First Quarter Fiscal Year 2017

Supplemental Financial Information
October 20, 2016

Q1-17 Quarter Non-GAAP Results

Shipments	$786M
Revenues	$751M
Net Income*	$182M
Diluted EPS*	$1.16

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

KLA-Tencor

Q1-17 Summary Balance Sheet and Cash Flow

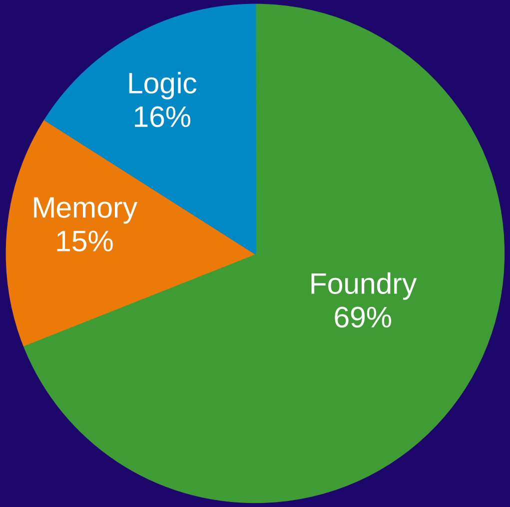
	Q3-16	Q4-16	Q1-17
Cash and Investments	$2.24B	$2.49B	$2.49B
Accounts Receivable, Net	$625M	$613M	$655M
Net DSO (Shipment)*	74 days	63 days	76 days
Inventories	$721M	$699M	$703M
Inventory Turns*	1.6x	1.9x	1.6x
Net Cash From Operating Activities	$111M	$354M	$170M
Capital Expenditures, Net	$9M	$8M	$10M
Free Cash Flow*	$103M	$347M	$160M
Dividends Paid	$82M	$81M	$89M

**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*

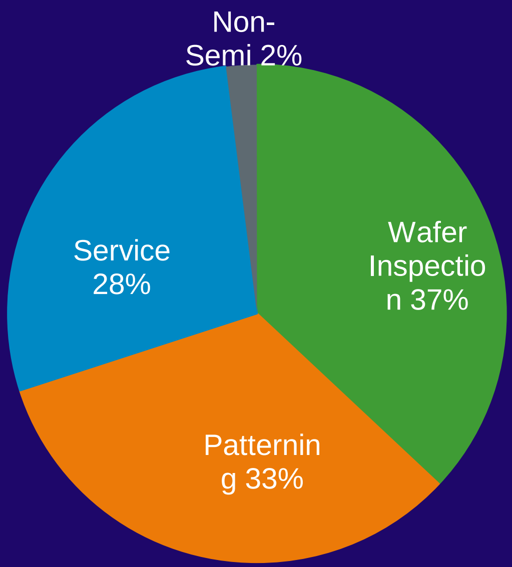
KLA Tencor

Distribution of Q1 FY17 System Orders

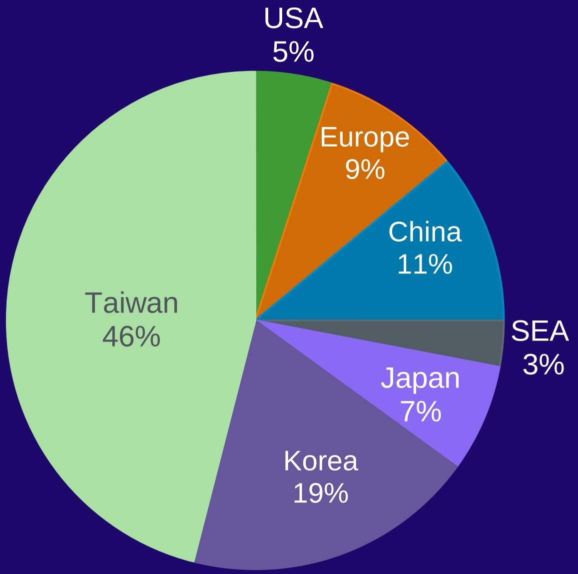
WAFER FRONT-END



SEGMENT



REGION



Appendix

Reconciliation of Non-GAAP Financial Measures - Quarterly

(In thousands, except per share amounts and percentages)		For the three months ended September 30, 2016	June 30, 2016	September 30, 2015
GAAP net income		**$ 178,101**	**$ 271,541**	**$ 104,897**
Adjustments to reconcile GAAP net income to non-GAAP net income*:				
Acquisition-related charges	a	1,267	1,294	3,581
Restructuring, severance and other related charges	b	-	-	7,066
Merger-related charges	c	3,605	5,795	-
Income tax effect of non-GAAP adjustments	d	(1,259)	(1,795)	(3,348)
Non-GAAP net income		**$ 181,714**	**$ 276,835**	**$ 112,196**
GAAP net income as a percentage of revenue		24%	30%	16%
Non-GAAP net income as a percentage of revenue		24%	30%	17%
GAAP net income per diluted share		$ 1.13	$ 1.73	$ 0.66
Non-GAAP net income per diluted share		$ 1.16	$ 1.77	$ 0.71
Shares used in diluted shares calculation		157,021	156,618	157,984
GAAP operating income		**$ 249,216**	**$ 350,352**	**$ 160,794**
Adjustments to reconcile GAAP operating income to non-GAAP operating income*:				
Acquisition-related charges	a	1,267	1,294	3,581
Restructuring, severance and other related charges	b	-	-	7,066
Merger-related charges	c	3,605	5,795	-
Non-GAAP operating income (1)		**$ 254,088**	**$ 357,441**	**$ 171,441**
GAAP operating income as a percentage of revenue		33%	38%	25%
Non-GAAP operating income as a percentage of revenue		34%	39%	27%

* 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 the changes in liability included in selling, general and administrative expense for the three months ended September 30, 2016, June 30, 2016 and September 30, 2015 were $5.8 million, $3.8 million and ($10.2) million, respectively. The gain (loss), net associated with the changes in the EDSP asset included in selling, general and administrative expenses for the three months ended September 30, 2016, June 30, 2016 and September 30, 2015 were $5.9 million, $4.2 million and $(10.0) million, respectively.

Reconciliation of Non-GAAP Financial Measures - Quarterly

(In thousands, except percentages)		For the three months ended September 30, 2016	June 30, 2016	September 30, 2015
GAAP gross margin		**$ 472,837**	**$ 581,603**	**$ 372,400**
Adjustments to reconcile GAAP gross margin to non-GAAP gross margin*:				
Acquisition-related charges	a	650	658	2,285
Restructuring, severance and other related charges	b	-	-	2,770
Merger-related charges	c	260	346	-
Non-GAAP gross margin		**$ 473,747**	**$ 582,607**	**$ 377,455**
GAAP gross margin as a percentage of revenue		63%	63%	58%
Non-GAAP gross margin as a percentage of revenue		63%	63%	59%
GAAP operating expenses		**$ 223,621**	**$ 231,251**	**$ 211,606**
Adjustments to reconcile GAAP operating expenses to non-GAAP operating expenses*:				
Acquisition-related charges	a	(617)	(636)	(1,296)
Restructuring, severance and other related charges	b	-	-	(4,296)
Merger-related charges	c	(3,345)	(5,449)	-
Non-GAAP operating expenses (1)		**$ 219,659**	**$ 225,166**	**$ 206,014**
GAAP operating expenses as a percentage of revenue		30%	25%	33%
Non-GAAP operating expenses as a percentage of revenue		29%	24%	32%

* 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 the changes in liability included in selling, general and administrative expense for the three months ended September 30, 2016, June 30, 2016 and September 30, 2015 were $5.8 million, $3.8 million and ($10.2) million, respectively. The gain (loss), net associated with the changes in the EDSP asset included in selling, general and administrative expenses for the three months ended September 30, 2016, June 30, 2016 and September 30, 2015 were $5.9 million, $4.2 million and $(10.0) million, respectively.

Reconciliation of Non-GAAP Financial Measures - Quarterly

		For the three months ended		
(In thousands, except percentage)		September 30, 2016	June 30, 2016	September 30, 2015
GAAP income before income taxes		**$ 222,220**	**$ 328,487**	**$ 134,299**
GAAP income tax expense		$ 44,119	$ 56,946	$ 29,402
GAAP income tax rate		20%	17%	22%
Adjustments to reconcile GAAP effective tax rate to non-GAAP effective tax rate*:				
Acquisition-related charges	a	1,267	1,294	3,581
Restructuring, severance and other related charges	b	-	-	7,066
Merger-related charges	c	3,605	5,795	-
Non-GAAP income before income taxes		**$ 227,092**	**$ 335,576**	**$ 144,946**
Income tax effects of non-GAAP adjustments		1,259	1,795	3,348
Non-GAAP income tax expense (benefit)		$ 45,378	$ 58,741	$ 32,750
Non-GAAP income tax rate		20%	18%	23%

* 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 Q2 Fiscal Year 2017 Guidance Range

(In millions, except per share amounts)		**Low**	**High**
GAAP diluted net income per share		**$ 1.26**	**$ 1.46**
Acquisition-related charges	a	0.01	0.01
Merger-related charges	c	0.02	0.03
Income tax effect of non-GAAP adjustments	d	(0.01)	(0.02)
Effect on net income per diluted share		**$ 1.28**	**$ 1.48**
Shares used in diluted shares calculation		157.1	157.1

Note: The guidance is as of October 20, 2016 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.

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. 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 that are directly related to the proposed merger between KLA-Tencor and Lam that was terminated on October 5, 2016. Charges primarily includes employee-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.

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 earnings per diluted share for the quarter ending December 31, 2016 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.