
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 28, 2016

KLA-TENCOR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

000-09992
(Commission
File Number)

04-2564110
(I.R.S. Employer
Identification No.)

One Technology Drive, Milpitas, California
(Address of principal executive offices)

95035
(Zip Code)

Registrant's telephone number, including area code: (408) 875-3000

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition.

On July 28, 2016, KLA-Tencor Corporation (the “Company”) issued a press release announcing, and furnished a letter to stockholders disclosing, selected operating results for its fourth quarter of fiscal year 2016 and for the 12 months then ended. A copy of the press release is furnished as Exhibit 99.1, and a copy of the letter to stockholders is furnished as Exhibit 99.2, to this Current Report on Form 8-K.

The information in Item 2.02 of this Current Report on Form 8-K and the exhibits attached hereto shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities under that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing.

Item 8.01 Other Information.

The Company and Lam Research continue to work diligently to receive the necessary regulatory approvals and target completion of the merger in the coming few months.

Caution Regarding Forward-Looking Statements

Statements regarding the timing of receipt of regulatory approvals and completion of the mergers are forward-looking statements within the meaning of the federal securities laws, including Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. There are a number of important factors that could cause actual results or events to differ materially from those indicated by such forward looking statements, including: the ability of the parties to consummate the mergers; the risk that regulatory approvals required for the mergers are not obtained or are obtained subject to conditions that are not anticipated; the risk that the other conditions to the closing of the mergers are not satisfied; and the other factors described under “Risk Factors – Risks Associated with the Merger” in the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 and the joint proxy statement/prospectus filed by Lam Research on January 13, 2016 with the Securities and Exchange Commission.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

The following exhibit is furnished herewith:

Exhibit No.	Description
99.1	Text of press release furnished by KLA-Tencor Corporation dated July 28, 2016
99.2	Text of letter to stockholders furnished by KLA-Tencor Corporation on July 28, 2016

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: July 28, 2016

KLA-TENCOR CORPORATION

By: /s/ Teri A. Little

Name: Teri A. Little

Title: Senior Vice President and General Counsel

EXHIBIT INDEX

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99.1	Text of press release furnished by KLA-Tencor Corporation dated July 28, 2016
99.2	Text of letter to stockholders furnished by KLA-Tencor Corporation on July 28, 2016

FOR IMMEDIATE RELEASE**Investor Relations:**

Ed Lockwood
 Sr. Director, Investor Relations
 (408) 875-9529
ed.lockwood@kla-tencor.com

Media Relations:

Meggan Powers
 Sr. Director, Corporate Communications
 (408) 875-8733
meggan.powers@kla-tencor.com

KLA-TENCOR REPORTS FISCAL 2016 FOURTH QUARTER AND FULL YEAR RESULTS

MILPITAS, Calif., July 28, 2016 KLA-Tencor Corporation (NASDAQ: KLAC) today announced operating results for its fourth quarter and fiscal year ended June 30, 2016. KLA-Tencor reported GAAP net income of \$272 million and GAAP earnings per diluted share of \$1.73 on revenues of \$919 million for the fourth quarter of fiscal year 2016. For the fiscal year ended June 30, 2016, the company reported GAAP net income of \$704 million and GAAP earnings per diluted share of \$4.49 on revenues of \$3 billion.

GAAP Results

	<u>Q4 FY 2016</u>	<u>Q3 FY 2016</u>	<u>Q4 FY 2015</u>
Revenues	\$919 million	\$712 million	\$756 million
Net Income	\$272 million	\$176 million	\$142 million
Earnings per Diluted Share	\$1.73	\$1.12	\$0.89

Non-GAAP Results

	<u>Q4 FY 2016</u>	<u>Q3 FY 2016</u>	<u>Q4 FY 2015</u>
Net Income	\$277 million	\$179 million	\$159 million
Earnings per Diluted Share	\$1.77	\$1.15	\$0.99

A reconciliation between GAAP operating results and non-GAAP operating results is provided following the financial statements that are part of this release. Non-GAAP results include the impact of stock-based compensation, but exclude the impact of acquisitions, restructuring, severance and other related charges, merger-related charges, and debt extinguishment loss and recapitalization charges.

In light of the pending merger transaction with Lam Research Corporation, KLA-Tencor has discontinued conducting quarterly earnings conference calls to discuss financial results, but instead publishes a quarterly stockholder letter and other supplemental data on the Investor Relations section of the KLA-Tencor website.

About KLA-Tencor:

KLA-Tencor Corporation, a leading provider of process control and yield management solutions, partners with customers around the world to develop state-of-the-art inspection and metrology technologies. These technologies serve the semiconductor, LED and other related nanoelectronics industries. With a portfolio of industry-standard products and a team of world-class engineers and scientists, the company has created superior solutions for its customers for nearly 40 years. Headquartered in Milpitas, California, KLA-Tencor has dedicated customer operations and service centers around the world. Additional information may be found at www.kla-tencor.com. (KLAC-F)

Use of Non-GAAP Financial Information:

The non-GAAP and supplemental information provided in this press release is a supplement to, and not a substitute for, KLA-Tencor's financial results presented in accordance with United States GAAP.

To supplement KLA-Tencor's condensed consolidated financial statements presented in accordance with GAAP, the company provides 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 KLA-Tencor's operating performance and its prospects in the future. Specifically, KLA-Tencor believes that the non-GAAP information provides useful measures to both management and investors regarding financial and business trends relating to KLA-Tencor's financial performance by excluding certain costs and expenses that the company believes are not indicative of its 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.

KLA-Tencor Corporation
Condensed Consolidated Unaudited Balance Sheets

(In thousands)

	June 30, 2016	June 30, 2015
ASSETS		
Cash, cash equivalents and marketable securities	\$ 2,491,294	\$ 2,387,111
Accounts receivable, net	613,233	585,494
Inventories	698,635	617,904
Other current assets	64,870	314,067
Land, property and equipment, net	278,014	314,591
Goodwill	335,177	335,263
Deferred income taxes, non-current	302,219	78,648
Purchased intangibles, net	4,331	11,895
Other non-current assets	174,659	181,039
Total assets	<u>\$ 4,962,432</u>	<u>\$ 4,826,012</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 106,517	\$ 103,342
Deferred system profit	174,551	148,691
Unearned revenue	59,147	71,335
Current portion of long-term debt	—	16,981
Other current liabilities	662,208	661,414
Total current liabilities	<u>1,002,423</u>	<u>1,001,763</u>
Non-current liabilities:		
Long-term debt	3,057,936	3,173,435
Unearned revenue	56,336	47,145
Other non-current liabilities	156,623	182,230
Total liabilities	<u>4,273,318</u>	<u>4,404,573</u>
Stockholders' equity:		
Common stock and capital in excess of par value	452,974	474,374
Retained earnings (accumulated deficit)	284,825	(12,362)
Accumulated other comprehensive income (loss)	(48,685)	(40,573)
Total stockholders' equity	<u>689,114</u>	<u>421,439</u>
Total liabilities and stockholders' equity	<u>\$ 4,962,432</u>	<u>\$ 4,826,012</u>

KLA-Tencor Corporation
Condensed Consolidated Unaudited Statements of Operations

<i>(In thousands, except per share amounts)</i>	Three months ended		Twelve months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Revenues:				
Product	\$ 731,118	\$ 579,733	\$ 2,250,260	\$ 2,125,396
Service	188,053	176,599	734,233	688,653
Total revenues	919,171	756,332	2,984,493	2,814,049
Costs and expenses:				
Costs of revenues	337,568	323,267	1,163,391	1,215,229
Research and development	127,454	128,839	481,258	530,616
Selling, general and administrative	103,797	101,739	379,399	406,864
Loss on extinguishment of debt and other, net	—	—	—	131,669
Interest expense and other, net	21,865	27,549	102,253	95,540
Income before income taxes	328,487	174,938	858,192	434,131
Provision for income taxes	56,946	32,919	153,770	67,973
Net income	\$ 271,541	\$ 142,019	\$ 704,422	\$ 366,158
Net income per share:				
Basic	\$ 1.74	\$ 0.90	\$ 4.52	\$ 2.26
Diluted	\$ 1.73	\$ 0.89	\$ 4.49	\$ 2.24
Cash dividends declared per share (including a special cash dividend of \$16.50 per share declared during the three months ended December 31, 2014)	\$ 0.52	\$ 0.50	\$ 2.08	\$ 18.50
Weighted-average number of shares:				
Basic	155,712	158,635	155,869	162,282
Diluted	156,618	159,965	156,779	163,701

KLA-Tencor Corporation
Condensed Consolidated Unaudited Statements of Cash Flows

<i>(In thousands)</i>	Three months ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 271,541	\$ 142,019
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,888	19,966
Asset impairment charges	—	428
Non-cash stock-based compensation expense	12,292	12,204
Excess tax benefit from equity awards	240	(217)
Net gain on sales of marketable securities and other investments	(1,782)	(143)
Changes in assets and liabilities:		
Decrease in accounts receivable, net	21,400	43,714
Decrease in inventories	26,397	16,498
Decrease in other assets	29,758	49,382
Increase (decrease) in accounts payable	(19,847)	148
Increase (decrease) in deferred system profit	(18,668)	2,337
Increase in other liabilities	17,874	31,143
Net cash provided by operating activities	354,093	317,479
Cash flows from investing activities:		
Capital expenditures, net	(7,508)	(9,237)
Proceeds from sale of assets	3,050	—
Purchases of available-for-sale securities	(301,733)	(297,695)
Proceeds from sale of available-for-sale securities	105,610	328,498
Proceeds from maturity of available-for-sale securities	130,009	134,825
Purchases of trading securities	(20,130)	(11,859)
Proceeds from sale of trading securities	21,449	13,309
Net cash provided by (used in) investing activities	(69,253)	157,841
Cash flows from financing activities:		
Repayment of debt	(40,000)	(29,375)
Issuance of common stock	16,388	17,430
Tax withholding payments related to vested and released restricted stock units	(219)	(439)
Common stock repurchases	—	(167,858)
Payment of dividends to stockholders	(81,120)	(79,653)
Excess tax benefit from equity awards	(240)	217
Net cash used in financing activities	(105,191)	(259,678)
Effect of exchange rate changes on cash and cash equivalents	2,865	491
Net increase in cash and cash equivalents	182,514	216,133
Cash and cash equivalents at beginning of period	925,974	621,892
Cash and cash equivalents at end of period	<u>\$1,108,488</u>	<u>\$ 838,025</u>
Supplemental cash flow disclosures:		
Income taxes paid, net	\$ 23,408	\$ 3,851
Interest paid	\$ 57,091	\$ 55,413
Non-cash activities:		
Purchase of land, property and equipment - investing activities	\$ 2,035	\$ 1,843
Unsettled common stock repurchase - financing activities	\$ —	\$ 5,968
Dividends payable - financing activities	\$ 19,556	\$ 42,002

KLA-Tencor Corporation
Condensed Consolidated Unaudited Supplemental Information
(In thousands, except per share amounts)

Reconciliation of GAAP Net Income to Non-GAAP Net Income

	Three months ended			Twelve months ended	
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015
GAAP net income	\$271,541	\$175,777	\$142,019	\$704,422	\$366,158
Adjustments to reconcile GAAP net income to non-GAAP net income					
Acquisition-related charges	a	1,294	1,309	3,578	7,493
Restructuring, severance and other related charges	b	—	137	22,417	8,945
Merger-related charges	c	5,795	3,582	—	18,197
Debt extinguishment loss and recapitalization charges	d	—	—	—	134,147
Income tax effect of non-GAAP adjustments	e	(1,795)	(1,535)	(9,159)	(8,999)
Non-GAAP net income	\$276,835	\$179,270	\$158,855	\$730,058	\$487,792
GAAP net income per diluted share	\$ 1.73	\$ 1.12	\$ 0.89	\$ 4.49	\$ 2.24
Non-GAAP net income per diluted share	\$ 1.77	\$ 1.15	\$ 0.99	\$ 4.66	\$ 2.98
Shares used in diluted shares calculation	156,618	156,429	159,965	156,779	163,701

Pre-tax impact of items included in Condensed Consolidated Unaudited Statements of Operations

	Acquisition-related charges	Restructuring, severance and other related charges	Merger-related charges	Total pre-tax GAAP to non-GAAP adjustment
Three months ended June 30, 2016				
Costs of revenues	\$ 658	\$ —	\$ 346	\$ 1,004
Research and development	—	—	1,223	1,223
Selling, general and administrative	636	—	4,226	4,862
Total in three months ended June 30, 2016	\$ 1,294	\$ —	\$ 5,795	\$ 7,089
Three months ended March 31, 2016				
Costs of revenues	\$ 663	\$ 121	\$ 238	\$ 1,022
Research and development	—	5	508	513
Selling, general and administrative	646	11	2,836	3,493
Total in three months ended March 31, 2016	\$ 1,309	\$ 137	\$ 3,582	\$ 5,028
Three months ended June 30, 2015				
Costs of revenues	\$ 2,282	\$ 7,458	\$ —	\$ 9,740
Research and development	650	6,310	—	6,960
Selling, general and administrative	646	8,649	—	9,295
Total in three months ended June 30, 2015	\$ 3,578	\$ 22,417	\$ —	\$ 25,995

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, 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 that are directly related to the pending merger between KLA-Tencor and Lam as announced on October 21, 2015. Charges primarily includes costs for advisory services, appraisals, legal services, employee-related expense and auditing services. 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. Debt extinguishment loss and recapitalization charges include a pre-tax loss on early extinguishment of debt related to the 6.900% Senior Notes due in 2018, net and certain other expenses incurred in connection with the leveraged recapitalization plan which was completed in the second quarter of fiscal year ended June 30, 2015. 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.
- e. 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.



KLA-Tencor - Fourth Quarter Fiscal Year 2016 Stockholder Letter

KLA-Tencor delivered record quarterly results in the fourth quarter of fiscal year 2016 and exceeded guidance in the following measures:

- Revenue of \$919 million, a sequential increase of 29%, and Shipments of \$880 million, a sequential increase of 14%;
- GAAP Gross Margin of 63.3%, and GAAP Operating Margin of 38.1%; Non-GAAP Gross Margin of 63.4%, and non-GAAP Operating Margin of 38.9%; and
- GAAP diluted Earnings per Share of \$1.73 and Non-GAAP diluted Earnings per Share of \$1.77.

Revenue in fiscal year 2016 was \$3.0 billion, and Non-GAAP diluted Earnings per Share was \$4.66. Total new orders were \$3.3 billion, and we ended the year with total shipment and system revenue backlog of \$1.5 billion.

This letter includes certain GAAP and non-GAAP financial measures. Refer to the caption “Reconciliation of GAAP and Non-GAAP financial measures” for the reconciliation as well as other supplemental information.

Dear Stockholders:

The record results delivered by KLA-Tencor in the fourth quarter of fiscal year 2016 were largely driven by three factors: (1) Continued market leadership and contribution from new products, highlighted by revenue from two units of our new “GEN5” Broadband Plasma Optical Inspection Platform in the quarter. We are experiencing strong customer acceptance of the latest suite of wafer defect inspection products from our Wafer Inspection Group, including the GEN5 and the 2930 Series broadband plasma inspectors; (2) Faster product acceptance across multiple customers in foundry and memory in the quarter; and (3) Strong execution and demonstrated operations excellence.

These strong numbers reflect KLA-Tencor’s market leadership and the mission-critical role process control plays in enabling innovation and growth for the semiconductor industry. They also make a fitting highlight for the company and our stockholders as KLA-Tencor celebrates its 40th anniversary in 2016.

June Quarter 2016 Bookings Highlights

During the pendency of the merger with Lam Research, KLA-Tencor is no longer providing bookings results or guidance. However, we will continue to provide end market order results to give investors insight into current order trends. End market order mix estimates for the September quarter are based on current forecasts.

Foundry was 60% of new systems orders in the June quarter and fourth quarter foundry demand delivered significant upside to our original forecast, largely driven by pull-ins targeting 10 nanometer ramps timed for the second half of calendar 2016. In addition, demand for 28 nanometer remains strong and primarily focused in China. Foundry bookings are expected to be approximately 65% of total systems orders in the September quarter.

Memory was 29% of new systems orders in the June quarter, with DRAM comprising approximately 63% of the memory customer order mix in the quarter. Memory bookings are expected to be approximately 20% of total systems orders in the September quarter.

Logic was 11% of new systems orders in the June quarter, and are expected to be approximately 15% of total system orders in the September quarter.

In terms of the distribution of orders by product group, Wafer Inspection was approximately 49% of new systems orders in the June quarter. Orders from the Patterning Group, which includes our mask inspection business, were approximately 28% of orders in the June quarter. The Service business contributed approximately 20% of total bookings in the quarter, and non-Semi was approximately 3%.

These results affirm KLA-Tencor’s ongoing focus on providing superior value to customers, both in terms of meeting market requirements with its latest generation inspection and metrology systems, and delivering superior competitive offerings.

Looking ahead to the balance of calendar year 2016, the WFE demand picture is expected to remain healthy, with investment focused on the 10-nanometer ramp and early 7-nanometer development in foundry and logic, and on expanding 3D NAND capacity and technology migrations in leading edge memory. Strong growth in China is also expected to be a highlight, with momentum of semiconductor industry investment in this region anticipated to continue. In this environment, the outlook for WFE investment remains roughly flat for the year, and early indications are positive for calendar year 2017, as our customers continue to invest at a high level to drive innovation and execute their strategies for growth. As the market leader in process control, KLA-Tencor is playing a mission critical role in enabling customer success, by providing world-class products and services to help improve yields and time-to-market.

As we look ahead, given our backlog, strong customer demand for our new products, and focus on operations excellence, we are on track for continued strong financial performance in fiscal year 2017.

June Quarter 2016 Financial Highlights

Revenue was \$919 million in the quarter, and increased by 29% compared to the March quarter.

Non-GAAP Gross Margin in the June quarter was 63.4%, with upside driven primarily by favorable product mix and higher revenue volume in the quarter.

Non-GAAP Operating Margin was 38.9% in the June quarter. GAAP operating expenses of \$231 million and non-GAAP Operating Expenses of \$225 million were above our expected range for the period, largely due to higher variable compensation expenses.

Our effective tax rate in the June quarter was 18%, below our long-term planning rate, due to a reduction in tax reserves in the quarter. We are adjusting our long-term planning rate for taxes from 22% to 21%, reflecting our expectations for the mix of business going forward, and the permanent reinstatement of the R&D tax credit in the United States.

GAAP Net Income for the June quarter was \$272 million or \$1.73 diluted earnings per share. Non-GAAP Net Income for the June quarter was \$277 million or \$1.77 diluted earnings per share. We ended the quarter with 157 million diluted shares outstanding.

Cash flow from operations was \$354 million in the June quarter, and we ended the quarter with \$2.5 billion in cash and investments.


September Quarter 2016 Guidance

September quarter shipments are expected to be in the range of \$735 million to \$815 million, and revenue is expected to be in the range of \$695 million to \$755 million.

GAAP diluted earnings per share is expected to be in the range of \$0.87 per share to \$1.07 per share with non-GAAP diluted earnings per share in the range of \$0.90 per share to \$1.10 per share.

In conclusion, given our market leadership, new products, growing service revenue, and with the benefit of our leaner cost structure, KLA-Tencor is well positioned for strong relative performance as we move forward, in terms of growth and earnings power.

Sincerely,



Rick Wallace, President and CEO



Bren Higgins, Executive Vice President and CFO

Forward-Looking Statements

Statements in this letter other than historical facts, such as statements regarding: foundry, logic and memory bookings as a percentage of total systems orders for the September quarter; future demand for our products and levels of business activity; expected shipments, revenue and GAAP and non-GAAP earnings per diluted share in the September quarter; revenues and earnings over the second half of calendar 2016; financial performance in fiscal 2017; and WFE demand in 2016 and WFE investment in 2016 and 2017, 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, 2015, Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, and the joint Proxy Statement/Prospectus filed by us with the Securities and Exchange Commission on January 14, 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.

KLA-Tencor Corporation
Condensed Consolidated Unaudited Supplemental Information

<i>(Dollars in thousands)</i>	As of		
	June 30, 2016	March 31, 2016	December 31, 2015
Cash, cash equivalents and marketable securities	\$ 2,491,294	\$ 2,241,310	\$ 2,241,425
Accounts receivable, net	\$ 613,233	\$ 624,818	\$ 427,115
Net DSO (Shipment)*	63 days	74 days	53 days
Inventories	\$ 698,635	\$ 721,493	\$ 691,786
Inventory turns**	1.9x	1.6x	1.7x
Net cash provided by operating activities	\$ 354,093	\$ 111,497	\$ 100,324
Capital expenditures, net	\$ 7,508	\$ 8,954	\$ 7,938
Dividends paid	\$ 81,120	\$ 82,109	\$ 81,380
Share repurchases	\$ —	\$ —	\$ 39,119

* *DSO = Current net accounts receivable/(current quarter shipments/91 days)*

** *Inventory turns = Annualized cost of goods sold/average inventory*

Distribution of Fourth Quarter Fiscal Year 2016 System Orders

The distribution of system orders by wafer front-end, segment and region during the fourth quarter of fiscal year 2016 is shown below in the following tables:

Wafer Front-End		Segment		Region	
Foundry	60%	Wafer Inspection	49%	Taiwan	47%
Logic	11%	Service	20%	China	15%
Memory	29%	Patterning	28%	Japan	12%
		Non-Semi	3%	USA	11%
				Korea	7%
				SEA	5%
				Europe	3%

KLA-Tencor Corporation
Condensed Consolidated Unaudited Supplemental Information
(In thousands, except percentages and per share amounts)

Reconciliation of GAAP and Non-GAAP financial measures

	For three months ended June 30, 2016					
	GAAP	Acquisition- related charges (a)	Restructuring, severance and other related charges (b)	Merger- related charges (c)	Income tax effect of non-GAAP adjustments (d)	Non-GAAP
Total revenues	\$919,171	\$ —	\$ —	\$ —	\$ —	\$ 919,171
Costs of revenues	337,568	(658)	—	(346)	—	336,564
Gross margin	581,603	658	—	346	—	582,607
Research and development	127,454	—	—	(1,223)	—	126,231
Selling, general and administrative*	103,797	(636)	—	(4,226)	—	98,935
Operating expenses	231,251	(636)	—	(5,449)	—	225,166
Income from operations	350,352	1,294	—	5,795	—	357,441
Other income (expense), net	(21,865)	—	—	—	—	(21,865)
Provision for income taxes	(56,946)	—	—	—	(1,795)	(58,741)
Net income	<u>\$271,541</u>	<u>\$ 1,294</u>	<u>\$ —</u>	<u>\$ 5,795</u>	<u>\$ (1,795)</u>	<u>\$ 276,835</u>
Net income per share - diluted	\$ 1.73	\$ 0.01	\$ —	\$ 0.04	\$ (0.01)	\$ 1.77
Weighted-average number of shares - diluted	156,618					156,618
Gross margin %	63.3%	0.1%	— %	— %	— %	63.4%
Operating margin %	38.1%	0.2%	— %	0.6%	— %	38.9%

* Changes in the Executive Deferred Savings Plan liability and asset are recorded in selling, general and administrative expense in the condensed consolidated statements of operations. The expense associated with change in the liability was \$3.8 million and the gain associated with change in the asset was \$4.2 million for the three months ended June 30, 2016.

KLA-Tencor Corporation
Condensed Consolidated Unaudited Supplemental Information
(In thousands, except percentages and per share amounts)

Reconciliation of GAAP and Non-GAAP financial measures

	For three months ended March 31, 2016					
	GAAP	Acquisition- related charges (a)	Restructuring, severance and other related charges (b)	Merger- related charges (c)	Income tax effect of non-GAAP adjustments (d)	Non-GAAP
Total revenues	\$712,433	\$ —	\$ —	\$ —	\$ —	\$ 712,433
Costs of revenues	274,599	(663)	(121)	(238)	—	273,577
Gross margin	437,834	663	121	238	—	438,856
Research and development	115,589	—	(5)	(508)	—	115,076
Selling, general and administrative*	87,407	(646)	(11)	(2,836)	—	83,914
Operating expenses	202,996	(646)	(16)	(3,344)	—	198,990
Income from operations	234,838	1,309	137	3,582	—	239,866
Other income (expense), net	(24,907)	—	—	—	—	(24,907)
Provision for income taxes	(34,154)	—	—	—	(1,535)	(35,689)
Net income	<u>\$175,777</u>	<u>\$ 1,309</u>	<u>\$ 137</u>	<u>\$ 3,582</u>	<u>\$ (1,535)</u>	<u>\$ 179,270</u>
Net income per share - diluted	\$ 1.12	\$ 0.01	\$ —	\$ 0.03	\$ (0.01)	\$ 1.15
Weighted-average number of shares - diluted	156,429					156,429
Gross margin %	61.5%	0.1%	— %	— %	— %	61.6%
Operating margin %	33.0%	0.2%	— %	0.5%	— %	33.7%

* Changes in the Executive Deferred Savings Plan liability and asset are recorded in selling, general and administrative expense in the condensed consolidated statements of operations. The benefit associated with change in the liability was \$1.3 million and the loss associated with change in the asset was \$1.0 million for the three months ended March 31, 2016.

KLA-Tencor Corporation
Condensed Consolidated Unaudited Supplemental Information
(In thousands, except percentages and per share amounts)

Reconciliation of GAAP and Non-GAAP financial measures

	For three months ended June 30, 2015				
	GAAP	Acquisition- related charges (a)	Restructuring, severance and other related charges (b)	Income tax effect of non-GAAP adjustments (d)	Non-GAAP
Total revenues	\$756,332	\$ —	\$ —	\$ —	\$ 756,332
Costs of revenues	323,267	(2,282)	(7,458)	—	313,527
Gross margin	433,065	2,282	7,458	—	442,805
Research and development	128,839	(650)	(6,310)	—	121,879
Selling, general and administrative*	101,739	(646)	(8,649)	—	92,444
Operating expenses	230,578	(1,296)	(14,959)	—	214,323
Income from operations	202,487	3,578	22,417	—	228,482
Other income (expense), net	(27,549)	—	—	—	(27,549)
Provision for income taxes	(32,919)	—	—	(9,159)	(42,078)
Net income	<u>\$142,019</u>	<u>\$ 3,578</u>	<u>\$ 22,417</u>	<u>\$ (9,159)</u>	<u>\$ 158,855</u>
Net income per share - diluted	\$ 0.89	\$ 0.02	\$ 0.14	\$ (0.06)	\$ 0.99
Weighted-average number of shares - diluted	159,965				159,965
Gross margin %	57.3%	0.3%	0.9%	— %	58.5%
Operating margin %	26.8%	0.5%	2.9%	— %	30.2%

* Changes in the Executive Deferred Savings Plan liability and asset are recorded in selling, general and administrative expense in the condensed consolidated statements of operations. The benefit associated with change in the liability was \$0.1 million and the loss associated with change in the asset was \$0.3 million for the three months ended June 30, 2015.

KLA-Tencor Corporation
Condensed Consolidated Unaudited Supplemental Information
(In millions, except per share amounts)

Reconciliation of Q1 Fiscal Year 2017 Guidance Range

	<u>Low</u>	<u>High</u>
GAAP diluted net income per share	\$ 0.87	\$ 1.07
Acquisition-related charges	a 0.01	0.01
Merger-related charges	c 0.03	0.04
Income tax effects of above adjustments	d (0.01)	(0.02)
Effect on net income per diluted share	0.03	0.03
Non-GAAP diluted net income per share	\$ 0.90	\$ 1.10
Weighted-average number of shares - diluted	156.9	156.9

Note: The guidance is as of July 28, 2016 and the merger-related charges represent 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.

We provide certain non-GAAP financial information and reconciliation of GAAP and non-GAAP financial measures, which are 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, 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 that are directly related to the pending merger between KLA-Tencor and Lam as announced on October 21, 2015. Charges primarily includes costs for advisory services, appraisals, legal services, employee-related expenses and auditing services. 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.