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Applied Materials (AMAT:Nasdaq - commentary - research) made one of its most significant product launches of the year Monday, taking direct aim at KLA-Tencor's (KLAC:Nasdaq - commentary - research) major profit machine.

The new tool, Applied UVision, which is used to detect silicon defects during the chip production process, was unveiled at a special event in New York featuring CEO Mike Splinter.

It works for the current generation of chips, but it's more targeted at the two coming generations. "I think this is potentially going to affect market share in favor of Applied in the next one or two years," said Dave Cavanaugh, director of manufacturing technology at Semico Research.

Cavanaugh said the UVision tool holds advantages over current tools due to the brightness of its laser and the type and size of the defects it can detect.

The tool is being used by multiple customers, said Yogev Barak, chief marketing officer for Applied's process diagnostic and control group. "Some own it, some are testing it," he said, without further specifics.

Analyst Mark FitzGerald of Banc of America Securities wrote in a research note that the tool -- if it proves competitive -- could result in an erosion of KLA-Tencor's 70% market share in the optical patterned wafer inspection market. KLA-Tencor gets about 35% of its sales and draws margins greater than 60% from this area, FitzGerald noted.

FitzGerald first mentioned the planned introduction of the tool on Friday, causing the shares of KLA-Tencor to drop 3% to \$45.43 Friday. In recent trading Monday, the shares bounced back by 0.8% to \$45.78.

Shares of Applied Materials were recently off 8 cents to \$16.79.

KLA-Tencor Chief Marketing Officer Craig Jeffries said Monday that his company fully recognizes the importance of defect detection in the coming generations of chips. He noted that competitive announcements are always taken seriously, but that KLA-Tencor's inspection products will work well in future manufacturing lines.

"The technology that [Applied Materials is] applying is something we are well familiar with, and our competitive position is extremely strong relative to this announcement," Jeffries said.

Still, the new tool can impact the market just by its presence, says FitzGerald. "At a minimum, a handful of customers will likely evaluate the tool and use it in their negotiations with KLA-Tencor," FitzGerald wrote. "If the tool is competitive, then Applied would likely take share and slow KLA-Tencor's growth."

FitzGerald estimated that Micron Technology (MU:NYSE - commentary - research) and Taiwan Semiconductor (TSM:NYSE - commentary - research) were both testing UVision. BofA Securities has done investment-banking business in the past year with Applied Materials, KLA-Tencor and Taiwan Semiconductor.

The introduction starts off a heated month for the semiconductor-equipment sector that will culminate in July at the industry's largest trade show, Semicon West, in San Francisco. Product announcements are typical in June as companies find it easier to grab the spotlight ahead of the show.

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