the first quarter of 2012.

On a Non-GAAP basis, which excludes deferred income tax expenses and stock based compensation expenses, the company reported net income of \$5.4 million, or \$0.20 per diluted share, in the second quarter of 2012. This compares to a net income of \$9.4 million, or \$0.35 per diluted share, in the second quarter of 2011, and a net income of \$4.1 million, or \$0.15 per diluted share, in the first quarter of 2012.

Total cash reserves at the end of the second quarter of 2012 were \$90.5 million.

The Company will host a conference call today, July 31, 2012, at 9:00am ET. To participate, please dial in the US: 1 877 280 2342; or internationally: +972 3 763 0145 or 1 646 254 3367. A recording of the call will be available on Nova’s website, within 24 hours following the end of the call. In addition, a presentation to accompany the conference call will be available together with a live

webcast of the conference call. This will be accessible from a link on Nova's website at <http://ir.nova.co.il/webcast>.

#### **About Nova**

Nova Measuring Instruments Ltd. develops, produces and markets advanced integrated and stand alone metrology solutions for the semiconductor manufacturing industry. Nova is traded on the NASDAQ & TASE under the symbol NVMI. The Company's website is [www.nova.co.il](http://www.nova.co.il).

*This press release provides financial measures that exclude non-cash charges for stock-based compensation and deferred income taxes expenses and are therefore not calculated in accordance with generally accepted accounting principles (GAAP). Management believes that these non-GAAP financial measures provide meaningful supplemental information regarding Nova's performance because they reflect our operational results and enhances management's and investors' ability to evaluate Nova's performance before charges or benefits considered by management to be outside Nova's ongoing operating results.*

*The presentation of this non-GAAP financial information is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP. Management believes that it is in the best interest of its investors to provide financial information that will facilitate comparison of both historical and future results and allows greater transparency to supplemental information used by management in its financial and operational decision making. A reconciliation of each GAAP to non-GAAP financial measure discussed in this press release is contained in the accompanying financial tables.*

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*This press release contains forward-looking statements within the meaning of safe harbor provisions of the Private Securities Litigation Reform Act of 1995 relating to future events or our future performance, such as statements regarding trends, demand for our products, expected deliveries, transaction, expected revenues, operating results, earnings and profitability. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied in those forward looking statements. These risks and other factors include but are not limited to: our dependency on two product lines; the highly cyclical nature of the markets we target; our inability to reduce spending during a slowdown in the semiconductor industry; our ability to respond effectively on a timely basis to rapid technological changes; our dependency on OEM suppliers; cyber security risks; risks related to open source technologies; our ability to retain our competitive position despite the ongoing consolidation in our industry; risks associated with our dependence on a single manufacturing facility; our ability to expand our manufacturing capacity or marketing efforts to support our future growth; our dependency on a small number of large customers and small number of suppliers; our dependency on our key employees; risks related to changes in our order backlog; risks related to the financial, political and environmental instabilities in Asia; risks related to our intellectual property; changes in customer demands for our products; new product offerings from our competitors; changes in or an inability to execute our business strategy; unanticipated manufacturing or supply problems; changes in tax requirements; changes in customer demand for our products; risks related to currency fluctuations; and risks related to our operations in Israel. We cannot guarantee future results, levels of activity, performance or achievements. The matters discussed in this press release also involve risks and uncertainties summarized under the heading "Risk Factors" in Nova's Annual Report on Form 20-F for the year ended December 31, 2011 filed with the Securities and Exchange Commission on March 28, 2012. These factors are updated from time to time through the filing of reports and registration statements with the Securities and Exchange Commission. Nova Measuring Instruments Ltd. does not assume any obligation to update the forward-looking information contained in this press release.*

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(Tables to Follow)

**NOVA MEASURING INSTRUMENTS LTD.**  
**CONSOLIDATED BALANCE SHEET**  
(U.S. dollars in thousands)

|                                            | <b><u>As of<br/>June 30,<br/>2012</u></b> | <b><u>As of<br/>December 31,<br/>2011</u></b> |
|--------------------------------------------|-------------------------------------------|-----------------------------------------------|
| CURRENT ASSETS                             |                                           |                                               |
| Cash and cash equivalents                  | 20,408                                    | 18,716                                        |
| Short-term interest-bearing bank deposits  | 68,029                                    | 66,247                                        |
| Held to maturity securities                | 1,549                                     | 1,582                                         |
| Trade accounts receivable                  | 17,520                                    | 13,402                                        |
| Inventories                                | 16,067                                    | 9,608                                         |
| Deferred income tax assets                 | 349                                       | 2,500                                         |
| Other current assets                       | 1,920                                     | 1,173                                         |
|                                            | <u>125,842</u>                            | <u>113,228</u>                                |
| LONG-TERM ASSETS                           |                                           |                                               |
| Long-term interest-bearing bank deposits   | 545                                       | 545                                           |
| Other long-term assets                     | 314                                       | 291                                           |
| Severance pay funds                        | 3,068                                     | 2,885                                         |
|                                            | <u>3,927</u>                              | <u>3,721</u>                                  |
| FIXED ASSETS, NET                          | <u>6,523</u>                              | <u>5,998</u>                                  |
| TOTAL ASSETS                               | <u>136,292</u>                            | <u>122,947</u>                                |
| CURRENT LIABILITIES                        |                                           |                                               |
| Trade accounts payable                     | 13,212                                    | 8,305                                         |
| Deferred income                            | 4,092                                     | 2,172                                         |
| Other current liabilities                  | 7,556                                     | 8,082                                         |
|                                            | <u>24,860</u>                             | <u>18,559</u>                                 |
| LONG-TERM LIABILITIES                      |                                           |                                               |
| Liability for employee severance pay       | 3,982                                     | 3,851                                         |
| Deferred income                            | 63                                        | 611                                           |
| Other long-term liability                  | 17                                        | 20                                            |
|                                            | <u>4,062</u>                              | <u>4,482</u>                                  |
| SHAREHOLDERS' EQUITY                       | <u>107,370</u>                            | <u>99,906</u>                                 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>136,292</u>                            | <u>122,947</u>                                |

**NOVA MEASURING INSTRUMENTS LTD.**  
**QUARTERLY CONSOLIDATED STATEMENTS OF OPERATIONS**

(U.S. dollars in thousands, except per share data)

|                                                        | <u>June 30,</u><br><u>2012</u> | <u>Three months ended</u><br><u>March 31,</u><br><u>2012</u> | <u>June 30,</u><br><u>2011</u> |
|--------------------------------------------------------|--------------------------------|--------------------------------------------------------------|--------------------------------|
| <b>REVENUES</b>                                        |                                |                                                              |                                |
| Products                                               | 22,070                         | 18,767                                                       | 24,989                         |
| Services                                               | 4,980                          | 3,835                                                        | 4,658                          |
|                                                        | <u>27,050</u>                  | <u>22,602</u>                                                | <u>29,647</u>                  |
| <b>COST OF REVENUES</b>                                |                                |                                                              |                                |
| Products                                               | 9,150                          | 7,195                                                        | 9,698                          |
| Services                                               | 3,324                          | 2,829                                                        | 2,833                          |
|                                                        | <u>12,474</u>                  | <u>10,024</u>                                                | <u>12,531</u>                  |
| <b>GROSS PROFIT</b>                                    | <u>14,576</u>                  | <u>12,578</u>                                                | <u>17,116</u>                  |
| <b>OPERATING EXPENSES</b>                              |                                |                                                              |                                |
| Research and Development expenses, net                 | 5,893                          | 5,581                                                        | 4,516                          |
| Sales and Marketing expenses                           | 3,048                          | 2,881                                                        | 2,778                          |
| General and Administration expenses                    | 972                            | 842                                                          | 945                            |
|                                                        | <u>9,913</u>                   | <u>9,304</u>                                                 | <u>8,239</u>                   |
| <b>OPERATING PROFIT</b>                                | 4,663                          | 3,274                                                        | 8,877                          |
| <b>INTEREST INCOME, NET</b>                            | <u>339</u>                     | <u>409</u>                                                   | <u>286</u>                     |
| <b>INCOME BEFORE INCOME TAXES</b>                      | 5,002                          | 3,683                                                        | 9,163                          |
| <b>INCOME TAX EXPENSES</b>                             | <u>1,278</u>                   | <u>946</u>                                                   | <u>--</u>                      |
| <b>NET INCOME FOR THE PERIOD</b>                       | <u>3,724</u>                   | <u>2,737</u>                                                 | <u>9,163</u>                   |
| <br>Earnings per share:                                |                                |                                                              |                                |
| Basic                                                  | <u>0.14</u>                    | <u>0.10</u>                                                  | <u>0.35</u>                    |
| Diluted                                                | <u>0.14</u>                    | <u>0.10</u>                                                  | <u>0.34</u>                    |
| <br>Shares used for calculation of earnings per share: |                                |                                                              |                                |
| Basic                                                  | <u>26,610</u>                  | <u>26,541</u>                                                | <u>26,250</u>                  |
| Diluted                                                | <u>27,299</u>                  | <u>27,234</u>                                                | <u>27,176</u>                  |

**NOVA MEASURING INSTRUMENTS LTD.**  
**YEAR TO DATE CONSOLIDATED STATEMENTS OF OPERATIONS**  
(U.S. dollars in thousands, except per share data)

|                                                      | <u>Six months ended</u><br><u>June 30, 2012</u> | <u>June 30, 2011</u> |
|------------------------------------------------------|-------------------------------------------------|----------------------|
| <b>REVENUES</b>                                      |                                                 |                      |
| Product sales                                        | 40,837                                          | 48,907               |
| Services                                             | 8,815                                           | 8,909                |
|                                                      | <u>49,652</u>                                   | <u>57,816</u>        |
| <b>COST OF REVENUES</b>                              |                                                 |                      |
| Product sales                                        | 16,345                                          | 18,896               |
| Services                                             | 6,153                                           | 5,568                |
|                                                      | <u>22,498</u>                                   | <u>24,464</u>        |
| <b>GROSS PROFIT</b>                                  | <u>27,154</u>                                   | <u>33,352</u>        |
| <b>OPERATING EXPENSES</b>                            |                                                 |                      |
| Research & Development expenses, net                 | 11,474                                          | 9,483                |
| Sales & Marketing expenses                           | 5,929                                           | 5,489                |
| General & Administration expenses                    | 1,814                                           | 1,674                |
|                                                      | <u>19,217</u>                                   | <u>16,646</u>        |
| <b>OPERATING PROFIT</b>                              | 7,937                                           | 16,706               |
| <b>INTEREST INCOME, NET</b>                          | <u>748</u>                                      | <u>505</u>           |
| <b>INCOME BEFORE INCOME TAXES</b>                    | 8,685                                           | 17,211               |
| <b>INCOME TAX EXPENSES</b>                           | <u>2,224</u>                                    | <u>--</u>            |
| <b>NET INCOME FOR THE PERIOD</b>                     | <u>6,461</u>                                    | <u>17,211</u>        |
| Net income per share:                                |                                                 |                      |
| Basic                                                | <u>0.24</u>                                     | <u>0.66</u>          |
| Diluted                                              | <u>0.24</u>                                     | <u>0.64</u>          |
| Shares used for calculation of net income per share: |                                                 |                      |
| Basic                                                | <u>26,575</u>                                   | <u>26,105</u>        |
| Diluted                                              | <u>27,269</u>                                   | <u>27,014</u>        |

**NOVA MEASURING INSTRUMENTS LTD.**  
**QUARTERLY CONSOLIDATED STATEMENTS OF CASH FLOWS**

(U.S. dollars in thousands)

|                                                                                   | <u>June 30,</u><br><u>2012</u> | <u>Three months ended</u><br><u>March 31,</u><br><u>2012</u> | <u>June 30,</u><br><u>2011</u> |
|-----------------------------------------------------------------------------------|--------------------------------|--------------------------------------------------------------|--------------------------------|
| <b>CASH FLOW – OPERATING ACTIVITIES</b>                                           |                                |                                                              |                                |
| Net income for the period                                                         | 3,724                          | 2,737                                                        | 9,163                          |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                |                                                              |                                |
| Depreciation and amortization                                                     | 577                            | 577                                                          | 377                            |
| Amortization of deferred stock-based compensation                                 | 409                            | 420                                                          | 272                            |
| Increase (decrease) in liability for employee termination benefits, net           | (41)                           | (10)                                                         | 203                            |
| Deferred income taxes                                                             | 1,241                          | 910                                                          | --                             |
| Decrease (increase) in trade accounts receivables                                 | 971                            | (5,089)                                                      | (4,835)                        |
| Increase in inventories                                                           | (3,282)                        | (3,604)                                                      | (2,240)                        |
| Increase in other current and long term assets                                    | (122)                          | (531)                                                        | (33)                           |
| Increase (decrease) in trade accounts payables and other long-term liabilities    | 1,170                          | 3,737                                                        | (667)                          |
| Decrease in other current liabilities                                             | (375)                          | (241)                                                        | (502)                          |
| Increase in short and long term deferred income                                   | 212                            | 1,160                                                        | 5,266                          |
| <b>Net cash provided by operating activities</b>                                  | <u>4,484</u>                   | <u>66</u>                                                    | <u>7,004</u>                   |
| <b>CASH FLOW – INVESTMENT ACTIVITIES</b>                                          |                                |                                                              |                                |
| Decrease (increase) in short-term interest-bearing bank deposits                  | (10,150)                       | 8,368                                                        | (9,426)                        |
| Proceeds from (investments in) short-term held to maturity securities             | 87                             | (54)                                                         | (1,186)                        |
| Additions to fixed assets                                                         | (679)                          | (573)                                                        | (539)                          |
| <b>Net cash provided by (used in) investment activities</b>                       | <u>(10,742)</u>                | <u>7,741</u>                                                 | <u>(11,151)</u>                |
| <b>CASH FLOW – FINANCING ACTIVITIES</b>                                           |                                |                                                              |                                |
| Shares issued under employee share-based plans and exercise of warrants           | 72                             | 71                                                           | 225                            |
| <b>Net cash provided by financing activities</b>                                  | <u>72</u>                      | <u>71</u>                                                    | <u>225</u>                     |
| <b>Increase (decrease) in cash and cash equivalents</b>                           | <u>(6,186)</u>                 | <u>7,878</u>                                                 | <u>(3,922)</u>                 |
| <b>Cash and cash equivalents – beginning of period</b>                            | <u>26,594</u>                  | <u>18,716</u>                                                | <u>14,986</u>                  |
| <b>Cash and cash equivalents – end of period</b>                                  | <u>20,408</u>                  | <u>26,594</u>                                                | <u>11,064</u>                  |

**NOVA MEASURING INSTRUMENTS LTD.**  
**YEAR TO DATE CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(U.S. dollars in thousands)

|                                                                                   | <u>Six months ended</u> |                      |
|-----------------------------------------------------------------------------------|-------------------------|----------------------|
|                                                                                   | <u>June 30, 2012</u>    | <u>June 30, 2011</u> |
| <b>CASH FLOW – OPERATING ACTIVITIES</b>                                           |                         |                      |
| Net income for the period                                                         | 6,461                   | 17,211               |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |                      |
| Depreciation and amortization                                                     | 1,154                   | 739                  |
| Amortization of deferred stock-based compensation                                 | 829                     | 538                  |
| Increase (decrease) in liability for employee termination benefits, net           | (51)                    | 197                  |
| Deferred income taxes                                                             | 2,151                   | --                   |
| Increase in trade accounts receivables                                            | (4,118)                 | (6,513)              |
| Increase in inventories                                                           | (6,886)                 | (3,509)              |
| Increase in other current and long term assets                                    | (653)                   | (1,116)              |
| Increase in trade accounts payables and other long term liabilities               | 4,907                   | 1,996                |
| Increase (decrease) in other current liabilities                                  | (616)                   | 176                  |
| Increase in short and long term deferred income                                   | 1,372                   | 5,639                |
| <b>Net cash provided by operating activities</b>                                  | <u>4,550</u>            | <u>15,358</u>        |
| <b>CASH FLOW – INVESTMENT ACTIVITIES</b>                                          |                         |                      |
| Increase in short-term interest-bearing bank deposits                             | (1,782)                 | (29,729)             |
| Proceeds from (investments in) short-term held to maturity securities             | 33                      | (1,186)              |
| Additions to fixed assets                                                         | (1,252)                 | (1,215)              |
| <b>Net cash used in investment activities</b>                                     | <u>(3,001)</u>          | <u>(32,130)</u>      |
| <b>CASH FLOW – FINANCING ACTIVITIES</b>                                           |                         |                      |
| Shares issued under employee share-based plans                                    | 143                     | 2,442                |
| <b>Net cash provided by financing activities</b>                                  | <u>143</u>              | <u>2,442</u>         |
| <b>Increase (decrease) in cash and cash equivalents</b>                           | <b>1,692</b>            | <b>(14,330)</b>      |
| <b>Cash and cash equivalents – beginning of period</b>                            | <b>18,716</b>           | <b>25,394</b>        |
| <b>Cash and cash equivalents – end of period</b>                                  | <b><u>20,408</u></b>    | <b><u>11,064</u></b> |

# **DISCLOSURE OF NON-GAAP NET INCOME**

(U.S. dollars in thousands, except per share data)

|                                                               | <b><u>June 30,</u></b><br><b><u>2012</u></b> | <b><u>Three months ended</u></b><br><b><u>March 31,</u></b><br><b><u>2011</u></b> | <b><u>June 30,</u></b><br><b><u>2011</u></b> |
|---------------------------------------------------------------|----------------------------------------------|-----------------------------------------------------------------------------------|----------------------------------------------|
| <b>GAAP Net income for the period</b>                         | 3,724                                        | 2,737                                                                             | 9,163                                        |
| <b><u>Non-GAAP Adjustments:</u></b>                           |                                              |                                                                                   |                                              |
| Stock based compensation expenses                             | 409                                          | 420                                                                               | 272                                          |
| Deferred income taxes expenses                                | <u>1,241</u>                                 | <u>910</u>                                                                        | <u>--</u>                                    |
| <b>Non-GAAP Net income for the period</b>                     | <u>5,374</u>                                 | <u>4,067</u>                                                                      | <u>9,435</u>                                 |
| Non-GAAP Net income per share:                                |                                              |                                                                                   |                                              |
| Basic                                                         | <u>0.20</u>                                  | <u>0.15</u>                                                                       | <u>0.36</u>                                  |
| Diluted                                                       | <u>0.20</u>                                  | <u>0.15</u>                                                                       | <u>0.35</u>                                  |
| Shares used for calculation of Non-GAAP net income per share: |                                              |                                                                                   |                                              |
| Basic                                                         | <u>26,610</u>                                | <u>26,541</u>                                                                     | <u>26,250</u>                                |
| Diluted                                                       | <u>27,299</u>                                | <u>27,234</u>                                                                     | <u>27,176</u>                                |

|                                                               | <b><u>June 30,</u></b><br><b><u>2012</u></b> | <b><u>Six months ended</u></b><br><b><u>June 30,</u></b><br><b><u>2011</u></b> |
|---------------------------------------------------------------|----------------------------------------------|--------------------------------------------------------------------------------|
| <b>GAAP Net income for the period</b>                         | 6,461                                        | 17,211                                                                         |
| <b><u>Non-GAAP Adjustments:</u></b>                           |                                              |                                                                                |
| Stock based compensation expenses                             | 829                                          | 538                                                                            |
| Deferred income taxes expenses                                | <u>2,151</u>                                 | <u>--</u>                                                                      |
| <b>Non-GAAP Net income for the period</b>                     | <u>9,441</u>                                 | <u>17,749</u>                                                                  |
| Non-GAAP Net income per share:                                |                                              |                                                                                |
| Basic                                                         | <u>0.36</u>                                  | <u>0.66</u>                                                                    |
| Diluted                                                       | <u>0.35</u>                                  | <u>0.64</u>                                                                    |
| Shares used for calculation of Non-GAAP net income per share: |                                              |                                                                                |
| Basic                                                         | <u>26,575</u>                                | <u>26,105</u>                                                                  |
| Diluted                                                       | <u>27,269</u>                                | <u>27,014</u>                                                                  |