February 4, 2020

Letter to Shareholders

December 2019 Quarterly Letter

Rick Wallace

Chief Executive Officer

Bren Higgins

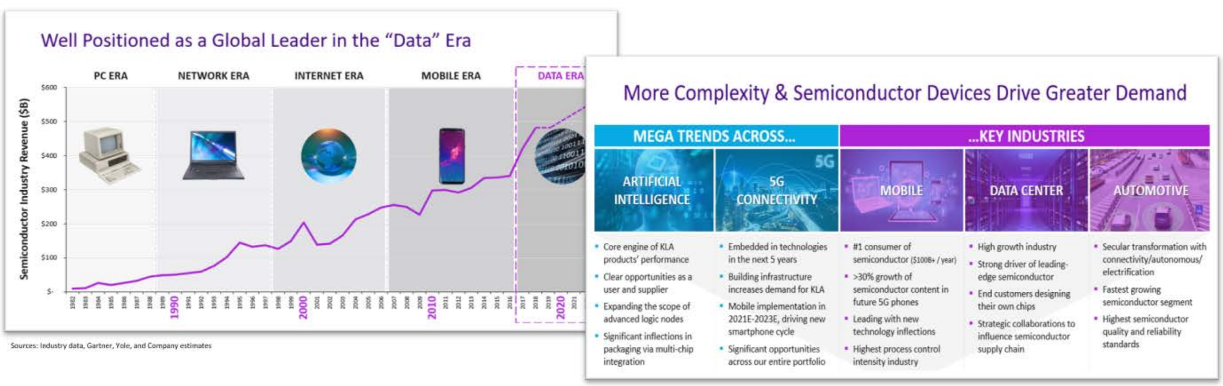
Chief Financial Officer

Dear KLA Shareholders,

KLA continues to benefit from multiple secular growth drivers we discussed in depth at our September 2019 Investor Day. Our performance this quarter and our strategies for diversified growth, technology leadership, and operational excellence are playing out according to our plans. By numerous measures, the December 2019 quarter was strong for KLA. Revenue and both GAAP and non-GAAP EPS finished at the upper end of the range of guidance, a result of strong demand and exceptional execution. This performance was particularly satisfying given it was set against a backdrop of still-lackluster memory demand.

As the global leader in process control and supplier of critical process-enabling solutions for the data era, KLA remains at the forefront of the most important industry trends and technology inflections in the electronics industry. Our deep, collaborative customer relationships, broad IP portfolio, and differentiated solutions that address our customers' most complex challenges are the essential ingredients in the recipe that sustains our market leadership. Our business also continues to benefit from increasing complexity in advanced semiconductor device design and manufacturing processes, as well as megatrends driving demand across multiple product generations and in numerous key industries.

KLA Benefits From Multiple Secular Growth Drivers



KLA Employs a Product-Agnostic, Solution-Centric Approach

Underpinning our success and consistent outperformance is the KLA Operating Model. Many of you are becoming more familiar with this model, given that we spent a fair amount of time at our Investor Day discussing it. And while it's not new to KLA, we understand talking about it may be, which is why we decided to codify it the way we did. Expect to continue to hear us refer to it as it does the best job of simplifying how we run the company. It also helps reinforce the critical core competencies that we believe can enhance the long-term performance and profitability of acquired businesses such as Orbotech.

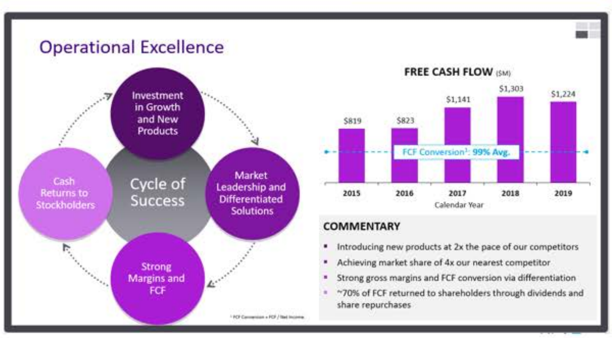
Most importantly, the KLA Operating Model is critical to align the company on a consistent strategy and execution, heighten accountability, and facilitate continuous improvement while ensuring we always operate with strong financial discipline and rigor.

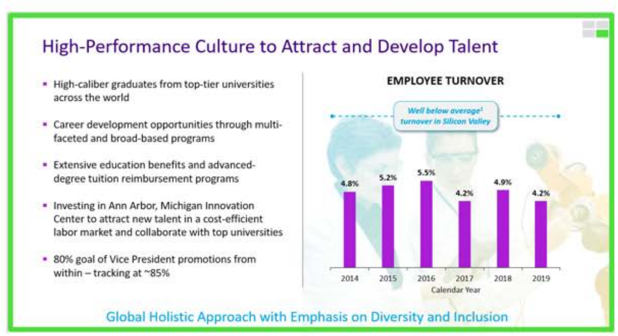
The KLA Operating Model

Focused on Driving Sustainable Profitability and Growth

KLA's Four Strategic Objectives Serve As Our Guide

Strategically, we have four objectives that serve as our guide and drive our sustainable high-performance culture. I find it is always worth reinforcing objectives when speaking with investors and analysts as they provide a helpful window into our strategy going forward. These four objectives are market leadership, product differentiation, operational excellence, and attracting and developing talent. We run all our businesses, and integrate newly acquired companies, with a focus on these four key objectives. Today's results point to our alignment and achievement of all four of these.





Before we cover the business highlights for the quarter, we'd like to provide some high-level perspective on the current industry environment.

In terms of the coronavirus, first and foremost, our primary concern is with the health and well-being of all affected by this situation. We are taking the recommended precautions and have implemented appropriate measures within our global business operations, including widening the range of guidance for the March 2020 quarter to reflect the uncertainty we see in the marketplace. We are closely monitoring this situation and will update investors as material new developments arise.

Not-withstanding this hopefully short-term issue, the long-term growth opportunity for the semiconductor market remains very compelling, driven by the proliferation of electronics across more diversified end markets, the introduction of new advanced technologies supporting the development and rollout of 5G, growing semiconductor investment in China, and continued device and process innovation to deliver superior performance and return on investment.

KLA's strong results are primarily driven by our industry-leading positions across various markets and the demand momentum that has continued for both technology development and capacity growth in advanced logic nodes. The demand to support advanced logic nodes is expected to remain healthy through 2020 and in 2021, driven by accelerating investments in EUV, competitive dynamics, and new capacity additions.

2020 is setting up to be our fifth consecutive year of year-over-year growth for KLA, with top-line growth currently expected to be in the high-single to low-double-digit range, tracking ahead of the long-term revenue growth rate of 7-9% that underpins our 2023 Target Model.

In terms of our outlook for the WFE demand environment in 2020, given the recent news of increased Capex investment from the leading Foundry and Logic customers, and the improving business conditions in memory, we are aligned with consensus expectations for 2020 to be a growth year for WFE coming off a stronger-than-anticipated finish to 2019.

December Quarter 2019 Business Highlights

KLA Gen5 – 392x Series

1. ***Continued Strength in Foundry and Logic.*** *Foundry and Logic customers increased their capex investments to accelerate the ramp of both 7 and 5 nanometer nodes, and their demand picture is expected to remain strong in calendar 2020.*

2. ***Expanded Use Case for Gen5 Helping to Drive Adoption.*** *Seeing accelerated adoption of the flagship Gen5 optical inspection platform driven by critical yield challenges at 7nm and below, as well as adoption of EUV print check methodologies. Gen5 shipments grew nearly 3X in 2019, and we expect continued growth in Gen5 in calendar 2020.*

3. ***Our New e-Beam Inspection Platform is Receiving Strong Customer Feedback****. KLA's e-Beam inspection platform works seamlessly with our Gen5 optical inspection platform through connectivity that offers customers faster time-to-results to address the smallest defects.*

4. ***Delivered the Industry's First X-ray Metrology Tool****. After proving value of the technology in initial customer evaluations, we delivered the first production-ready version of the this new platform. We are now focusing on establishing new use cases with all leading memory customers.*

5. ***KLA's Semiconductor Process Control Service Business Reached $1.1 Billion in 2019.*** *Total KLA Service revenue (including Orbotech) eclipsed $1.5 billion and continues to shine while generating strong free cash flow and predictability.*

KLA's market leadership is the product of the successful execution of our portfolio strategy focused on differentiation to address our customers' most critical challenges. We are confident in our product positioning and the validation from strong customer acceptance across our portfolio.

We continue to see accelerated growth of our flagship Gen5 optical inspection platform, deployed for both technology development and production monitoring at the advanced nodes. Our customers are now using the Gen5 platform to identify and solve yield-limiting issues at the 7nm node and beyond. We are also encouraged by the growing adoption of patterned wafer print check applications to qualify reticles for EUV. Gen5 offers the best solution to make sure EUV masks are defect-free and optimized to achieve process window requirements. Boosted in part by this expanded use case, Gen5 shipments nearly tripled in 2019, and adoption is expected to grow in 2020.

Also, at our recent Investor Day, we announced our first new e-beam inspection platform in multiple years, and we continue to receive very positive feedback from initial customer evaluations, and we are starting to receive purchase orders. KLA's e-beam inspection platform works seamlessly with our Gen5 optical inspection platform through built-in connectivity offering customers the best inspection performance combination at the lowest overall Cost of Ownership. This combination is a unique differentiator in the marketplace today, and can identify and detect critical yield-limiting defects at the most advanced nodes.

After proving the value of the technology in initial customer evaluations, we delivered the industry's first production-ready version of the X-ray metrology platform to customers in the December quarter. Introduced initially at our September Investor Day, the Axion platform is a small-angle X-ray scattering technology for in-line metrology applications to monitor the high aspect ratio features in advanced 3D NAND and DRAM device architectures. This platform provides a lower cost of ownership and improved cycle times when compared with existing destructive metrology techniques. We are now focusing on establishing new use cases with all leading memory customers.

Last, but certainly not least, KLA's service business continues to deliver excellent revenue growth performance while simultaneously generating strong free cash flow. Semiconductor Process Control Service revenue reached $1.1 billion in 2019, with over 70% of this revenue generated from subscription-like service contracts. This performance continues to give us high levels of confidence that KLA Services can deliver long-term revenue growth rates in the range of 9% to 11%. Several factors drive growth in our services business, including increasing complexity of our systems, expansion of the installed base, and expanded demand at the trailing edge nodes. With high fab utilization in foundry/logic and signs of improvement in memory, our customers are also looking for opportunities to enhance productivity and extend the life of their installed base. As a result, we see robust service contract penetration, and our service business is providing a steady, recurring revenue stream for all our businesses.

The KLA Operating Model Also Drives Our Investment Thesis

In summary, the KLA Operating Model drives our investment thesis. This is accomplished by driving sustained technology leadership with a strong competitive moat, supported by a track record of strong free cash flow generation and capital returns.

As we begin the new year with the expectation that the industry will see a resumption in growth in 2020, we are energized by the prospects that lie ahead. KLA continues to execute exceptionally well and deliver healthy relative revenue and earnings growth. Our focus on driving innovation and providing a steady stream of differentiated products and solutions positions KLA to achieve the long-term growth targets we established at our 2019 Investor Day.

Despite industry headwinds, 2019 was a historic year for KLA, showcasing the enduring value created by the successful execution of our strategic objectives. As we look ahead, we are confident that we are investing in our future and are well-positioned for growth and market leadership, building on the momentum we have established in our process control markets and capitalizing on the market expansion opportunities from the Orbotech acquisition. Our Orbotech integration and product synergy programs are firmly on track and progressing well.

December Quarter 2019 Financial Highlights

This was a strong quarter for KLA with revenue and EPS each coming in at the high end our guidance ranges. Total revenue for the December quarter was $1.509 billion, which was at the upper end of the range of guidance of $1.435 to $1.515 billion.

Gross margin for the quarter was 60.8%, in the upper end of the guided range for the quarter of 60% to 61%, driven by incremental revenue growth and product mix. Operating margin was 34.8%.

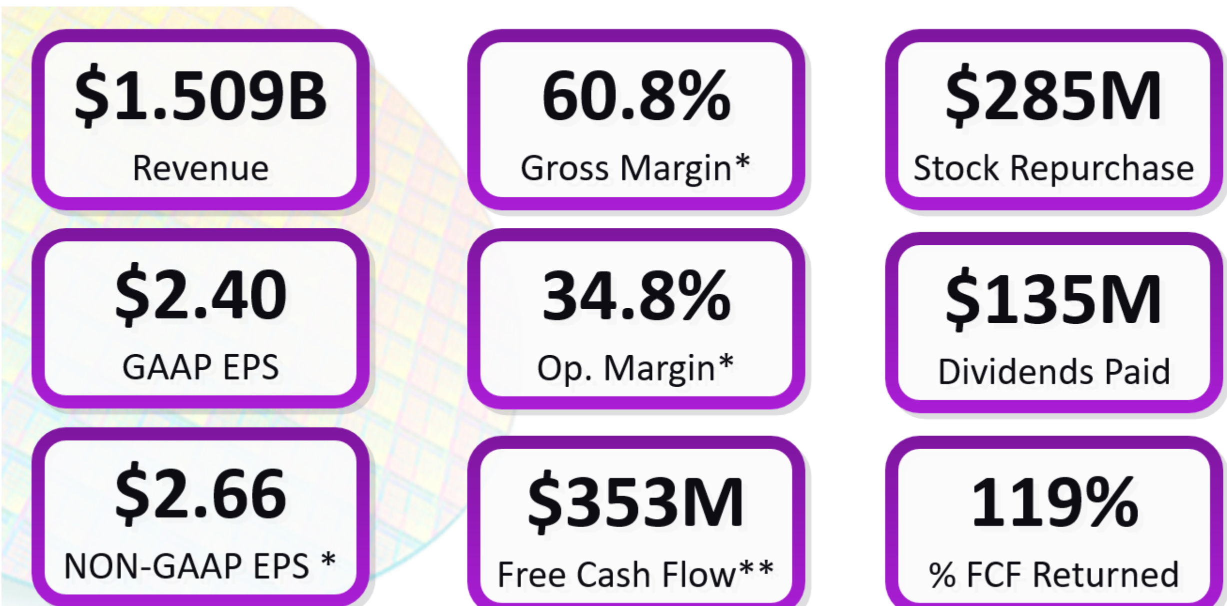
GAAP EPS was $2.40, and non-GAAP EPS was $2.66, both of which were also at the upper end of the ranges of guidance of $2.13 to $2.43 and $2.39 to $2.69, respectively.

Cash from operations and Free Cash Flow were both strong and above our internal targets, coming in at $388 million and $353 million, respectively.

Our financial results this quarter were exceptionally strong all-around, and we remain laser-focused on our overall execution, as well as our integration and synergy plans for Orbotech.

During the quarter, we remained consistent and effective in our capital return framework by returning 119% of quarterly free cash flow to investors. Our capital return was accomplished by repurchasing $285 million of common stock, and also distributing $135 million in quarterly dividends. We currently have $1.3 billion remaining under our share repurchase authorization and plan to continue to execute our repurchases consistently going forward.

A key pillar of our investment thesis is KLA's long-standing commitment to returning cash to shareholders. For calendar 2019, KLA returned approximately $1.5 billion or 127% of our Free Cash Flow to shareholders through our dividend and share repurchase programs. Our capital return included more than $1 billion in stock buybacks.



* Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP ** Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures

Breakdown of Revenue by Reportable Segments and End Markets

Revenue for the Semiconductor Process Control segment, which includes the associated service business was healthy at $1.248 billion in the quarter, up 7% sequentially on the back of continued strength in Foundry and Logic.

As we mentioned earlier, our initial view of the WFE demand environment for 2020 is for solid growth off a better-than-expected finish to 2019, driven by continued strong investment from multiple Foundry and Logic customers, investment in EUV, and expanded memory investment in the year. In addition, continued high levels of demand from native China is expected to contribute to overall industry growth in 2020.

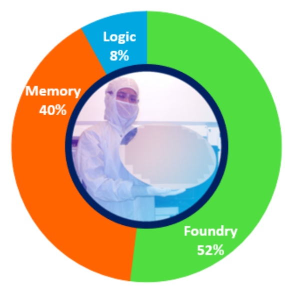
Foundry was very strong in the December 2019 quarter, at approximately 52% of Semiconductor Process Control revenue, up from 44% last quarter. Memory was 40% in December, down from 43% last quarter. Logic was 8% of total Semiconductor Process Control revenue versus 13% last quarter, and in-line with our expectations.

Let's turn to the Specialty Semiconductor Process segment. As a reminder, SPTS was formerly part of Orbotech, and is a leader in PVD and Etch process solutions in fast-growing Specialty Semiconductor applications, like MEMS, Sensors, Power, and RF devices, as well as in Advanced Packaging markets. Revenue for SPTS was $75 million, up 9% sequentially. While SPTS revenue for 2019 was impacted by global trade issues, we expect 2020 to be a year of strong growth, driven by expanding RF demand to support 5G investment, and a potential recovery in the automotive electronics market in the second half of calendar 2020. On a very encouraging note, SPTS ended the December 2019 quarter with record backlog and quarterly bookings.

Revenue for the PCB, Display and Component Inspection segment was $186 million, up 4% sequentially, and in-line with expectations. This segment includes the former PCB and Display businesses of Orbotech and KLA's component inspection business. After a cyclical low, we expect 2020 to be a modest year of growth for PCB driven by the transition to 5G smartphones.

	Revenue		
	Q4-CY19($M)	Q/Q Growth %	Revenue Mix
Semiconductor Process Control *(Systems + Services)*	$1,248	+7%	83%
Specialty Semiconductor Process *(Systems + Services)*	$75	+9%	5%
PCB, Display and Component Inspection *(Systems + Services)*	$186	+4%	12%
Total	$1,509 [1]	+7%	

Semi Process Control End Market System Revenue



[1] Includes Other Revenue of $1M.

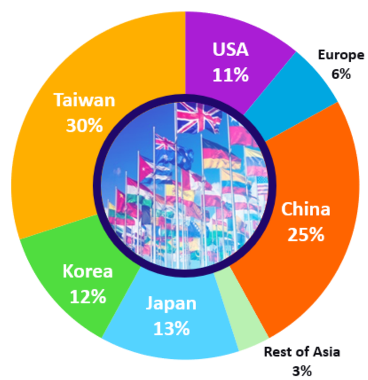
Breakdown of Revenue by Major Products and Region

The distribution of revenue by major product category in the December quarter was as follows: Wafer Inspection was 40%. Patterning, (which includes reticle inspection), was 19%. Wafer Inspection and Patterning are part of our Semiconductor Process Control Segment. Specialty Semiconductor Process was 4%. PCB, Display and Component Inspection revenue was 9%. Service was 24% of revenue in the quarter. Other was 4% of revenue.

In terms of regional split of revenue: Taiwan was 30%, China was 25%, Japan was 13%, Korea was 12%, the U.S. was 11%, Europe was 6%, and the rest of Asia was 3%.

	Revenue		
	Q4-CY19($M)	Q/Q Growth %	Revenue Mix
Wafer Inspection *(Systems Only)*	$606	+35%	40%
Patterning *(Systems Only)*	$289	-25%	19%
Specialty Semi Process *(Systems Only)*	$61	+7%	4%
PCB, Display and Component Inspection *(Systems Only)*	$129	+7%	9%
Services	$365	+3%	24%
Other	$59	+18%	4%
Total	$1,509	+7%	

Revenue by Region



Other Income Statement Highlights

Total operating expenses were $391 million in the quarter, including $220 million of R&D expense. Operating expenses were slightly higher than expected in the quarter due to non-headcount related engineering development expenses and modest variable compensation adjustments. Operating margin was 60 basis points higher than modeled at 34.8%. Other income and expense in the December quarter was $38 million. The effective tax rate was 13.5%, in-line with our long-term tax planning rate at 14%. Going forward, based on our expectations for the geographic distribution of profit, you should now use 13% as the long-term tax planning rate.

Net income was $422 million, and we had just under 159 million diluted weighted average shares outstanding.

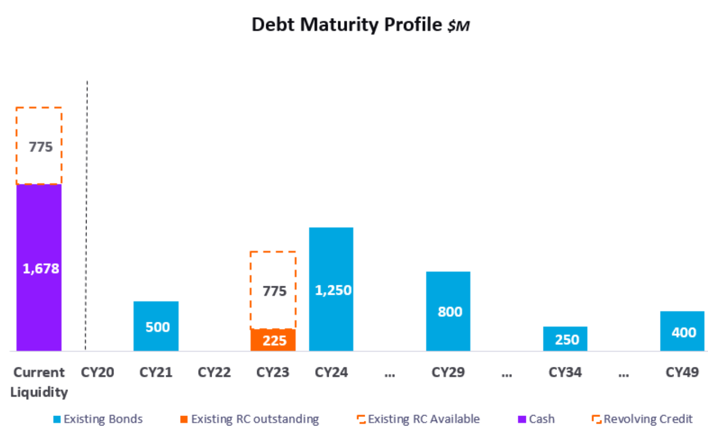
$391M Total Op. Expenses*	**13.5%** Effective Tax Rate
$220M R&D*	**$422M** Net Income*
$38M Other Income & Expense	**159M** Diluted Shares

* Non-GAAP Metric – Please refer to Appendix for reconciliation to GAAP

Balance Sheet Highlights and Debt Maturities Profile

We ended the quarter with $1.7 billion in cash, total debt of $3.4 billion, and a flexible and attractive debt maturity profile supported by investment-grade ratings from all three agencies. In October, we retired our $250 million 3.375% Senior Notes due November 2019. We intend to refinance our $500 million senior notes due November 2021 during the March quarter.

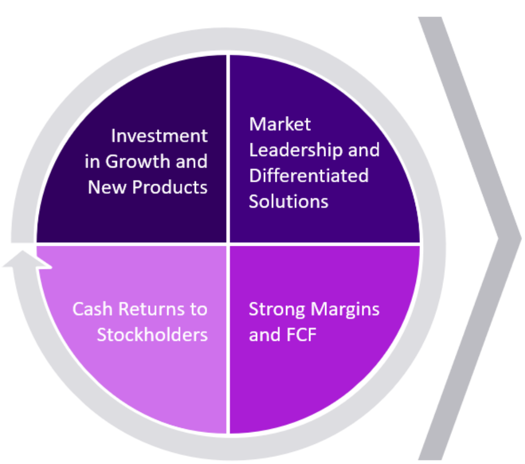
CONSOLIDATED BALANCE SHEET[1] ($M)		
Total Cash[2]	$	1,678
Working Capital	$	2,659
Total Assets	$	9,251
Debt[3]	$	3,400
Total Shareholders' Equity	$	2,688
DEBT MATURITY PROFILE		
Debt Outstanding [4]	$	3,425M
Weighted Average Rate		4.47%
Weighted Average Life		8.9 years
INVESTMENT GRADE CREDIT RATINGS		
Moody's		Baa1
S&P		BBB
Fitch		BBB+

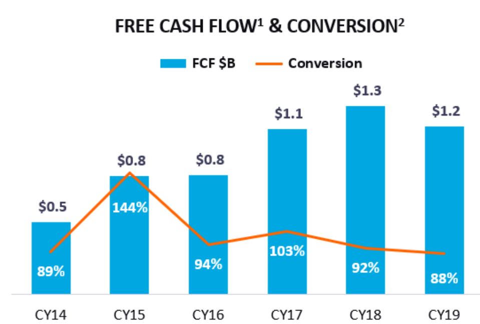


[1] As of 12/31/19; [2] Total Cash includes Cash, Cash Equivalents and Marketable Securities; [3] Difference between debt of $3.400B and gross debt of $3,425B is un-amortized debt issuance discounts and costs; [4] Includes $225M drawn from revolver.

FCF Generation Fuels Consistent Capital Return to Shareholders

KLA has a history of consistent free cash flow generation and high free cash flow conversion. Over the past five years, we have averaged 99% free cash flow conversion, and in calendar 2019 it was nearly 90%. Our innovation and differentiation in the market place are what drives our industry-leading gross and operating margins and, ultimately our free cash flow conversion.





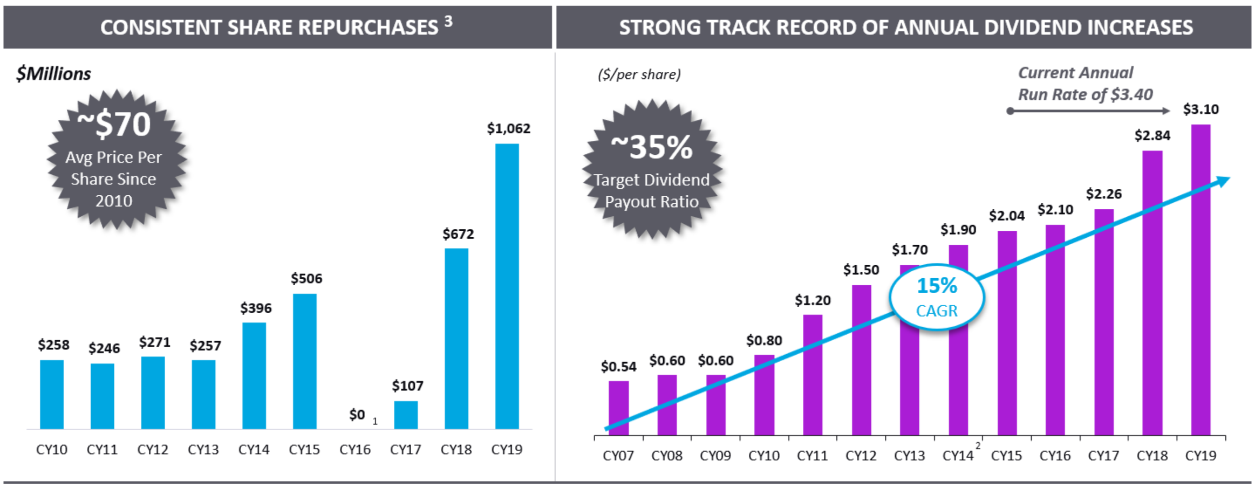
- Introducing new products at a 2x pace vs. our competitors
- Achieving market share of 4x our nearest competitor
- High gross margin and FCF conversion via differentiation

Committed to a Minimum of >70% FCF Returned to Shareholders through Dividends and Buybacks

[1] Free Cash Flow (FCF) = Cash Flow from Operating Activities minus Capital Expenditures
[2] FCF Conversion defined as FCF/Non-GAAP Net Income; Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP

Capital Return to Investors is Spread Across Buybacks and Dividends

KLA continues to execute on its commitment to return capital to shareholders in the form of both dividends and share repurchases. The dividend payout has increased at a CAGR of 15% since inception 13 years ago. Share repurchases have also increased over the years, with the average price paid to repurchase shares being slightly under $70, and with approximately $3.8 billion deployed for repurchases since 2010. The only exception to the company's systematic repurchasing activity was during the period when it was blacked out due to acquisition proceedings.



[1] Share repurchase halted in CY16 during KLA-Lam merger proceedings [2] Excludes $16.50 per share special dividend [3] Trade Date basis

March Quarter 2020 Guidance (Q3 FY2020)

The fluid situation accompanying the Coronavirus response is adding complexity to our forecasting process. As seen with others, we are operating with key assumptions regarding the resumption of business activities in China, both in Hubei Province, in addition to the rest of the country. To date, we do not expect a protracted disruption to our business for calendar year 2020. Policy changes regarding the response could affect our ability to ship and support shipments into China, as well as to access key components from our China-based supply chain necessary to meet system shipment commitments to our worldwide customer base. In short, this is a situation with limited visibility that could impact our near-term results and we will be prudent in providing you with the best information we have as we proceed through the quarter. As we mentioned above, the range of guidance has been widened to reflect this quarter's uncertainty and our current estimate of potential disruption.

We expect total revenue to be in a range of $1.325 billion to $1.525 billion in the March quarter. This revenue guidance would have been approximately 3% to 5% higher at the midpoint without the adjustments for the coronavirus impact.

Foundry is forecasted to be about 60% of Semiconductor Process Control system revenue in the March quarter depicting the strength we continue to see amongst our foundry customer base.

We expect memory to be approximately 28% of system revenue, reflecting continued headwinds we see in the memory market.

Logic is expected to be about 12% of Semiconductor Process Control system revenue next quarter.

Based on product mix expectations for the March quarter, we forecast gross margin to be in a range of 59.5% to 61.5%.

Operating expenses will be in the range of $380 to $385 million, down sequentially from December as prototype material expenses normalize to run rate. Given expected revenue levels for 2020, new product development investments of multiple product technologies to support the industry's transition to high volume production of EUV Lithography and initiatives to reduce our long-term structural cost position, we expect quarterly operating expenses to remain in this range for the remainder of the calendar year.

For 2020 operating margin, we are running the company to perform in line with the $5.5 to $6.0 billion revenue interval of our business model presented at Investor Day back in September. We expect Other Interest and Expense to be approximately $39 million in the quarter and the effective tax rate to be 13%. For earnings, we expect GAAP diluted EPS of $1.79 to $2.57 per share and non-GAAP diluted EPS of $2.04 to $2.82 per share. Our EPS guidance is based on a fully diluted share count of approximately 158 million shares.

	MARCH 2020 QUARTER
SALES	**$1.325B - $1.525B**
GROSS MARGIN	**59.5% - 61.5%**
GAAP EPS	**$1.79 - $2.57**
NON-GAAP EPS	**$2.04 - $2.82**

MACRO ASSUMPTIONS

- Semiconductor industry CAGR of 4% - 5%
- Semi Process Control System Revenue from Foundry: 60%
- Semi Process Control System Revenue from Memory: 28%
- Guidance range widened to include adjustments for potential impact of coronavirus

MODEL ASSUMPTIONS

- Operating Expenses: ~$380M-$385M
- Interest & Other Expense (OIE): ~$39M
- Effective Tax Rate: 13%
- Diluted Share Count: 158M

Driving Profitable Growth and Delivering Shareholder Value

In Conclusion

The December quarter results demonstrated strong performance and relative strength for KLA across many areas of our business. With our diversified end markets, continued technology leadership across a broadening product portfolio, and operational discipline, KLA is delivering on our mission, strategy, and objectives. As we begin the new year, calendar 2020 is shaping up for another year of growth in line with or slightly better than our long-term revenue growth rate target of 7-9%, earnings per share growth of 1.5 times the revenue growth rate, and demonstrating progress towards our 2023 revenue and non-GAAP EPS targets of $7.0 - $7.5 billion, and $14.50 - $15.50 per share, respectively.

Sincerely,

Rick Wallace
CEO

Bren Higgins
CFO

Appendix

Reconciliation of Non-GAAP Financial Measures

(In thousands, except per share amounts and percentages)		For the three months ended December 31, 2019	For the three months ended September 30, 2019	For the three months ended December 31, 2018	For the six months ended December 31, 2019	For the six months ended December 31, 2018
GAAP net income		$ 380,555	$ 346,525	$ 369,100	$ 727,080	$ 765,044
Adjustments to reconcile GAAP net income to non-GAAP net income*:						
Acquisition-related charges	a	60,393	73,363	4,281	133,756	9,832
Restructuring, severance and other related charges	b	2,786	-	-	2,786	-
Income tax effect of non-GAAP adjustments	c	(21,505)	(22,266)	(276)	(43,771)	(586)
Discrete tax items	d	-	-	(765)	-	(17,871)
Non-GAAP net income		$ 422,229	$ 397,622	$ 372,340	$ 819,851	$ 756,419
GAAP net income as a percentage of revenue		25.2%	24.5%	33.0%	24.9%	34.6%
Non-GAAP net income as a percentage of revenue		28.0%	28.1%	33.2%	28.0%	34.2%
GAAP net income per diluted share		$ 2.40	$ 2.16	$ 2.42	$ 4.56	$ 4.96
Non-GAAP net income per diluted share		$ 2.66	$ 2.48	$ 2.44	$ 5.15	$ 4.90
Shares used in diluted shares calculation		158,620	160,131	152,648	159,314	154,389
GAAP operating income		$ 462,831	$ 410,248	$ 433,273	$ 873,079	$ 877,178
Adjustments to reconcile GAAP operating income to non-GAAP operating income*:						
Acquisition-related charges	a	60,393	73,363	4,281	133,756	9,832
Restructuring, severance and other related charges	b	2,786	-	-	2,786	-
Non-GAAP operating income (1)		$ 526,010	$ 483,611	$ 437,554	$ 1,009,621	$ 887,010
GAAP operating income as a percentage of revenue		30.7%	29.0%	38.7%	29.9%	39.6%
Non-GAAP operating income as a percentage of revenue		34.8%	34.2%	39.1%	34.5%	40.1%

* Refer to "Reconciliation of Non-GAAP Financial Measures – Explanation of Non-GAAP Financial Measures" for detailed descriptions and information for each reconciling item.

(1) Non-GAAP operating income and operating expenses includes the effects of the changes in the Company's Executive Deferred Savings Plan Program ("EDSP") and the changes in the EDSP liability and asset are recorded in selling, general and administrative expense in operating expenses. The expense (benefit) associated with change in the liability included in selling, general and administrative expense for the three months ended December 31, 2019, September 30, 2019, and December 31, 2018 were $12.0 million, $1.9 million and $(19.8) million, respectively and $13.9 million and $(12.3) million, for the six months ended December 31, 2019 and December 31, 2018 respectively. The gains (losses) associated with the changes in the EDSP asset included in selling, general and administrative expense for the three months ended December 31, 2019, September 30, 2019, and December 31, 2018 were $11.9 million, $2.3 million and $(19.4) million, respectively and $14.2 million and $(12.0) million for the six months ended December 31, 2019 and December 31, 2018 respectively.

(In thousands, except percentages)		For the three months ended December 31, 2019	For the three months ended September 30, 2019	For the three months ended December 31, 2018	For the six months ended December 31, 2019	For the six months ended December 31, 2018
GAAP gross margin		$ 875,835	$ 809,173	$ 711,638	$ 1,685,008	$ 1,423,511
Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*:						
Acquisition-related charges	a	40,590	49,999	967	90,589	1,857
Restructuring, severance and other related charges	b	831	-	-	831	-
Non-GAAP gross margin		$ 917,256	$ 859,172	$ 712,605	$ 1,776,428	$ 1,425,368
GAAP gross margin as a percentage of revenue		58.0%	57.2%	63.5%	57.6%	64.3%
Non-GAAP gross margin as a percentage of revenue		60.8%	60.8%	63.6%	60.8%	64.4%
GAAP operating expenses		$ 413,004	$ 398,925	$ 278,365	$ 811,929	$ 546,333
Adjustments to reconcile GAAP operating expenses to non-GAAP operating expenses*:						
Acquisition-related charges	a	(19,803)	(23,364)	(3,314)	(43,167)	(7,975)
Restructuring, severance and other related charges	b	(1,955)	-	-	(1,955)	-
Non-GAAP operating expenses (1)		$ 391,246	$ 375,561	$ 275,051	$ 766,807	$ 538,358
GAAP operating expenses as a percentage of revenue		27.4%	28.2%	24.9%	27.8%	24.7%
Non-GAAP operating expenses as a percentage of revenue		25.9%	26.6%	24.6%	26.2%	24.3%

* Refer to "Reconciliation of Non-GAAP Financial Measures – Explanation of Non-GAAP Financial Measures" for detailed descriptions and information for each reconciling item.

(1) Non-GAAP operating income and operating expenses includes the effects of the changes in the Company's Executive Deferred Savings Plan Program ("EDSP") and the changes in the EDSP liability and asset are recorded in selling, general and administrative expense in operating expenses. The expense (benefit) associated with change in the liability included in selling, general and administrative expense for the three months ended December 31, 2019, September 30, 2019, and December 31, 2018 were $12.0 million, $1.9 million and $(19.8) million, respectively and $13.9 million and $(12.3) million, for the six months ended December 31, 2019 and December 31, 2018 respectively. The gains (losses) associated with the changes in the EDSP asset included in selling, general and administrative expense for the three months ended December 31, 2019, September 30, 2019, and December 31, 2018 were $11.9 million, $2.3 million and $(19.4) million, respectively and $14.2 million and $(12.0) million for the six months ended December 31, 2019 and December 31, 2018 respectively.

(In thousands, except percentages)		For the three months ended December 31, 2019	For the three months ended September 30, 2019	For the three months ended December 31, 2018	For the six months ended December 31, 2019	For the six months ended December 31, 2018
GAAP income before income taxes		$ 424,927	$ 371,516	$ 415,963	$ 796,443	$ 843,531
GAAP income tax expense		$ 44,622	$ 25,120	$ 46,863	$ 69,742	$ 78,487
GAAP income tax rate		10.5%	6.8%	11.3%	8.8%	9.3%
Adjustments to reconcile GAAP effective tax rate to non-GAAP effective tax rate*:						
Acquisition-related charges	a	60,393	73,363	4,281	133,756	9,832
Restructuring, severance and other related charges	b	2,786	-	-	2,786	-
Non-GAAP income before income taxes		$ 488,106	$ 444,879	$ 420,244	$ 932,985	$ 853,363
Income tax effects of non-GAAP adjustments	c	21,505	22,266	276	43,771	586
Discrete tax item	d	-	-	765	-	17,871
Non-GAAP income tax expense		$ 66,127	$ 47,386	$ 47,904	$ 113,513	$ 96,944
Non-GAAP income tax rate		13.5%	10.7%	11.4%	12.2%	11.4%
GAAP research and development (R&D) expenses		$ 220,751	$ 210,580	$ 165,903	$ 431,331	$ 319,433
Adjustments to reconcile GAAP R&D expenses to non-GAAP R&D expenses*:						
Restructuring, severance and other related charges	b	(802)	-	-	(802)	-
Non-GAAP R&D expenses		$ 219,949	$ 210,580	$ 165,903	$ 430,529	$ 319,433

* Refer to "Reconciliation of Non-GAAP Financial Measures – Explanation of Non-GAAP Financial Measures" for detailed descriptions and information for each reconciling item.

Reconciliation of Q3 FY 2020 Guidance Range

(In millions, except per share amounts and percentages)		Low	High
GAAP diluted net income per share		$ 1.79	$ 2.57
Acquisition-related charges	a	0.35	0.35
Restructuring, severance and other related charges	b	0.02	0.02
Income tax effect of non-GAAP adjustments	c	(0.12)	(0.12)
Non-GAAP diluted net income per share		$ 2.04	$ 2.82
Shares used in net income per diluted shares calculation		157.7	157.7
GAAP gross margin as a percentage of revenue		56.6%	59.1%
Acquisition-related charges	a	2.8%	2.3%
Restructuring, severance and other related charges	b	0.1%	0.1%
Non-GAAP gross margin as a percentage of revenue		59.5%	61.5%
GAAP operating expenses		$ (439)	$ (444)
Acquisition-related charges	a	55	55
Restructuring, severance and other related charges	b	4	4
Non-GAAP operating expenses		$ (380)	$ (385)

Note: The guidance as of February 4, 2020 represents our best estimate considering the information known as of the date of issuing the guidance. We undertake no responsibility to update the above in light of new information or future events. Refer to the forward looking statements for important information. Also Refer to "Reconciliation of Non-GAAP Financial Measures – Explanation of Non-GAAP Financial Measures" for detailed descriptions and information about each reconciling item.

Reconciliation of Non-GAAP Financial Measures

Explanation of Non-GAAP Financial Measures:

To supplement our condensed consolidated financial statements presented in accordance with GAAP, we provide certain non-GAAP financial information, which is adjusted from results based on GAAP to exclude certain costs and expenses, as well as other supplemental information. The non-GAAP and supplemental information is provided to enhance the user's overall understanding of our operating performance and our prospects in the future. Specifically, we believe that the non-GAAP information provides useful measures to both management and investors regarding financial and business trends relating to our financial performance by excluding certain costs and expenses that we believe are not indicative of our core operating results. The non-GAAP information is among the budgeting and planning tools that management uses for future forecasting. However, because there are no standardized or generally accepted definitions for most non-GAAP financial metrics, definitions of non-GAAP financial metrics (for example, determining which costs and expenses to exclude when calculating such a metric) are inherently subject to significant discretion. As a result, non-GAAP financial metrics may be defined very differently from company to company, or even from period to period within the same company, which can potentially limit the usefulness of such information to an investor. The presentation of non-GAAP and supplemental information is not meant to be considered in isolation or as a substitute for results prepared and presented in accordance with United States GAAP.

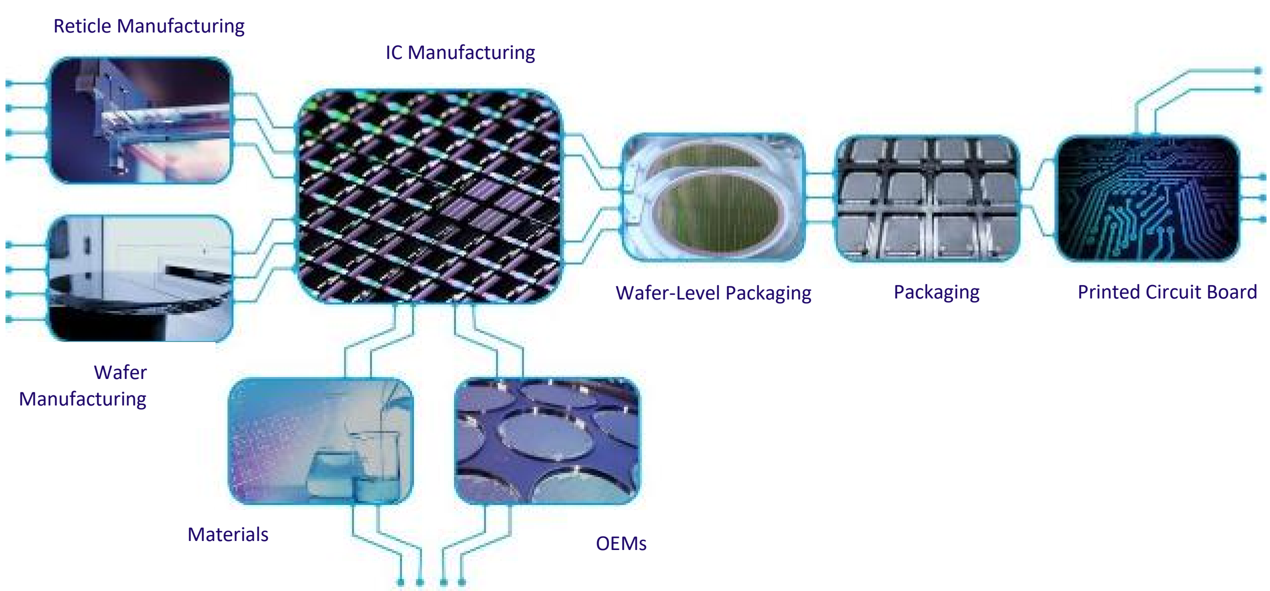
a) Acquisition-related charges primarily include amortization of intangible assets and other acquisition-related adjustments including adjustments for the fair valuation of inventory and backlog, and transaction costs associated with our acquisitions, primarily Orbotech. Management believes that the expense associated with the amortization of acquisition-related intangible assets is appropriate to be excluded because a significant portion of the purchase price for acquisitions may be allocated to intangible assets, and exclusion of these expenses allows comparisons of operating results that are consistent over time for both KLA's newly acquired and long-held businesses. Management believes that the other acquisition-related expenses are appropriate to be excluded because such costs would not have otherwise been incurred in the periods presented. Management believes excluding these items helps investors compare our operating performances with our results in prior periods as well as with the performance of other companies.
b) Restructuring, severance and other related charges include costs associated with employee severance and other exit costs. Management believes excluding these items helps investors compare our operating performance with our results in prior periods.
c) Income tax effect of non-GAAP adjustments includes the income tax effects of the excluded items noted above. Management believes that it is appropriate to exclude the tax effects of the items noted above in order to present a more meaningful measure of non-GAAP net income.
d) Discrete tax items include charges associated with the acquisition of Orbotech as well as the income tax effects of an income tax expense from the enacted tax reform legislation through the Tax Cuts and Jobs-Act (the "Act"), which was signed into law on December 22, 2017, of which the impact is primarily related to the provisional tax amounts recorded for the transition tax on accumulated foreign earnings and the re-measurement of certain deferred tax assets and liabilities as a result of the enactment of the Act. Management believes excluding these items helps investors compare our operating performance with our results in prior periods as well as with the performance of other companies.

About KLA Corporation

KLA Corporation ("KLA") is the world's leading supplier of process control and yield management solutions for the semiconductor and related microelectronics industries. The company's comprehensive portfolio of products, software, analysis, services and expertise is designed to help Integrated Circuit (IC) manufacturers manage yield throughout the entire wafer fabrication process-from R & D to final yield analysis. KLA offers a broad spectrum of products and services that are used by every major semiconductor manufacturer in the world. We provide advanced process control and process-enabling solutions for manufacturing wafers and reticles, integrated circuits, packaging, printed circuit boards and flat panel displays. In close collaboration with leading customers across the globe, our expert teams of physicists, engineers, data scientists and problem-solvers design solutions that move the world forward. Additional information may be found at: www.kla.com.

KLA's board portfolio services the entire Semiconductor ecosystem:

Semiconductor Manufacturing	Related Electronics Industries
• IC Manufacturing	• Compound Semiconductor
• Wafer Manufacturing	• Power Device
• Reticle Manufacturing	• LED
• IC Packaging	• MEMS
• Printed Circuit Board	• Data Storage/Media Head
	• Flat Panel Display
	• General Purpose/Labs



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