

October 28, 2020

Letter to Shareholders

September 2020 Quarterly Letter

Rick Wallace

Chief Executive Officer

Bren Higgins

Chief Financial Officer



Dear KLA Shareholders,

As we rapidly approach the end of the calendar year, it's amazing to think how much has changed over the past 12 months. We hope you and your families are safe and in good health, and we appreciate your continued interest in and support for our company.

We want to begin by conveying our appreciation for the worldwide KLA team. Your perseverance, drive to be better, and determination exemplify KLA's Core Values and enabled us once again to meet our commitments and deliver exceptionally strong financial performance in the September quarter. On behalf of the entire KLA executive team, we thank you.

In this quarter's Shareholder Letter, we will highlight how our results demonstrate the *resourcefulness* of our global workforce, the *resiliency* of our business model, and our continuing commitment to *returning value* to our shareholders.

Our September quarter revenue and non-GAAP EPS both finished at the upper end of our guidance ranges, a result of continued strong demand from customers, exceptional execution by our global teams, and the enduring strength and resiliency of the KLA Operating Model in guiding our Strategic Objectives.

We are continuing this momentum into the December quarter and nearing the end of what truly has been an unprecedented year in calendar 2020. Most importantly, we are executing at a high level, operating from a position of strength in our marketplace, and are solidly on track to meet or exceed our 2023 financial targets.

Resourcefulness of our Global Workforce

We just completed the third quarter of operating through a pandemic. COVID-19 has presented an unexpected opportunity to showcase KLA's resilience and resourcefulness in these unprecedented times.

We have been proactively taking steps to mitigate disruption in our business and remain vigilant on the risks posed by the virus on our people. We've done this by adopting strict safety protocols to protect our workforce while innovating in new ways to collaborate with customers and partners. As demonstrated by our strong performance throughout 2020, we are successfully meeting customer needs, executing our R&D roadmap, and operating our worldwide manufacturing facilities efficiently. We continue to evaluate and adapt at our various facilities in accordance with local regulations, prioritizing employee health and safety.

Our worldwide teams deserve high praise for never losing sight of what our customers want and need to improve their businesses and drive better yield management. We have benefited from them being exceptionally resourceful and as always, remaining committed to customer satisfaction and meeting our commitments. When we consider the challenges our worldwide teams are facing today, we recognize they extend well beyond the workplace, which makes us intently focused on ensuring that we are supporting our teams and our people in any way possible.

Lastly, investment in the long-term remains an important priority for us. We are confident that our R&D programs will help strengthen our technology and market leadership. We are gratified by the

effectiveness of our business continuity actions which have allowed our R&D activities to adapt, although not without challenges, and continue during this pandemic.

Now, turning to the industry demand environment. In the September quarter we saw broad, diversified strength across each of our segments. Semiconductor Process Control revenue was solidly above plan, and our Services business delivered strong operating leverage and is on track to deliver double-digit growth in 2020. We also ended the quarter with strong backlog, reflecting the enabling role KLA plays in our customers' technology roadmap and investment.

Industry Demand Environment

Industry Demand is Strong – We continue to see broad, diversified strength across each of our segments. We ended the quarter with strong backlog, reflecting the enabling role KLA plays in our customers' drive to innovate and invest in next-generation technology.

Customer R&D Investment Remains Very Strategic & Resilient – KLA is most levered to our customers' strategic R&D investments and product roadmaps for leading-edge technologies across Foundry, Logic, and Memory. These investments are critical to our customers' long-term growth strategies and competitive positioning, and therefore tend to be more resilient.

Acceleration of the Secular Growth Drivers Outlined at 2019 Investor Day – Data center demand, 5G infrastructure and smartphone growth, and the revival of PC demand to support work from home, virtual collaboration, remote learning and entertainment and gaming are driving an acceleration of the data era that translates across end-markets and industries.

KLA Remains on Track to Meet or Exceed our 2023 Financial Targets

Driven by the secular industry trends and the ongoing commitment by our customers to invest in R&D for next generation technology, the stage is set for KLA to outgrow our market in calendar 2020.

Today's environment continues to accelerate the adoption of several industry growth drivers that we originally outlined at our 2019 Investor Day. The integration of digital technology into our lives is transforming the way we live and work, resulting in fundamental changes to how businesses operate and deliver value to customers. This digital transformation is fueling secular demand drivers such as High-Performance Computing (HPC), Artificial Intelligence (AI), accelerated migration to the Cloud from "on prem" applications and 5G communication, driving investments and innovation in advanced Memory and Logic device technologies. Process Control is on the critical path of enabling this digital transformation, driving our growth and long-term revenue and profitability objectives, and the addition of Orbotech in 2019 to our business portfolio has further expanded our exposure to the compelling industry trends.

We are driving this all-important digital transformation in our own business, including adopting new productivity tools to improve collaboration with our global teams and customers. For example, our Services business has been working closely with our customers to expand remote service technologies to augment our in-country service and installation engineers. We have also recently adopted and integrated a new cloud-based platform for managing our global Human Resource Management systems that should continue to benefit us as we scale. Finally, we are also integrating cloud-based manufacturing and service planning tools to increase the visibility of our parts demand to our

suppliers and to allow us to more proactively respond to customer service requirements. These are just a few examples of the accelerated digital transformation that we ourselves are experiencing inside of KLA as we adapt to this new environment.

Resiliency of our Business Model

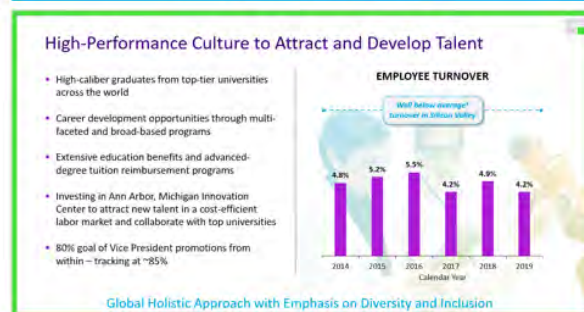
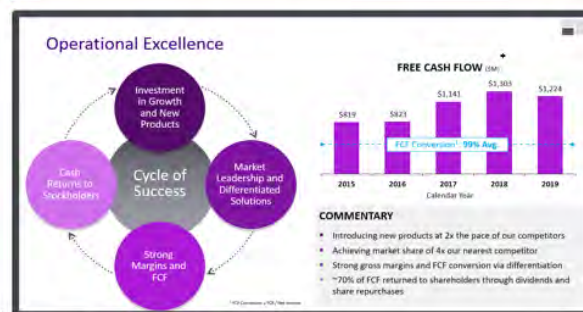
One thing that remains a constant for us is the KLA Operating Model. The Operating Model codifies our corporate values and management principles, which defines the critical core competencies and operating disciplines that drive our performance. The KLA Operating Model is the enduring framework that we rely on to guide the execution of our long-term Strategic Objectives.

The KLA Operating Model



Focused on Driving Sustainable Profitability and Growth

KLA's Strategic Objectives Serve As Our Guide



* Non-GAAP metric – Please refer to Appendix for reconciliation to GAAP.

We deploy the KLA Operating Model to align the company on a consistent strategy, tie accountability to results, drive product development execution, and facilitate continuous improvement while ensuring the company always operates with strong financial discipline as we pursue our long-term performance and profitability objectives.

Here are five top highlights from our most recent quarter:

September Quarter 2020 Business Highlights

1. Foundry and Logic Strength Continues, Memory Growth Expected in 2021



2. KLA Continues To Win in the Marketplace



3. Service Business on Track for Another Year of Strong Growth



4. EPC Group Benefitting from Secular Growth Factors Associated with 5G and Advanced Semiconductor Packaging



5. Continuing Commitment to Returning Value to Shareholders



First, as expected, we saw continued strength and breadth in Foundry and Logic demand in the September quarter. These customers are benefitting from investment in digital infrastructure to support the secular growth drivers that we mentioned earlier, and we expect this demand to remain healthy in 2021. In Memory, tool utilization is high, and Memory customers continue to drive down device inventories and plan for higher bit growth in 2021 to meet expected improvement in end demand. We expect higher business levels across a broader range of customers in the December quarter, with momentum continuing into 2021. The strength in demand we are seeing reflects KLA's essential role in supporting our customers' drive to innovate and continue to invest in future technology nodes.

Second, we ended the quarter with strong backlog demonstrating momentum in the marketplace across multiple product platforms in both the Semiconductor Process Control and EPC groups. Fueled by new applications in our optical inspection portfolio (such as EUV print check for GEN5), and the success of new offerings including the eSL10 e-beam inspection platform, we are seeing strong adoption of our Patterned Wafer Inspection product suite, driving our market leadership in what we expect will be a year of growth for Process Control relative to the overall WFE market. Solutions in this product suite include Gen4 and Gen5 Broadband Plasma and Laser Scattering optical inspection platforms, as well as e-beam technologies for both Inspection and Review applications. Our product strategy of offering a portfolio of solutions addressing our customers' most complex technical challenges is a unique differentiator for KLA that drives our growth and market leadership.

Third, our Service business continues to perform well and is positioned for double-digit growth in 2020. Several factors drive long term growth in Service, including a growing installed base, increasing

complexity of our systems, tighter time to market requirements for our customers, and market expansion at trailing edge nodes. As a result, we see robust service contract penetration, which has steadily risen from 70%+ to 75%+ over the past few quarters. This demonstrates the resiliency and predictability of Services' subscription-like annuity revenue stream. KLA's Service revenue is 25% of total quarterly revenue and is delivering long-term growth at a rate that is double the underlying industry WFE growth rate.

Fourth, it was another strong quarter for the Electronics, Packaging, and Components (EPC) group, highlighted by record demand for our PCB (Printed Circuit Board) division. The strong quarter in PCB was driven by EPC's high exposure to the 5G infrastructure and smartphone markets. Our PCB business also features a strong recurring revenue component from Services, pointing to the differentiation and complexity of our product portfolio. The SPTS and ICOS divisions are also benefiting from the 5G transition along with increasingly more complex advanced semiconductor packaging.

Continuing Commitment to Returning Value to our Shareholders

Finally, in keeping with our commitment to deliver strong and predictable capital returns to our shareholders, we announced back in July that our Board of Directors approved our 11th consecutive dividend increase. During the September quarter we repurchased \$188 million of our common stock and paid \$141 million in dividends. It's worth noting that KLA's dividend payout has grown at a CAGR of approximately 15% since inception back in 2006. Over the past 12 months, we have returned \$1.3 billion to shareholders or 82% of Free Cash Flow. We believe our track record of delivering strong capital returns is a key component of the KLA Investment Thesis and offers predictable and compelling value creation for our shareholders.

Before getting into greater detail on our financial highlights, let's briefly summarize. Despite the disruption and unforeseen challenges in the year associated with the pandemic, KLA has benefited from the resourcefulness of its global workforce, adapted well, and is well positioned for a strong finish to 2020. This demonstrates the critical nature of our products and services in enabling the digital transformation of our lives, the resiliency of our business model, and the return of value to our shareholders.

We believe the secular factors driving industry demand that we identified at last year's Investor Day are as relevant now as they were then, and they will help enable us to achieve our 2023 financial targets. At the same, our strategy of driving diversified growth with strong long-term operating leverage should fuel consistent capital returns to our shareholders.

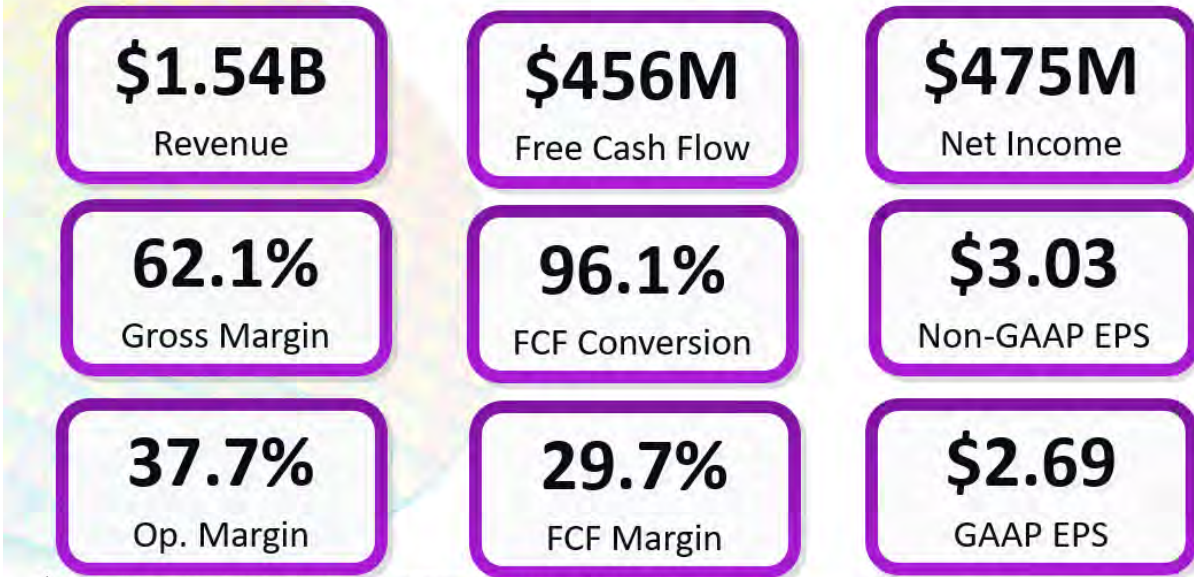
The KLA Operating Model Continues to Guide Us



- 1 Global leader** in process control and supplier of process-enabling solutions for the data era
- 2 Sustained technology leadership** allows us to remain at forefront of industry trends with new capabilities and technologies, enabling our profitable growth strategy
- 3 Competitive moat** driven by deep, collaborative customer relationships, a broad IP portfolio, significant R&D investments, and differentiated solutions to solve our customers' most complex challenges
- 4 Experienced and energized leadership team** utilizing the **KLA Operating Model** to instill a high-performance culture driving efficiency and operating performance
- 5 Track record of strong cash flow generation** supported by diversification of revenue streams; balanced capital allocation delivering superior shareholder value

KLA's September quarter results highlight both the soundness and strength of our ongoing strategy. We continue to demonstrate our ability to meet customer needs and expand our market leadership, while growing operating profits, generating strong free cash flow, and maintaining our robust capital returns strategies.

September Quarter 2020 Financial Highlights*



* All metrics with the exception of Revenue. GAAP EPS are Non-GAAP metrics. Please refer to the appendix for reconciliation to GAAP and definition for FCF.

Total revenue was \$1.54 billion. Non-GAAP Gross Margin was 62.1%, at the upper end of the guided range for the quarter of 60.5% to 62.5%.

Non-GAAP EPS was \$3.03, at the high-end of the guided range of \$2.42 to \$3.06. GAAP EPS was \$2.69.

Gross Margin of 62.1% was 60 basis points above the midpoint of guidance as higher semiconductor process control product mix, lower inventory reserve requirements due to strengthening demand, and services leverage drove the upside realized in the quarter.

Total Operating Expenses were in line with guidance at \$375 million, including \$218 million of R&D expense, and \$157 million of SG&A. Operating expenses continue to be lower than normalized levels overall due to lower travel expenses, a slower hiring pace due to COVID-19 related disruptions, and faster synergy realization in our acquired businesses. We are reinvesting these savings where possible into R&D programs to fuel our future growth and continued market leadership. Non-GAAP Operating margin was strong at 37.7%. Other Interest and Expense in the September quarter was \$43 million.

The effective tax rate was 12%, slightly below our 13% long-term effective tax planning rate.

Non-GAAP net income was \$475 million, cash flow from operations was \$512 million, and free cash flow was strong at \$456 million. This resulted in a free cash flow conversion of 96.1% and a very healthy free cash flow margin of 29.7%. The company had approximately 156 million diluted weighted average shares outstanding.

Breakdown of Revenue by Reportable Segments and End Markets

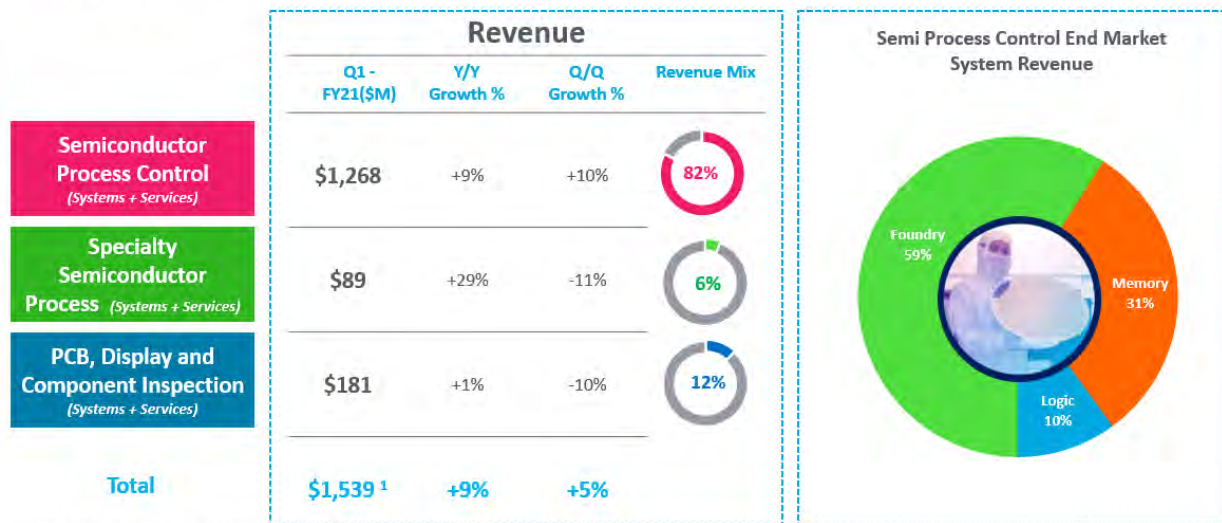
Our segment revenue was solidly above our expectations, with particular strength in our semiconductor process control business. PCB and Component Inspection were also above expectations with specialty semiconductor in line with our model heading into the quarter.

Revenue for the Semiconductor Process Control segment, including its associated Service business was \$1.27 billion. In terms of approximate customer segment mix of Process Control systems revenue to semiconductor customers: Foundry was strong as expected at 59%, Logic was 10%, and Memory was 31% in the September quarter. Within Memory, the business was split roughly two-thirds DRAM and one-third NAND.

Revenue for the Specialty Semiconductor Process segment was \$89 million, down 11% sequentially, but up 29% year-over-year. Demand in this segment is driven by growth in RF, MEMS, and advanced packaging.

PCB, Display and Component Inspection revenue was \$181 million, down 10% sequentially, but up 1% year-over-year.

Breakdown of Revenue by Reportable Segments and End Markets

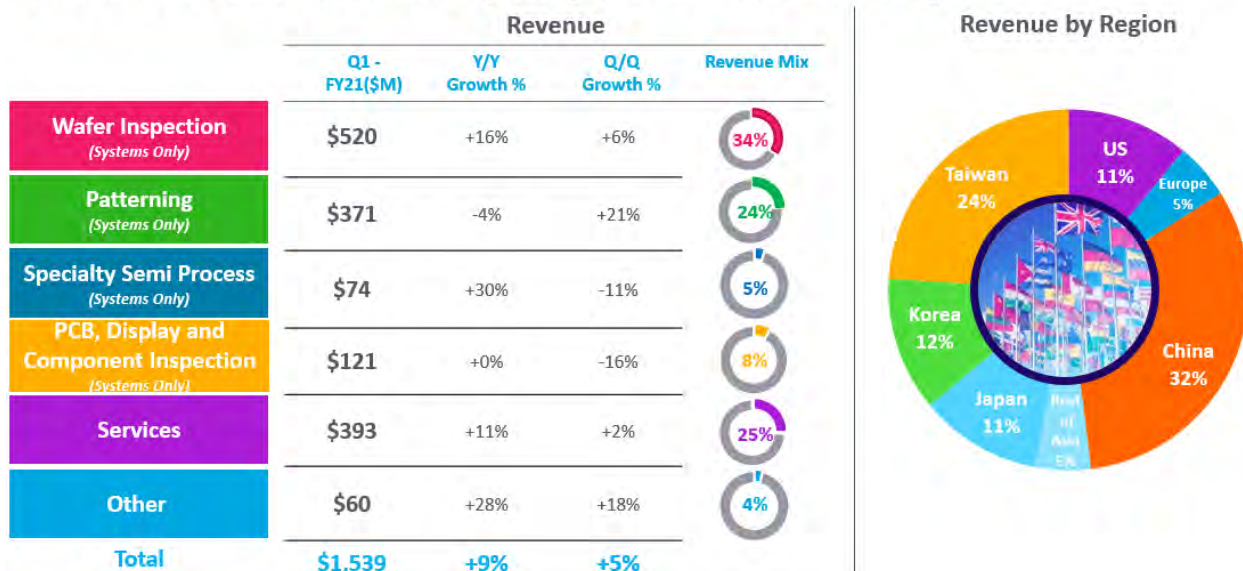


Breakdown of Revenue by Major Products and Region

The distribution of revenue by major product category: Wafer inspection was 34%, Patterning, which includes reticle inspection, was 21%. Wafer inspection and patterning are part of Semiconductor Process Control. Specialty Semiconductor Process was 5%. PCB, Display and Component Inspection was 8%, Service was 25%, and Other was 4%.

The regional split of revenue was as follows: China was 32% overall. Just over half our China revenue, or approximately 19% of total revenue, was native China Semiconductor Process Control. Taiwan was 24%, Korea was 12%, the US was 11%, and Japan was 11%. The rest of Asia was 5%, and Europe (including Israel) was 5%.

Breakdown of Revenue by Major Products and Region



Strong Investment Grade Balance Sheet with No Bond Maturities Until 2024

KLA ended the quarter with \$2.04 billion in total cash, total debt of \$3.45 billion, after retiring \$50 million outstanding on our revolving line of credit, and a flexible and attractive bond maturity profile supported by investment-grade ratings from all three agencies.

Strong Investment Grade Balance Sheet With No Bond Maturities Until 2024

CONSOLIDATED BALANCE SHEET¹ (\$M)

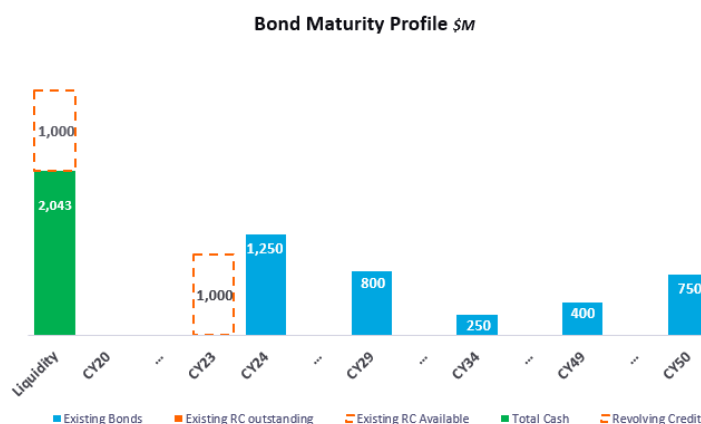
Total Cash ²	\$	2,043
Working Capital	\$	3,006
Total Assets	\$	9,320
Debt ³	\$	3,420
Total Shareholders' Equity	\$	2,762

DEBT MATURITY PROFILE

Debt Outstanding	\$	3,450M
Weighted Average Rate		4.37%
Weighted Average Life		14.2 years

INVESTMENT GRADE CREDIT RATINGS

Moody's	Baa1
S&P	BBB+
Fitch	BBB+



¹ As of 9/30/20; ² Total Cash includes Cash, Cash Equivalents and Marketable Securities; ³ Difference between debt of \$3,420B and gross debt of \$3,450B is un-amortized debt issuance discounts and costs.

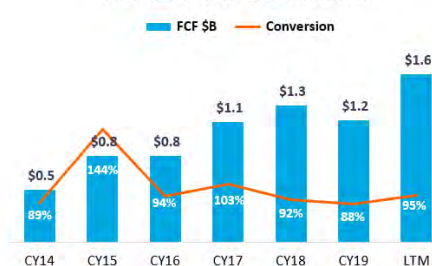
FCF Generation Fuels Consistent Capital Return to Shareholders

We remain committed to our long-term strategy for cash returns to shareholders, executing a balanced approach split between dividends and share repurchases, targeting total long run returns of 70% or more of Free Cash Flow generated by the company.

FCF Generation Fuels Consistent Capital Return to Shareholders



FREE CASH FLOW¹ & CONVERSION²



- 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

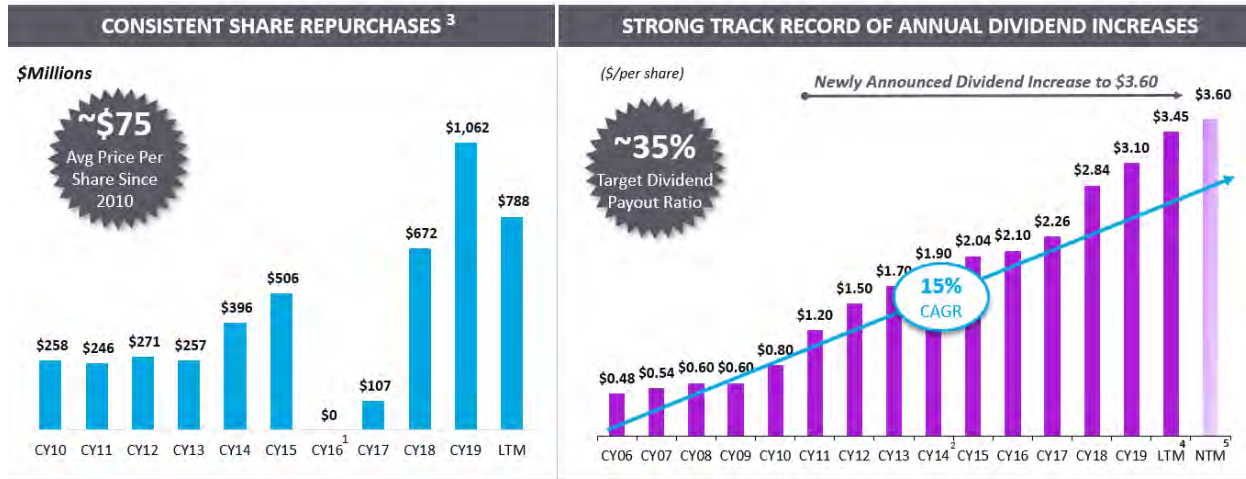
Committed to a Minimum of >70% FCF Returned to Shareholders through Dividends and Buybacks

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

Over the past 12 months, we have returned \$1.3 billion to shareholders or 82% of Free Cash Flow, including \$542 million in dividends paid, and \$789 million in share repurchases. We believe our track record of delivering strong capital returns is a key component of the KLA Investment Thesis and offers predictable and compelling value creation for our shareholders.

Capital Return to Investors is Spread Across Buybacks and Dividends



KLA has a history of consistent free cash flow generation, high free cash flow conversion, and strong free cash flow margins. KLA's business model generates strong free cash flow and is very resilient across the various phases of the business cycle and economic conditions.

Free Cash Flow (FCF) and Capital Returns Highlights *

\$456M

Sept Qtr FCF

\$1.62B

LTM FCF

\$188M

Sept Qtr Share Buyback

\$1.33B

LTM Capital Returns

\$141M

Sept Qtr Dividends Paid

82%

Capital Returns as % of FCF (LTM)

* Capital Returns = Dividends + Share Repurchases; FCF is a Non-GAAP metric - Please refer to the appendix for reconciliation and definition.

During the September quarter we repurchased \$188 million of common stock and paid \$141 million in dividends. We have approximately \$800 million remaining under our current share repurchase authorization. Back in July, our Board approved the 11th consecutive annual increase in our quarterly dividend, raising our annual dividend run-rate by \$0.20 to \$3.60 per share. KLA's dividend payout has grown at a CAGR of approximately 15% since inception.

Outlook

As we begin the final quarter of calendar 2020, our view for WFE growth this year is approximately 10%, growing off a baseline of \$52 to \$53 billion in 2019. Given this, and our outlook for revenue growth in the calendar fourth quarter, KLA is in position once again to outgrow our industry.

Looking forward, though early, based on our current backlog and sales funnel visibility over the next couple of quarters, we are encouraged by the sustainability of our current demand profile for the first half of calendar 2021. We will have more to say about our views of 2021 WFE in our January earnings report.

Our December quarter guidance is as follows: Total revenue is expected to be in a range of \$1.585 billion plus or minus \$75 million. Foundry is forecasted to be about 52% of Semi Process Control systems revenue to semiconductor customers, depicting the strength we continue to see amongst the Foundry customer base. Memory is expected to grow to be approximately 37%. Logic is expected to be about 11%.

December Quarter 2020 Guidance (Q2 FY2021)

	DECEMBER 2020 QUARTER	MACRO ASSUMPTIONS
REVENUE	\$1,510M to \$1,660M	<ul style="list-style-type: none"> Semi Process Control Revenue By End Market <ul style="list-style-type: none"> Foundry: 52% Memory: 37% Logic: 11%
GROSS MARGIN	61% to 63%	MODEL ASSUMPTIONS
GAAP EPS	\$2.59 to \$3.23	<ul style="list-style-type: none"> Operating Expenses: ~\$380M Interest & Other Expense (OIE): ~\$42M Effective Non-GAAP Tax Rate: ~13% Diluted Share Count: ~155M
NON-GAAP EPS	\$2.82 to \$3.46	

Driving Profitable Growth and Delivering Shareholder Value

We forecast Non-GAAP Gross Margin to be in a range of 61% to 63% as we expect similar product mix and service leverage as in the September quarter. The market reception to product offerings in our semiconductor process control business has been strong and as outlined at our Investor Day last year, the company has made solid progress on our plans of driving cost and efficiencies on new product platforms and leveraging scale derived by our worldwide service infrastructure. In addition, better than modeled gross margin improvement in acquired businesses is a tailwind to our gross margins overall.

Other model assumptions include: Operating Expense of approximately \$380 million, Interest and Other Expense of approximately \$42 million, and an effective tax rate of approximately 13%.

Finally, GAAP diluted EPS is expected to be in a range of \$2.59 to \$3.23 and non-GAAP diluted EPS in a range of \$2.82 to \$3.46 or \$3.14 at the midpoint. The EPS guidance is based on a fully diluted share count of approximately 155 million shares.

In Conclusion

In closing, KLA is executing well with increasing confidence that we are on track to meet or exceed our 2023 target model, both in terms of top-line growth and profitability. Growth in semiconductor revenue looks compelling over the long run with solid demand across end markets and at multiple technology nodes. We are encouraged by the strength and resiliency of the KLA Operating Model, which guides our strategic objectives. These objectives fuel our growth, operational excellence, and differentiation across an increasingly more diverse product and service offering. They also underpin our sustained technology leadership, deep competitive moat, and strong track record of free cash flow generation and capital returns to shareholders.

Sincerely,

Rick Wallace
CEO



Bren Higgins
CFO



Appendix

Reconciliation of Non-GAAP Financial Measures

<i>(In thousands, except per share amounts and percentages)</i>	For the three months ended		
	September 30, 2020	June 30, 2020	September 30, 2019
GAAP net income	\$ 420,567	\$ 411,253	\$ 346,525
Adjustments to reconcile GAAP net income to non-GAAP net income*:			
Acquisition-related charges	a 50,475	55,937	73,363
Restructuring, severance and other charges	b 3,253	4,240	-
Income tax effect of non-GAAP adjustments	c (17,013)	(16,027)	(22,266)
Discrete tax items	d 17,487	(29,364)	-
Non-GAAP net income	\$ 474,769	\$ 426,039	\$ 397,622
GAAP net income as a percentage of revenue	27.3%	28.2%	24.5%
Non-GAAP net income as a percentage of revenue	30.9%	29.2%	28.1%
GAAP net income per diluted share	\$ 2.69	\$ 2.63	\$ 2.16
Non-GAAP net income per diluted share	\$ 3.03	\$ 2.73	\$ 2.48
Shares used in diluted shares calculation	156,442	156,183	160,131
GAAP operating income	\$ 526,389	\$ 453,158	\$ 410,248
Adjustments to reconcile GAAP operating income to non-GAAP operating income*:			
Acquisition-related charges	a 50,475	55,937	73,363
Restructuring, severance and other charges	b 3,492	2,298	-
Non-GAAP operating income (1)	\$ 580,356	\$ 511,393	\$ 483,611
GAAP operating income as a percentage of revenue	34.2%	31.0%	29.0%
Non-GAAP operating income as a percentage of revenue	37.7%	35.0%	34.2%

* 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 include the effects of 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 changes in the liability included in selling, general and administrative expense for the three months ended September 30, 2020, June 30, 2020, and September 30, 2019 was \$13.2 million, \$28.9 million and \$1.9 million, respectively. The net gains (losses) associated with changes in the EDSP assets included in selling, general and administrative expense for the three months ended September 30, 2020, June 30, 2020, and September 30, 2019 were \$13.3 million, \$29.2 million and \$2.3 million, respectively.

Reconciliation of Non-GAAP Financial Measures

<i>(In thousands, except percentages)</i>	For the three months ended		
	September 30, 2020	June 30, 2020	September 30, 2019
GAAP gross margin	\$ 918,058	\$ 838,049	\$ 809,173
Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*:			
Acquisition-related charges	a 37,040	41,446	49,999
Restructuring, severance and other charges	b 636	534	-
Non-GAAP gross margin	\$ 955,734	\$ 880,029	\$ 859,172
GAAP gross margin as a percentage of revenue	59.7%	57.4%	57.2%
Non-GAAP gross margin as a percentage of revenue	62.1%	60.3%	60.8%
GAAP operating expenses	\$ 391,669	\$ 384,891	\$ 398,925
Adjustments to reconcile GAAP operating expenses to non-GAAP operating expenses*:			
Acquisition-related charges	a (13,435)	(14,491)	(23,364)
Restructuring, severance and other charges	b (2,856)	(1,764)	-
Non-GAAP operating expenses (1)	\$ 375,378	\$ 368,636	\$ 375,561
GAAP operating expenses as a percentage of revenue	25.5%	26.4%	28.2%
Non-GAAP operating expenses as a percentage of revenue	24.4%	25.3%	26.6%

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

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Reconciliation of Non-GAAP Financial Measures

<i>(In thousands, except percentages)</i>	For the three months ended		
	September 30, 2020	June 30, 2020	September 30, 2019
GAAP income before income taxes	\$ 483,806	\$ 405,069	\$ 371,516
GAAP income tax expense	\$ 63,664	\$ (5,246)	\$ 25,120
GAAP income tax rate	13.2%	-1.3%	6.8%
Adjustments to reconcile GAAP effective tax rate to non-GAAP effective tax rate*:			
Acquisition-related charges	a 50,475	55,937	73,363
Restructuring, severance and other charges	b 3,253	4,240	-
Non-GAAP income before income taxes	\$ 537,534	\$ 465,246	\$ 444,879
Income tax effects of non-GAAP adjustments	c 17,013	16,027	22,266
Discrete tax item	d (17,487)	29,364	-
Non-GAAP income tax expense	\$ 63,190	\$ 40,145	\$ 47,386
Non-GAAP income tax rate	11.8%	8.6%	10.7%
GAAP research and development (R&D) expenses	\$ 219,038	\$ 217,100	\$ 210,580
Adjustments to reconcile GAAP R&D expenses to non-GAAP R&D expenses*:			
Restructuring, severance and other charges	b (923)	(585)	-
Non-GAAP R&D expenses	\$ 218,115	\$ 216,515	\$ 210,580

* 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 Free Cash Flow and Related Metrics

Free Cash Flow reconciliation <i>(In thousands)</i>	For the three months ended		For the twelve months ended					
	Sept 30, 2020	Sept 30, 2020 (LTM)	Dec 31, 2019	Dec 31, 2018	Dec 31, 2017	Dec 31, 2016	Dec 31, 2015	Dec 31, 2014
Net cash provided by operating activities	\$ 512,171	\$ 1,794,776	\$ 1,373,031	\$ 1,389,897	\$ 1,190,475	\$ 857,780	\$ 854,002	\$ 532,377
Less: Capital expenditures	(55,925)	(176,034)	(149,242)	(86,518)	(49,207)	(34,974)	(34,842)	(57,514)
Free cash flow	\$ 456,246	\$ 1,618,742	\$ 1,223,789	\$ 1,303,179	\$ 1,141,268	\$ 822,806	\$ 819,160	\$ 474,863
Free cash flow	\$ 456,246	\$ 1,618,742	\$ 1,223,789	\$ 1,303,179	\$ 1,141,268	\$ 822,806	\$ 819,160	\$ 474,863
Non-GAAP net income attributable to KLA	474,769	1,711,975	1,391,394	1,422,592	1,107,649	876,008	570,170	531,029
Free cash flow conversion	96.1%	95%	88%	92%	103%	94%	144%	89%
Free cash flow	\$ 456,246							
Revenue	1,538,620							
Free cash flow margin	29.7%							
Cash paid for Dividends	\$ 141,164	\$ 541,949						
Cash paid for share repurchases	187,897	788,485						
Capital returns	\$ 329,061	\$ 1,330,434						
Capital returns as a percentage of free cash flow	72%	82%						

The Company presents free cash flow and certain related metrics as supplemental non-GAAP measures of its performance. Free cash flow is determined by adjusting GAAP net cash provided by operating activities for capital expenditures. Free cash flow conversion is defined as free cash flow divided by non-GAAP net income, and free cash flow margin is defined as free cash flow divided by revenue.

Reconciliation of Q2 FY 2021 Guidance Range

<i>(In millions, except per share amounts and percentages)</i>		
	Low	High
GAAP diluted net income per share	\$ 2.59	\$ 3.23
Acquisition-related charges	a 0.32	0.32
Restructuring, severance and other charges	b 0.02	0.02
Income tax effect of non-GAAP adjustments	c (0.11)	(0.11)
Non-GAAP diluted net income per share	\$ 2.82	\$ 3.46
Shares used in net income per diluted shares calculation	155.4	155.4
GAAP gross margin as a percentage of revenue	58.5%	60.8%
Acquisition-related charges	a 2.5%	2.2%
Restructuring, severance and other charges	b 0.0%	0.0%
Non-GAAP gross margin as a percentage of revenue	61.0%	63.0%
GAAP operating expenses	\$ (394)	\$ (400)
Acquisition-related charges	a 13	13
Restructuring, severance and other charges	b 4	4
Non-GAAP operating expenses	\$ (377)	\$ (383)

Note: The guidance as of October 28, 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 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.

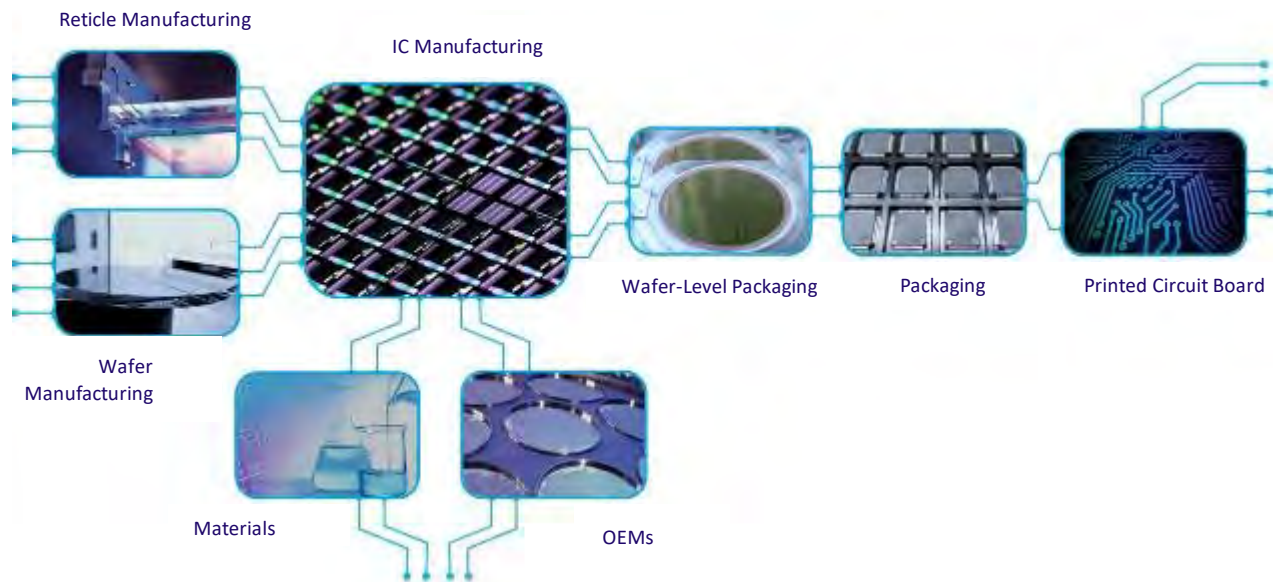
- a) Acquisition-related charges primarily include amortization of intangible assets and other acquisition-related adjustments including adjustments for the fair valuation of inventory and backlog, and transaction costs associated with our acquisitions, primarily Orbotech. Management believes that the 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 charges primarily include costs associated with employee severance, acceleration of certain stock-based compensation arrangements, and other exit costs including non-cash charges for accelerated depreciation for certain assets to be abandoned. 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 in the three months ended September 30, 2020 include a tax expense of \$14.0 million due to an increase in deferred tax liabilities on purchased intangibles relating to an increase in the United Kingdom statutory income tax rate as well as tax expense from a restructuring. Discrete tax items in the three months ended June 30, 2020 include a tax benefit of \$29.4 million from an internal restructuring. 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 broad portfolio services the entire Semiconductor ecosystem:

Semiconductor Manufacturing	Related Electronics Industries
<ul style="list-style-type: none"> • IC Manufacturing 	<ul style="list-style-type: none"> • Compound Semiconductor
<ul style="list-style-type: none"> • Wafer Manufacturing 	<ul style="list-style-type: none"> • Power Device
<ul style="list-style-type: none"> • Reticle Manufacturing 	<ul style="list-style-type: none"> • LED
<ul style="list-style-type: none"> • IC Packaging 	<ul style="list-style-type: none"> • MEMS
<ul style="list-style-type: none"> • Printed Circuit Board 	<ul style="list-style-type: none"> • Data Storage/Media Head
	<ul style="list-style-type: none"> • Flat Panel Display
	<ul style="list-style-type: none"> • General Purpose/Labs



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Note on Forward-Looking Statements

Statements in this letter other than historical facts, such as statements pertaining to: (i) industry trends; (ii) customer demand and investment strategy; (iii) growth expectations for KLA in 2021 and the remainder of 2020; (iv) KLA's progress towards its 2023 financial targets; (v) growth of KLA's Services business in 2020 and beyond; (vi) the potential impact of U.S. trade restrictions; (vii) anticipated dividends; (ix) revenue, gross margin, GAAP EPS, Non-GAAP EPS, operating expenses, interest and other expense, effective tax rate, process control system revenue from foundry, memory and logic customers, and diluted share count for the quarter ending December 31, 2020; are forward-looking statements and subject to the Safe Harbor provisions created by the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current information and expectations, and involve a number of risks and uncertainties. Actual results may differ materially from those projected in such statements due to various factors, including but not limited to: the future impacts of the COVID-19 pandemic; the demand for semiconductors; the financial condition of the global capital markets and the general macroeconomic environment; new and enhanced product and technology offerings by competitors; push-out of deliveries or cancellation of orders by customers; the ability of KLA's research and development teams to successfully innovate and develop technologies and products that are responsive to customer demands; KLA's ability to successfully manage its costs; market acceptance of KLA's existing and newly issued products; changing customer demands; and industry transitions. For other factors that may cause actual results to differ materially from those projected and anticipated in forward-looking statements in this letter, please refer to KLA Corporation's Annual Report on Form 10-K for the year ended June 30, 2020, and other subsequent filings with the Securities and Exchange Commission (including, but not limited to, the risk factors described therein). KLA Corporation assumes no obligation to, and does not currently intend to, update these forward-looking statements.