Second Quarter Fiscal Year 2017

Supplemental Financial Information

January 26, 2017

Q2-17 Quarter Non-GAAP Results

Shipments	$887M
Revenues	$877M
Net Income*	$238M
Diluted EPS*	$1.52

* Non-GAAP, See appendix for GAAP to Non-GAAP reconciliation

Q2-17 Summary Balance Sheet and Cash Flow

	Q4-16	Q1-17	Q2-17
Cash and Investments	$2.49B	$2.49B	$2.59B
Accounts Receivable, Net	$613M	$655M	$664M
Net DSO (Shipment)*	63 days	76 days	68 days
Inventories	$699M	$703M	$671M
Inventory Turns*	1.9x	1.6x	1.9x

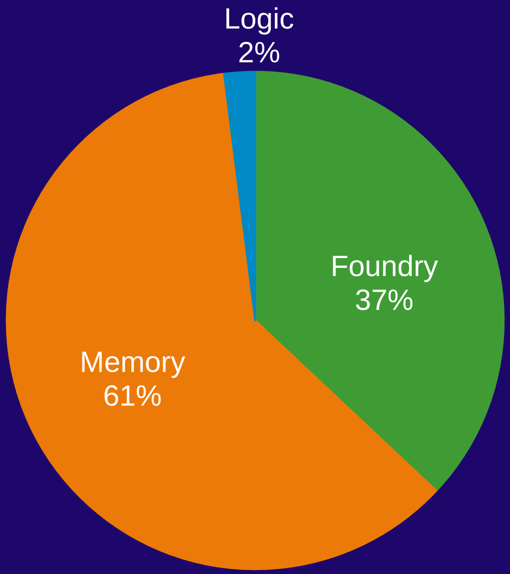
Net Cash From Operating Activities	$354M	$170M	$222M
Capital Expenditures, Net	$8M	$10M	$9M
Free Cash Flow*	$347M	$160M	$214M

Dividends Paid	$81M	$89M	$85M

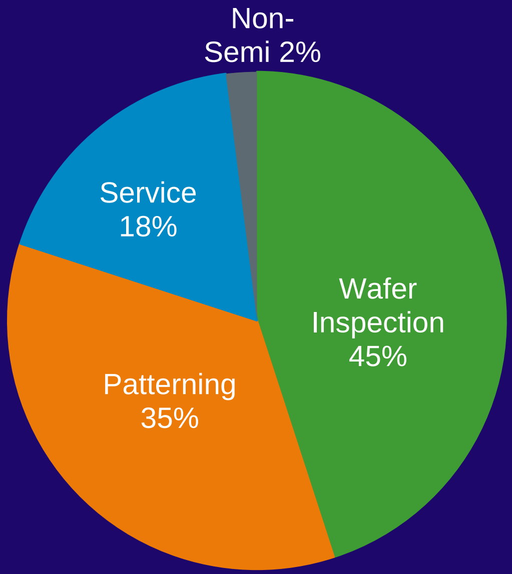
**DSO = Current Net AR/ (Current Quarter Shipments / 91) , Inventory Turns = Cost of Goods Sold/ Average Inventory, Free Cash Flow = Net Cash Provided by Operating Activities – Net Capital Expenditures. Numbers have been rounded*

Distribution of Q2 FY17 System Orders

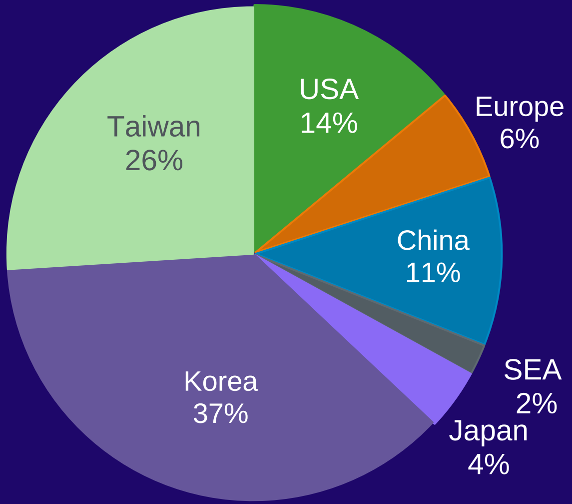
WAFER FRONT-END



SEGMENT



REGION



Appendix

Reconciliation of Non-GAAP Financial Measures

(In thousands, except per share amounts and percentages)		For the three months ended December 31, 2016	For the three months ended September 30, 2016	For the three months ended December 31, 2015	For the six months ended December 31, 2016	For the six months ended December 31, 2015
GAAP net income		$ 238,251	$ 178,101	$ 152,207	$ 416,352	$ 257,104
Adjustments to reconcile GAAP net income to non-GAAP net income*:						
Acquisition-related charges	a	513	1,267	1,309	1,780	4,890
Restructuring, severance and other related charges	b	-	-	1,742	-	8,808
Merger-related charges	c	4,069	3,605	8,820	7,674	8,820
Income tax effect of non-GAAP adjustments	d	(1,580)	(1,259)	(2,321)	(2,839)	(5,669)
Discrete tax items	e	(3,064)	-	-	(3,064)	-
Non-GAAP net income		$ 238,189	$ 181,714	$ 161,757	$ 419,903	$ 273,953
GAAP net income as a percentage of revenue		27.2%	23.7%	21.4%	25.6%	19.0%
Non-GAAP net income as a percentage of revenue		27.2%	24.2%	22.8%	25.8%	20.2%
GAAP net income per diluted share		$ 1.52	$ 1.13	$ 0.98	$ 2.65	$ 1.64
Non-GAAP net income per diluted share		$ 1.52	$ 1.16	$ 1.04	$ 2.67	$ 1.75
Shares used in diluted shares calculation		157,123	157,021	155,996	157,071	156,971
GAAP operating income		$ 333,934	$ 249,216	$ 214,461	$ 583,150	$ 375,255
Adjustments to reconcile GAAP operating income to non-GAAP operating income*:						
Acquisition-related charges	a	513	1,267	1,309	1,780	4,890
Restructuring, severance and other related charges	b	-	-	1,742	-	8,808
Merger-related charges	c	4,069	3,605	8,820	7,674	8,820
Non-GAAP operating income (1)		$ 338,516	$ 254,088	$ 226,332	$ 592,604	$ 397,773
GAAP operating income as a percentage of revenue		38.1%	33.2%	30.2%	35.8%	27.7%
Non-GAAP operating income as a percentage of revenue		38.6%	33.8%	31.9%	36.4%	29.4%

* 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"). 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, 2016, September 30, 2016 and December 31, 2015 were $1.2 million, $5.8 million and $6.8 million, respectively, and for the six months ended December 31, 2016 and December 31, 2015 were $7.0 million and ($3.3) million, respectively. The gains (losses), net associated with the changes in the EDSP asset included in selling, general and administrative expense for the three months ended December 31, 2016, September 30, 2016 and December 31, 2015 were $0.8 million, $5.9 million and $6.9 million, respectively, and for the six months ended December 31, 2016 and December 31, 2015 were $6.7 million and ($3.1) million, respectively.

Reconciliation of Non-GAAP Financial Measures

(In thousands, except percentages)		For the three months ended December 31, 2016	For the three months ended September 30, 2016	For the three months ended December 31, 2015	For the six months ended December 31, 2016	For the six months ended December 31, 2015
GAAP gross margin		$ 558,378	$ 472,837	$ 429,265	$ 1,031,215	$ 801,665
Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*:						
Acquisition-related charges	a	500	$ 650	$ 663	1,150	2,948
Restructuring, severance and other related charges	b	-	-	470	-	3,240
Merger-related charges	c	348	260	67	608	67
Non-GAAP gross margin		$ 559,226	$ 473,747	$ 430,465	$ 1,032,973	$ 807,920
GAAP gross margin as a percentage of revenue		63.7%	63.0%	60.4%	63.4%	59.3%
Non-GAAP gross margin as a percentage of revenue		63.8%	63.1%	60.6%	63.5%	59.7%
GAAP operating expenses		$ 224,444	$ 223,621	$ 214,804	$ 448,065	$ 426,410
Adjustments to reconcile GAAP operating expenses to non-GAAP operating expenses*:						
Acquisition-related charges	a	(13)	$ (617)	$ (646)	(630)	(1,942)
Restructuring, severance and other related charges	b	-	-	(1,272)	-	(5,568)
Merger-related charges	c	(3,721)	(3,345)	(8,753)	(7,066)	(8,753)
Non-GAAP operating expenses (1)		$ 220,710	$ 219,659	$ 204,133	$ 440,369	$ 410,147
GAAP operating expenses as a percentage of revenue		25.6%	29.8%	30.2%	27.5%	31.5%
Non-GAAP operating expenses as a percentage of revenue		25.2%	29.3%	28.7%	27.1%	30.3%

* 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"). 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, 2016, September 30, 2016 and December 31, 2015 were $1.2 million, $5.8 million and $6.8 million, respectively, and for the six months ended December 31, 2016 and December 31, 2015 were $7.0 million and ($3.3) million, respectively. The gains (losses), net associated with the changes in the EDSP asset included in selling, general and administrative expense for the three months ended December 31, 2016, September 30, 2016 and December 31, 2015 were $0.8 million, $5.9 million and $6.9 million, respectively, and for the six months ended December 31, 2016 and December 31, 2015 were $6.7 million and ($3.1) million, respectively.

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Reconciliation of Non-GAAP Financial Measures

(In thousands, except per share amounts and percentages)		For the three months ended December 31, 2016	For the three months ended September 30, 2016	For the three months ended December 31, 2015	For the six months ended December 31, 2016	For the six months ended December 31, 2015
GAAP income before income taxes		$ 306,845	$ 222,220	$ 185,475	$ 529,065	$ 319,774
GAAP income tax expense		$ 68,594	$ 44,119	$ 33,268	$ 112,713	$ 62,670
GAAP income tax rate		22.4%	19.9%	17.9%	21.3%	19.6%
Adjustments to reconcile GAAP effective tax rate to non-GAAP effective tax rate*:						
Acquisition-related charges	a	513	1,267	1,309	1,780	4,890
Restructuring, severance and other related charges	b	-	-	1,742	-	8,808
Merger-related charges	c	4,069	3,605	8,820	7,674	8,820
Non-GAAP income before income taxes (a)		$ 311,427	$ 227,092	$ 197,346	$ 538,519	$ 342,292
Income tax effects of non-GAAP adjustments	d	1,580	1,259	2,321	2,839	5,669
Discrete tax item	e	3,064	-	-	3,064	-
Non-GAAP income tax expense		$ 73,238	$ 45,378	$ 35,589	$ 118,616	$ 68,339
Non-GAAP income tax rate		23.5%	20.0%	18.0%	22.0%	20.0%

Calculation of Non-GAAP net income per diluted share after impact of guided tax rate	For the three months ended December 31, 2016
Non-GAAP income before income taxes as shown above (a)	$ 311,427
Non-GAAP guided tax rate (21%)	21.0%
Non-GAAP income tax expense (b)	$ 65,400
Non-GAAP net income (a)-(b)	$ 246,027
Diluted weighted average number of shares	157,123
Non-GAAP net income per diluted share	$ 1.57

* 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 Fiscal Year 2017 Guidance Range

(In millions, except per share amounts and percetanges)		Low	High
GAAP diluted net income per share		$ 1.40	$ 1.60
Acquisition-related charges	a	0.01	0.01
Merger-related charges	c	0.02	0.02
Income tax effect of non-GAAP adjustments	d	(0.01)	(0.01)
Effect on net income per diluted share		$ 1.42	$ 1.62
Shares used in net income per diluted shares calculation		157.8	157.8
GAAP gross margin as a percentage of revenue		62%	63%
Acquisition-related charges	a	0%	0%
Merger-related charges	c	0%	0%
Non-GAAP gross margin as a percentage of revenue		62%	63%
GAAP operating expenses		$ 223	$ 228
Acquisition-related charges	a	0	0
Merger-related charges	c	(3)	(3)
Non-GAAP operating expenses		$ 220	$ 225

Note: The guidance as of January 26, 2017 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 of each reconciling item.

KLA-Tencor

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 includes amortization of intangible assets associated with acquisitions. 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 that have short lives, and exclusion of these expenses allows comparisons of operating results that are consistent over time for both KLA-Tencor's newly acquired and long-held businesses. 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.
b. Restructuring, severance and other related charges include costs associated with employee severance and other exit costs, and impairment of certain long-lived assets. 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.
c. Merger-related charges associated with the terminated merger agreement between KLA-Tencor and Lam Research Corporation ("Lam") primarily includes employee retention-related expenses, legal expenses and other costs. Management believes that it is appropriate to exclude these items as they are not indicative of ongoing operating results and therefore limit comparability and excluding these items helps investors compare our operating performance with our results in prior periods as well as with the performance of other companies.
d. 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.
e. Discrete tax items includes the tax impact of certain merger-related charges that only became deductible during the three months ended December 31, 2016 as a result of the termination of the proposed merger between KLA-Tencor and Lam. Management believes that it is appropriate to exclude these items as they are not indicative of ongoing operating results and therefore limit comparability. 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.

Reconciliation of Non-GAAP Financial Measures

Forward-Looking Statements:

Statements in this presentation other than historical facts, such as data pertaining to the range of expected non-GAAP: (i) earnings per diluted share; (ii) gross margin as a percentage of revenue; and (iii) non-GAAP operating expenses, each for the quarter ending March 31, 2017 and reconciliation to GAAP thereof are forward-looking statements, and are 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 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; cancellation of orders by customers; the ability of KLA-Tencor's research and development teams to successfully innovate and develop technologies and products that are responsive to customer demands; KLA-Tencor's ability to successfully manage its costs; market acceptance of KLA-Tencor'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-Tencor's Annual Report on Form 10-K for the year ended June 30, 2016, and other subsequent filings with the Securities and Exchange Commission (including, but not limited to, the risk factors described therein). KLA-Tencor assumes no obligation to, and does not currently intend to, update these forward-looking statements.