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

FORM 10-Q

(Mark one)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2020

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission File Number 000-09992

KLA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**04-2564110**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Technology Drive, Milpitas, California	**95035**
(Address of Principal Executive Offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value per share	KLAC	The Nasdaq Stock Market, LLC The Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 19, 2020, there were 154,459,817 shares of the registrant's Common Stock, $0.001 par value, outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KLA CORPORATION
Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands)	September 30, 2020	June 30, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,215,820	$ 1,234,409
Marketable securities	827,633	746,063
Accounts receivable, net	1,028,883	1,107,413
Inventories	1,394,225	1,310,985
Other current assets	288,138	324,675
Total current assets	4,754,699	4,723,545
Land, property and equipment, net	561,852	519,824
Goodwill	2,045,432	2,045,402
Deferred income taxes	245,614	236,797
Purchased intangible assets, net	1,340,913	1,391,413
Other non-current assets	371,586	362,979
Total assets	$ 9,320,096	$ 9,279,960
LIABILITIES, NON-CONTROLLING INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 254,458	$ 264,280
Deferred system revenue	253,604	336,237
Deferred service revenue	241,219	233,493
Other current liabilities	999,547	865,776
Total current liabilities	1,748,828	1,699,786
Non-current liabilities:		
Long-term debt	3,420,403	3,469,670
Deferred tax liabilities	656,876	660,885
Deferred service revenue	84,953	96,325
Other non-current liabilities	646,691	672,284
Total liabilities	6,557,751	6,598,950
Commitments and contingencies (Notes 9, 14 and 15)		
Stockholders' equity:		
Common stock and capital in excess of par value	2,072,715	2,090,268
Retained earnings	753,915	654,930
Accumulated other comprehensive income (loss)	(79,446)	(79,774)
Total KLA stockholders' equity	2,747,184	2,665,424
Non-controlling interest in consolidated subsidiaries	15,161	15,586
Total stockholders' equity	2,762,345	2,681,010
Total liabilities and stockholders' equity	$ 9,320,096	$ 9,279,960

See accompanying notes to Condensed Consolidated Financial Statements (unaudited).

KLA CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended September 30, 2020	2019
Revenues:		
Product	$ 1,145,495	$ 1,057,975
Service	393,125	355,439
Total revenues	1,538,620	1,413,414
Costs and expenses:		
Costs of revenues	620,562	604,241
Research and development	219,038	210,580
Selling, general and administrative	172,631	188,345
Interest expense	39,386	40,350
Other expense (income), net	3,197	(1,618)
Income before income taxes	483,806	371,516
Provision for income taxes	63,664	25,120
Net income	420,142	346,396
Less: Net loss attributable to non-controlling interest	(425)	(129)
Net income attributable to KLA	$ 420,567	$ 346,525
Net income per share attributable to KLA		
Basic	$ 2.71	$ 2.18
Diluted	$ 2.69	$ 2.16
Weighted-average number of shares:		
Basic	155,281	158,697
Diluted	156,442	160,131

See accompanying notes to Condensed Consolidated Financial Statements (unaudited).

KLA CORPORATION
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(In thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Net income	$ 420,142	$ 346,396
Other comprehensive income (loss):		
Currency translation adjustments:		
Cumulative currency translation adjustments	5,440	(2,438)
Income tax (provision) benefit	(403)	393
Net change related to currency translation adjustments	5,037	(2,045)
Cash flow hedges:		
Net unrealized gains (losses) arising during the period	(918)	(742)
Reclassification adjustments for net (gains) losses included in net income	(54)	1,527
Income tax (provision) benefit	208	(24)
Net change related to cash flow hedges	(764)	761
Net change related to unrecognized losses and transition obligations in connection with defined benefit plans	(3,119)	729
Available-for-sale securities:		
Net unrealized gains (losses) arising during the period	(951)	1,183
Reclassification adjustments for net (gains) losses included in net income	(101)	4
Income tax (provision) benefit	226	542
Net change related to available-for-sale securities	(826)	1,729
Other comprehensive income (loss)	328	1,174
Less: Comprehensive loss attributable to non-controlling interest	(425)	(129)
Total comprehensive income attributable to KLA	$ 420,895	$ 347,699

See accompanying notes to Condensed Consolidated Financial Statements (unaudited).

KLA CORPORATION

Condensed Consolidated Statements of Stockholders' Equity

(Unaudited)

(In thousands, except per share amounts)	Common Stock and Capital in Excess of Par Value		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total KLA Stockholder's Equity	Non-Controlling Interest	Total Stockholders' Equity
	Shares	Amount					
Balance as of June 30, 2020	155,461	$ 2,090,268	$ 654,930	$ (79,774)	$ 2,665,424	$ 15,586	$ 2,681,010
Adoption of ASC 326	—	—	(5,530)	—	(5,530)	—	(5,530)
Net income attributable to KLA	—	—	420,567	—	420,567	—	420,567
Other comprehensive income	—	—	—	328	328	—	328
Net loss attributable to non-controlling interest	—	—	—	—	—	(425)	(425)
Net issuance under employee stock plans	172	(25,145)	—	—	(25,145)	—	(25,145)
Repurchase of common stock	(1,027)	(19,400)	(174,497)	—	(193,897)	—	(193,897)
Cash dividends ($0.90 per share) and dividend equivalents declared	—	—	(141,555)	—	(141,555)	—	(141,555)
Stock-based compensation expense		26,992	—	—	26,992	—	26,992
Balance as of September 30, 2020	154,606	$ 2,072,715	$ 753,915	$ (79,446)	$ 2,747,184	$ 15,161	$ 2,762,345

(In thousands, except per share amounts)	Common Stock and Capital in Excess of Par Value		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total KLA Stockholder's Equity	Non-Controlling Interest	Total Stockholders' Equity
	Shares	Amount					
Balance as of June 30, 2019	159,475	$ 2,017,312	$ 714,825	$ (73,029)	$ 2,659,108	$ 18,585	$ 2,677,693
Net income attributable to KLA	—	—	346,525	—	346,525	—	346,525
Net loss attributable to non-controlling interest	—	—	—	—	—	(129)	(129)
Other comprehensive income	—	—	—	1,174	1,174	—	1,174
Net issuance under employee stock plans	281	(23,423)	—	—	(23,423)	—	(23,423)
Repurchase of common stock	(1,659)	(20,988)	(207,508)	—	(228,496)	—	(228,496)
Cash dividends ($0.75 per share) and dividend equivalents declared	—	—	(120,669)	—	(120,669)	—	(120,669)
Stock-based compensation expense	—	26,944	—	—	26,944	—	26,944
Balance as of September 30, 2019	158,097	$ 1,999,845	$ 733,173	$ (71,855)	$ 2,661,163	$ 18,456	$ 2,679,619

See accompanying notes to Condensed Consolidated Financial Statements (unaudited)

KLA CORPORATION
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Cash flows from operating activities:		
Net income	$ 420,142	$ 346,396
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	80,066	98,588
Loss (gain) on unrealized foreign exchange and other	(12,907)	10,313
Asset impairment charges	865	2,481
Stock-based compensation expense	26,992	26,944
Changes in assets and liabilities, net of assets acquired and liabilities assumed in business acquisitions:		
Accounts receivable	73,000	(75,214)
Inventories	(85,991)	(5,091)
Other assets	5,103	(8,930)
Accounts payable	(9,822)	18,885
Deferred system revenue	(82,633)	(4,833)
Deferred service revenue	(3,646)	(4,337)
Other liabilities	101,002	91,043
Net cash provided by operating activities	512,171	496,245
Cash flows from investing activities:		
Proceeds from sale of assets	1,114	—
Business acquisitions, net of cash acquired	—	(78,530)
Capital expenditures	(55,925)	(32,566)
Purchases of available-for-sale securities	(231,821)	(263,767)
Proceeds from sale of available-for-sale securities	53,249	25,449
Proceeds from maturity of available-for-sale securities	95,835	198,751
Purchases of trading securities	(18,630)	(9,021)
Proceeds from sale of trading securities	21,244	11,905
Proceeds from other investments	614	1,086
Net cash used in investing activities	(134,320)	(146,693)
Cash flows from financing activities:		
Repayment of debt	(50,000)	—
Common stock repurchases	(187,897)	(228,496)
Payment of dividends to stockholders	(141,164)	(121,636)
Issuance of common stock	—	114
Tax withholding payments related to vested and released restricted stock units	(25,145)	(23,538)
Payment of contingent consideration payable	—	(57)
Net cash used in financing activities	(404,206)	(373,613)
Effect of exchange rate changes on cash and cash equivalents	7,766	(3,585)
Net (decrease) increase in cash and cash equivalents	(18,589)	(27,646)
Cash and cash equivalents at beginning of period	1,234,409	1,015,994
Cash and cash equivalents at end of period	$ 1,215,820	$ 988,348
Supplemental cash flow disclosures:		
Income taxes paid	$ 54,185	$ 19,862
Interest paid	$ 40,071	$ 26,347
Non-cash activities:		
Contingent consideration (receivable) payable - financing activities	$ (2,987)	$ 9,366
Dividends payable - financing activities	$ 391	$ 1,552
Unsettled common stock repurchase - financing activities	$ 6,000	$ 8,000
Accrued purchases of land, property and equipment - investing activities	$ 23,388	$ 16,074

See accompanying notes to Condensed Consolidated Financial Statements (unaudited).

KLA CORPORATION
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 1 – BASIS OF PRESENTATION

Basis of Presentation. For purposes of this report, “KLA,” the “Company,” “we,” “our,” “us,” or similar references mean KLA Corporation, and its majority-owned subsidiaries unless the context requires otherwise. The Condensed Consolidated Financial Statements have been prepared by us pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations.

The unaudited interim Condensed Consolidated Financial Statements reflect all adjustments (consisting only of normal, recurring adjustments) necessary for a fair statement of the financial position, results of operations, comprehensive income, stockholders’ equity and cash flows for the periods indicated. These Condensed Consolidated Financial Statements and notes, however, should be read in conjunction with Item 8, “Financial Statements and Supplementary Data” included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020.

The Condensed Consolidated Financial Statements include the accounts of KLA and its majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. On February 20, 2019 ("Acquisition Date"), we completed the acquisition of Orbotech, Ltd. ("Orbotech") hereinafter referred to as the "Orbotech Acquisition".

The results of operations for the three months ended September 30, 2020 are not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year ending June 30, 2021.

Certain reclassifications have been made to the prior year’s Condensed Consolidated Financial Statements to conform to the current year presentation. The reclassifications did not have material effects on the prior year’s Condensed Consolidated Balance Sheets, Statements of Operations, Comprehensive Income and Cash Flows.

Management Estimates. The preparation of the Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in applying our accounting policies that affect the reported amounts of assets and liabilities (and related disclosure of contingent assets and liabilities) at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Comparability. Effective July 1, 2020, we adopted Accounting Standard Codification ("ASC") 326, Financial Instruments - Credit Losses. Prior periods were not retrospectively recast and accordingly, the Consolidated Balance Sheet as of June 30, 2020, and the Condensed Consolidated Statement of Operations for the three months ended September 30, 2019 were prepared using accounting standards that were different than those in effect for the three months ended September 30, 2020.

Significant Accounting Policies. With the exception of the change for the accounting of credit losses as a result of the adoption of ASC 326, Financial Instruments - Credit Losses, there have been no other material changes to our significant accounting policies in Note 1 “Description of Business and Summary of Significant Accounting Policies” of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020.

Credit Losses

Cash Equivalents and Marketable Securities. All highly liquid debt instruments with original or remaining maturities of less than three months at the date of purchase are cash equivalents. Marketable securities are generally classified as available-for-sale for use in current operations, if required, and are reported at fair value, with unrealized gains and non-credit related unrealized losses, net of tax, presented as a separate component of stockholders’ equity under the caption “Accumulated other comprehensive income (loss)” (“AOCI”). All realized gains and losses are recorded in earnings in the period of occurrence. The specific identification method is used to determine the realized gains and losses on investments.

We regularly review the available-for-sale debt securities in an unrealized loss position, and evaluate the current expected credit loss by considering available information relevant to the collectibility of the security, such as historical experience, market data, issuer-specific factors including credit ratings, default and loss rates of the underlying collateral and structure and credit enhancements, current economic conditions and reasonable and supportable forecasts.

If we do not expect to recover the entire amortized cost of the security, the amount representing credit losses, defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis of the debt security, is recorded as an allowance for credit losses with an offsetting entry to earnings; and the amount that is not credit-related is recognized in other comprehensive income (loss). If we have the intent to sell the security or it is more likely than not that we will be required to sell the security before recovery of its entire amortized cost basis, we first write off any previously recognized allowance for credit losses with an offsetting entry to the security's amortized cost basis. If the allowance has been fully written off and fair value is less than amortized cost basis, we write down the amortized cost basis of the security to its fair value with an offsetting entry to net income.

There were no credit losses on available-for-sale debt securities recognized for the three months ended September 30, 2020 and 2019.

Allowance for Credit Losses. A majority of our accounts receivable are derived from sales to large multinational semiconductor and electronics manufacturers throughout the world. We maintain an allowance for credit losses for expected uncollectible accounts receivable, which is recorded as an offset to accounts receivable and changes in such are classified as selling, general and administrative expense in the Condensed Consolidated Statements of Income. We assess collectibility by reviewing accounts receivable on a collective basis where similar risk characteristics exist and on an individual basis when we identify specific customers with known disputes or collectibility issues. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. The allowance for credit losses is reviewed on a quarterly basis to assess the adequacy of the allowance.

For the three months ended September 30, 2020, our assessment considered the impact of COVID-19 and estimates of expected credit and collectability trends. The credit losses recognized were not significant for the three months ended September 30, 2020 and 2019.

Volatility in market conditions and evolving credit trends are difficult to predict and may cause variability and volatility that may have a material impact on our allowance for credit losses in future periods.

Recent Accounting Pronouncements

Recently Adopted

As explained above, on July 1, 2020 we adopted ASC 326, which was issued by the Financial Accounting Board ("FASB") in June 2016 as Accounting Standards Update ("ASU") No 2016-13 *Financial Instruments – Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments.* The ASU replaced previous incurred loss impairment guidance and established a single expected credit losses allowance framework for financial assets carried at amortized cost. It also eliminated the concept of other-than-temporary impairment and requires credit losses related to certain available-for-sale debt securities to be recorded through an allowance for credit losses. We adopted ASC 326 using the modified retrospective method, which requires a cumulative-effect adjustment to the opening balance of retained earnings to be recognized on the date of adoption and, accordingly, recorded a net decrease of $5.5 million to retained earnings as of July 1, 2020. Please see the "Credit Losses" accounting policy in the "Significant Accounting Policies" section above.

In August 2018, the FASB issued an accounting standard update which modifies the existing accounting standards for the fair value measurement disclosure. This update eliminates the disclosures of the amount of and reasons for transfers between level 1 and level 2 of the fair value hierarchy, and the policy for the timing of transfers between levels. We adopted this update beginning in the first quarter of our fiscal year ending June 30, 2021 on a retrospective basis and the adoption had no material impact on our Condensed Consolidated Financial Statements.

In August 2018, the FASB issued an accounting standard update to amend the disclosure requirements related to defined benefit pension and other post-retirement plans. Some of the changes include adding a disclosure requirement for significant gains and losses related to changes in the benefit obligation for the period and removing the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. We adopted this update beginning in the first quarter of the fiscal year ending June 30, 2021 on a retrospective basis and the adoption had no material impact on our Condensed Consolidated Financial Statements.

In August 2018, the FASB issued an accounting standard update to align the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The guidance clarifies which costs should be capitalized including the cost to acquire the license and the related implementation costs. We adopted this update beginning in the first quarter of our fiscal year ending June 30, 2021 on a prospective basis, and the adoption had no material impact on our Condensed Consolidated Financial Statements.

Updates Not Yet Effective

In December 2019, the FASB issued an accounting standard update to simplify the accounting for income taxes in ASC 740, Income Taxes (“ASC 740”). This amendment removes certain exceptions and improves consistent application of accounting principles for certain areas in ASC 740. The update is effective for us beginning in the first quarter of our fiscal year ending June 30, 2022, and early adoption is permitted. We are currently evaluating the impact of this accounting standard update on our Consolidated Financial Statements.

In August 2020, the FASB issued an accounting standard update to simplify the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity’s own equity. The standard eliminates beneficial conversion feature and cash conversion models resulting in more convertible instruments being accounted for as a single unit; and modifies the guidance on the computation of earnings per share for convertible instruments and contracts on an entity’s own equity. The update is effective for us in the first quarter of our fiscal year ending June 30, 2023 and can be adopted either on a fully retrospective basis or modified retrospective basis. Early adoption is permitted from our first quarter of fiscal year ending June 30, 2022. We are currently evaluating the impact of this accounting standard update on our Condensed Consolidated Financial Statements.

NOTE 2 – REVENUE

Contract Balances

The following table represents the opening and closing balances of accounts receivables, net, contract assets and contract liabilities for the indicated periods.

(In thousands, except for percentage)	As of September 30, 2020	As of June 30, 2020	$ Change	% Change
Accounts receivable, net	$ 1,028,883	$ 1,107,413	$ (78,530)	(7)%
Contract assets	$ 97,751	$ 99,876	$ (2,125)	(2)%
Contract liabilities	$ 579,776	$ 666,055	$ (86,279)	(13)%

Our payment terms and conditions vary by contract type, although the terms generally include a requirement of payment of70% to 90% of total contract consideration within 30 to 60 days of product shipment, with the remainder payable within 30 days of acceptance.

The change in contract assets during the three months ended September 30, 2020 was mainly due to $40.9 million of contract assets reclassified to net accounts receivable as our right to consideration for these contract assets became unconditional, partially offset by $38.6 million of revenue recognized for which the payment is subject to conditions other than passage of time. Contract assets are included in Other current assets on our Condensed Consolidated Balance Sheets.

During the three months ended September 30, 2020, we recognized revenue of $314.8 million that was included in contract liabilities as of July 1, 2020. This was partially offset by the value of products and services billed to customers for which control of the products and service has not transferred to the customers. Contract liabilities are included in current and non-current liabilities on our Condensed Consolidated Balance Sheets.

Remaining Performance Obligations

As of September 30, 2020, we had $2.20 billion of remaining performance obligations, which represents our obligation to deliver products and services, and consists primarily of sales orders where written customer requests have been received. We expect to recognize approximately 5% to 15% of these performance obligations as revenue beyond the next twelve months, subject to risk of delays, pushouts, and cancellation by the customer, usually with limited or no penalties.

Refer to Note 18 “Segment Reporting and Geographic Information” of the Notes to the Condensed Consolidated Financial Statements for information related to revenue by geographic region as well as significant product and service offerings.

NOTE 3 – FAIR VALUE MEASUREMENTS

Our financial assets and liabilities are measured and recorded at fair value, except for our debt and certain equity investments in privately-held companies. Equity investments without a readily available fair value are accounted for using the measurement alternative. The measurement alternative is calculated as cost minus impairment, if any, plus or minus changes resulting from observable price changes.

Our non-financial assets, such as goodwill, intangible assets, and land, property and equipment, are assessed for impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred.

Fair Value of Financial Instruments. We have evaluated the estimated fair value of financial instruments using available market information and valuations as provided by third-party sources. The use of different market assumptions and/or estimation methodologies could have a significant effect on the estimated fair value amounts. The fair value of our cash equivalents, accounts receivable, accounts payable and other current assets and liabilities approximate their carrying amounts due to the relatively short maturity of these items.

Fair Value Hierarchy. The authoritative guidance for fair value measurements establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1	Valuations based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
Level 2	Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.
Level 3	Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

As of September 30, 2020, the types of instruments valued based on quoted market prices in active markets included money market funds, certain U.S. Treasury securities and U.S. Government agency securities. Such instruments are generally classified within Level 1 of the fair value hierarchy.

The types of instruments valued based on other observable inputs included corporate debt securities, sovereign securities, municipal securities, and certain U.S. Treasury securities. The market inputs used to value these instruments generally consist of market yields, reported trades and broker / dealer quotes. Such instruments are generally classified within Level 2 of the fair value hierarchy.

The principal market in which we execute our foreign currency contracts is the institutional market in an over-the-counter environment with a relatively high level of price transparency. The market participants generally are large financial institutions. Our foreign currency contracts’ valuation inputs are based on quoted prices and quoted pricing intervals from public data sources and do not involve management judgment. These contracts are typically classified within Level 2 of the fair value hierarchy.

The fair value of deferred payments and contingent consideration payable, the majority of which were recorded in connection with business combinations, were classified as Level 3 and estimated using significant inputs that were not observable in the market. See Note 6 “Business Combinations” of the Notes to the Condensed Consolidated Financial Statements for additional information.

Financial assets (excluding cash held in operating accounts and time deposits) and liabilities measured at fair value on a recurring basis, as of the date indicated below, were presented on our Condensed Consolidated Balance Sheets as follows:

As of September 30, 2020 (In thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Little or No Market Activity Inputs (Level 3)
Assets				
Cash equivalents:				
Corporate debt securities	$ 4,019	$ —	$ 4,019	$ —
Money market funds and other	682,785	682,785	—	—
U.S. Treasury securities	8,400	—	8,400	—
Marketable securities:				
Corporate debt securities	400,277	—	400,277	—
Municipal securities	35,629	—	35,629	—
U.S. Government agency securities	137,487	137,487	—	—
U.S. Treasury securities	169,777	131,786	37,991	—
Total cash equivalents and marketable securities[1]	1,438,374	952,058	486,316	—
Other current assets:				
Derivative assets	3,198	—	3,198	—
Other non-current assets:				
Executive Deferred Savings Plan	223,986	172,226	51,760	—
Total financial assets[1]	$ 1,665,558	$ 1,124,284	$ 541,274	$ —
Liabilities				
Derivative liabilities	$ (2,886)	$ —	$ (2,886)	$ —
Deferred payments	(6,825)	—	—	(6,825)
Contingent consideration payable	(12,974)	—	—	(12,974)
Total financial liabilities	$ (22,685)	$ —	$ (2,886)	$ (19,799)

(1) Excludes cash of $471.2 million held in operating accounts and time deposits of $133.8 million as of September 30, 2020.

Financial assets (excluding cash held in operating accounts and time deposits) and liabilities measured at fair value on a recurring basis, as of the date indicated below, were presented on our Condensed Consolidated Balance Sheets as follows:

As of June 30, 2020 (In thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Little or No Market Activity Inputs (Level 3)
Assets				
Cash equivalents:				
Money market funds and other	$ 694,950	$ 694,950	$ —	$ —
Marketable securities:				
Corporate debt securities	381,957	—	381,957	—
Municipal securities	29,110	—	29,110	—
Sovereign securities	2,017	—	2,017	—
U.S. Government agency securities	106,336	106,336	—	—
U.S. Treasury securities	181,193	151,210	29,983	—
Total cash equivalents and marketable securities[1]	1,395,563	952,496	443,067	—
Other current assets:				
Derivative assets	2,077	—	2,077	—
Other non-current assets:				
Executive Deferred Savings Plan	213,487	166,000	47,487	—
Total financial assets[1]	$ 1,611,127	$ 1,118,496	$ 492,631	$ —
Liabilities				
Derivative liabilities	$ (1,410)	$ —	$ (1,410)	$ —
Deferred payments	(6,750)	—	—	(6,750)
Contingent consideration payable	(15,513)	—	—	(15,513)
Total financial liabilities	$ (23,673)	$ —	$ (1,410)	$ (22,263)

(1) Excludes cash of $460.8 million held in operating accounts and time deposits of $78.7 million as of June 30, 2020.

There were no transfers between Level 1, Level 2 and Level 3 fair value measurements during the three months ended September 30, 2020. See Note 8 “Debt” of the Notes to the Condensed Consolidated Financial Statements for disclosure of the fair value of our Senior Notes.

NOTE 4 – FINANCIAL STATEMENT COMPONENTS

Condensed Consolidated Balance Sheets

(In thousands)	As of September 30, 2020	As of June 30, 2020
Accounts receivable, net:		
Accounts receivable, gross	$ 1,046,329	$ 1,119,235
Allowance for credit losses	(17,446)	(11,822)
	$ 1,028,883	$ 1,107,413
Inventories:		
Raw materials	$ 541,846	$ 478,594
Customer service parts	316,795	338,608
Work-in-process	368,270	334,965
Finished goods	167,314	158,818
	$ 1,394,225	$ 1,310,985
Other current assets:		
Contract assets	$ 97,751	$ 99,876
Prepaid expenses	88,128	74,955
Deferred costs of revenue	57,488	77,219
Prepaid income and other taxes	24,767	56,809
Other current assets	20,004	15,816
	$ 288,138	$ 324,675
Land, property and equipment, net:		
Land	$ 67,864	$ 67,858
Buildings and leasehold improvements	433,525	405,238
Machinery and equipment	695,577	677,627
Office furniture and fixtures	31,121	29,964
Construction-in-process	109,211	93,736
	1,337,298	1,274,423
Less: accumulated depreciation	(775,446)	(754,599)
	$ 561,852	$ 519,824
Other non-current assets:		
Executive Deferred Savings Plan[1]	$ 223,986	$ 213,487
Operating lease right of use assets	98,754	100,790
Other non-current assets	48,846	48,702
	$ 371,586	$ 362,979
Other current liabilities:		
Compensation and benefits	$ 346,266	$ 251,379
Executive Deferred Savings Plan	225,542	215,167
Customer credits and advances	128,484	114,896
Other accrued expenses	159,713	183,435
Income taxes payable	75,323	35,640
Interest payable	34,801	36,265
Operating lease liabilities	29,418	28,994
	$ 999,547	$ 865,776
Other non-current liabilities:		
Income taxes payable	$ 357,074	$ 383,447
Pension liabilities	81,612	78,911
Operating lease liabilities	69,431	70,885
Other non-current liabilities	138,574	139,041
	$ 646,691	$ 672,284

(1) We have a non-qualified deferred compensation plan (known as "Executive Deferred Savings Plan" or "EDSP") under which certain employees and non-employee directors may defer a portion of their compensation. The expense (benefit) associated with changes in the EDSP liability included in selling, general and administrative expense was $13.2 million and $1.9 million during the three months ended September 30, 2020 and 2019, respectively. The amount of net gains (losses) associated with changes in the EDSP assets included in selling, general and administrative expense was $13.3 million and $2.3 million during the three months ended September 30, 2020 and 2019, respectively. For additional details, refer to Note 1 "Description of Business and Summary of Significant Accounting Policies" of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020.

Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) ("OCI") as of the dates indicated below were as follows:

(In thousands)	Currency Translation Adjustments	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrealized Gains (Losses) on Cash Flow Hedges	Unrealized Gains (Losses) on Defined Benefit Plans	Total
Balance as of September 30, 2020	$ (38,920)	$ 2,857	$ (24,014)	$ (19,369)	$ (79,446)
Balance as of June 30, 2020	$ (43,957)	$ 3,683	$ (23,250)	$ (16,250)	$ (79,774)

The effects on net income (loss) of amounts reclassified from accumulated OCI to the Condensed Consolidated Statements of Operations for the indicated period were as follows (in thousands):

Accumulated OCI Components	Location in the Condensed Consolidated Statements of Operations	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Unrealized gains (losses) on cash flow hedges from foreign exchange and interest rate contracts	Revenues	$ (217)	$ 373
	Costs of revenues and operating expenses	550	(1,801)
	Interest expense	(279)	(99)
	Net gains (losses) reclassified from accumulated OCI	$ 54	$ (1,527)
Unrealized gains (losses) on available-for-sale securities	Other expense (income), net	$ (101)	$ (4)

The amounts reclassified out of accumulated OCI related to our defined benefit pension plans, which were recognized as a component of net periodic cost for the three months ended September 30, 2020 and 2019 were $0.3 million and $0.2 million, respectively. For additional details, refer to Note 12 "Employee Benefit Plans" of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020.

NOTE 5 – MARKETABLE SECURITIES

The amortized cost and fair value of marketable securities as of the dates indicated below were as follows:

As of September 30, 2020 (In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	$ 402,338	$ 2,046	$ (88)	$ 404,296
Money market funds and other	682,785	—	—	682,785
Municipal securities	35,368	261	—	35,629
U.S. Government agency securities	137,169	326	(8)	137,487
U.S. Treasury securities	177,076	1,101	—	178,177
Subtotal	1,434,736	3,734	(96)	1,438,374
Add: Time deposits[1]	133,836	—	—	133,836
Less: Cash equivalents	744,577	—	—	744,577
Marketable securities	$ 823,995	$ 3,734	$ (96)	$ 827,633

As of June 30, 2020 (In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	$ 379,334	$ 2,673	$ (50)	$ 381,957
Money market funds and other	694,950	—	—	694,950
Municipal securities	28,859	251	—	29,110
Sovereign securities	2,009	8	—	2,017
U.S. Government agency securities	106,091	252	(7)	106,336
U.S. Treasury securities	179,631	1,564	(2)	181,193
Subtotal	1,390,874	4,748	(59)	1,395,563
Add: Time deposits[1]	124,153	—	—	124,153
Less: Cash equivalents	773,653	—	—	773,653
Marketable securities	$ 741,374	$ 4,748	$ (59)	$ 746,063

(1) Time deposits excluded from fair value measurements.

Our investment portfolio consists of both corporate and government securities that have a maximum maturity ofthree years. The longer the duration of these securities, the more susceptible they are to changes in market interest rates and bond yields. As yields increase, those securities with a lower yield-at-cost show a mark-to-market unrealized loss. Most of our unrealized losses are due to changes in market interest rates and bond yields. We believe that we have the ability to realize the full value of all of these investments upon maturity. As of September 30, 2020, we had 40 investments in an unrealized loss position.The following table summarizes the fair value and gross unrealized losses of our investments that were in an unrealized loss position as of the date indicated below, none of which were in a continuous loss position for 12 months or more:

As of September 30, 2020 (In thousands)	Fair Value	Gross Unrealized Losses
Corporate debt securities	$ 54,747	$ (88)
Municipal securities	2,328	—
U.S. Government agency securities	24,762	(8)
U.S Treasury securities	18,564	—
Total	$ 100,401	$ (96)

As of June 30, 2020 (In thousands)	Fair Value	Gross Unrealized Losses
Corporate debt securities	$ 44,429	$ (50)
Municipal securities	870	—
U.S. Government agency securities	9,951	(7)
U.S Treasury securities	19,010	(2)
Total	$ 74,260	$ (59)

The contractual maturities of securities classified as available-for-sale, regardless of their classification on our Condensed Consolidated Balance Sheets, as of the date indicated below were as follows:

As of September 30, 2020 (In thousands)	Amortized Cost	Fair Value
Due within one year	$ 498,336	$ 500,622
Due after one year through three years	325,659	327,011
	$ 823,995	$ 827,633

As of June 30, 2020 (In thousands)	Amortized Cost	Fair Value
Due within one year	$ 415,915	$ 418,169
Due after one year through three years	325,459	327,894
	$ 741,374	$ 746,063

Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Realized gains and losses on available-for-sale securities for the three months ended September 30, 2020 and 2019 were immaterial.

NOTE 6 - BUSINESS COMBINATIONS

On April 24, 2020, we acquired a product line from a public company for total purchase consideration of $11.4 million, of which $2.2 million was allocated to goodwill. Goodwill recognized was assigned to the Wafer Inspection and Patterning reporting unit, and the amount recognized was deductible for income tax purposes.

On August 22, 2019, we acquired the outstanding shares of a privately-held company, primarily to expand our products and services offerings, for a total purchase consideration of $94.0 million inclusive of measurement period adjustments as well as the fair value of the promise to pay an additional consideration up to $60.0 million contingent on the achievement of certain milestones. As of September 30, 2020, the estimated fair value of the additional consideration was $6.3 million, which was classified as a current liability on the Condensed Consolidated Balance Sheet. The $54.2 million of goodwill was assigned to the Wafer Inspection and Patterning reporting unit, and the amount recognized was not deductible for income tax purposes.

In addition to the contingent consideration for the August 2019 acquisition, as of September 30, 2020, we have $6.7 million of contingent consideration recorded for other acquisitions from fiscal year 2019, which is classified as a non-current liability on the Condensed Consolidated Balance Sheet.

For additional details, please refer to Note 6 "Business Combinations" included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020, filed with the SEC on August 7, 2020.

NOTE 7 – GOODWILL AND PURCHASED INTANGIBLE ASSETS

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in the current and prior business combinations. We have four reportable segments and six reporting units. For additional details, refer to Note 18 "Segment Reporting and Geographic Information" of the Notes to the Condensed Consolidated Financial Statements. The following table presents goodwill carrying value and the movements during the three months ended September 30, 2020[1]:

(In thousands)	Wafer Inspection and Patterning	Global Service and Support ("GSS")	Specialty Semiconductor Process	PCB and Display	Component Inspection	Total
Balance as of June 30, 2020	$ 416,840	$ 25,908	$ 681,858	$ 907,221	$ 13,575	$ 2,045,402
Foreign currency adjustments	30	—	—	—	—	30
Balance as of September 30, 2020	$ 416,870	$ 25,908	$ 681,858	$ 907,221	$ 13,575	$ 2,045,432

(1) No goodwill was assigned to the Other reporting unit, and accordingly it was excluded in the table above.

Goodwill is not subject to amortization but is tested for impairment annually during the third fiscal quarter as well as whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In testing goodwill for impairment, we utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. When performing the qualitative assessment, we consider the following factors: declines in our stock price or market capitalization, declines in our market share, and declines in revenues or profitability at our reporting units. Any impairment charges could have a material adverse effect on our operating results and net asset value in the quarter in which we recognize the impairment charge.

If our qualitative assessment indicates that goodwill impairment is more likely than not, we perform a quantitative assessment by comparing the carrying value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the carrying value, the amount of impairment is computed as the excess of the carrying value over the estimated fair value, not to exceed the carrying value of goodwill.

As of September 30, 2020, there have been no significant events or circumstances affecting the valuation of goodwill subsequent to the assessment performed in the third quarter of the fiscal year ended June 30, 2020. As a result of that assessment, we recorded $144.2 million and $112.5 million in impairment charges in the Specialty Semiconductor Process and PCB and Display reporting units, respectively, in the three months ended March 31, 2020. For additional details, refer to Note 7 "Goodwill and Purchased Intangible Assets" of the Notes to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2020.

Purchased Intangible Assets

The components of purchased intangible assets as of the dates indicated below were as follows:

(In thousands)		As of September 30, 2020			As of June 30, 2020		
Category	Range of Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization, and Impairment	Net Amount	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Amount
Existing technology	4-8	$ 1,269,883	$ 379,663	$ 890,220	$ 1,269,883	$ 342,623	$ 927,260
Customer relationships	4-9	305,817	106,912	198,905	305,817	98,754	207,063
Trade name / Trademark	4-7	117,383	42,785	74,598	117,383	39,216	78,167
Backlog and other	<1-9	50,404	48,948	1,456	50,404	47,215	3,189
Intangible assets subject to amortization		1,743,487	578,308	1,165,179	1,743,487	527,808	1,215,679
In-process research and development		175,834	100	175,734	175,834	100	175,734
Total		$ 1,919,321	$ 578,408	$ 1,340,913	$ 1,919,321	$ 527,908	$ 1,391,413

Purchased intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be fully recoverable. The impairment indicator primarily includes the declines in our operating cash flows from the use of these assets. If the impairment indicators are present, we are required to perform a recoverability test by comparing the sum of the estimated undiscounted future cash flows attributable to these long-lived assets to their carrying value.

We performed the required recoverability test for intangible assets in the third quarter of the fiscal year ended June 30, 2020 and concluded that there was no impairment based on the assessment. As of September 30, 2020, there were no impairment indicators for purchased intangible assets.

Amortization expense for purchased intangible assets for the periods indicated below was as follows:

(In thousands)	Three Months Ended September 30, 2020	2019
Amortization expense - Cost of revenues	$ 37,040	$ 35,621
Amortization expense - Selling, general and administrative	13,429	22,256
Amortization expense - Research and development	31	31
Total	$ 50,500	$ 57,908

Based on the purchased intangible assets gross carrying amount recorded as of September 30, 2020, the remaining estimated annual amortization expense is expected to be as follows:

Fiscal year ending June 30:	Amortization (In thousands)
2021 (remaining nine months)	$ 147,317
2022	195,239
2023	194,147
2024	191,630
2025	179,421
2026 and thereafter	257,425
Total	$ 1,165,179

NOTE 8 – DEBT

The following table summarizes our debt as of September 30, 2020 and June 30, 2020:

	As of September 30, 2020		As of June 30, 2020	
	Amount (In thousands)	Effective Interest Rate	Amount (In thousands)	Effective Interest Rate
Fixed-rate 4.650% Senior Notes due on November 1, 2024	$ 1,250,000	4.682 %	$ 1,250,000	4.682 %
Fixed-rate 5.650% Senior Notes due on November 1, 2034	250,000	5.670 %	250,000	5.670 %
Fixed-rate 4.100% Senior Notes due on March 15, 2029	800,000	4.159 %	800,000	4.159 %
Fixed-rate 5.000% Senior Notes due on March 15, 2049	400,000	5.047 %	400,000	5.047 %
Fixed-rate 3.300% Senior Notes due on March 1, 2050	750,000	3.302 %	750,000	3.302 %
Revolving Credit Facility	—	— %	50,000	1.310 %
Total	3,450,000		3,500,000	
Unamortized discount	(7,958)		(8,167)	
Unamortized debt issuance costs	(21,639)		(22,163)	
Total	$ 3,420,403		$ 3,469,670	
Reported as:				
Long-term debt	3,420,403		3,469,670	

As of September 30, 2020, future minimum principal payments for our debt are $1.25 billion in fiscal year 2025 and $2.20 billion after fiscal year 2026.

Senior Notes and Debt Redemption:

In February 2020, we issued $750.0 million aggregate principal amount of senior, unsecured long-term notes (the “2020 Senior Notes”). In March 2019 and November 2014, we issued $1.20 billion (the "2019 Senior Notes”) and $2.50 billion (the "2014 Senior Notes,” and together with the 2019 Senior Notes and the 2020 Senior Notes, the “Senior Notes”), respectively, aggregate principal amount of senior, unsecured long-term notes. In each of the second quarters of fiscal 2018 and 2020, we repaid $250.0 million of the 2014 Senior Notes and in the third quarter of fiscal 2020 we repaid another $500.0 million of the 2014 Senior Notes using the proceeds from the issuance of the 2020 Senior Notes, bringing the outstanding aggregate principal amount of the 2014 Senior Notes to $1.50 billion as of September 30, 2020.

The interest rates for our Senior Notes are not subject to adjustment. Interest is payable as follows: semi-annually on March 1 and September 1 of each year for the 2020 Senior Notes; semi-annually on March 15 and September 15 of each year for the 2019 Senior Notes; and semi-annually on May 1 and November 1 of each year for the 2014 Senior Notes. The indenture for the Senior Notes (the "Indenture") includes covenants that limit our ability to grant liens on our facilities and enter into sale and leaseback transactions, subject to certain allowances under which certain sale and leaseback transactions are not restricted.

In certain circumstances involving a change of control followed by a downgrade of the rating of a series of Senior Notes by at least two of Moody's, S&P and Fitch Inc., unless we have exercised our rights to redeem the Senior Notes of such series, we will be required to make an offer to repurchase all or, at the holder's option, any part, of each holder's Senior Notes of that series pursuant to the offer described below (the "Change of Control Offer"). In the Change of Control Offer, we will be required to offer payment in cash equal to 101% of the aggregate principal amount of Senior Notes repurchased plus accrued and unpaid interest, if any, on the Senior Notes repurchased, up to, but not including, the date of repurchase.

Based on the trading prices of the Senior Notes on the applicable dates, the fair value of the Senior Notes as of September 30, 2020 and June 30, 2020 was approximately $4.05 billion and $4.01 billion, respectively. While the Senior Notes are recorded at cost, the fair value of the long-term debt was determined based on quoted prices in markets that are not active; accordingly, the long-term debt is categorized as Level 2 for purposes of the fair value measurement hierarchy.

As of September 30, 2020, we were in compliance with all of our covenants under the Indenture associated with the Senior Notes.

Revolving Credit Facility:

We have in place a Credit Agreement (the "Credit Agreement") providing for a $1.00 billion unsecured Revolving Credit Facility (the "Revolving Credit Facility") with a maturity date of November 30, 2023. During the fiscal year ended June 30, 2020, we borrowed $450.0 million from the Revolving Credit Facility and made principal payments of $400.0 million, $200.0 million of which were repayments in the third fiscal quarter of 2020 using a portion of the proceeds from the issuance of the 2020 Senior Notes. As of June 30, 2020, we had outstanding $50.0 million aggregate principal amount of borrowings under the Revolving Credit Facility. During the first fiscal quarter of 2021, we repaid the remaining $50.0 million aggregate principal balance so that as of September 30, 2020 we had no outstanding borrowings under the Revolving Credit Facility.

We may borrow, repay and reborrow funds under the Revolving Credit Facility until the Maturity Date, at which time such Revolving Credit Facility will terminate, and all outstanding loans under such facility, together with all accrued and unpaid interest, must be repaid. We may prepay outstanding borrowings under the Revolving Credit Facility at any time without a prepayment penalty.

Borrowings under the Revolving Credit Facility will bear interest, at our option, at either: (i) the Alternative Base Rate ("ABR") plus a spread, which ranges from 0 bps to 75 bps, or (ii) the London Interbank Offered Rate ("LIBOR") plus a spread, which ranges from 100 bps to 175 bps. The spreads under ABR and LIBOR are subject to adjustment in conjunction with credit rating downgrades or upgrades. We are also obligated to pay an annual commitment fee on the daily undrawn balance of the Revolving Credit Facility, which ranges from 10 bps to 25 bps, subject to an adjustment in conjunction with changes to our credit rating. As of September 30, 2020, we elected to pay interest on the borrowed amount under the Revolving Credit Facility at LIBOR plus a spread of 112.5 bps, and we pay an annual commitment fee of 12.5 bps on the daily undrawn balance of the Revolving Credit Facility.

The Revolving Credit Facility requires us to maintain an interest expense coverage ratio as described in the Credit Agreement, on a quarterly basis, covering the trailing four consecutive fiscal quarters of no less than 3.50 to 1.00. In addition, we are required to maintain the maximum leverage ratio as described in the Credit Agreement, on a quarterly basis of 3.00 to 1.00, covering the trailing four consecutive fiscal quarters for each fiscal quarter, which can be increased to 4.00 to 1.00 for a period of time in connection with a material acquisition or a series of material acquisitions. As of September 30, 2020, our maximum allowed leverage ratio was 3.50 to 1.00.

We were in compliance with all covenants under the Credit Agreement as of September 30, 2020.

For additional details, refer to Note 8 "Debt" of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020.

NOTE 9– LEASES

We have operating leases for facilities, vehicles, and other equipment. Our facility leases are primarily used for administrative functions, research and development, manufacturing, and storage and distribution. Our finance leases are not material.

Our existing leases do not contain significant restrictive provisions or residual value guarantees; however, certain leases contain provisions for payment of maintenance, real estate taxes, or insurance costs by us. Our leases have remaining lease terms ranging from less than one year to 16 years, including periods covered by options to extend the lease when it is reasonably certain that the option will be exercised.

Lease expense for the three months ended September 30, 2020 and September 30, 2019 was $9.6 million and $8.7 million, respectively. Expense related to short-term leases, which are not recorded on the Condensed Consolidated Balance Sheets, was not material for the three months ended September 30, 2020 and was $0.2 million for the three months ended September 30, 2019. As of September 30, 2020 and June 30, 2020, the weighted average remaining lease term was 4.9 years and 5.1 years, respectively, and the weighted average discount rate for operating leases was 1.93% and 1.99%, respectively.

Supplemental cash flow information related to leases was as follows:

	Three Months Ended September 30,	
In thousands	**2020**	**2019**
Operating cash outflows from operating leases	$ 9,370	$ 8,374
ROU assets obtained in exchange for new operating lease liabilities	$ 6,844	$ 2,805

Maturities of lease liabilities as of September 30, 2020 were as follows:

	Amount (In thousands)
2021 (remaining nine months)	$ 24,375
2022	24,693
2023	16,812
2024	10,891
2025	9,065
2026 and thereafter	18,520
Total lease payments	104,356
Less imputed interest	(5,507)
Total	$ 98,849

As of September 30, 2020, we did not have any material leases that had not yet commenced.

NOTE 10 – EQUITY, LONG-TERM INCENTIVE COMPENSATION PLANS AND NON-CONTROLLING INTEREST

Equity Incentive Program

As of September 30, 2020, 10.3 million shares remained available for issuance under our 2004 Equity Incentive Plan (the “2004 Plan”).

For details of the 2004 Plan refer to Note 10 “Equity, Long-Term Incentive Compensation Plans and Non-Controlling Interest” of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020.

Assumed Equity Plans

As part of the Orbotech acquisition, we assumed outstanding equity incentive awards under the following Orbotech equity incentive plans: (i) Equity Remuneration Plan for Key Employees of Orbotech Ltd. and its Affiliates and Subsidiaries (as Amended and Restated in 2005), (ii) 2010 Equity-Based Incentive Plan, and (iii) 2015 Equity-Based Incentive Plan (each, an "Assumed Equity Plan" and collectively the "Assumed Equity Plans").

As of September 30, 2020, there were 217,387 shares of our common stock underlying the outstanding Assumed RSUs under the Assumed Equity Plans. For details on the Assumed Equity Plans refer to Note 10 "Equity, Long-Term Incentive Compensation Plans and Non-Controlling Interest" of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020.

Equity Incentive Plans - General Information

The following table summarizes the combined activity under our equity incentive plans:

(In thousands)	Available For Grant(1) (2)
Balance as of June 30, 2020	10,760
Restricted stock units granted(3)	(598)
Restricted stock units granted adjustment(4)	54
Restricted stock units canceled	71
Balance as of September 30, 2020	10,287

(1) The number of RSUs reflects the application of the award multiplier of 2.0x to calculate the impact of the award on the shares reserved under the 2004 Plan.
(2) No additional stock options, RSUs or other awards will be granted under the Assumed Equity Plans.
(3) Includes RSUs granted to senior management during the three months ended September 30, 2020 with performance-based vesting criteria (in addition to service-based vesting criteria for any of such RSUs that are deemed to have been earned) ("performance-based RSUs"). This line item includes all such performance-based RSUs granted during the three months ended September 30, 2020 reported at the maximum possible number of shares that may ultimately be issuable if all applicable performance-based criteria are achieved at their maximum levels and all applicable service-based criteria are fully satisfied (0.2 million shares for the three months ended September 30, 2020 reflects the application of the multiplier described above).
(4) Represents the portion of RSUs granted with performance-based vesting criteria and reported at the actual number of shares issued upon achievement of the performance vesting criteria during the three months ended September 30, 2020.

The fair value of stock-based awards is measured at the grant date and is recognized as an expense over the employee's requisite service period. For RSUs granted without "dividend equivalent" rights, fair value is calculated using the closing price of our common stock on the grant date, adjusted to exclude the present value of dividends which are not accrued on those RSUs. The fair value for RSUs granted with "dividend equivalent" rights is determined using the closing price of our common stock on the grant date. Compensation expense for RSUs with performance metrics is calculated based upon expected achievement of the metrics specified in the grant, or when a grant contains a market condition, the grand date fair value using a Monte Carlo simulation. The fair value for purchase rights under our Employee Stock Purchase Plan is determined using a Black-Scholes model.

The following table shows stock-based compensation expense for the indicated periods:

(In thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Stock-based compensation expense by:		
Costs of revenues	$ 3,667	$ 2,864
Research and development	5,471	5,287
Selling, general and administrative	17,854	18,793
Total stock-based compensation expense	$ 26,992	$ 26,944

The following table shows stock-based compensation capitalized as inventory as of the dates indicated below:

(In thousands)	As of September 30, 2020	As of June 30, 2020
Inventory	$ 5,685	$ 6,752

Restricted Stock Units

The following table shows the activity and weighted-average grant date fair value for RSUs during the three months ended September 30, 2020:

	Shares[(1)] (In thousands)	Weighted-Average Grant Date Fair Value
Outstanding restricted stock units as of June 30, 2020[(2)]	2,253	$ 107.33
Granted[(3)]	299	$ 201.95
Granted adjustments	(27)	$ 88.96
Vested and released	(172)	$ 91.94
Withheld for taxes	(125)	$ 91.94
Forfeited	(39)	$ 120.18
Outstanding restricted stock units as of September 30, 2020[(2)]	2,189	$ 122.33

(1) Share numbers reflect actual shares subject to awarded RSUs.
(2) Includes performance-based and market-based RSUs.
(3) This line item includes performance-based RSUs granted during the three months ended September 30, 2020 reported at the maximum possible number of shares that may ultimately be issuable if all applicable performance-based criteria are achieved at their maximum levels and all applicable service-based criteria are fully satisfied (0.1 million shares for the three months ended September 30, 2020).

The RSUs granted by us generally vest (a) with respect to awards with only service-based vesting criteria, over periods ranging from two to four years and (b) with respect to awards with both performance-based and service-based vesting criteria, in two equal installments on the third and fourth anniversaries of the grant date and (c) with respect to awards with both market-based and service-based vesting criteria in three equal installments on the third, fourth and fifth anniversaries of the grant date, in each case subject to the recipient remaining employed by us as of the applicable vesting date. The RSUs granted to the independent members of the Board of Directors vest annually.

The following table shows the weighted-average grant date fair value per unit for the RSUs granted, vested, and tax benefits realized by us in connection with vested and released RSUs for the indicated periods:

(In thousands, except for weighted-average grant date fair value)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Weighted-average grant date fair value per unit	$ 201.95	$ 136.76
Grant date fair value of vested restricted stock units	$ 27,302	$ 30,092
Tax benefits realized by us in connection with vested and released restricted stock units	$ 6,737	$ 3,993

As of September 30, 2020, the unrecognized stock-based compensation expense balance related to RSUs was $182.8 million, excluding the impact of estimated forfeitures, and will be recognized over a weighted-average remaining contractual term and an estimated weighted-average amortization period of 1.6 years. The intrinsic value of outstanding RSUs as of September 30, 2020 was $424.1 million.

Cash-Based Long-Term Incentive Compensation

We have adopted a cash-based long-term incentive ("Cash LTI Plan") program for many of our employees as part of our employee compensation program. Executives and non-employee members of the Board of Directors do not participate in this program. During the three months ended September 30, 2020 and 2019, we approved Cash LTI awards of $3.5 million and $1.8 million, respectively under our Cash LTI Plan. Cash LTI awards issued to employees under the Cash LTI Plan will vest inthree or four equal installments, with one-third or one-fourth of the aggregate amount of the Cash LTI award vesting on each anniversary of the grant date over a three or four-year period. In order to receive payments under a Cash LTI award, participants must remain employed by us as of the applicable award vesting date. During the three months ended September 30, 2020 and 2019, we recognized $19.4 million and $16.6 million, respectively, in compensation expense under the Cash LTI Plan. As of September 30, 2020, the unrecognized compensation balance (excluding the impact of estimated forfeitures) related to the Cash LTI Plan was $155.4 million. For details, refer to Note 10 "Equity, Long-Term Incentive Compensation Plans and Non-Controlling Interest" of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020.

Employee Stock Purchase Plan

Our Employee Stock Purchase Plan ("ESPP") provides that eligible employees may contribute up to15% of their eligible earnings toward the semi-annual purchase of our common stock. The ESPP is qualified under Section 423 of the Internal Revenue Code. The employee's purchase price is derived from a formula based on the closing price of the common stock on the first day of the offering period versus the closing price on the date of purchase (or, if not a trading day, on the immediately preceding trading day).

The offering period (or length of the look-back period) under the ESPP has a duration ofsix months, and the purchase price with respect to each offering period beginning on or after such date is, until otherwise amended, equal to 85% of the lesser of (i) the fair market value of our common stock at the commencement of the applicable six-month offering period or (ii) the fair market value of our common stock on the purchase date. We estimate the fair value of purchase rights under the ESPP using a Black-Scholes model.

The fair value of each purchase right under the ESPP was estimated on the date of grant using the Black-Scholes model and the straight-line attribution approach with the following weighted-average assumptions:

	Three Months Ended September 30,	
	2020	**2019**
Stock purchase plan:		
Expected stock price volatility	51.9 %	31.6 %
Risk-free interest rate	0.7 %	2.4 %
Dividend yield	1.9 %	2.5 %
Expected life (in years)	0.5	0.5

The following table shows total cash received from employees for the issuance of shares under the ESPP, the number of shares purchased by employees through the ESPP, the tax benefits realized by us in connection with the disqualifying dispositions of shares purchased under the ESPP and the weighted-average fair value per share for the indicated periods:

	Three Months Ended September 30,	
(In thousands, except for weighted-average fair value per share)	**2020**	**2019**
Tax benefits realized by us in connection with the disqualifying dispositions of shares purchased under the ESPP	$ 4,169	$ 1,734
Weighted-average fair value per share based on Black-Scholes model	$ 52.23	$ 27.35

The ESPP shares are replenished annually on the first day of each fiscal year by virtue of an evergreen provision. The provision allows for share replenishment equal to the lesser of 2.0 million shares or the number of shares which we estimate will be required to be issued under the ESPP during the forthcoming fiscal year. As of September 30, 2020, a total of 2.6 million shares were reserved and available for issuance under the ESPP.

Quarterly Cash Dividends

On August 3, 2020, we announced that our Board of Directors had approved an increase in the quarterly cash dividend level to $0.90 per share. On August 6, 2020, we announced that our Board of Directors had declared a quarterly cash dividend of $0.90 per share to be paid on September 1, 2020 to stockholders of record as of the close of business on August 17, 2020. The total amount of regular quarterly cash dividends and dividend equivalents paid during the three months ended September 30, 2020 and 2019 was $141.2 million and $121.6 million, respectively. The amount of accrued dividend equivalents payable for regular quarterly cash dividends on unvested RSUs with dividend equivalent rights as of September 30, 2020 and June 30, 2020 was $8.7 million and $8.3 million, respectively. These amounts will be paid upon vesting of the underlying RSUs.

Non-Controlling Interest

We have consolidated the results of Orbograph Ltd. ("Orbograph"), in which we own approximately 94% of the outstanding equity interest. Orbograph is engaged in the development and marketing of character recognition solutions to banks, financial and other payment processing institutions and healthcare providers.

During the fourth quarter of fiscal 2020, we entered into an Asset Purchase Agreement to sell certain core assets of our non-strategic solar energy business, Orbotech LT Solar, LLC ("OLTS"). The sale was completed in the first quarter of fiscal 2021 and the proceeds were not material. Prior to the sale, we consolidated the results of OLTS, of which we own 97% of the outstanding equity interest as of September 30, 2020. OLTS was engaged in the research, development and marketing of products for the deposition of thin film coating of various materials on crystalline silicon photovoltaic wafers for solar energy panels through plasma-enhanced chemical vapor deposition ("PECVD").

Additionally, we have consolidated the results of PixCell Medical Technologies, Ltd. ("PixCell"), an Israeli company that is engaged in the development, marketing and sales of diagnostic equipment for point-of-care hematology applications of which we own approximately 52% of the outstanding equity interest and are entitled to appoint the majority of this company's directors.

NOTE 11 – STOCK REPURCHASE PROGRAM

Our Board of Directors has authorized a program which permits us to repurchase up to $3.00 billion of our common stock. The intent of this program is to offset the dilution from our equity incentive plans, shares issued in connection with purchases under our ESPP, the issuance of shares in the Orbotech Acquisition, as well as to return excess cash to our stockholders. Subject to market conditions, applicable legal requirements and other factors, the repurchases were made in the open market in compliance with applicable securities laws, including the Securities Exchange Act of 1934 and the rules promulgated thereunder, such as Rule 10b-18 and, if pursuant to a written plan, Rule 10b5-1. This stock repurchase program has no expiration date and may be suspended at any time. As of September 30, 2020, an aggregate of approximately $0.84 billion was available for repurchase under the stock repurchase program.

Share repurchases for the indicated periods (based on the trade date of the applicable repurchase) were as follows:

	Three Months Ended September 30,	
(In thousands)	**2020**	**2019**
Number of shares of common stock repurchased	1,027	1,659
Total cost of repurchases	$ 193,897	$ 228,496

NOTE 12 – NET INCOME PER SHARE

Basic net income per share is calculated by dividing net income available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income per share is calculated by using the weighted-average number of common shares outstanding during the period, increased to include the number of additional shares of common stock that would have been outstanding if the shares of common stock underlying our outstanding dilutive restricted stock units had been issued. The dilutive effect of outstanding restricted stock units is reflected in diluted net income per share by application of the treasury stock method.

The following table sets forth the computation of basic and diluted net income per share attributable to KLA:

(In thousands, except per share amounts)	Three Months Ended September 30, 2020	2019
Numerator:		
Net income attributable to KLA	$ 420,567	$ 346,525
Denominator:		
Weighted-average shares-basic, excluding unvested restricted stock units	155,281	158,697
Effect of dilutive restricted stock units and options	1,161	1,434
Weighted-average shares-diluted	156,442	160,131
Basic net income per share attributable to KLA	$ 2.71	$ 2.18
Diluted net income per share attributable to KLA	$ 2.69	$ 2.16
Anti-dilutive securities excluded from the computation of diluted net income per share	169	—

NOTE 13 – INCOME TAXES

The following table provides details of income taxes:

(Dollar amounts in thousands)	Three Months Ended September 30, 2020	2019
Income before income taxes	$ 483,806	$ 371,516
Provision for income taxes	$ 63,664	$ 25,120
Effective tax rate	13.2 %	6.8 %

Our effective tax rate is lower than the U.S. federal statutory rate during the three months ended September 30, 2020 primarily due to the proportion of earnings generated in jurisdictions with tax rates lower than the U.S. statutory rate and the proportion of the U.S. earnings eligible for the Foreign Derived Intangible Income deduction. The Foreign Derived Intangible Income deduction reduces the U.S. tax rate on sales to customers outside the U.S.

In the normal course of business, we are subject to examination by tax authorities throughout the world. We are subject to federal income tax examinations for all years beginning from the fiscal year ended June 30, 2017 and are under United States income tax examination for the fiscal year ended June 30, 2018. We are subject to state income tax examinations for all years beginning from the fiscal year ended June 30, 2016. We are also subject to examinations in other major foreign jurisdictions, including Singapore and Israel, for all years beginning from the calendar year ended December 31, 2012. We are under audit in Germany related to Orbotech for the calendar years ended December 31, 2013 to December 31, 2015. We are also under audit in Israel related to KLA for the fiscal years ended June 30, 2017 to June 30, 2019.

It is possible that certain examinations may be concluded in the next twelve months. The timing and resolution of income tax examinations is uncertain. The amounts paid, if any, upon resolution of issues raised by the taxing authorities may differ materially from the amounts accrued for each year. Although it is possible that our balance of gross unrecognized tax benefits could materially change in the next 12 months, we are unable to estimate the full range of possible adjustments to this balance given the uncertainty in the development of ongoing income tax examinations.

In May 2017, Orbotech received an assessment from the Israel Tax Authority ("ITA") with respect to its fiscal years 2012 through 2014 (the "Assessment", and the "Audit Period", respectively), for an aggregate amount of tax, after offsetting all net operating losses ("NOLs") available through the end of 2014, of approximately NIS 229.0 million (equivalent to approximately $66.0 million which includes related interest and linkage differentials to the Israeli consumer price index as of date of the issuance of the Tax Decrees).

On August 31, 2018, Orbotech filed an objection in respect of the tax assessment (the "Objection"). The ITA completed the second stage of the audit, in which the claims Orbotech raised in the Objection were examined by different personnel at the ITA. In addition, the ITA examined additional items during this second stage of the audit. As Orbotech and the ITA did not reach an agreement during the second stage, the ITA issued Tax Decrees to Orbotech on August 28, 2019 ("Tax Decrees") for

an aggregate amount of tax, after offsetting all NOLs available through the end of 2014, of approximately NIS257 million (equivalent to approximately $73 million which includes related interest and linkage differentials to the Israeli consumer price index as of the date of the issuance of the Tax Decrees). These Tax Decrees replaced the Assessment. We believe that our recorded unrecognized tax benefits are sufficient to cover the resolution of these Tax Decrees.

Orbotech filed a notice of appeal with respect to the above Tax Decrees with the District Court of Tel Aviv on September 26, 2019. On February 27, 2020 the ITA filed its arguments in support of the Tax Decrees. Orbotech filed the grounds of appeal with respect to the above Tax Decrees on July 30, 2020. We are currently in the pre-trial hearing stage of the process and the next pre-trial meeting is scheduled for January 2021. The ITA and Orbotech are continuing discussions in an effort to resolve this matter in a mutually agreeable manner.

In connection with the above, there is an ongoing criminal investigation in Israel against Orbotech, certain of its employees and its tax consultant. On April 11, 2018, Orbotech received a “suspect notification letter” (dated March 28, 2018) from the Tel Aviv District Attorney’s Office (Fiscal and Financial). In the letter, it was noted that the investigation file was transferred from the Assessment Investigation Officer to the District Attorney’s Office. The letter further states that the District Attorney’s Office has not yet made a decision regarding submission of an indictment against Orbotech; and that if after studying the case, a decision is made to consider prosecuting Orbotech, Orbotech will receive an additional letter, and within 30 days, Orbotech may present its arguments to the District Attorney’s Office as to why it should not be indicted. On October 27, 2019, we received a request for additional information from the District Attorney's Office. We will continue to monitor the progress of the District Attorney’s Office investigation; however, we cannot anticipate when the review of the case will be completed and what will be the results thereof. We intend to cooperate with the District Attorney’s Office to enable them to conclude their investigation.

NOTE 14 – LITIGATION AND OTHER LEGAL MATTERS

We are named from time to time as a party to lawsuits and other types of legal proceedings and claims in the normal course of our business. Actions filed against us include commercial, intellectual property, customer, and labor and employment related claims, including complaints of alleged wrongful termination and potential class action lawsuits regarding alleged violations of federal and state wage and hour and other laws. In general, legal proceedings and claims, regardless of their merit, and associated internal investigations (especially those relating to intellectual property or confidential information disputes) are often expensive to prosecute, defend or conduct and may divert management’s attention and other company resources. Moreover, the results of legal proceedings are difficult to predict, and the costs incurred in litigation can be substantial, regardless of outcome. We believe the amounts provided in our Condensed Consolidated Financial Statements are adequate in light of the probable and estimated liabilities. However, because such matters are subject to many uncertainties, and the ultimate outcomes are not predictable, there can be no assurances that the actual amounts required to satisfy alleged liabilities from the matters described above will not exceed the amounts reflected in our Condensed Consolidated Financial Statements or will not have a material adverse effect on our results of operations, financial condition or cash flows.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

Factoring. We have agreements (referred to as “factoring agreements”) with financial institutions to sell certain of our trade receivables and promissory notes from customers without recourse. We do not believe we are at risk for any material losses as a result of these agreements. In addition, we periodically sell certain letters of credit (“LCs”), without recourse, received from customers in payment for goods and services.

The following table shows total receivables sold under factoring agreements and proceeds from sales of LCs for the indicated periods:

	Three Months Ended September 30,	
(In thousands)	**2020**	**2019**
Receivables sold under factoring agreements	$ 88,645	$ 56,420
Proceeds from sales of LCs	$ 19,130	$ 9,929

Factoring and LC fees for the sale of certain trade receivables were recorded in other expense (income), net and were not material for the periods presented.

Purchase Commitments. We maintain commitments to purchase inventory from our suppliers as well as goods, services, and other assets in the ordinary course of business. Our liability under these purchase commitments is generally restricted to a forecasted time-horizon as mutually agreed upon between the parties. This forecasted time-horizon can vary

among different suppliers. Our estimate of our significant purchase commitments for primarily material, services, supplies and asset purchases is approximately $804.3 million as of September 30, 2020, which are primarily due within the next 12 months.

Actual expenditures will vary based upon the volume of the transactions and length of contractual service provided. In addition, the amounts paid under these arrangements may be less in the event that the arrangements are renegotiated or canceled. Certain agreements provide for potential cancellation penalties.

Cash Long-Term Incentive Plan. As of September 30, 2020, we have committed $198.5 million for future payment obligations under our Cash LTI Plan. The calculation of compensation expense related to the Cash LTI Plan includes estimated forfeiture rate assumptions. Cash LTI awards issued to employees under the Cash LTI Plan vest in three or four equal installments, with one-third or one-fourth of the aggregate amount of the Cash LTI award vesting on each anniversary of the grant date over athree or four-year period. In order to receive payments under a Cash LTI award, participants must remain employed by us as of the applicable award vesting date.

Guarantees and Contingencies. We maintain guarantee arrangements available through various financial institutions for up to $79.8 million, of which $67.0 million had been issued as of September 30, 2020, primarily to fund guarantees to customs authorities for value-added tax ("VAT") and other operating requirements of our subsidiaries in Europe, Israel and Asia.

Indemnification Obligations. Subject to certain limitations, we are obligated to indemnify our current and former directors, officers and employees with respect to certain litigation matters and investigations that arise in connection with their service to us. These obligations arise under the terms of our certificate of incorporation, our bylaws, applicable contracts, and Delaware and California law. The obligation to indemnify generally means that we are required to pay or reimburse the individuals' reasonable legal expenses and possibly damages and other liabilities incurred in connection with these matters. For example, we have paid or reimbursed legal expenses incurred in connection with the investigation of our historical stock option practices and the related litigation and government inquiries by several of our current and former directors, officers and employees. Although the maximum potential amount of future payments we could be required to make under the indemnification obligations generally described in this paragraph is theoretically unlimited, we believe the fair value of this liability, to the extent estimable, is appropriately considered within the reserve we have established for currently pending legal proceedings.

We are a party to a variety of agreements pursuant to which we may be obligated to indemnify the other party with respect to certain matters. Typically, these obligations arise in connection with contracts and license agreements or the sale of assets, under which we customarily agree to hold the other party harmless against losses arising from, or provides customers with other remedies to protect against, bodily injury or damage to personal property caused by our products, non-compliance with our product performance specifications, infringement by our products of third-party intellectual property rights and a breach of warranties, representations and covenants related to matters such as title to assets sold, validity of certain intellectual property rights, non-infringement of third-party rights, and certain income tax-related matters. In each of these circumstances, payment by us is typically subject to the other party making a claim to and cooperating with us pursuant to the procedures specified in the particular contract. This usually allows us to challenge the other party's claims or, in case of breach of intellectual property representations or covenants, to control the defense or settlement of any third-party claims brought against the other party. Further, our obligations under these agreements may be limited in terms of amounts, activity (typically at our option to replace or correct the products or terminate the agreement with a refund to the other party), and duration. In some instances, we may have recourse against third parties and/or insurance covering certain payments made by us.

In addition, we may in limited circumstances enter into agreements that contain customer-specific commitments on pricing, tool reliability, spare parts stocking levels, response time and other commitments. Furthermore, we may give these customers limited audit or inspection rights to enable them to confirm that we are complying with these commitments. If a customer elects to exercise its audit or inspection rights, we may be required to expend significant resources to support the audit or inspection, as well as to defend or settle any dispute with a customer that could potentially arise out of such audit or inspection. To date, we have made no significant accruals in our Condensed Consolidated Financial Statements for this contingency. While we have not in the past incurred significant expenses for resolving disputes regarding these types of commitments, we cannot make any assurance that it will not incur any such liabilities in the future.

It is not possible to predict the maximum potential amount of future payments under these or similar agreements due to the conditional nature of our obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by us under these agreements have not had a material effect on our business, financial condition, results of operations or cash flows.

NOTE 16 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The authoritative guidance requires companies to recognize all derivative instruments and hedging activities, including foreign currency exchange contracts and interest rate lock agreements, (collectively "derivatives") as either assets or liabilities at fair value on the Condensed Consolidated Balance Sheets. In accordance with the accounting guidance, we designate foreign currency exchange contracts and interest rate lock agreements as cash flow hedges of certain forecasted foreign currency denominated sales, purchase and spending transactions, and the benchmark interest rate of the corresponding debt financing, respectively.

Our foreign subsidiaries operate and sell our products in various global markets. As a result, we are exposed to risks relating to changes in foreign currency exchange rates. We utilize foreign currency forward exchange contracts and option contracts to hedge against future movements in foreign exchange rates that affect certain existing and forecasted foreign currency denominated sales and purchase transactions, such as the Japanese yen, the euro, the pound sterling and the Israeli new shekel. We routinely hedge our exposures to certain foreign currencies with various financial institutions in an effort to minimize the impact of certain currency exchange rate fluctuations. These currency forward exchange contracts and options, designated as cash flow hedges, generally have maturities of less than 18 months. Cash flow hedges are evaluated for effectiveness monthly, based on changes in total fair value of the derivatives. If a financial counterparty to any of our hedging arrangements experiences financial difficulties or is otherwise unable to honor the terms of the foreign currency hedge, we may experience material losses.

In January 2020, we entered into a series of forward contracts (the "2020 Rate Lock Agreements") with a notional amount of $350.0 million in aggregate to lock the benchmark interest rate on a portion of the 2020 Senior Notes. The 2020 Rate Lock Agreements were terminated on the date of the pricing of the 2020 Senior Notes and we recorded the fair value of $21.5 million as a loss within accumulated other comprehensive income (loss) ("OCI") as of March 31, 2020, which is being amortized over the life of the debt. We entered into similar forward contracts in prior years to lock the benchmark interest rates prior to expected debt issuances, for which the original fair values of $13.6 million loss in fiscal 2019 and $7.5 million gain in fiscal 2015 were recognized in OCI, and are being amortized to interest expense over the lives of the associated debt. We recognized a net expense of $0.3 million and $0.1 million for the three months ended September 30, 2020 and 2019, respectively, for the amortization of the net of the three rate lock agreements that had been recognized in accumulated OCI, which increased the interest expense on a net basis. As of September 30, 2020, the aggregate unamortized portion of the fair value of the forward contracts for the Rate Lock Agreements was $29.8 million.

For derivatives that are designated and qualify as cash flow hedges, the effective portion of the gains or losses is reported in OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Prior to adopting the new accounting guidance for hedge accounting, time value was excluded from the assessment of effectiveness for derivatives designated as cash flow hedges. Time value was amortized on a mark-to-market basis and recognized in earnings over the life of the derivative contract. For derivative contracts executed after adopting the new accounting guidance, the election to include time value for the assessment of effectiveness is made on all forward contracts designated as cash flow hedges. The change in fair value of the derivative is recorded in OCI until the hedged item is recognized in earnings. The assessment of effectiveness of options contracts designated as cash flow hedges continue to exclude time value after adopting the new accounting guidance. The initial value of the component excluded from the assessment of effectiveness is recognized in earnings over the life of the derivative contract. Any difference between change in the fair value of the excluded components and the amounts recognized in earnings are recorded in OCI.

For derivatives that are not designated as cash flow hedges, gains and losses are recognized in other expense (income), net. We use foreign currency forward contracts to hedge certain foreign currency denominated assets or liabilities. The gains and losses on these derivative instruments are largely offset by the changes in the fair value of the assets or liabilities being hedged.

Derivatives in Cash Flow Hedging Relationships: Foreign Exchange and Interest Rate Contracts

The gains (losses) on derivatives in cash flow hedging relationships recognized in OCI for the indicated periods were as follows:

(In thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Derivatives Designated as Hedging Instruments:		
Foreign exchange contracts:		
Amounts included in the assessment of effectiveness	$ (872)	$ (740)
Amounts excluded from the assessment of effectiveness	$ (46)	$ (2)

The locations and amounts of designated and non-designated derivative's gains and losses reported in the Condensed Consolidated Statements of Operations for the indicated periods were as follows:

	Three Months Ended September 30, 2020				Three Months Ended September 30, 2019			
(In thousands)	Revenue	Cost of Revenues and Operating Expenses	Interest Expense	Other Expense (Income), Net	Revenue	Cost of Revenues and Operating Expenses	Interest Expense	Other Expense (Income), Net
Total amounts presented in the Condensed Consolidated Statements of Operations in which the effects of cash flow hedges are recorded	$ 1,538,620	$ 1,012,231	$ 39,386	$ 3,197	$ 1,413,414	$ 1,003,166	$ 40,350	$ (1,618)
Gains (losses) on Derivatives Designated as Hedging Instruments:								
Rate lock agreements:								
Amount of gains (losses) reclassified from accumulated OCI to earnings	$ —	$ —	$ (279)	$ —	$ —	$ —	$ (99)	$ —
Foreign exchange contracts:								
Amount of gains (losses) reclassified from accumulated OCI to earnings	$ (90)	$ 550	$ —	$ —	$ 475	$ (1,801)	$ —	$ —
Amount excluded from the assessment of effectiveness recognized in earnings based on an amortization approach	$ (127)	$ —	$ —	$ —	$ (102)	$ —	$ —	$ —
Gains (losses) on Derivatives Not Designated as Hedging Instruments:								
Amount of gains (losses) recognized in earnings	$ —	$ —	$ —	$ (5,598)	$ —	$ —	$ —	$ 2,325

The U.S. dollar equivalent of all outstanding notional amounts of foreign currency hedge contracts, with maximum remaining maturities of approximatelyseven months as of the dates indicated below were as follows:

(In thousands)	As of September 30, 2020	As of June 30, 2020
Cash flow hedge contracts - foreign currency		
Purchase	$ 10,393	$ 10,705
Sell	$ 72,007	$ 71,431
Other foreign currency hedge contracts		
Purchase	$ 310,356	$ 329,310
Sell	$ 331,908	$ 357,939

The locations and fair value of our derivatives reported in our Condensed Consolidated Balance Sheets as of the dates indicated below were as follows:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	As of September 30, 2020	As of June 30, 2020	Balance Sheet Location	As of September 30, 2020	As of June 30, 2020
(In thousands)		Fair Value			Fair Value	
Derivatives designated as hedging instruments						
Foreign exchange contracts	Other current assets	$ 314	$ 680	Other current liabilities	$ 427	$ 45
Total derivatives designated as hedging instruments		314	680		427	45
Derivatives not designated as hedging instruments						
Foreign exchange contracts	Other current assets	2,884	1,397	Other current liabilities	2,459	1,365
Total derivatives not designated as hedging instruments		2,884	1,397		2,459	1,365
Total derivatives		$ 3,198	$ 2,077		$ 2,886	$ 1,410

The changes in OCI, before taxes, related to derivatives for the indicated periods were as follows:

	Three Months Ended September 30,	
(In thousands)	2020	2019
Beginning balance	$ (29,602)	$ (10,791)
Amount reclassified to earnings	(54)	1,527
Net change in unrealized gains or losses	(918)	(742)
Ending balance	$ (30,574)	$ (10,006)

Offsetting of Derivative Assets and Liabilities

We present derivatives at gross fair values in the Condensed Consolidated Balance Sheets. We have entered into arrangements with each of our counterparties, which reduce credit risk by permitting net settlement of transactions with the same counterparty under certain conditions. The information related to the offsetting arrangements for the periods indicated was as follows (in thousands):

As of September 30, 2020				Gross Amounts of Derivatives Not Offset in the Condensed Consolidated Balance Sheets		
Description	Gross Amounts of Derivatives	Gross Amounts of Derivatives Offset in the Condensed Consolidated Balance Sheets	Net Amount of Derivatives Presented in the Condensed Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives - Assets	$ 3,198	$ —	$ 3,198	$ (2,081)	$ —	$ 1,117
Derivatives - Liabilities	$ (2,886)	$ —	$ (2,886)	$ 2,081	$ —	$ (805)

As of June 30, 2020				Gross Amounts of Derivatives Not Offset in the Condensed Consolidated Balance Sheets		
Description	Gross Amounts of Derivatives	Gross Amounts of Derivatives Offset in the Condensed Consolidated Balance Sheets	Net Amount of Derivatives Presented in the Condensed Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Derivatives - Assets	$ 2,077	$ —	$ 2,077	$ (1,020)	$ —	$ 1,057
Derivatives - Liabilities	$ (1,410)	$ —	$ (1,410)	$ 1,020	$ —	$ (390)

NOTE 17– RELATED PARTY TRANSACTIONS

During the three months ended September 30, 2020 and 2019, we purchased from, or sold to, several entities, where one or more of our executive officers or members of our Board of Directors, or their immediate family members, were, during the periods presented, an executive officer or a board member of a subsidiary, or in the case of The Vanguard Group, Inc. beneficially owns more than 10% of our outstanding stock, including Anaplan, Inc., Ansys, Inc., Citrix Systems, Inc., HP Inc., Keysight Technologies, Inc., Proofpoint, Inc. and The Vanguard Group, Inc. The following table provides the transactions with these parties for the indicated periods (for the portion of such period that they were considered related):

	Three Months Ended September 30,	
(In thousands)	2020	2019
Total revenues	$ 558	$ 1,041
Total purchases	$ 292	$ 465

Our receivable balances from these parties were $1.5 million and $2.4 million as of September 30, 2020 and June 30, 2020, respectively. Our payable balances from these parties were immaterial as of September 30, 2020 and June 30, 2020.

NOTE 18 – SEGMENT REPORTING AND GEOGRAPHIC INFORMATION

ASC 280, Segment Reporting, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is evaluated regularly by the chief operating decision maker (“CODM”) in deciding how to allocate resources and in assessing performance. Our CODM is our Chief Executive Officer.

We have four reportable segments: Semiconductor Process Control; Specialty Semiconductor Process; PCB, Display and Component Inspection; and Other. The reportable segments are determined based on several factors including, but not limited to, customer base, homogeneity of products, technology, delivery channels and similar economic characteristics.

Semiconductor Process Control

The Semiconductor Process Control (“SPC”) segment offers comprehensive portfolio of inspection, metrology and data analytics products, and related service, which helps integrated circuit manufacturers achieve target yield throughout the entire semiconductor fabrication process-from research and development (“R&D”) to final volume production. Our differentiated products and services are designed to provide comprehensive solutions that help our customers accelerate development and production ramp cycles, achieve higher and more stable semiconductor die yields and improve their overall profitability. This reportable segment is comprised of two operating segments.

Specialty Semiconductor Process

The Specialty Semiconductor Manufacturing segment develops and sells advanced vacuum deposition and etching process tools, which are used by a broad range of specialty semiconductor customers, including manufacturers of microelectromechanical systems (“MEMS”), radio frequency (“RF”) communication chips, and power semiconductors for automotive and industrial applications. This reportable segment is comprised of one operating segment.

PCB, Display and Component Inspection

The PCB, Display and Component Inspection segment enables electronic device manufacturers to inspect, test and measure printed circuit boards (“PCBs”), flat panel displays (“FPDs”) and ICs to verify their quality, pattern the desired electronic circuitry on the relevant substrate and perform three-dimensional shaping of metalized circuits on multiple surfaces. This segment also engages in the development and marketing of character recognition solutions to banks, financial and other payment processing institutions and healthcare providers. This reportable segment is comprised of two operating segments.

Other

During the fourth quarter of fiscal 2020, we entered into an Asset Purchase Agreement to sell certain core assets of our non-strategic solar energy business, which was included in our Other reportable segment. This reportable segment remains comprised of one operating segment.

The CODM assesses the performance of each operating segment and allocates resources to those segments based on total revenue and segment gross margin and does not evaluate the segments using discrete asset information. Segment gross margin

excludes corporate allocations and effects of foreign exchange rates, amortization of intangible assets, amortization of inventory fair value adjustments, and transaction costs associated with our acquisitions related to costs of revenues.

The following is a summary of results for each of our four reportable segments for the indicated periods:

(In thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Semiconductor Process Control:		
Revenue	$ 1,267,954	$ 1,163,632
Segment gross margin	814,810	742,342
Specialty Semiconductor Process:		
Revenue	88,954	69,139
Segment gross margin	49,928	38,164
PCB, Display and Component Inspection:		
Revenue	181,177	178,552
Segment gross margin	90,169	76,068
Other:		
Revenue	140	2,231
Segment gross margin	13	653
Totals:		
Revenue	$ 1,538,225	$ 1,413,554
Segment gross margin	$ 954,920	$ 857,227

The following table reconciles total reportable segment revenue to total revenue for the indicated periods:

(In thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Total revenue for reportable segments	$ 1,538,225	$ 1,413,554
Corporate allocations and effects of foreign exchange rates	395	(140)
Total revenue	$ 1,538,620	$ 1,413,414

The following table reconciles total segment gross margin to total income before income taxes for the indicated periods:

(In thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Total segment gross margin	$ 954,920	$ 857,227
Acquisition-related charges, corporate allocations, and effects of foreign exchange rates[1]	36,862	48,054
Research and development	219,038	210,580
Selling, general and administrative	172,631	188,345
Interest expense	39,386	40,350
Other expense (income), net	3,197	(1,618)
Income before income taxes	$ 483,806	$ 371,516

(1) Acquisition-related charges primarily include amortization of intangible assets and amortization of inventory fair value adjustments presented as part of costs of revenues.

Our significant operations outside the United States include manufacturing facilities in China, Germany, Israel and Singapore and sales, marketing and service offices in Japan, the rest of the Asia Pacific region and Europe. For geographical revenue reporting, revenues are attributed to the geographic location in which the customer is located. Long-lived assets consist of land, property and equipment, net and are attributed to the geographic region in which they are located.

The following is a summary of revenues by geographic region, based on ship-to location, for the indicated periods:

(Dollar amounts in thousands)	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019	
Revenues:				
China	$ 486,089	32 %	$ 345,856	24 %
Taiwan	369,100	24 %	386,729	27 %
Korea	189,518	12 %	197,450	14 %
North America	170,176	11 %	181,983	13 %
Japan	164,419	11 %	206,211	15 %
Europe and Israel	83,117	5 %	59,383	4 %
Rest of Asia	76,201	5 %	35,802	3 %
Total	$ 1,538,620	100 %	$ 1,413,414	100 %

The following is a summary of revenues by major products for the indicated periods:

(Dollar amounts in thousands)	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019	
Revenues:				
Wafer Inspection	$ 519,551	34 %	$ 448,274	32 %
Patterning	370,932	24 %	382,658	27 %
Specialty Semiconductor Process	74,027	5 %	56,870	4 %
PCB, Display and Component Inspection	120,626	8 %	120,360	9 %
Services	393,125	26 %	355,439	25 %
Other	60,359	3 %	49,813	3 %
Total	$ 1,538,620	100 %	$ 1,413,414	100 %

Wafer Inspection, and Patterning products are offered in Semiconductor Process Control segment. Services are offered in multiple segments. Other includes primarily refurbished systems, remanufactured legacy systems, and enhancements and upgrades for previous-generation products which are part of Semiconductor Process Control segment.

In the three months ended September 30, 2020, two customers accounted for approximately14% and 12% of total revenues. In the three months ended September 30, 2019, one customer accounted for approximately 19% of total revenues. One customer on an individual basis accounted for greater than 10% of net accounts receivables at September 30, 2020 and June 30, 2020.

Land, property and equipment, net by geographic region as of the dates indicated below were as follows:

(In thousands)	As of September 30, 2020	As of June 30, 2020
Land, property and equipment, net:		
United States	$ 371,987	$ 329,558
Israel	57,830	59,162
Singapore	56,858	54,946
Europe	56,594	58,065
Rest of Asia	18,583	18,093
Total	$ 561,852	$ 519,824

NOTE 19 – RESTRUCTURING CHARGES

In September 2019, management approved a plan to streamline our organization and business processes that included the reduction of workforce, which is expected to be completed in the second half of our fiscal year 2021, primarily in our PCB, Display and Component Inspection segment.

Restructuring charges were $3.5 million for the three months ended September 30, 2020, and included $1.0 million of non-cash charges for accelerated depreciation related to certain right-of use assets and fixed assets to be abandoned. As of September 30, 2020, the accrual for restructuring charges was $7.0 million.

We expect to incur additional restructuring charges, including additional severance costs and other related costs in future periods in connection with the completion of our workforce reduction.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact may be forward-looking statements. You can identify these and other forward-looking statements by the use of words such as "may," "will," "could," "would," "should," "expects," "plans," "anticipates," "relies," "believes," "estimates," "predicts," "intends," "potential," "continue," "thinks," "seeks," or the negative of such terms, or other comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Such forward-looking statements include, among others, statements regarding: the future impacts of the COVID-19 pandemic; forecasts of the future results of our operations, including profitability; orders for our products and capital equipment generally; sales of semiconductors; the investments by our customers in advanced technologies and new materials; growth of revenue in the semiconductor industry, the semiconductor capital equipment industry and our business; technological trends in the semiconductor industry; future developments or trends in the global capital and financial markets; our future product offerings and product features; the success and market acceptance of new products; timing of shipment of backlog; our future product shipments and product and service revenues; our future gross margins; our future research and development expenses and selling, general and administrative expenses; international sales and operations; our ability to maintain or improve our existing competitive position; success of our product offerings; creation and funding of programs for research and development; results of our investment in leading edge technologies; the effects of hedging transactions; the effect of the sale of trade receivables and promissory notes from customers; our future effective income tax rate; our recognition of tax benefits; the effects of any audits or litigation; future payments of dividends to our stockholders; the completion of any acquisitions of third parties, or the technology or assets thereof; benefits received from any acquisitions and development of acquired technologies; sufficiency of our existing cash balance, investments, cash generated from operations and the unfunded portion of our Revolving Credit Facility (as defined below) to meet our operating and working capital requirements, including debt service and payment thereof; future dividends, and stock repurchases; our compliance with the financial covenants under the Credit Agreement (as defined below) for our Revolving Credit Facility; the adoption of new accounting pronouncements including ASC 326 and ASC 740; and our repayment of our outstanding indebtedness.

Our actual results may differ significantly from those projected in the forward-looking statements in this report. Factors that might cause or contribute to such differences include, but are not limited to:

- *The impact of the COVID-19 pandemic on the global economy and on our business, financial condition and results of operations;*
- *Economic, political and social conditions in the countries in which we, our customers and our suppliers operate, including global trade policies;*
- *Disruption to our manufacturing facilities or other operations, or the operations of our customers, due to natural catastrophic events, health epidemics or terrorism;*
- *Ongoing changes in the technology industry, and the semiconductor industry in particular, including future growth rates, pricing trends in end-markets, or changes in customer capital spending patterns;*
- *Our ability to timely develop new technologies and products that successfully anticipate or address changes in the semiconductor industry;*
- *Our ability to maintain our technology advantage and protect our proprietary rights;*
- *Our ability to compete with new products introduced by our competitors;*
- *Our ability to attract and retain key personnel;*
- *Cybersecurity threats and our ability to access critical information systems for daily business operations;*
- *Liability to our customers under indemnification provisions if our products fail to operate properly or contain defects or our customers are sued by third parties due to our products;*
- *Exposure to a highly concentrated customer base exposes our businesses, financial condition and operating results to risks;*
- *Availability and cost of the wide range of materials used in the production of our products;*
- *Our ability to operate our business in accordance with our business plan;*
- *Legal, regulatory and tax environments in which we perform our operations and conduct our business;*
- *Our ability to pay interest and repay the principal of our current indebtedness is dependent upon our ability to manage our business operations, our credit rating, the ongoing interest rate environment, among other factors;*
- *Instability in the global credit and financial markets;*
- *Our exposure to currency exchange rate fluctuations, or declining economic conditions in those countries;*

- *Changes in our effective tax rate resulting from changes in the tax rates imposed by jurisdictions where are profits are determined to be earned and taxed, expiration of tax holidays in certain jurisdictions, resolution of issues arising from tax audits with various authorities or changes in tax laws or the interpretation of such tax laws; and*
- *Our ability to identify suitable acquisition targets and successfully integrate and manage acquired businesses.*

For a more detailed discussion of these and other risk factors that might cause or contribute to differences from the forward looking statements in this report, see Part II, Item 1A, "Risk Factors" in this report as well as in Item 1, "Business" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended June 30, 2020. You should carefully review these risks and also review the risks described in other documents we file from time to time with the Securities and Exchange Commission. You are cautioned not to place undue reliance on these forward-looking statements, and we expressly assume no obligation and do not intend to update the forward-looking statements in this report after the date hereof.

EXECUTIVE SUMMARY

We are a leading supplier of process control and yield management solutions and services for the semiconductor and related electronics industries. Our broad portfolio of device manufacturing, inspection and metrology products and related service, software and other offerings support R&D and manufacturing of integrated circuits ("IC" or "chip"), wafers, and reticles. Our products, services and expertise are used by our customers to measure, detect, analyze and resolve critical product defects in nanometric level manufacturing processes, helping reduce risk, lower costs, and achieve their productivity goals. We also offer technologically advanced, yield-enhancing and process-enabling solutions to address various manufacturing stages of Printed Circuit Boards ("PCB"), Flat Panel Displays ("FPD"), Specialty Semiconductor Devices ("SD") and other electronic components.

Our semiconductor customers generally operate in one or more of the three major semiconductor device manufacturing markets: Memory, Foundry and Logic. The diversification of semiconductor end demand, the rapid proliferation of new applications for more advanced semiconductor devices, and the increasing complexity associated with leading edge semiconductor manufacturing drives demand for our process control and yield management solutions. Other advanced electronics demand trends, such as the deployment of 5G telecommunications technology and associated high-end mobile devices, the electrification and digitalization of the automotive industry, and the growth of the Internet of Things ("IoT") and associated new applications also drives demand for our other products such as those used in the PCB, FPD and Specialty Semiconductor manufacturing, where the increase in technology complexity is expected to continue and further accelerate as more devices become interconnected and dependent on other electronic devices. Our customer base, particularly in the semiconductor industry, has become increasingly concentrated, so large orders from a relatively limited number of customers account for a substantial portion of our sales, which potentially exposes us to more earnings volatility.

We are organized into four reportable segments:

- Semiconductor Process Control: A comprehensive portfolio of inspection, metrology and data analytics products as well as related service offerings that help IC manufacturers achieve target yields throughout the semiconductor fabrication process.
- Specialty Semiconductor Process: Advanced vacuum deposition and etching process tools used by a broad range of specialty semiconductor customers.
- PCB, Display and Component Inspection: a range of inspection, testing and measurement, and direct imaging for patterning products used by manufacturers of PCBs, FPDs, advanced packaging, microelectromechanical systems, and other electronic components.
- Other: products that do not fall into the three segments above.

China is emerging as a major region for manufacturing of logic and memory chips, adding to its role as the world's largest consumer of ICs. Additionally, a significant portion of global FPD and PCB manufacturing has migrated to China. Government initiatives are propelling China to expand its domestic manufacturing capacity and attracting investment from semiconductor manufacturers from Taiwan, Korea, Japan and the United States. Although China is currently seen as an important long-term growth region for the semiconductor and electronics capital equipment sector, the United States Department of Commerce has added certain China-based entities to the U.S. Entity List, restricting our ability to provide products and services to such entities without a license. In addition, the U.S. Department of Commerce has imposed new export licensing requirements on China-based customers engaged in military end uses, as well as requiring our customers to obtain an export license when they use certain semiconductor capital equipment based on U.S. technology. While these new rules have not significantly impacted our operations to-date, such actions by the U.S. government or another country could impact our ability to provide our products and services to existing and potential customers and adversely affect our business.

The following table sets forth some of our key quarterly unaudited financial information[(1)]:

(In thousands, except net income per share)	Three Months Ended September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Total revenues	$ 1,538,620	$ 1,459,593	$ 1,423,964	$ 1,509,453	$ 1,413,414
Gross margin	$ 918,058	$ 838,049	$ 833,806	$ 875,835	$ 809,173
Net income attributable to KLA[(2)]	$ 420,567	$ 411,253	$ 78,452	$ 380,555	$ 346,525
Diluted net income per share attributable to KLA[(3)]	$ 2.69	$ 2.63	$ 0.50	$ 2.40	$ 2.16

(1) On February 20, 2019, we completed the Orbotech Acquisition for total consideration of approximately $3.26 billion. The operating results of Orbotech have been included in our Condensed Consolidated Financial Statements from the Acquisition Date. For additional details, refer to Note 6 “Business Combinations” in the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020.

(2) Our net income attributable to KLA increased to $420.6 million in the three months ended September 30, 2020, primarily as a result of higher revenues as well as improvements in cost control.

(3) Diluted net income per share is computed independently for each of the quarters presented based on the weighted-average fully diluted shares outstanding for each quarter. Therefore, the sum of quarterly diluted net income per share information may not equal annual (or other multiple-quarter calculations of) diluted net income per share.

Impact of COVID-19

Events surrounding the ongoing COVID-19 pandemic have resulted in a reduction in economic activity across the globe. The severity and duration of these economic repercussions remain largely unknown and ultimately will depend on many factors, including the speed and effectiveness of the containment efforts throughout the world. The extent to which the COVID-19 pandemic will impact demand for our products depends on future developments, which are highly uncertain and very difficult to predict, including new information that may emerge concerning the severity of the virus and actions to contain and treat its impacts. While all of our global sites are currently operational, our facilities could be required to temporarily curtail production levels or temporarily cease operations based on government mandates.

From the start of the COVID-19 pandemic, we proactively implemented preventative protocols intended to safeguard our employees, contractors, suppliers, customers, and communities, and ensure business continuity in the event government restrictions or severe outbreaks impact our operations at certain sites. We remain committed to the health and safety of our employees, contractors, suppliers, customers, and communities, and are following government policies and recommendations designed to slow the spread of COVID-19.

Our efforts to respond to the COVID-19 pandemic include the following:

- We have put health screenings in place, required social distancing, and have established employee separation protocols at our facilities. We have also suspended non-essential business travel and require team members to work from home to the extent possible. Where work from home is not possible, all on-site team members must pass through thermal scanning equipment to ensure they do not have an elevated body temperature and must wear a mask at all times.
- We have developed strategies to address our responsiveness and ability to send engineers into customer facilities to provide support services.
- We have evaluated our supply chain and communicated with our suppliers to identify supply gaps and taken steps to ensure continuity. We continue to monitor the supply chain and work with our suppliers to identify and mitigate potential gaps to ensure continuity of supply.
- We are evaluating all our construction projects across our global operations and enacting protocols to enhance the safety of our employees, suppliers, and contractors.
- We have developed strategies and are implementing measures to respond to a variety of potential economic scenarios, such as limitations on new hiring and reductions in discretionary spending.
- We are committed to helping those most impacted by COVID-19. In regions around the world KLA Foundation is addressing immediate humanitarian needs while investing resources to combat the long-term effect of the virus on our communities.
- We are working with government authorities in the jurisdictions where we operate, and continuing to monitor our operations in an effort to ensure we follow government requirements, relevant regulations, industry standards, and best

practices to help safeguard our team members, while safely continuing operations to the extent possible at our sites across the globe.

We believe these actions are appropriate and prudent to safeguard our employees, contractors, suppliers, customers, and communities, while allowing us to safely continue operations. We will continue to actively monitor the situation and may take further actions altering our business operations that we determine are in the best interests of our employees, customers, partners, suppliers, and stakeholders, or as required by federal, state, or local authorities.

The COVID-19 pandemic has resulted in an increase in freight costs due in large part to reduced air traffic, which impacts gross margin, as well as decreases in travel costs which reduce our cost structure. And, while we continue to see progress in the recovery within our supply chain and continued strong demand from semiconductor customers, the situation remains fluid and uncertain. As of the date of this report, we cannot predict with certainty any other effects the COVID-19 pandemic may have on our business, including the effects on our customers, employees, or on our financial results for the remainder of calendar 2020.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of our Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in applying our accounting policies that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base these estimates and assumptions on historical experience and evaluate them on an ongoing basis to ensure that they remain reasonable under current conditions. Actual results could differ from those estimates. We discuss the development and selection of the critical accounting estimates with the Audit Committee of our Board of Directors on a quarterly basis, and the Audit Committee has reviewed our related disclosure in this Quarterly Report on Form 10-Q.

Other than the change for the accounting of credit losses as a result of the adoption of Accounting Standard Codification ("ASC") 326, there have been no material changes in our critical accounting estimates and policies since our Annual Report on Form 10-K for the fiscal year ended June 30, 2020. Refer to Note 1 "Basis of Presentation" in the Notes to the Condensed Consolidated Financial Statements for additional details. In addition, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended June 30, 2020 for a complete description of our critical accounting policies and estimates.

Recent Accounting Pronouncements

For a description of recent accounting pronouncements, including those recently adopted and the expected dates of adoption as well as estimated effects, if any, on our Condensed Consolidated Financial Statements of those not yet adopted, see Note 1 "Basis of Presentation" in the Notes to the Condensed Consolidated Financial Statements for additional details.

RESULTS OF OPERATIONS

Revenues and Gross Margin

(Dollar amounts in thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Q1 FY21 vs. Q1 FY20	
Revenues:				
Product	$ 1,145,495	$ 1,057,975	$ 87,520	8 %
Service	393,125	355,439	37,686	11 %
Total revenues	$ 1,538,620	$ 1,413,414	$ 125,206	9 %
Costs of revenues	$ 620,562	$ 604,241	$ 16,321	3 %
Gross margin percentage	59.7 %	57.2 %		

Revenues

Our business is affected by the concentration of our customer base and our customers' capital equipment procurement schedules as a result of their investment plans. Our product revenues in any particular period are significantly impacted by the amount of new orders that we receive during that period and, depending upon the duration of manufacturing and installation cycles, in the preceding period.

Product revenues increased during the three months ended September 30, 2020 compared to the three months ended September 30, 2019, primarily due to a strong demand from our customers in the wafer inspection business and an increase from continued growth in the 5G infrastructure market and advanced radio frequency and mobile technologies. These increases were partially offset by softer demand and oversupply in the FPD market.

Service revenues are generated from product maintenance and support services, as well as billable time and material service calls made to our customers. The amount of our service revenues is typically a function of the number of systems installed at our customers' sites and the utilization of those systems, but it is also impacted by other factors, such as our rate of service contract renewals, the types of systems being serviced and fluctuations in foreign exchange rates.

Service revenues during the three months ended September 30, 2020 increased compared to the three months ended September 30, 2019, primarily due to an increase in the number of systems installed at our customers' sites.

Revenues by segment[1]

(Dollar amounts in thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Q1 FY21 vs. Q1 FY20	
Revenues:				
Semiconductor Process Control	$ 1,267,954	$ 1,163,632	$ 104,322	9 %
Specialty Semiconductor Process	88,954	69,139	19,815	29 %
PCB, Display and Component Inspection	181,177	178,552	2,625	1 %
Other	140	2,231	(2,091)	(94)%
Total revenues	$ 1,538,225	$ 1,413,554	$ 124,671	9 %

(1) Segment revenues exclude corporate allocations and the effects of foreign exchange rates. For additional details, refer to Note 18 "Segment Reporting and Geographic Information" in the Notes to the Condensed Consolidated Financial Statements.

Revenue from our Semiconductor Process Control segment increased by 9% primarily due to strength in Inspection products and service offerings. Revenues in the Specialty Semiconductor Process and PCB, Display and Component Inspection segments increased due to increased demand in the 5G infrastructure market and advanced radio frequency and mobile technologies.

Revenues by region

The following is a summary of revenues by geographic region, based on ship-to location, for the indicated periods:

(Dollar amounts in thousands)	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019	
China	$ 486,089	32 %	$ 345,856	24 %
Taiwan	369,100	24 %	386,729	27 %
Korea	189,518	12 %	197,450	14 %
North America	170,176	11 %	181,983	13 %
Japan	164,419	11 %	206,211	15 %
Europe and Israel	83,117	5 %	59,383	4 %
Rest of Asia	76,201	5 %	35,802	3 %
Total	$ 1,538,620	100 %	$ 1,413,414	100 %

A significant portion of our revenues continues to be generated in Asia, where a substantial portion of the world's semiconductor manufacturing capacity is located, and we expect that trend to continue.

Gross margin

Our gross margin fluctuates with revenue levels and product mix and is affected by variations in costs related to manufacturing and servicing our products, including our ability to scale our operations efficiently and effectively in response to prevailing business conditions.

The following table summarizes the major factors that contributed to the changes in gross margin percentage:

	Gross Margin Percentage
	Three Months Ended
September 30, 2019	57.2%
Mix of products and services sold	2.9%
Revenue volume of products and services	0.5%
Manufacturing labor, overhead and efficiencies	0.3%
Other service and manufacturing costs	(1.2)%
September 30, 2020	59.7%

Changes in gross margin percentage, which are driven by the revenue volume of products and services, reflect our ability to leverage existing infrastructure to generate higher revenues. It also includes average customer pricing, customer revenue deferrals associated with volume purchase agreements, and the effect of fluctuations in foreign exchange rates. Changes in gross margin percentage from the mix of products and services sold reflect the impact of changes within the composition of product and service offerings. Changes in gross margin percentage from manufacturing labor, overhead and efficiencies reflect our ability to manage costs and drive productivity as we scale our manufacturing activity to respond to customer requirements, and amortization of intangible assets. Changes in gross margin percentage from other service and manufacturing costs include the impact of customer support costs, including the efficiencies with which we deliver services to our customers, and the effectiveness with which we manage our production plans and inventory risk.

The increase in our gross margin during the three months ended September 30, 2020 compared to the three months ended September 30, 2019, is primarily attributable to a more profitable mix of products and services sold, partially offset by an increase in service and manufacturing costs.

Segment gross margin[(1)]

	Three months ended			
(Dollar amounts in thousands)	September 30, 2020	September 30, 2019	Q1 FY21 vs. Q1 FY20	
Segment gross margin:				
Semiconductor Process Control	$ 814,810	$ 742,342	$ 72,468	10 %
Specialty Semiconductor Process	49,928	38,164	11,764	31 %
PCB, Display and Component Inspection	90,169	76,068	14,101	19 %
Other	13	653	(640)	(98)%
	$ 954,920	$ 857,227	$ 97,693	11 %

(1) Segment gross margin is calculated as segment revenues less segment cost of revenues and excludes corporate allocations, amortization of intangible assets, inventory fair value adjustments, acquisition related costs, and the effects of foreign exchange rates. For additional details, refer to Note 18 “Segment Reporting and Geographic Information” in the Notes to the Condensed Consolidated Financial Statements.

Semiconductor Process Control segment gross margin increased primarily due to a higher revenue volume of products and services sold, partially offset by an increase in service and manufacturing costs. Gross margin increased in the Specialty Semiconductor Process and PCB, Display and Component Inspection segments due to higher incremental margin on the revenue increase as well as a more favorable mix of products and services sold.

Research and Development ("R&D")

(Dollar amounts in thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Q1 FY21 vs. Q1 FY20	
R&D expenses	$ 219,038	$ 210,580	$ 8,458	4 %
R&D expenses as a percentage of total revenues	14 %	15 %		

R&D expenses may fluctuate with product development phases and project timing as well as our R&D efforts. As technological innovation is essential to our success, we may incur significant costs associated with R&D projects, including compensation for engineering talent, engineering material costs, and other expenses.

R&D expenses during the three months ended September 30, 2020 increased compared to the three months ended September 30, 2019, primarily due to an increase in employee-related expenses of $8.3 million as a result of additional engineering headcount, higher employee benefit costs and higher variable compensation.

Our future operating results will depend significantly on our ability to produce products and provide services that have a competitive advantage in our marketplace. To do this, we believe that we must continue to make substantial and focused investments in our research and development. We remain committed to product development in new and emerging technologies.

Selling, General and Administrative ("SG&A")

(Dollar amounts in thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Q1 FY21 vs. Q1 FY20	
SG&A expenses	$ 172,631	$ 188,345	$ (15,714)	(8)%
SG&A expenses as a percentage of total revenues	11 %	13 %		

SG&A expenses during the three months ended September 30, 2020 decreased compared to the three months ended September 30, 2019, primarily due to a decrease in travel-related expenses of $11.4 million, and a decrease of intangible amortization expense of $7.2 million.

Restructuring Charges

In September 2019, management approved a plan to streamline our organization and business processes that included a reduction of workforce, which is expected to be completed in the second half of our fiscal year 2021, primarily in our PCB, Display and Component Inspection segment.

Restructuring charges were $3.5 million for the three months ended September 30, 2020, and included $1.0 million of non-cash charges for accelerated depreciation related to certain right-of use assets and fixed assets to be abandoned. As of September 30, 2020, the accrual for restructuring charges was $7.0 million.
We expect to incur additional restructuring charges in future periods in connection with the completion of our workforce reduction. Proceeds from disposition of our solar energy business is not expected to be material. For additional information refer to Note 19 "Restructuring Charges" in the Notes to the Condensed Consolidated Financial Statements.

Interest Expense and Other Expense (Income), Net

	Three Months Ended	
(Dollar amounts in thousands)	September 30, 2020	September 30, 2019
Interest expense	$ 39,386	$ 40,350
Other expense (income), net	$ 3,197	$ (1,618)
Interest expense as a percentage of total revenues	3 %	3 %
Other expense (income), net as a percentage of total revenues	< 1%	< 1%

The decrease in interest expense during the three months ended September 30, 2020 compared to the three months ended September 30, 2019, was primarily due to lower interest rate on our $750.0 million Senior Notes issued in February 2020.

Other expense (income), net is comprised primarily of realized gains or losses on sales of marketable securities, gains or losses from revaluations of certain foreign currency denominated assets and liabilities as well as foreign currency contracts, and interest-related accruals (such as interest and penalty accruals related to our tax obligations) and interest income earned on our invested cash, cash equivalents and marketable securities.

The increase in other expense (income), net during the three months ended September 30, 2020 compared to the three months ended September 30, 2019 was primarily due to a decrease in interest income as a result of lower investment balances as well as lower interest rate, and an increase in accruals related to uncertain tax positions of $2.9 million.

Provision for Income Taxes

The following table provides details of income taxes:

	Three Months Ended September 30,	
(Dollar amounts in thousands)	2020	2019
Income before income taxes	$ 483,806	$ 371,516
Provision for income taxes	$ 63,664	$ 25,120
Effective tax rate	13.2 %	6.8 %

The effective tax rate during the three months ended September 30, 2020 was higher compared to the three months ended September 30, 2019 primarily due to the impact of the following items:

- Tax expense increased by $16.9 million during the three months ended September 30, 2020 relating to a decrease in the proportion of our earnings generated in jurisdictions with tax rates lower than the U.S. statutory rate; and
- Tax expense increased by $14.0 million during the three months ended September 30, 2020 relating to an increase in the United Kingdom statutory rate.

Our future effective income tax rate depends on various factors, such as tax legislation, the geographic composition of our pre-tax income, the amount of our pre-tax income as business activities fluctuate, non-deductible expenses incurred in connection with acquisitions, research and development credits as a percentage of aggregate pre-tax income, non-taxable or non-deductible increases or decreases in the assets held within our Executive Deferred Savings Plan, the tax effects of employee stock activity and the effectiveness of our tax planning strategies.

In the normal course of business, we are subject to examination by tax authorities throughout the world. We are subject to federal income tax examinations for all years beginning from the fiscal year ended June 30, 2017 and are under United States income tax examination for the fiscal year ended June 30, 2018. We are subject to state income tax examinations for all years beginning from the fiscal year ended June 30, 2016. We are also subject to examinations in other major foreign jurisdictions, including Singapore and Israel, for all years beginning from the calendar year ended December 31, 2012. We are under audit in Germany related to Orbotech for the calendar years ended December 31, 2013 to December 31, 2015. We are also under audit in Israel related to KLA for the fiscal years ended June 30, 2017 to June 30, 2019. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical income tax provisions and accruals. The results of an audit or litigation could have a material adverse effect on our results of operations or cash flows in the period or periods for which that determination is made.

In May 2017, Orbotech received an assessment from the Israel Tax Authority ("ITA") with respect to its fiscal years 2012 through 2014 (the "Assessment", and the "Audit Period", respectively), for an aggregate amount of tax, after offsetting all net operating losses ("NOLs") available through the end of 2014, of approximately NIS 229.0 million (equivalent to approximately $66.0 million which includes related interest and linkage differentials to the Israeli consumer price index as of date of the issuance of the Tax Decrees).

On August 31, 2018, Orbotech filed an objection in respect of the tax assessment (the "Objection"). The ITA completed the second stage of the audit, in which the claims Orbotech raised in the Objection were examined by different personnel at the ITA. In addition, the ITA examined additional items during this second stage of the audit. As Orbotech and the ITA did not reach an agreement during the second stage, the ITA issued Tax Decrees to Orbotech on August 28, 2019 ("Tax Decrees") for an aggregate amount of tax, after offsetting all NOLs available through the end of 2014, of approximately NIS 257 million (equivalent to approximately $73 million which includes related interest and linkage differentials to the Israeli consumer price index as of the date of the issuance of the Tax Decrees). These Tax Decrees replaced the Assessment. We believe that our recorded unrecognized tax benefits are sufficient to cover the resolution of these Tax Decrees.

Orbotech filed a notice of appeal with respect to the above Tax Decrees with the District Court of Tel Aviv on September 26, 2019. On February 27, 2020 the ITA filed its arguments in support of the Tax Decrees. Orbotech filed the grounds of appeal with respect to the above Tax Decrees on July 30, 2020. We are currently in the pre-trial hearing stage of the process and the next pre-trial meeting is scheduled for January 2021. The ITA and Orbotech are continuing discussions in an effort to resolve this matter in a mutually agreeable manner.

In connection with the above, there is an ongoing criminal investigation in Israel against Orbotech, certain of its employees and its tax consultant. On April 11, 2018, Orbotech received a "suspect notification letter" (dated March 28, 2018) from the Tel Aviv District Attorney's Office (Fiscal and Financial). In the letter, it was noted that the investigation file was transferred from the Assessment Investigation Officer to the District Attorney's Office. The letter further states that the District Attorney's Office has not yet made a decision regarding submission of an indictment against Orbotech and that if, after studying the case, a decision is made to consider prosecuting Orbotech, Orbotech will receive an additional letter, and within 30 days, Orbotech may present its arguments to the District Attorney's Office as to why it should not be indicted. On October 27, 2019, we received a request for additional information from the District Attorney's Office. We will continue to monitor the progress of the District Attorney's Office investigation; however, we cannot anticipate when the review of the case will be completed and what will be the results thereof. We intend to cooperate with the District Attorney's Office to enable them to conclude their investigation.

Liquidity and Capital Resources

(Dollar amounts in thousands)	As of September 30, 2020	As of June 30, 2020
Cash and cash equivalents	$ 1,215,820	$ 1,234,409
Marketable securities	827,633	746,063
Total cash, cash equivalents and marketable securities	$ 2,043,453	$ 1,980,472
Percentage of total assets	22 %	21 %

(In thousands)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Cash flows:		
Net cash provided by operating activities	$ 512,171	$ 496,245
Net cash used in investing activities	(134,320)	(146,693)
Net cash (used in) provided by financing activities	(404,206)	(373,613)
Effect of exchange rate changes on cash and cash equivalents	7,766	(3,585)
Net (decrease) increase in cash and cash equivalents	$ (18,589)	$ (27,646)

Cash and Cash Equivalents and Marketable Securities:

As of September 30, 2020, our cash, cash equivalents and marketable securities totaled $2.04 billion, which represents an increase of $63.0 million from June 30, 2020. The increase is due to net cash provided by operating activities of $512.2 million, partially offset by stock repurchases of $187.9 million, cash used for payment of dividends and dividend equivalents of $141.2 million, capital expenditures of $55.9 million and a net cash usage of $80.1 million related to purchases, sales and maturities of available-for-sale and trading securities.

As of September 30, 2020, $904.6 million of our $2.04 billion of cash, cash equivalents and marketable securities were held by our foreign subsidiaries and branch offices. We currently intend to indefinitely reinvest $584.9 million of the cash, cash equivalents and marketable securities held by our foreign subsidiaries for which we assert that earnings are permanently reinvested. If, however, a portion of these funds were to be repatriated to the United States, we would be required to accrue and pay state and foreign taxes of approximately 1% - 22% of the funds repatriated. The amount of taxes due will depend on the amount and manner of the repatriation, as well as the location from which the funds are repatriated. We have accrued state and foreign tax on the remaining cash of $319.7 million of the $904.6 million held by our foreign subsidiaries and branch offices. As such, these funds can be returned to the U.S. without accruing any additional U.S. tax expense.

Cash Dividends:

During the three months ended September 30, 2020, our Board of Directors declared a regular quarterly cash dividend of $0.90 per share on our outstanding common stock, which was paid on September 1, 2020 to our stockholders of record as of the close of business on August 17, 2020. During the same period in fiscal year 2019, our Board of Directors declared and paid a regular quarterly cash dividend of $0.75 per share on our outstanding common stock. The total amount of regular quarterly cash dividends and dividend equivalents paid during the three months ended September 30, 2020 and 2019 was $141.2 million and $121.6 million, respectively. The amount of accrued dividend equivalents payable for regular quarterly cash dividends on unvested restricted stock units (RSUs) with dividend equivalent rights as of September 30, 2020 and June 30, 2020 was $8.7 million and $8.3 million, respectively. These amounts will be paid upon vesting of the underlying unvested RSU as described in Note 10 “Equity, Long-term Incentive Compensation Plans and Non-Controlling Interest” in the Notes to the Condensed Consolidated Financial Statements.

Stock Repurchases:

The shares repurchased under our stock repurchase program have reduced our basic and diluted weighted-average shares outstanding for the three months ended September 30, 2020 and 2019. The stock repurchase program is intended, in part, to offset the dilution from our equity incentive plans, shares issued in connection with purchases under our ESPP, and the issuance of shares in the Orbotech Acquisition, as well as to return excess cash to our shareholders.

Cash Flows from Operating Activities:

We have historically financed our liquidity requirements through cash generated from our operations. Net cash provided by operating activities during the three months ended September 30, 2020 increased by $15.9 million compared to the three months ended September 30, 2019 primarily as a result of the following factors:

- An increase in collections of approximately $202.1 million mainly driven by higher shipments during the three months ended September 30, 2020;
- An increase in accounts payable payments of approximately $106.2 million during the three months ended September 30, 2020;
- An increase in income tax payments of approximately $34.3 million during the three months ended September 30, 2020;
- An increase in other tax payments of approximately $24.4 million during the three months ended September 30, 2020;
- An increase in employee related payments of approximately $7.1 million during the three months ended September 30, 2020;
- An increase of debt interest payments of approximately $13.3 million mainly related to new 30-year Senior Notes issued in February 2020.

Cash Flows used in Investing Activities:

Net cash used in investing activities during the three months ended September 30, 2020 was $134.3 million compared to $146.7 million during the three months ended September 30, 2019. This decrease in cash used was mainly due to a decrease in cash paid for business acquisitions of $78.5 million, partially offset by an increase in net purchases of marketable securities of $43.4 million and an increase in cash paid to purchase fixed assets of $23.4 million.

Cash Flows used in Financing Activities:

Net cash used in financing activities during the three months ended September 30, 2020 was $404.2 million compared to cash used by financing activities of $373.6 million during the three months ended September 30, 2019. This change was mainly due to increased debt repayments of $50.0 million, an increase in cash paid for dividends and dividend equivalents of $19.5 million, partially offset by less cash used for common stock repurchases of $40.6 million.

Senior Notes:

We have senior unsecured notes in the aggregate principal amount of $3.45 billion outstanding as of September 30, 2020. In February 2020, we issued $750 million ("2020 Senior Notes") aggregate principal amount of senior, unsecured long-term notes under which the proceeds were used to redeem $500.0 million of Senior Notes due 2021, including associated redemption premiums, accrued interest and other fees and expenses, to repay borrowings of $200.0 million under the Revolving Credit Facility, and for other general corporate purposes. See Note 8 "Debt" of the Notes to the Consolidated Condensed Financial Statements for additional discussion of existing debt. We may seek to refinance our existing debt and may incur additional indebtedness depending on our capital requirements and the availability of financing.

Interest is payable as follows: semi-annually on March 1 and September 1 of each year for the 2020 Senior Notes; semi-annually on March 15 and September 15 of each year for the 2019 Senior Notes; and semi-annually on May 1 and November 1 of each year for the 2014 Senior Notes. The Indenture for the Senior Notes includes covenants that limit our ability to grant liens on our facilities and enter into sale and leaseback transactions, subject to certain allowances under which certain sale and leaseback transactions are not restricted.

In certain circumstances involving a change of control followed by a downgrade of the rating of a series of Senior Notes by at least two of Moody’s, S&P and Fitch Inc., unless we have exercised our rights to redeem the Senior Notes of such series, we will be required to make an offer to repurchase all or, at the holder’s option, any part, of each holder’s Senior Notes of that series pursuant to the offer described below (the “Change of Control Offer”). In the Change of Control Offer, we will be required to offer payment in cash equal to 101% of the aggregate principal amount of Senior Notes repurchased plus accrued and unpaid interest, if any, on the Senior Notes repurchased, up to, but not including, the date of repurchase.

As of September 30, 2020, we were in compliance with all of our covenants under the Indenture associated with the Senior Notes.

Revolving Credit Facility:

We have a Credit Agreement (the “Credit Agreement”) providing for a $1.00 billion unsecured Revolving Credit Facility (the “Revolving Credit Facility”), with a maturity date of November 30, 2023. In the second and fourth quarters of fiscal 2020, we borrowed $250.0 million and $200.0 million, respectively, from the Revolving Credit Facility. In the second, third, and fourth quarters of fiscal 2020, we made principal payments of $25.0 million, $200.0 million and $175.0 million, respectively. During the first quarter of the fiscal year ending June 30, 2021, we made a principal payment of $50.0 million on the Revolving Credit Facility so that as of September 30, 2020, we had no outstanding borrowings under the Revolving Credit Facility.

We may borrow, repay and reborrow funds under the Revolving Credit Facility until the maturity date, at which time such Revolving Credit Facility will terminate, and all outstanding loans under such facility, together with all accrued and unpaid interest, must be repaid. We may prepay outstanding borrowings under the Revolving Credit Facility at any time without a prepayment penalty.

Borrowings under the Revolving Credit Facility will bear interest, at our option, at either: (i) the Alternative Base Rate (“ABR”) plus a spread, which ranges from 0 bps to 75 bps, or (ii) the London Interbank Offered Rate (“LIBOR”) plus a spread, which ranges from 100 bps to 175 bps. The spreads under ABR and LIBOR are subject to adjustment in conjunction with credit rating downgrades or upgrades. We are also obligated to pay an annual commitment fee on the daily undrawn balance of the Revolving Credit Facility, which ranges from 10 bps to 25 bps, subject to an adjustment in conjunction with changes to our credit rating. As of September 30, 2020, we elected to pay interest on the borrowed amount under the Revolving Credit Facility at LIBOR plus a spread of 112.5 bps, and we pay an annual commitment fee of 12.5 bps on the daily undrawn balance of the Revolving Credit Facility.

The Revolving Credit Facility requires us to maintain an interest expense coverage ratio as described in the Credit Agreement, on a quarterly basis, covering the trailing four consecutive fiscal quarters of no less than 3.50 to 1.00. In addition, we are required to maintain the maximum leverage ratio as described in the Credit Agreement, on a quarterly basis of 3.00 to 1.00, covering the trailing four consecutive fiscal quarters for each fiscal quarter, which can be increased to 4.00 to 1.00 for a period of time in connection with a material acquisition or a series of material acquisitions. As of September 30, 2020, our maximum allowed leverage ratio was 3.50 to 1.00.

We were in compliance with all covenants under the Credit Agreement as of September 30, 2020 (the interest expense coverage ratio was 14.65 to 1.00 and the leverage ratio was 1.48 to 1.00). Considering our current liquidity position, short-term financial forecasts and ability to prepay the Revolving Credit Facility, if necessary, we expect to continue to be in compliance with our financial covenants at the end of our fiscal year ending June 30, 2021.

Contractual Obligations:

There have been no material changes outside the ordinary course of business to our contractual obligations as disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2020. For additional details regarding our debt and commitments, refer to Note 8 "Debt" and Note 15 “Commitments and Contingencies”, respectively, in the Notes to the Condensed Consolidated Financial Statements. For additional details regarding our contractual obligations, refer to our Annual Report Form on 10-K for the fiscal year ended June 30, 2020.

Working Capital:

Working capital was $3.01 billion as of September 30, 2020, which represents a decrease of $17.9 million compared to our working capital of $3.02 billion as of June 30, 2020. As of September 30, 2020, our principal sources of liquidity consisted of $2.04 billion of cash, cash equivalents and marketable securities. Our liquidity may be affected by many factors, some of which are based on the normal ongoing operations of the business, spending for business acquisitions, and other factors such as uncertainty in the global and regional economies and the semiconductor, semiconductor related and electronic device industries. Although cash requirements will fluctuate based on the timing and extent of these factors, we believe that cash generated from operations, together with the liquidity provided by existing cash and cash equivalents balances and availability under our Revolving Credit Facility, will be sufficient to satisfy our liquidity requirements associated with working capital needs, capital expenditures, cash dividends, stock repurchases and other contractual obligations, including repayment of outstanding debt, for at least the next 12 months.

Our credit ratings as of September 30, 2020 are summarized below:

Rating Agency	Rating
Fitch	BBB+
Moody’s	Baa1
Standard & Poor’s	BBB+

Factors that can affect our credit ratings include changes in our operating performance, the economic environment, conditions in the semiconductor and semiconductor equipment industries, our financial position, material acquisitions and changes in our business strategy.

Off-Balance Sheet Arrangements

As of September 30, 2020, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K, that have or are reasonably likely to have a current or future effect on our financial position, changes in financial condition, revenues and expenses, results of operations, liquidity, capital expenditures, or capital resources that are material to investors. Refer to Note 15 “Commitments and Contingencies” in the Notes to the Condensed Consolidated Financial Statements for information related to indemnification obligations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in interest rates, foreign currency exchange rates and marketable equity security prices. To mitigate these risks, we utilize derivative financial instruments, such as foreign currency hedges. All of the potential changes noted below are based on sensitivity analysis performed on our financial position as of September 30, 2020. Actual results may differ materially.

As of September 30, 2020, we had an investment portfolio of fixed income securities of $773.5 million. These securities, as with all fixed income instruments, are subject to interest rate risk and will decline in value if market interest rates increase. If market interest rates were to increase immediately and uniformly by 100 bps from levels as of September 30, 2020, the fair value of the portfolio would have declined by $6.1 million.

The fair market value of our long-term fixed interest rate Senior Notes is subject to interest rate risk. Generally, the fair market value of fixed interest rate notes will increase as interest rates fall and decrease as interest rates rise. As of September 30, 2020, our fixed rate Senior Notes had a principal amount, fair value and book value of $3.45, $4.05 billion and $3.42 billion, respectively, due in various fiscal years ranging from 2024 to 2050.

As of September 30, 2020, we do not have any outstanding floating rate debts that are subject to an increase in interest rates. Additionally, as of September 30, 2020, if our credit ratings were downgraded to be below investment grade, the maximum potential increase to our annual commitment fee for the Revolving Credit Facility is estimated to be approximately $0.8 million.

See Note 5 “Marketable Securities” in the Notes to the Condensed Consolidated Financial Statements in Part I, Item 1; Management’s Discussion and Analysis of Financial Condition and Results of Operations, *“Liquidity and Capital Resources,”* in Part I, Item 2; and Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q for a description of recent market events that may affect the value of the investments in our portfolio that we held as of September 30, 2020.

As of September 30, 2020, we had net forward and option contracts to sell $83.2 million in foreign currency in order to hedge certain currency exposures (see Note 16 “Derivative Instruments and Hedging Activities” in the Notes to the Condensed Consolidated Financial Statements for additional details). If we had entered into these contracts on September 30, 2020, the U.S. dollar equivalent would have been $82.9 million. A 10% adverse move in all currency exchange rates affecting the contracts would decrease the fair value of the contracts by $41.9 million. However, if this occurred, the fair value of the underlying exposures hedged by the contracts would increase by a similar amount. Accordingly, we believe that, as a result of the hedging of certain of our foreign currency exposure, changes in most relevant foreign currency exchange rates should have no material impact on our results of operations or cash flows.

ITEM 4 CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures and Related CEO and CFO Certifications

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) ("Disclosure Controls") as of the end of the period covered by this Quarterly Report on Form 10-Q (this "Report") required by Exchange Act Rules 13a-15(b) or 15d-15(b). The Disclosure Controls evaluation was conducted under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO have concluded that as of the end of the period covered by this Report our Disclosure Controls were effective at a reasonable assurance level.

Attached as exhibits to this Report are certifications of the CEO and CFO, which are required in accordance with Rule 13a-14 of the Exchange Act. This Controls and Procedures section includes the information concerning the controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Definition of Disclosure Controls

Disclosure Controls are controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this Report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure Controls include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Disclosure Controls

Our management, including our CEO and CFO, does not expect that our Disclosure Controls or internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the most recent fiscal quarter covered by this Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth above under Note 14 “Litigation and Other Legal Matters” in the Notes to the Condensed Consolidated Financial Statements in Item 1 of Part 1 is incorporated herein by reference.

ITEM 1A. RISK FACTORS

A description of factors that could materially affect our business, financial condition or operating results is provided below.

Risk Factor Summary

The following summarizes the most material risks that make an investment in our securities risky or speculative. If any of the following risks occur or persist, our business, financial condition and results of operations could be materially harmed and the price of our common stock could significantly decline.

COVID-19 Pandemic Risks

- our supply chain may be disrupted, customer demand for our products may decline or customer purchases may be pushed out if the COVID-19 pandemic persists;
- we may not be able to meet customer demand and keep our workforce healthy if an outbreak should occur at one of our facilities and we are unable to contain it;
- we may be unable to provide service to our customers in a timely manner or at all if travel restrictions persist, common carrier routes are canceled or quarantines are imposed; and
- our facilities could be shut down for an extended period of time if an outbreak occurs in any of the jurisdictions where we manufacture our products.

General Commercial, Financial and Regulatory Risks

- laws, regulations or other orders may limit our ability to sell our products to certain customers or to provide service on products previously sold to those customers;
- we may be exposed to tariffs or similar trade impairments;
- international sales may expose us to longer payment cycles or collection difficulties;
- intellectual property disputes can be expensive and could result in an inability to sell our products in certain jurisdictions;
- we may be unable to attract or retain key personnel;
- reliance on third party service providers could result in disruptions if such third parties cannot perform services for us in a timely manner;
- cybersecurity incidents could result in the loss of valuable information or assets or subject us to costly litigation;
- we may face disruptions if we cannot access critical information in a timely manner due to system failures;
- we may fail to successfully integrate our acquisitions;
- natural disasters, acts of war or other catastrophic events could significantly disrupt our operations for lengthy periods of time;
- we may fail to successfully hedge our exposure to currency and interest rate fluctuations;
- we are subject to exposure from tax and regulatory compliance audits;
- economic, political or other conditions in the jurisdictions where we earn profits can impact the tax laws and taxes we pay in those jurisdictions, subsequently impacting our effective tax rate, cash flows and results of operations; and

- changes in accounting pronouncements and laws could have unforeseen effects.

Industry Risks

- we may not be able to keep pace with technological changes in the industries in which we operate;
- we have a highly concentrated customer base; and
- prevailing local and global economic conditions may negatively affect the purchasing decisions of our customers.

Business Model and Capital Structure

- we may not be able to maintain our technology advantage or protect our proprietary rights;
- we may not be able to compete with new products introduced by our competitors;
- we may not receive components necessary to build our products in a timely manner;
- we may fail to operate our business in a manner consistent with our business plan;
- we may not have sufficient financial resources to repay our indebtedness when it becomes due;
- we may fail to comply with the covenants in our revolving credit facility, which could impair our ability to borrow needed funds under the facility, or require us to repay it sooner than we planned;
- if our products fail to operate properly or contain defects or our customers are sued by third parties due to our products, we may be liable under indemnification provisions with our customers; and
- we may incur significant restructuring charges or other asset impairment charges or inventory write-offs.

For a more complete discussion of the material risks facing our business, see below.

Risks Related to the COVID-19 Pandemic

The current COVID-19 pandemic and the potential aftereffects from it could materially harm our business, financial condition and results of operations.

The COVID-19 pandemic has caused substantial global disruptions, including in the jurisdictions where we conduct business and may cause additional disruptions in the future, which are impossible to predict. Local, regional and national authorities in numerous jurisdictions have implemented a variety of measures designed to slow the spread of the virus, including social distancing guidelines, quarantines, banning of non-essential travel and requiring the cessation of non-essential activities on the premises of businesses.

Some of the risks associated with the pandemic or a worsening of the pandemic in the future include:

- cancellation or reduction of routes available from common carriers, which may cause delays in our ability to deliver or service our products or receive components from suppliers necessary to manufacture or service our products;
- travel bans or the requirement to quarantine for a lengthy period after entering a jurisdiction, which may delay our ability to install the products we sell or service those products following installation;
- governmental orders or employee exposure requiring us, our customers or our suppliers to discontinue manufacturing products at our respective facilities for a period of time;
- reduced demand for our products, push-out of deliveries or cancellation of orders by our customers caused by a global recession resulting from the pandemic and the measures implemented by authorities to slow the spread of COVID-19;
- increased costs or inability to acquire components necessary for the manufacture of our products due to reduced availability;
- absence of liquidity at customers and suppliers caused by disruptions from the pandemic, which may hamper the ability of customers to pay for the products they purchase on time or at all, or hamper the ability of our suppliers to continue to supply components to us in a timely manner or at all; and
- loss of efficiencies due to remote working requirements for our employees.

If any of the foregoing risks occur or intensify during this pandemic, our business, financial condition and results of operations could be materially adversely affected.

General Commercial, Operational, Financial and Regulatory Risks

A majority of our annual revenues are derived from outside the United States, and we maintain significant operations outside the United States. We are exposed to numerous risks as a result of the international nature of our business and operations.

A majority of our annual revenues are derived from outside the United States, and we maintain significant operations outside the United States. We expect that these conditions will continue in the foreseeable future. Managing global operations and sites located throughout the world presents a number of challenges, including but not limited to:

- global trade issues and changes in and uncertainties with respect to trade policies, including the ability to obtain required import and export licenses, trade sanctions, tariffs, and international trade disputes;
- political and social attitudes, laws, rules, regulations and policies within countries that favor domestic companies over non-domestic companies, including customer- or government-supported efforts to promote the development and growth of local competitors;
- ineffective or inadequate legal protection of intellectual property rights in certain countries;
- managing cultural diversity and organizational alignment;
- exposure to the unique characteristics of each region in the global market, which can cause capital equipment investment patterns to vary significantly from period to period;
- periodic local or international economic downturns;
- potential adverse tax consequences, including withholding tax rules that may limit the repatriation of our earnings, and higher effective income tax rates in foreign countries where we do business;
- compliance with customs regulations in the countries in which we do business;
- existing and potentially new tariffs or other trade restrictions and barriers (including those applied to our products, spare parts and services or to parts and supplies that we purchase);
- political instability, natural disasters, legal or regulatory changes, acts of war or terrorism in regions where we have operations or where we do business;
- fluctuations in interest and currency exchange rates may adversely impact our ability to compete on price with local providers or the value of revenues we generate from our international business. Although we attempt to manage some of our near-term currency risks through the use of hedging instruments, there can be no assurance that such efforts will be adequate;
- receiving prepayments for certain of our products and services sold in certain jurisdictions. These prepayments increase our cash flows for the quarter in which they are received. If our practice of requiring prepayments in those jurisdictions changes or deteriorates, our cash flows would be harmed.
- longer payment cycles and difficulties in collecting accounts receivable outside of the United States;
- difficulties in managing foreign distributors (including monitoring and ensuring our distributors' compliance with applicable laws); and
- inadequate protection or enforcement of our intellectual property and other legal rights in foreign jurisdictions.

In addition, government controls, either by the United States or other countries, that restrict our business overseas or restrict our ability to import or export our products and services or increase the cost of our operations through the imposition of tariffs, new controls, outright bans, or otherwise, could harm our business. For example, the United States Department of Commerce ("Commerce") has added numerous China-based entities to the U.S. Entity List, including Fujian Jinhua Integrated Circuit Company, Ltd. ("JHICC") and certain Huawei entities, restricting our ability to provide products and services to such entities without a license. In addition, Commerce has imposed new export licensing requirements on China-based customers engaged in military end uses or where Commerce has determined there is a risk of diversion to a military end use, such as in the case of Semiconductor Manufacturing International Corporation, as well as requiring our customers to obtain an export license when they use certain semiconductor capital equipment based on U.S. technology to manufacture products connected to Huawei or its affiliates. To date, these new rules have not significantly impacted our operations, but we are continually monitoring their impact. Similar actions by the U.S. government or another country could impact our ability to provide our products and services to existing and potential customers.

Any of the factors above could have a significant negative impact on our business and results of operations.

We are exposed to risks associated with a weakening in the condition of the financial markets and the global economy.

Demand for our products is ultimately driven by the global demand for electronic devices by consumers and businesses. Economic uncertainty frequently leads to reduced consumer and business spending, which caused our customers to decrease, cancel or delay their equipment and service orders from us in the economic slowdown during fiscal year 2009. In addition, the tightening of credit markets and concerns regarding the availability of credit that accompanied that slowdown made it more

difficult for our customers to raise capital, whether debt or equity, to finance their purchases of capital equipment, including the products we sell. Reduced demand, combined with delays in our customers' ability to obtain financing (or the unavailability of such financing), has at times in the past adversely affected our product and service sales and revenues and therefore has harmed our business and operating results, and our operating results and financial condition may again be adversely impacted if economic conditions decline from their current levels.

In addition, a decline in the condition of the global financial markets could adversely impact the market values or liquidity of our investments. Our investment portfolio includes corporate and government securities, money market funds and other types of debt and equity investments. Although we believe our portfolio continues to be comprised of sound investments due to the quality and (where applicable) credit ratings of such investments, a decline in the capital and financial markets would adversely impact the market value of our investments and their liquidity. If the market value of such investments were to decline, or if we were to have to sell some of our investments under illiquid market conditions, we may be required to recognize an impairment charge on such investments or a loss on such sales, either of which could have an adverse effect on our financial condition and operating results.

If we are unable to timely and appropriately adapt to changes resulting from difficult macroeconomic conditions, our business, financial condition or results of operations may be materially and adversely affected.

We might be involved in claims or disputes related to intellectual property or other confidential information that may be costly to resolve, prevent us from selling or using the challenged technology and seriously harm our operating results and financial condition.

As is typical in the industries in which we serve, from time to time we have received communications from other parties asserting the existence of patent rights, copyrights, trademark rights or other intellectual property rights which they believe cover certain of our products, processes, technologies or information. In addition, we occasionally receive notification from customers who believe that we owe them indemnification or other obligations related to intellectual property claims made against such customers by third parties. With respect to intellectual property infringement disputes, our customary practice is to evaluate such infringement assertions and to consider whether to seek licenses where appropriate. However, there can be no assurance that licenses can be obtained or, if obtained, will be on acceptable terms or that costly litigation or other administrative proceedings will not occur. The inability to obtain necessary licenses or other rights on reasonable terms could seriously harm our results of operations and financial condition. Furthermore, we may potentially be subject to claims by customers, suppliers or other business partners, or by governmental law enforcement agencies, related to our receipt, distribution and/or use of third-party intellectual property or confidential information. Legal proceedings and claims, regardless of their merit, and associated internal investigations with respect to intellectual property or confidential information disputes are often expensive to prosecute, defend or conduct; may divert management's attention and other company resources; and/or may result in restrictions on our ability to sell our products, settlements on significantly adverse terms or adverse judgments for damages, injunctive relief, penalties and fines, any of which could have a significant negative effect on our business, results of operations and financial condition. There can be no assurance regarding the outcome of future legal proceedings, claims or investigations. The instigation of legal proceedings or claims, our inability to favorably resolve or settle such proceedings or claims, or the determination of any adverse findings against us or any of our employees in connection with such proceedings or claims could materially and adversely affect our business, financial condition and results of operations, as well as our business reputation.

We are exposed to various risks related to the legal, regulatory and tax environments in which we perform our operations and conduct our business.

We are subject to various risks related to compliance with new, existing, different, inconsistent or even conflicting laws, rules and regulations enacted by legislative bodies and/or regulatory agencies in the countries in which we operate and with which we must comply, including environmental, safety, antitrust, anti-corruption/anti-bribery, unclaimed property and export control regulations. Our failure or inability to comply with existing or future laws, rules or regulations, or changes to existing laws, rules or regulations (including changes that result in inconsistent or conflicting laws, rules or regulations), in the countries in which we operate could result in violations of contractual or regulatory obligations that may adversely affect our operating results, financial condition and ability to conduct our business. From time to time, we may receive inquiries or audit notices from governmental or regulatory bodies, or we may participate in voluntary disclosure programs, related to legal, regulatory or tax compliance matters, and these inquiries, notices or programs may result in significant financial cost (including investigation expenses, defense costs, assessments and penalties), reputational harm and other consequences that could materially and adversely affect our operating results and financial condition.

Our properties and many aspects of our business operations are subject to various domestic and international environmental laws and regulations, including those that control and restrict the use, transportation, emission, discharge, storage

and disposal of certain chemicals, gases and other substances. Any failure to comply with applicable environmental laws, regulations or requirements may subject us to a range of consequences, including fines, suspension of certain of our business activities, limitations on our ability to sell our products, obligations to remediate environmental contamination, and criminal and civil liabilities or other sanctions. In addition, changes in environmental regulations (including regulations relating to climate change and greenhouse gas emissions) could require us to invest in potentially costly pollution control equipment, alter our manufacturing processes or use substitute (potentially more expensive and/or rarer) materials. Further, we use hazardous and other regulated materials that subject us to risks of strict liability for damages caused by any release, regardless of fault. We also face increasing complexity in our manufacturing, product design and procurement operations as we adjust to new and prospective requirements relating to the materials composition of our products, including restrictions on lead and other substances and requirements to track the sources of certain metals and other materials. The cost of complying, or of failing to comply, with these and other regulatory restrictions or contractual obligations could adversely affect our operating results, financial condition and ability to conduct our business.

In addition, we may from time to time be involved in legal proceedings or claims regarding employment, immigration, contracts, product performance, product liability, antitrust, environmental regulations, securities, unfair competition and other matters. These legal proceedings and claims, regardless of their merit, may be time-consuming and expensive to prosecute or defend, divert management's attention and resources, and/or inhibit our ability to sell our products. There can be no assurance regarding the outcome of current or future legal proceedings or claims, which could adversely affect our operating results, financial condition and ability to operate our business.

We depend on key personnel to manage our business effectively, and if we are unable to attract, retain and motivate our key employees, our sales and product development could be harmed.

Our employees are vital to our success, and our key management, engineering and other employees are difficult to replace. We generally do not have employment contracts with our key employees. Further, we do not maintain key person life insurance on any of our employees. The expansion of high technology companies worldwide has increased demand and competition for qualified personnel. In addition, current or future immigration laws, policies or regulations may limit our ability to attract, hire and retain qualified personnel. If we are unable to attract and retain key personnel, or if we are not able to attract, assimilate and retain additional highly qualified employees to meet our current and future needs, our business and operations could be harmed.

We outsource a number of services to third-party service providers, which decreases our control over the performance of these functions. Disruptions or delays at our third-party service providers could adversely impact our operations.

We outsource a number of services, including our transportation, information systems management and logistics management of spare parts and certain accounting and procurement functions, to domestic and overseas third-party service providers. While outsourcing arrangements may lower our cost of operations, they also reduce our direct control over the services rendered. It is uncertain what effect such diminished control will have on the quality or quantity of products delivered or services rendered, on our ability to quickly respond to changing market conditions, or on our ability to ensure compliance with all applicable domestic and foreign laws and regulations. In addition, many of these outsourced service providers, including certain hosted software applications that we use for confidential data storage, employ cloud computing technology for such storage. These providers' cloud computing systems may be susceptible to "cyber incidents," such as intentional cyber-attacks aimed at theft of sensitive data or inadvertent cyber-security compromises, which are outside of our control. If we do not effectively develop and manage our outsourcing strategies, if required export and other governmental approvals are not timely obtained, if our third-party service providers do not perform as anticipated, or do not adequately protect our data from cyber-related security breaches, or if there are delays or difficulties in enhancing business processes, we may experience operational difficulties (such as limitations on our ability to ship products), increased costs, manufacturing or service interruptions or delays, loss of intellectual property rights or other sensitive data, quality and compliance issues, and challenges in managing our product inventory or recording and reporting financial and management information, any of which could materially and adversely affect our business, financial condition and results of operations.

We are exposed to risks related to cybersecurity threats and cyber incidents.

In the conduct of our business, we collect, use, transmit and store data on information systems. This data includes confidential information, transactional information and intellectual property belonging to us, our customers and our business partners, as well as personally-identifiable information of individuals. We allocate significant resources to network security, data encryption and other measures to protect our information systems and data from unauthorized access or misuse. Despite our ongoing efforts to enhance our network security measures, our information systems are susceptible to computer viruses, cyber-related security breaches and similar disruptions from unauthorized intrusions, tampering, misuse, criminal acts, including phishing, or other events or developments that we may be unable to anticipate or fail to mitigate and are subject to the

inherent vulnerabilities of network security measures. We have experienced cyber-related attacks in the past, and may experience cyber-related attacks in the future. Our security measures may also be breached due to employee errors, malfeasance, or otherwise. Third parties may also attempt to influence employees, users, suppliers or customers to disclose sensitive information in order to gain access to our, our customers' or business partners' data. Because the techniques used to obtain unauthorized access to the information systems change frequently, and may not be recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures.

Any of such occurrences could result in disruptions to our operations; misappropriation, corruption or theft of confidential information, including intellectual property and other critical data, of KLA, our customers and other business partners; misappropriation of funds and company assets; reduced value of our investments in research, development and engineering; litigation with, or payment of damages to, third parties; reputational damage; costs to comply with regulatory inquiries or actions; data privacy issues; costs to rebuild our internal information systems; and increased cybersecurity protection and remediation costs.

We carry insurance that provides some protection against the potential losses arising from a cybersecurity incident but it will not likely cover all such losses, and the losses that it does not cover may be significant.

We rely upon certain critical information systems for our daily business operations. Our inability to use or access our information systems at critical points in time could unfavorably impact our business operations.

Our global operations are dependent upon certain information systems, including telecommunications, the internet, our corporate intranet, network communications, email and various computer hardware and software applications. System failures or malfunctioning, such as difficulties with our customer relationship management ("CRM") system, could disrupt our operations and our ability to timely and accurately process and report key components of our financial results. Our enterprise resource planning ("ERP") system is integral to our ability to accurately and efficiently maintain our books and records, record transactions, provide critical information to our management, and prepare our financial statements. Any disruptions or difficulties that may occur in connection with our ERP system or other systems (whether in connection with the regular operation, periodic enhancements, modifications or upgrades of such systems or the integration of our acquired businesses into such systems) could adversely affect our ability to complete important business processes, such as the evaluation of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. Any of these events could have an adverse effect on our business, operating results and financial condition.

Acquisitions are an important element of our strategy but, because of the uncertainties involved, we may not find suitable acquisition candidates and we may not be able to successfully integrate and manage acquired businesses. We are also exposed to risks in connection with strategic alliances into which we may enter.

In addition to our efforts to develop new technologies from internal sources, part of our growth strategy is to pursue acquisitions and acquire new technologies from external sources. As part of this effort, in February 2019, we announced that we had consummated our acquisition of Orbotech. We may also enter into definitive agreements for and consummate acquisitions of, or significant investments in, businesses with complementary products, services and/or technologies. There can be no assurance that we will find suitable acquisition candidates or that acquisitions we complete will be successful. In addition, we may use equity to finance future acquisitions, which would increase our number of shares outstanding and be dilutive to current stockholders.

If we are unable to successfully integrate and manage acquired businesses, if the costs associated with integrating the acquired business exceeds our expectations, or if acquired businesses perform poorly, then our business and financial results may suffer. It is possible that the businesses we have acquired, as well as businesses that we may acquire in the future, may perform worse than expected or prove to be more difficult to integrate and manage than anticipated. In addition, we may lose key employees of the acquired companies. As a result, risks associated with acquisition transactions may lead to a material adverse effect on our business and financial results for a number of reasons, including:

- we may have to devote unanticipated financial and management resources to acquired businesses;
- the combination of businesses may result in the loss of key personnel or an interruption of, or loss of momentum in, the activities of our company and/or the acquired business;
- we may not be able to realize expected operating efficiencies or product integration benefits from our acquisitions;
- we may experience challenges in entering into new market segments for which we have not previously manufactured and sold products;
- we may face difficulties in coordinating geographically separated organizations, systems and facilities;
- the customers, distributors, suppliers, employees and others with whom the companies we acquire have business dealings may have a potentially adverse reaction to the acquisition;
- we may have difficulty implementing a cohesive framework of internal controls over the entire organization;

- we may have to write-off goodwill or other intangible assets; and
- we may incur unforeseen obligations or liabilities in connection with acquisitions.

At times, we may also enter into strategic alliances with customers, suppliers or other business partners with respect to development of technology and intellectual property. These alliances typically require significant investments of capital and exchange of proprietary, highly sensitive information. The success of these alliances depends on various factors over which we may have limited or no control and requires ongoing and effective cooperation with our strategic partners. Mergers and acquisitions and strategic alliances are inherently subject to significant risks, and the inability to effectively manage these risks could materially and adversely affect our business, financial condition and operating results.

Disruption of our manufacturing facilities or other operations, or in the operations of our customers, due to earthquake, flood, other natural catastrophic events, health epidemics or terrorism could result in cancellation of orders, delays in deliveries or other business activities, or loss of customers and could seriously harm our business.

We have significant manufacturing operations in the United States, Singapore, Israel, Germany, United Kingdom, Italy and China. In addition, our business is international in nature, with our sales, service and administrative personnel and our customers located in numerous countries throughout the world. Operations at our manufacturing facilities and our assembly subcontractors, as well as our other operations and those of our customers, are subject to disruption for a variety of reasons, including work stoppages, acts of war, terrorism, health epidemics and pandemics, fire, earthquake, volcanic eruptions, energy shortages, flooding or other natural disasters. Such disruption could cause delays in, among other things, shipments of products to our customers, our ability to perform services requested by our customers, or the installation and acceptance of our products at customer sites. We cannot provide any assurance that alternate means of conducting our operations (whether through alternate production capacity or service providers or otherwise) would be available if a major disruption were to occur or that, if such alternate means were available, they could be obtained on favorable terms.

In addition, as part of our cost-cutting actions, we have consolidated several operating facilities. Our California operations are now primarily centralized in our Milpitas facility. The consolidation of our California operations into a single campus could further concentrate the risks related to any of the disruptive events described above, such as acts of war or terrorism, earthquakes, fires or other natural disasters, if any such event were to impact our Milpitas facility.

We are predominantly uninsured for losses and interruptions caused by terrorist acts and acts of war. If international political instability continues or increases, our business and results of operations could be harmed.

The threat of terrorism targeted at, or acts of war in, the regions of the world in which we do business increases the uncertainty in our markets. Any act of terrorism or war that affects the economy or the industries we serve could adversely affect our business. Increased international political instability in various parts of the world, disruption in air transportation and further enhanced security measures as a result of terrorist attacks may hinder our ability to do business and may increase our costs of operations. We maintain significant operations in Israel. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility varying in degree and intensity, has led to security and economic challenges for Israel. In addition, some our employees in Israel are obligated to perform annual reserve duty in the Israel Defense Forces, and may be called to active military duty in emergency circumstances. We cannot assess the impact that emergency conditions in Israel in the future may have on our business, operations, financial condition or results of operations, but it could be material. Instability in any region could directly impact our ability to operate our business (or our customers' ability to operate their businesses), cause us to incur increased costs in transportation, make such transportation unreliable, increase our insurance costs, and cause international currency markets to fluctuate. Instability in the region could also have the same effects on our suppliers and their ability to timely deliver their products. If international political instability continues or increases in any region in which we do business, our business and results of operations could be harmed. We are predominantly uninsured for losses and interruptions caused by terrorist acts and acts of war.

We self-insure certain risks including earthquake risk. If one or more of the uninsured events occurs, we could suffer major financial loss.

We purchase insurance to help mitigate the economic impact of certain insurable risks; however, certain risks are uninsurable, are insurable only at significant cost or cannot be mitigated with insurance. Accordingly, we may experience a loss that is not covered by insurance, either because we do not carry applicable insurance or because the loss exceeds the applicable policy amount or is less than the deductible amount of the applicable policy. For example, we do not currently hold earthquake insurance. An earthquake could significantly disrupt our manufacturing operations, a significant portion of which are conducted in California, an area highly susceptible to earthquakes. It could also significantly delay our research and engineering efforts on new products, much of which is also conducted in California. We take steps to minimize the damage that would be caused by an earthquake, but there is no certainty that our efforts will prove successful in the event of an earthquake. We self-insure

earthquake risks because we believe this is a prudent financial decision based on our cash reserves and the high cost and limited coverage available in the earthquake insurance market. Certain other risks are also self-insured either based on a similar cost-benefit analysis, or based on the unavailability of insurance. If one or more of the uninsured events occurs, we could suffer major financial loss.

We are exposed to foreign currency exchange rate fluctuations. Although we hedge certain currency risks, we may still be adversely affected by changes in foreign currency exchange rates or declining economic conditions in these countries.

We have some exposure to fluctuations in foreign currency exchange rates, primarily the Japanese Yen, the euro, the pound sterling and the Israeli new shekel. We have international subsidiaries that operate and sell our products globally. In addition, an increasing proportion of our manufacturing activities are conducted outside of the United States, and many of the costs associated with such activities are denominated in foreign currencies. We routinely hedge our exposures to certain foreign currencies with certain financial institutions in an effort to minimize the impact of certain currency exchange rate fluctuations, but these hedges may be inadequate to protect us from currency exchange rate fluctuations. To the extent that these hedges are inadequate, or if there are significant currency exchange rate fluctuations in currencies for which we do not have hedges in place, our reported financial results or the way we conduct our business could be adversely affected. Furthermore, if a financial counterparty to our hedges experiences financial difficulties or is otherwise unable to honor the terms of the foreign currency hedge, we may experience material financial losses.

We are exposed to fluctuations in interest rates and the market values of our portfolio investments; impairment of our investments could harm our earnings. In addition, we and our stockholders are exposed to risks related to the volatility of the market for our common stock.

Our investment portfolio primarily consists of both corporate and government debt securities that are susceptible to changes in market interest rates and bond yields. As market interest rates and bond yields increase, those securities with a lower yield-at-cost show a mark-to-market unrealized loss. An impairment of the fair market value of our investments, even if unrealized, must be reflected in our financial statements for the applicable period and may therefore have a material adverse effect on our results of operations for that period.

In addition, the market price for our common stock is volatile and has fluctuated significantly during recent years. The trading price of our common stock could continue to be highly volatile and fluctuate widely in response to various factors, including without limitation conditions in the semiconductor industry and other industries in which we operate, fluctuations in the global economy or capital markets, our operating results or other performance metrics, or adverse consequences experienced by us as a result of any of the risks described elsewhere in this Item 1A. Volatility in the market price of our common stock could cause an investor in our common stock to experience a loss on the value of their investment in us and could also adversely impact our ability to raise capital through the sale of our common stock or to use our common stock as consideration to acquire other companies.

We are exposed to risks in connection with tax and regulatory compliance audits in various jurisdictions.

We are subject to tax and regulatory compliance audits (such as related to customs or product safety requirements) in various jurisdictions, and such jurisdictions may assess additional income or other taxes, penalties, fines or other prohibitions against us. Although we believe our tax estimates are reasonable and that our products and practices comply with applicable regulations, the final determination of any such audit and any related litigation could be materially different from our historical income tax provisions and accruals related to income taxes and other contingencies. In addition to and in connection with the Israel Tax Authority (“ITA”) Assessment described in more detail in Note 13 “Income Taxes” in the Notes to the Consolidated Financial Statements, there is an ongoing criminal investigation against our Orbotech subsidiary, certain of its employees and its tax consultant that began prior to the Acquisition Date. We can make no assurances that an indictment will not result from the criminal investigation. The results of an audit or litigation could have a material adverse effect on our operating results or cash flows in the period or periods for which that determination is made.

A change in our effective tax rate can have a significant adverse impact on our business.

We earn profits in, and are therefore potentially subject to taxes in, the U.S. and numerous foreign jurisdictions, including Singapore, Israel and the Cayman Islands, the countries in which we earn the majority of our non-U.S. profits. Due to economic, political or other conditions, tax rates in those jurisdictions may be subject to significant change. A number of factors may adversely impact our future effective tax rates, such as the jurisdictions in which our profits are determined to be earned and taxed; changes in the tax rates imposed by those jurisdictions; expiration of tax holidays in certain jurisdictions that are not renewed; the resolution of issues arising from tax audits with various tax authorities; changes in the valuation of our deferred tax assets and liabilities; adjustments to estimated taxes upon finalization of various tax returns; increases in expenses not

deductible for tax purposes, including write-offs of acquired in-process research and development and impairment of goodwill in connection with acquisitions; changes in available tax credits; changes in stock-based compensation expense; changes in tax laws or the interpretation of such tax laws; changes in generally accepted accounting principles; and the repatriation of earnings from outside the U.S. for which we have not previously provided for U.S. taxes. A change in our effective tax rate can materially and adversely impact our results from operations.

In addition, recent changes to U.S. tax laws will significantly impact how U.S. multinational corporations are taxed on foreign earnings. Numerous countries are evaluating their existing tax laws due in part, to recommendations made by the Organization for Economic Co-operation and Development's ("OECD's") Base Erosion and Profit Shifting ("BEPS") project. As of December 31, 2018, we have completed our accounting for the tax effects of the Act, which was enacted into law on December 22, 2017. However, the recent U.S tax law changes are subject to future guidance from U.S. federal and state governments, such as the Treasury Department and/or the IRS. Any future guidance can change our tax liability. A significant portion of the income taxes due to the enactment of the Act is payable by us over a period of eight years. As a result, our cash flows from operating activities will be adversely impacted until tax liability is paid in full.

Compliance with federal securities laws, rules and regulations, as well as NASDAQ requirements, has become increasingly complex, and the significant attention and expense we must devote to those areas may have an adverse impact on our business.

Federal securities laws, rules and regulations, as well as NASDAQ rules and regulations, require companies to maintain extensive corporate governance measures, impose comprehensive reporting and disclosure requirements, set strict independence and financial expertise standards for audit and other committee members and impose civil and criminal penalties for companies and their chief executive officers, chief financial officers and directors for securities law violations. These laws, rules and regulations have increased, and in the future are expected to continue to increase, the scope, complexity and cost of our corporate governance, reporting and disclosure practices, which could harm our results of operations and divert management's attention from business operations.

A change in accounting standards or practices or a change in existing taxation rules or practices (or changes in interpretations of such standards, practices or rules) can have a significant effect on our reported results and may even affect reporting of transactions completed before the change is effective.

New accounting standards and taxation rules and varying interpretations of accounting pronouncements and taxation rules have occurred and will continue to occur in the future. Changes to (or revised interpretations or applications of) existing accounting standards or tax rules or the questioning of current or past practices may adversely affect our reported financial results or the way we conduct our business. Adoption of new standards may require changes to our processes, accounting systems, and internal controls. Difficulties encountered during adoption could result in internal control deficiencies or delay the reporting of our financial results. In addition, the passing of the Tax Cuts and Jobs-Act in December 2017 caused us to significantly increase our provision for income taxes, which had a material adverse effect on our net income for the fiscal year ended June 30, 2018. Further interpretations of the Act from the government and regulatory organizations may change our tax expense provided for our transitional tax liability and deferred tax adjustments as well as our provision liability or accounting treatment of the provisional liability which may potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts.

Risks Associated with Our Industry

Ongoing changes in the technology industry, as well as the semiconductor industry in particular, could expose our business to significant risks.

The industries that we serve, including the semiconductor, flat panel display and printed circuit board industries, are constantly developing and changing over time. Many of the risks associated with operating in these industries are comparable to the risks faced by all technology companies, such as the uncertainty of future growth rates in the industries that we serve, pricing trends in the end-markets for consumer electronics and other products (which place a growing emphasis on our customers' cost of ownership), changes in our customers' capital spending patterns and, in general, an environment of constant change and development, including decreasing product and component dimensions; use of new materials; and increasingly complex device structures, applications and process steps. If we fail to appropriately adjust our cost structure and operations to adapt to any of these trends, or, with respect to technological advances, if we do not timely develop new technologies and products that successfully anticipate and address these changes, we could experience a material adverse effect on our business, financial condition and operating results.

In addition, we face a number of risks specific to ongoing changes in the semiconductor industry, as a significant majority of our sales are our process control and yield management products sold to semiconductor manufacturers. Some of the trends that our management monitors in operating our business include the following:

- the potential for reversal of the long-term historical trend of declining cost per transistor with each new generation of technological advancement within the semiconductor industry, and the adverse impact that such reversal may have upon our business;
- the increasing cost of building and operating fabrication facilities and the impact of such increases on our customers' capital equipment investment decisions;
- differing market growth rates and capital requirements for different applications, such as memory, logic and foundry;
- lower level of process control adoption by our memory customers compared to our foundry and logic customers;
- our customers' reuse of existing and installed products, which may decrease their need to purchase new products or solutions at more advanced technology nodes;
- the emergence of disruptive technologies that change the prevailing semiconductor manufacturing processes (or the economics associated with semiconductor manufacturing) and, as a result, also impact the inspection and metrology requirements associated with such processes;
- the higher design costs for the most advanced integrated circuits, which could economically constrain leading-edge manufacturing technology customers to focus their resources on only the large, technologically advanced products and applications;
- the possible introduction of integrated products by our larger competitors that offer inspection and metrology functionality in addition to managing other semiconductor manufacturing processes;
- changes in semiconductor manufacturing processes that are extremely costly for our customers to implement and, accordingly, our customers could reduce their available budgets for process control equipment by reducing inspection and metrology sampling rates for certain technologies;
- the bifurcation of the semiconductor manufacturing industry into (a) leading edge manufacturers driving continued research and development into next-generation products and technologies and (b) other manufacturers that are content with existing (including previous generation) products and technologies;
- the ever escalating cost of next-generation product development, which may result in joint development programs between us and our customers or government entities to help fund such programs that could restrict our control of, ownership of and profitability from the products and technologies developed through those programs; and
- the entry by some semiconductor manufacturers into collaboration or sharing arrangements for capacity, cost or risk with other manufacturers, as well as increased outsourcing of their manufacturing activities, and greater focus only on specific markets or applications, whether in response to adverse market conditions or other market pressures.

Any of the changes described above may negatively affect our customers' rate of investment in the capital equipment that we produce, which could result in downward pressure on our prices, customer orders, revenues and gross margins. If we do not successfully manage the risks resulting from any of these or other potential changes in our industries, our business, financial condition and operating results could be adversely impacted.

We are exposed to risks associated with a highly concentrated customer base.

Our customer base, particularly in the semiconductor industry, historically has been highly concentrated due to corporate consolidation, acquisitions and business closures. In this environment, orders from a relatively limited number of manufacturers have accounted for, and are expected to continue to account for, a substantial portion of our sales. This increasing concentration exposes our business, financial condition and operating results to a number of risks, including the following:

- The mix and type of customers, and sales to any single customer, may vary significantly from quarter to quarter and from year to year, which exposes our business and operating results to increased volatility tied to individual customers.
- New orders from our foundry customers in the past several years have constituted a significant portion of our total orders. This concentration increases the impact that future business or technology changes within the foundry industry may have on our business, financial condition and operating results.
- In a highly concentrated business environment, if a particular customer does not place an order, or if they delay or cancel orders, we may not be able to replace the business. Furthermore, because our process control and yield management products are configured to each customer's specifications, any changes, delays or cancellations of orders may result in significant, non-recoverable costs.
- As a result of this consolidation, the customers that survive the consolidation represent a greater portion of our sales and, consequently, have greater commercial negotiating leverage. Many of our large customers have more aggressive policies regarding engaging alternative, second-source suppliers for the products we offer and, in addition, may seek and, on occasion, receive pricing, payment, intellectual property-related or other commercial terms that may have an

adverse impact on our business. Any of these changes could negatively impact our prices, customer orders, revenues and gross margins.

- Certain customers have undergone significant ownership changes, created alliances with other companies, experienced management changes or have outsourced manufacturing activities, any of which may result in additional complexities in managing customer relationships and transactions. Any future change in ownership or management of our existing customers may result in similar challenges, including the possibility of the successor entity or new management deciding to select a competitor's products.
- The highly concentrated business environment also increases our exposure to risks related to the financial condition of each of our customers. For example, as a result of the challenging economic environment during fiscal year 2009, we were (and in some cases continue to be) exposed to additional risks related to the continued financial viability of certain of our customers. To the extent our customers experience liquidity issues in the future, we may be required to incur additional bad debt expense with respect to receivables owed to us by those customers. In addition, customers with liquidity issues may be forced to reduce purchases of our equipment, delay deliveries of our products, discontinue operations or may be acquired by one of our customers, and in either case such event would have the effect of further consolidating our customer base.
- Semiconductor manufacturers generally must commit significant resources to qualify, install and integrate process control and yield management equipment into a semiconductor production line. We believe that once a semiconductor manufacturer selects a particular supplier's process control and yield management equipment, the manufacturer generally relies upon that equipment for that specific production line application for an extended period of time. Accordingly, we expect it to be more difficult to sell our products to a given customer for that specific production line application and other similar production line applications if that customer initially selects a competitor's equipment. Similarly, we expect it to be challenging for a competitor to sell its products to a given customer for a specific production line application if that customer initially selects our equipment.
- Prices differ among the products we offer for different applications due to differences in features offered or manufacturing costs. If there is a shift in demand by our customers from our higher-priced to lower-priced products, our gross margin and revenue would decrease. In addition, when products are initially introduced, they tend to have higher costs because of initial development costs and lower production volumes relative to the previous product generation, which can impact gross margin.

Any of these factors could have a material adverse effect on our business, financial condition and operating results.

We operate in industries that have historically been cyclical, including the semiconductor industry. The purchasing decisions of our customers are highly dependent on the economies of both the local markets in which they are located and the condition of the industry worldwide. If we fail to respond to industry cycles, our business could be seriously harmed.

The timing, length and severity of the up-and-down cycles in the industries in which we serve are difficult to predict. The historically cyclical nature of the semiconductor industry in which we primarily operate is largely a function of our customers' capital spending patterns and need for expanded manufacturing capacity, which in turn are affected by factors such as capacity utilization, consumer demand for products, inventory levels and our customers' access to capital. Cyclicality affects our ability to accurately predict future revenue and, in some cases, future expense levels. During down cycles in our industry, the financial results of our customers may be negatively impacted, which could result not only in a decrease in, or cancellation or delay of, orders (which are generally subject to cancellation or delay by the customer with limited or no penalty) but also a weakening of their financial condition that could impair their ability to pay for our products or our ability to recognize revenue from certain customers. Our ability to recognize revenue from a particular customer may also be negatively impacted by the customer's funding status, which could be weakened not only by adverse business conditions or inaccessibility to capital markets for any number of macroeconomic or company-specific reasons, but also by funding limitations imposed by the customer's unique organizational structure. Any of these factors could negatively impact our business, operating results and financial condition.

When cyclical fluctuations result in lower than expected revenue levels, operating results may be adversely affected and cost reduction measures may be necessary for us to remain competitive and financially sound. During periods of declining revenues, we must be in a position to adjust our cost and expense structure to prevailing market conditions and to continue to motivate and retain our key employees. If we fail to respond, or if our attempts to respond fail to accomplish our intended results, then our business could be seriously harmed. Furthermore, any workforce reductions and cost reduction actions that we adopt in response to down cycles may result in additional restructuring charges, disruptions in our operations and loss of key personnel. In addition, during periods of rapid growth, we must be able to increase manufacturing capacity and personnel to meet customer demand. We can provide no assurance that these objectives can be met in a timely manner in response to industry cycles. Each of these factors could adversely impact our operating results and financial condition.

In addition, our management typically provides quarterly forecasts for certain financial metrics, which, when made, are based on business and operational forecasts that are believed to be reasonable at the time. However, largely due to the historical cyclicality of our business and the industries in which we operate, and the fact that business conditions in our industries can change very rapidly as part of these cycles, our actual results may vary (and have varied in the past) from forecasted results. These variations can occur for any number of reasons, including, but not limited to, unexpected changes in the volume or timing of customer orders, product shipments or product acceptance; an inability to adjust our operations rapidly enough to adapt to changing business conditions; or a different than anticipated effective tax rate. The impact on our business of delays or cancellations of customer orders may be exacerbated by the short lead times that our customers expect between order placement and product shipment. This is because order delays and cancellations may lead not only to lower revenues, but also, due to the advance work we must do in anticipation of receiving a product order to meet the expected lead times, to significant inventory write-offs and manufacturing inefficiencies that decrease our gross margin. Any of these factors could materially and adversely affect our financial results for a particular quarter and could cause those results to differ materially from financial forecasts we have previously provided. We provide these forecasts with the intent of giving investors and analysts a better understanding of management's expectations for the future, but those reviewing such forecasts must recognize that such forecasts are comprised of, and are themselves, forward-looking statements subject to the risks and uncertainties described in this Item 1A and elsewhere in this report and in our other public filings and public statements. If our operating or financial results for a particular period differ from our forecasts or the expectations of investment analysts, or if we revise our forecasts, the market price of our common stock could decline.

Risks Related to Our Business Model and Capital Structure

If we do not develop and introduce new products and technologies in a timely manner in response to changing market conditions or customer requirements, our business could be seriously harmed.

Success in the industries in which we serve, including the semiconductor, flat panel display and printed circuit board industries depends, in part, on continual improvement of existing technologies and rapid innovation of new solutions. The primary driver of technology advancement in the semiconductor industry has been to shrink the lithography that prints the circuit design on semiconductor chips. That driver appears to be slowing, which may cause semiconductor manufacturers to delay investments in equipment, investigate more complex device architectures, use new materials and develop innovative fabrication processes. These and other evolving customer plans and needs require us to respond with continued development programs and cut back or discontinue older programs, which may no longer have industry-wide support. Technical innovations are inherently complex and require long development cycles and appropriate staffing of highly qualified employees. Our competitive advantage and future business success depend on our ability to accurately predict evolving industry standards, develop and introduce new products and solutions that successfully address changing customer needs, win market acceptance of these new products and solutions, and manufacture these new products in a timely and cost-effective manner. Our failure to accurately predict evolving industry standards and develop as well as offer competitive technology solutions in a timely manner with cost-effective products could result in loss of market share, unanticipated costs, and inventory obsolescence, which would adversely impact our business, operating results and financial condition.

We must continue to make significant investments in research and development in order to enhance the performance, features and functionality of our products, to keep pace with competitive products and to satisfy customer demands. Substantial research and development costs typically are incurred before we confirm the technical feasibility and commercial viability of a new product, and not all development activities result in commercially viable products. There can be no assurance that revenues from future products or product enhancements will be sufficient to recover the development costs associated with such products or enhancements. In addition, we cannot be sure that these products or enhancements will receive market acceptance or that we will be able to sell these products at prices that are favorable to us. Our business will be seriously harmed if we are unable to sell our products at favorable prices or if the market in which we operate does not accept our products.

In addition, the complexity of our products exposes us to other risks. We regularly recognize revenue from a sale upon shipment of the applicable product to the customer (even before receiving the customer's formal acceptance of that product) in certain situations, including sales of products for which installation is considered perfunctory, transactions in which the product is sold to an independent distributor and we have no installation obligations, and sales of products where we have previously delivered the same product to the same customer location and that prior delivery has been accepted. However, our products are very technologically complex and rely on the interconnection of numerous subcomponents (all of which must perform to their respective specifications), so it is conceivable that a product for which we recognize revenue upon shipment may ultimately fail to meet the overall product's required specifications. In such a situation, the customer may be entitled to certain remedies, which could materially and adversely affect our operating results for various periods and, as a result, our stock price.

We derive a substantial percentage of our revenues from sales of inspection products. As a result, any delay or reduction of sales of these products could have a material adverse effect on our business, financial condition and operating results. The continued customer demand for these products and the development, introduction and market acceptance of new products and technologies are critical to our future success.

Our success is dependent in part on our technology and other proprietary rights. If we are unable to maintain our lead or protect our proprietary technology, we may lose valuable assets.

Our success is dependent in part on our technology and other proprietary rights. We own various United States and international patents and have additional pending patent applications relating to some of our products and technologies. The process of seeking patent protection is lengthy and expensive, and we cannot be certain that pending or future applications will actually result in issued patents or that issued patents will be of sufficient scope or strength to provide meaningful protection or commercial advantage to us. Other companies and individuals, including our larger competitors, may develop technologies and obtain patents relating to our business that are similar or superior to our technology or may design around the patents we own, which may adversely affect our business. In addition, we at times engage in collaborative technology development efforts with our customers and suppliers, and these collaborations may constitute a key component of certain of our ongoing technology and product research and development projects. The termination of any such collaboration, or delays caused by disputes or other unanticipated challenges that may arise in connection with any such collaboration, could significantly impair our research and development efforts, which could have a material adverse impact on our business and operations.

We also maintain trademarks on certain of our products and services and claim copyright protection for certain proprietary software and documentation. However, we can give no assurance that our trademarks and copyrights will be upheld or successfully deter infringement by third parties.

While patent, copyright and trademark protection for our intellectual property is important, we believe our future success in highly dynamic markets is most dependent upon the technical competence and creative skills of our personnel. We attempt to protect our trade secrets and other proprietary information through confidentiality and other agreements with our customers, suppliers, employees and consultants and through other security measures. We also maintain exclusive and non-exclusive licenses with third parties for strategic technology used in certain products. However, these employees, consultants and third parties may breach these agreements, and we may not have adequate remedies for wrongdoing. In addition, the laws of certain territories in which we develop, manufacture or sell our products may not protect our intellectual property rights to the same extent as do the laws of the United States. In any event, the extent to which we can protect our trade secrets through the use of confidentiality agreements is limited, and our success will depend to a significant extent on our ability to innovate ahead of our competitors.

Our future performance depends, in part, upon our ability to continue to compete successfully worldwide.

Our industry includes large manufacturers with substantial resources to support customers worldwide. Some of our competitors are diversified companies with greater financial resources and more extensive research, engineering, manufacturing, marketing, and customer service and support capabilities than we possess. We face competition from companies whose strategy is to provide a broad array of products and services, some of which compete with the products and services that we offer. These competitors may bundle their products in a manner that may discourage customers from purchasing our products, including pricing such competitive tools significantly below our product offerings. In addition, we face competition from smaller emerging companies whose strategy is to provide a portion of the products and services that we offer, using innovative technology to sell products into specialized markets. The strength of our competitive positions in many of our existing markets is largely due to our leading technology, which is the result of continuing significant investments in product research and development. However, we may enter new markets, whether through acquisitions or new internal product development, in which competition is based primarily on product pricing, not technological superiority. Further, some new growth markets that emerge may not require leading technologies. Loss of competitive position in any of the markets we serve, or an inability to sell our products on favorable commercial terms in new markets we may enter, could negatively affect our prices, customer orders, revenues, gross margins and market share, any of which would negatively affect our operating results and financial condition.

Our business would be harmed if we do not receive parts sufficient in number and performance to meet our production requirements and product specifications in a timely and cost-effective manner.

We use a wide range of materials in the production of our products, including custom electronic and mechanical components, and we use numerous suppliers to supply these materials. We generally do not have guaranteed supply arrangements with our suppliers. Because of the variability and uniqueness of customers' orders, we do not maintain an extensive inventory of materials for manufacturing. Through our business interruption planning, we seek to minimize the risk of production and service interruptions and/or shortages of key parts by, among other things, monitoring the financial stability of

key suppliers, identifying (but not necessarily qualifying) possible alternative suppliers and maintaining appropriate inventories of key parts. Although we make reasonable efforts to ensure that parts are available from multiple suppliers, certain key parts are available only from a single supplier or a limited group of suppliers. Also, key parts we obtain from some of our suppliers incorporate the suppliers' proprietary intellectual property; in those cases, we are increasingly reliant on third parties for high-performance, high-technology components, which reduces the amount of control we have over the availability and protection of the technology and intellectual property that is used in our products. In addition, if certain of our key suppliers experience liquidity issues and are forced to discontinue operations, which is a heightened risk especially during economic downturns, it could affect their ability to deliver parts and could result in delays for our products. Similarly, especially with respect to suppliers of high-technology components, our suppliers themselves have increasingly complex supply chains, and delays or disruptions at any stage of their supply chains may prevent us from obtaining parts in a timely manner and result in delays for our products. Our operating results and business may be adversely impacted if we are unable to obtain parts to meet our production requirements and product specifications, or if we are only able to do so on unfavorable terms. Furthermore, a supplier may discontinue production of a particular part for any number of reasons, including the supplier's financial condition or business operational decisions, which would require us to purchase, in a single transaction, a large number of such discontinued parts in order to ensure that a continuous supply of such parts remains available to our customers. Such "end-of-life" parts purchases could result in significant expenditures by us in a particular period, and ultimately any unused parts may result in a significant inventory write-off, either of which could have an adverse impact on our financial condition and results of operations for the applicable periods.

If we fail to operate our business in accordance with our business plan, our operating results, business and stock price may be significantly and adversely impacted.

We attempt to operate our business in accordance with a business plan that is established annually, revised frequently (generally quarterly), and reviewed by management even more frequently (at least monthly). Our business plan is developed based on a number of factors, many of which require estimates and assumptions, such as our expectations of the economic environment, future business levels, our customers' willingness and ability to place orders, lead-times, and future revenue and cash flow. Our budgeted operating expenses, for example, are based in part on our future revenue expectations. However, our ability to achieve our anticipated revenue levels is a function of numerous factors, including the volatile and historically cyclical nature of our primary industry, customer order cancellations, macroeconomic changes, operational matters regarding particular agreements, our ability to manage customer deliveries, the availability of resources for the installation of our products, delays or accelerations by customers in taking deliveries and the acceptance of our products (for products where customer acceptance is required before we can recognize revenue from such sales), our ability to operate our business and sales processes effectively, and a number of the other risk factors set forth in this Item 1A.

Because our expenses are in most cases relatively fixed in the short term, any revenue shortfall below expectations could have an immediate and significant adverse effect on our operating results. Similarly, if we fail to manage our expenses effectively or otherwise fail to maintain rigorous cost controls, we could experience greater than anticipated expenses during an operating period, which would also negatively affect our results of operations. If we fail to operate our business consistent with our business plan, our operating results in any period may be significantly and adversely impacted. Such an outcome could cause customers, suppliers or investors to view us as less stable, or could cause us to fail to meet financial analysts' revenue or earnings estimates, any of which could have an adverse impact on our stock price.

In addition, our management is constantly striving to balance the requirements and demands of our customers with the availability of resources, the need to manage our operating model and other factors. In furtherance of those efforts, we often must exercise discretion and judgment as to the timing and prioritization of manufacturing, deliveries, installations and payment scheduling. Any such decisions may impact our ability to recognize revenue, including the fiscal period during which such revenue may be recognized, with respect to such products, which could have a material adverse effect on our business, results of operations or stock price.

We have a leveraged capital structure.

As of September 30, 2020 we had $3.45 billion aggregate principal amount of senior, unsecured long-term notes. Additionally, we have commitments for an unfunded Revolving Credit Facility of $1.00 billion under the Credit Agreement. We may incur additional indebtedness in the future by accessing the unfunded portion of our Revolving Credit Facility and/or entering into new financing arrangements. For example, at the same time we announced our intention to acquire Orbotech, we also announced a new stock repurchase program authorizing the repurchase up to $2.00 billion of our common stock, which was subsequently increased by another $1.00 billion, a large portion of which would be financed with new indebtedness. Our ability to pay interest and repay the principal of our current indebtedness is dependent upon our ability to manage our business operations, our credit rating, the ongoing interest rate environment and the other risk factors discussed in this section. There can be no assurance that we will be able to manage any of these risks successfully.

In certain circumstances involving a change of control followed by a downgrade of the rating of a series of notes by at least two of Moody's, S&P and Fitch Inc., unless we have exercised our right to redeem the notes of such series, we will be required to make an offer to repurchase all or, at the holder's option, any part, of each holder's notes of that series pursuant to the offer described below (the "Change of Control Offer"). In the Change of Control Offer, we will be required to offer payment in cash equal to 101% of the aggregate principal amount of notes repurchased plus accrued and unpaid interest, if any, on the notes repurchased, up to, but not including, the date of repurchase. We cannot make any assurance that we will have sufficient financial resources at such time or will be able to arrange financing to pay the repurchase price of that series of notes. Our ability to repurchase that series of notes in such event may be limited by law, by the indenture associated with that series of notes, or by the terms of other agreements to which we may be party at such time. If we fail to repurchase that series of notes as required by the terms of such notes, it would constitute an event of default under the indenture governing that series of notes which, in turn, may also constitute an event of default under other of our obligations.

Borrowings under our Revolving Credit Facility bear interest at a floating rate, and an increase in interest rates would require us to pay additional interest on any borrowings, which may have an adverse effect on the value and liquidity of our debt and the market price of our common stock could decline. The interest rate under our Revolving Credit Facility is also subject to an adjustment in conjunction with our credit rating downgrades or upgrades. Additionally, under our Revolving Credit Facility, we are required to comply with affirmative and negative covenants, which include the maintenance of certain financial ratios, the details of which can be found in Note 8 "Debt" in the Notes to the Condensed Consolidated Financial Statements.

If we fail to comply with these covenants, we will be in default and our borrowings will become immediately due and payable. There can be no assurance that we will have sufficient financial resources or we will be able to arrange financing to repay our borrowings at such time. In addition, certain of our domestic subsidiaries are required to guarantee our borrowings under our Revolving Credit Facility. In the event that we default on our borrowings, these domestic subsidiaries shall be liable for our borrowings, which could disrupt our operations and result in a material adverse impact on our business, financial condition or stock price.

Our leveraged capital structure may adversely affect our financial condition, results of operations and net income per share.

Our issuance and maintenance of higher levels of indebtedness could have adverse consequences including, but not limited to:

- a negative impact on our ability to satisfy our future obligations;
- an increase in the portion of our cash flows that may have to be dedicated to increased interest and principal payments that may not be available for operations, working capital, capital expenditures, acquisitions, investments, dividends, stock repurchases, general corporate or other purposes;
- an impairment of our ability to obtain additional financing in the future; and
- obligations to comply with restrictive and financial covenants as noted in the above risk factor and Note 8 "Debt" in the Notes to the Condensed Consolidated Financial Statements.

Our ability to satisfy our future expenses as well as our new debt obligations will depend on our future performance, which will be affected by financial, business, economic, regulatory and other factors. Furthermore, our future operations may not generate sufficient cash flows to enable us to meet our future expenses and service our new debt obligations, which may impact our ability to manage our capital structure to preserve and maintain our investment grade rating. If our future operations do not generate sufficient cash flows, we may need to access the money available for borrowing under our Revolving Credit Facility or enter into new financing arrangements to obtain necessary funds. If we determine it is necessary to seek additional funding for any reason, we may not be able to obtain such funding or, if funding is available, we may not be able to obtain it on acceptable terms. Any borrowings under our Revolving Credit Facility will place further pressure on us to comply with the financial covenants. If we fail to make a payment associated with our debt obligations, we could be in default on such debt, and such a default could cause us to be in default on our other obligations.

There can be no assurance that we will continue to declare cash dividends at all or in any particular amounts.

Our Board of Directors first instituted a quarterly dividend during the fiscal year ended June 30, 2005. Since that time, we have announced a number of increases in the amount of our quarterly dividend level as well as payment of a special cash dividend that was declared and substantially paid in the second quarter of our fiscal year ended June 30, 2015. We intend to continue to pay quarterly dividends subject to capital availability and periodic determinations by our Board of Directors that cash dividends are in the best interest of our stockholders and are in compliance with all laws and agreements applicable to the declaration and payment of cash dividends by us. Future dividends may be affected by, among other factors: our views on potential future capital requirements for investments in acquisitions and the funding of our research and development; legal risks; stock repurchase programs; changes in federal and state income tax laws or corporate laws; changes to our business

model; and our increased interest and principal payments required by our outstanding indebtedness and any additional indebtedness that we may incur in the future. Our dividend payments may change from time to time, and we cannot provide assurance that we will continue to declare dividends at all or in any particular amounts. A reduction in our dividend payments could have a negative effect on our stock price.

We are exposed to risks related to our commercial terms and conditions, including our indemnification of third parties, as well as the performance of our products.

Although our standard commercial documentation sets forth the terms and conditions that we intend to apply to commercial transactions with our business partners, counterparties to such transactions may not explicitly agree to our terms and conditions. In situations where we engage in business with a third party without an explicit master agreement regarding the applicable terms and conditions, or where the commercial documentation applicable to the transaction is subject to varying interpretations, we may have disputes with those third parties regarding the applicable terms and conditions of our business relationship with them. Such disputes could lead to a deterioration of our commercial relationship with those parties, costly and time-consuming litigation, or additional concessions or obligations being offered by us to resolve such disputes, or could impact our revenue or cost recognition. Any of these outcomes could materially and adversely affect our business, financial condition and results of operations.

In addition, in our commercial agreements, from time to time in the normal course of business we indemnify third parties with whom we enter into contractual relationships, including customers, suppliers and lessors, with respect to certain matters. We have agreed, under certain conditions, to hold these third parties harmless against specified losses, such as those arising from a breach of representations or covenants, other third party claims that our products when used for their intended purposes infringe the intellectual property rights of such other third parties, or other claims made against certain parties. We may be compelled to enter into or accrue for probable settlements of alleged indemnification obligations, or we may be subject to potential liability arising from our customers' involvements in legal disputes. In addition, notwithstanding the provisions related to limitations on our liability that we seek to include in our business agreements, the counterparties to such agreements may dispute our interpretation or application of such provisions, and a court of law may not interpret or apply such provisions in our favor, any of which could result in an obligation for us to pay material damages to third parties and engage in costly legal proceedings. It is difficult to determine the maximum potential amount of liability under any indemnification obligations, whether or not asserted, due to our limited history of prior indemnification claims and the unique facts and circumstances that are likely to be involved in any particular claim. Our business, financial condition and results of operations in a reported fiscal period could be materially and adversely affected if we expend significant amounts in defending or settling any purported claims, regardless of their merit or outcomes.

We are also exposed to potential costs associated with unexpected product performance issues. Our products and production processes are extremely complex and thus could contain unexpected product defects, especially when products are first introduced. Unexpected product performance issues could result in significant costs being incurred by us, including increased service or warranty costs, providing product replacements for (or modifications to) defective products, litigation related to defective products, reimbursement for damages caused by our products, product recalls, or product write-offs or disposal costs. These costs could be substantial and could have an adverse impact upon our business, financial condition and operating results. In addition, our reputation with our customers could be damaged as a result of such product defects, which could reduce demand for our products and negatively impact our business.

Furthermore, we occasionally enter into volume purchase agreements with our larger customers, and these agreements may provide for certain volume purchase incentives, such as credits toward future purchases. We believe that these arrangements are beneficial to our long-term business, as they are designed to encourage our customers to purchase higher volumes of our products. However, these arrangements could require us to recognize a reduced level of revenue for the products that are initially purchased, to account for the potential future credits or other volume purchase incentives. Our volume purchase agreements require significant estimation for the amounts to be accrued depending upon the estimate of volume of future purchases. As such, we are required to update our estimates of the accruals on a periodic basis. Until the earnings process is complete, our estimates could differ in comparison to actual results. As a result, these volume purchase arrangements, while expected to be beneficial to our business over time, could materially and adversely affect our results of operations in near-term periods, including the revenue we can recognize on product sales and therefore our gross margins.

In addition, we may in limited circumstances enter into agreements that contain customer-specific commitments on pricing, tool reliability, spare parts stocking levels, response time and other commitments. Furthermore, we may give these customers limited audit or inspection rights to enable them to confirm that we are complying with these commitments. If a customer elects to exercise its audit or inspection rights, we may be required to expend significant resources to support the audit or inspection, as well as to defend or settle any dispute with a customer that could potentially arise out of such audit or inspection. To date, we have made no significant accruals in our Condensed Consolidated Financial Statements for this

contingency. While we have not in the past incurred significant expenses for resolving disputes regarding these types of commitments, we cannot make any assurance that we will not incur any such liabilities in the future. Our business, financial condition and results of operations in a reported fiscal period could be materially and adversely affected if we expend significant amounts in supporting an audit or inspection, or defending or settling any purported claims, regardless of their merit or outcomes.

There are risks associated with our receipt of government funding for research and development.

We are exposed to additional risks related to our receipt of external funding for certain strategic development programs from various governments and government agencies, both domestically and internationally. Governments and government agencies typically have the right to terminate funding programs at any time in their sole discretion, or a project may be terminated by mutual agreement if the parties determine that the project's goals or milestones are not being achieved, so there is no assurance that these sources of external funding will continue to be available to us in the future. In addition, under the terms of these government grants, the applicable granting agency typically has the right to audit the costs that we incur, directly and indirectly, in connection with such programs. Any such audit could result in modifications to, or even termination of, the applicable government funding program. For example, if an audit were to identify any costs as being improperly allocated to the applicable program, those costs would not be reimbursed, and any such costs that had already been reimbursed would have to be refunded. We do not know the outcome of any future audits. Any adverse finding resulting from any such audit could lead to penalties (financial or otherwise), termination of funding programs, suspension of payments, fines and suspension or prohibition from receiving future government funding from the applicable government or government agency, any of which could adversely impact our operating results, financial condition and ability to operate our business.

We have recorded significant restructuring, inventory write-off and asset impairment charges and may do so again in the future, which could have a material negative impact on our results of operations.

Historically, we have recorded material restructuring charges related to our prior global workforce reductions, large excess inventory write-offs, and material impairment charges related to our goodwill and purchased intangible assets. Workforce changes can also temporarily reduce workforce productivity, which could be disruptive to our business and adversely affect our results of operations. In addition, we may not achieve or sustain the expected cost savings or other benefits of our restructuring plans, or do so within the expected time frame. If we again restructure our organization and business processes, implement additional cost reduction actions or discontinue certain business operations, we may take additional, potentially material, restructuring charges related to, among other things, employee terminations or exit costs. We may also be required to write-off additional inventory if our product build plans or usage of service inventory decline. Also, as our lead times from suppliers increase (due to the increasing complexity of the parts and components they provide) and the lead times demanded by our customers decrease (due to the time pressures they face when introducing new products or technology or bringing new facilities into production), we may be compelled to increase our commitments, and therefore our risk exposure, to inventory purchases to meet our customers' demands in a timely manner, and that inventory may need to be written-off if demand for the underlying product declines for any reason. Such additional write-offs could result in material charges.

We have recorded material charges related to the impairment of our goodwill and purchased intangible assets. Goodwill represents the excess of costs over the net fair value of net assets acquired in a business combination. Goodwill is not amortized, but is instead tested for impairment at least annually in accordance with authoritative guidance for goodwill. Purchased intangible assets with estimable useful lives are amortized over their respective estimated useful lives based on economic benefit if known or using the straight-line method, and are reviewed for impairment in accordance with authoritative guidance for long-lived assets. The valuation of goodwill and intangible assets requires assumptions and estimates of many critical factors, including but not limited to declines in our operating cash flows, declines in our stock price or market capitalization, declines in our market share, and declines in revenues or profits. A substantial decline in our stock price, or any other adverse change in market conditions, particularly if such change has the effect of changing one of the critical assumptions or estimates we previously used to calculate the value of our goodwill or intangible assets (and, as applicable, the amount of any previous impairment charge), could result in a change to the estimation of fair value that could result in an additional impairment charge.

Any such additional material charges, whether related to restructuring or goodwill or purchased intangible asset impairment, may have a material negative impact on our operating results and related financial statements.

We are exposed to risks related to our financial arrangements with respect to receivables factoring and banking arrangements.

We enter into factoring arrangements with financial institutions to sell certain of our trade receivables and promissory notes from customers without recourse. In addition, we maintain bank accounts with several domestic and foreign financial institutions, any of which may prove not to be financially viable. If we were to stop entering into these factoring arrangements,

our operating results, financial condition and cash flows could be adversely impacted by delays or failures in collecting trade receivables. However, by entering into these arrangements, and by engaging these financial institutions for banking services, we are exposed to additional risks. If any of these financial institutions experiences financial difficulties or is otherwise unable to honor the terms of our factoring or deposit arrangements, we may experience material financial losses due to the failure of such arrangements or a lack of access to our funds, any of which could have an adverse impact upon our operating results, financial condition and cash flows.

We are subject to the risks of additional government actions in the event we were to breach the terms of any settlement arrangement into which we have entered.

In connection with the settlement of certain government actions and other legal proceedings related to our historical stock option practices, we have explicitly agreed as a condition to such settlements that we will comply with certain laws, such as the books and records provisions of the federal securities laws. If we were to violate any such law, we might not only be subject to the significant penalties applicable to such violation, but our past settlements may also be impacted by such violation, which could give rise to additional government actions or other legal proceedings. Any such additional actions or proceedings may require us to expend significant management time and incur significant accounting, legal and other expenses, and may divert attention and resources from the operation of our business. These expenditures and diversions, as well as an adverse resolution of any such action or proceeding, could have a material adverse effect on our business, financial condition and results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Equity Repurchase Plans

The following is a summary of stock repurchases for the three months ended September 30, 2020:

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs[1]		Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs[1]
July 1, 2020 to July 31, 2020	—	$	—	—	$	1,037,609,908
August 1, 2020 to August 31, 2020	290,245	$	206.72	290,245	$	977,611,095
September 1, 2020 to September 30, 2020	737,436	$	181.57	737,436	$	843,712,366
Total	1,027,681	$	188.67	1,027,681		

(1) The stock repurchase program was announced on March 19, 2018, with an approved dollar amount of $2.0 billion. An additional $1.0 billion was authorized and announced on September 17, 2019. The program has no expiration date and may be suspended at any time. Future repurchases of our common stock under our repurchase program may be effected through various different repurchase transaction structures, including isolated open market transactions or systematic repurchase plans.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File Number	Exhibit Number	Filing Date
4.1	Description of Registrant’s Securities Registered Under Section 12 of the Securities Exchange Act of 1934				
10.1	Offer Letter dated August 20, 2020 by and between KLA Corporation and MaryBeth Wilkinson*				
31.1	Certification of Chief Executive Officer under Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934				
31.2	Certification of Chief Financial Officer under Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934				
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350				
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data file because its XBRL tags are embedded within the Inline XBRL document				
101.SCH	XBRL Taxonomy Extension Schema Document				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document				
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)				

* Denotes a management contract, plan or arrangement.

SIGNATURES

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

KLA CORPORATION
(Registrant)

October 30, 2020	/s/ RICHARD P. WALLACE
(Date)	Richard P. Wallace President and Chief Executive Officer (Principal Executive Officer)
October 30, 2020	/s/ BREN D. HIGGINS
(Date)	Bren D. Higgins Executive Vice President and Chief Financial Officer (Principal Financial Officer)
October 30, 2020	/s/ VIRENDRA A. KIRLOSKAR
(Date)	Virendra A. Kirloskar Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)

Exhibit 4.1

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

As of the date of the Quarterly Report on Form 10-Q of which this exhibit forms a part, the only class of securities of KLA Corporation ("we" and "our") registered under Section 12 of the Securities Exchange Act of 1934, as amended, is our common stock, $0.001 par value per share.

DESCRIPTION OF COMMON STOCK

The following description of our common stock summarizes certain material terms and provisions of our certificate of incorporation, by-laws, and the Delaware General Corporation Law. For the complete terms of our common stock, please refer to our certificate of incorporation and by-laws, which are incorporated by reference as exhibits to the Annual Report on Form 10-K filed on August 7, 2020, and to the applicable provisions of the Delaware General Corporation Law.

Authorized Common Stock

We have authority to issue 500 million shares of common stock, par value $0.001 per share.

Rights of Common Stock:

Voting Rights; Liquidation; Dividends. Holders of our common stock are entitled:

- to one vote per share upon any matter, including, without limitation, the election of directors, on which stockholders are entitled to vote generally;
- upon our liquidation, dissolution or winding up, whether voluntary or involuntary, to participate in the distribution of any assets remaining after the payment of all debts and liabilities, subject to any preferential or other rights of the holders of any outstanding shares of our preferred stock; and
- subject to any preferential or other rights granted to the holders of any outstanding shares of our preferred stock,to receive dividends as may be declared from time to time by our board of directors and paid out of funds lawfully available therefor.

Other Rights and Restrictions. The holders of our common stock do not have any preemptive or subscription rights to purchase additional securities issued by us, nor any rights to convert their common stock into other of our securities or have their shares of common stock redeemed by us. Our common stock is not subject to redemption by us. Our certificate and by-laws do not restrict the ability of a holder of common stock to transfer his or her shares of common stock.

Preferred Stock. Our board of directors has the authority, without further action by our stockholders, to issue up to 1 million shares of preferred stock, par value $0.001 per share, in one or more series and to fix the number of shares, designations, powers, preferences, and rights of the shares of each series and any qualifications, limitations or restrictions thereof to the full extent now or hereafter permitted by Delaware law.

Anti-Takeover Effects of Our Certificate of Incorporation and By-Law Provisions

Undesignated Preferred Stock. Because our board of directors has the power to establish the powers, preferences and rights of the shares of any additional series of preferred stock, it may afford holders of any series of preferred stock preferences, powers and rights, including voting and dividend rights, senior to the rights of holders of the common stock, which could adversely affect the holders of the common stock and could discourage a takeover of us even if a change of control of our company would be beneficial to the interests of our stockholders.

Limits on Stockholders Rights to Call Special Meetings or Act by Written Consent Our bylaws provide that a special meeting of stockholders may only be called by our board of directors. As a result, stockholders may not call a special meeting, which may delay the ability of our stockholders to force consideration of a proposal, including a proposal to amend our bylaws or remove any directors.

Our certificate of incorporation provides that any action required or permitted to be taken by our stockholders must be effected at a duly called annual or special meeting and may not be effected by consent of stockholders in lieu of a meeting. The restriction on the stockholders' ability to act by consent in lieu of a meeting may lengthen the amount of time required for stockholders to take actions. As a result, holders of a majority of our capital stock would not be able to take corporate action, including effecting any amendment to our bylaws or removal of our directors, without holding a meeting of our stockholders called in accordance with our bylaws.

Stockholder Advance Notice Procedure. Our bylaws establish an advance notice procedure for stockholders to make nominations of candidates for election as directors or to bring other business before an annual meeting of stockholders or a special meeting of stockholders called for the purpose of electing directors. These provisions may have the effect of precluding the conduct of certain business or nominations at a meeting of stockholders if the proper procedures are not followed. These provisions may also discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company.

Section 203 of the Delaware General Corporation Law. We are subject to Section 203 of the Delaware General Corporation Law, which, with specified exceptions, prohibits a "business combination" with any "interested stockholder" for a period of three years following the time that the stockholder became an interested stockholder unless:

- prior to that time, the board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding (but not the outstanding stock owned by the interested stockholder) those shares owned by persons who are directors and also officers and by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- at or subsequent to that time, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the interested stockholder.

Section 203 defines "business combination" to include the following:

- any merger or consolidation of the corporation or any majority-owned subsidiary of the corporation with (a) the interested stockholder or (b) with any corporation, partnership or other entity if the merger or consolidation is caused by the interested stockholder;
- any sale, lease, exchange, mortgage, pledge, transfer or other disposition to or with the interested stockholder of assets of the corporation or any majority-owned subsidiary of the corporation equal to at least 10% of the aggregate market value of all assets of the corporation or the aggregate market value of all outstanding stock of the corporation;
- subject to specified exceptions, any transaction that results in the issuance or transfer by the corporation or by any majority-owned subsidiary of the corporation of any stock of the corporation or of such subsidiary to the interested stockholder;
- any transaction involving the corporation or any majority-owned subsidiary of the corporation which has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or
- any receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation or any majority-owned subsidiary.

In general, Section 203 defines an "interested stockholder" as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with, controlling or controlled by that entity or person.

The application of Section 203 may make it difficult and expensive for a third party to pursue a takeover attempt we do not approve of even if a change in control would be beneficial to the interests of our stockholders.

Additional Restrictions on Transactions with Interested Shareholders. In addition to Section 203 of the Delaware General Corporation Law, described above, our certificate of incorporation contains the following restrictions on transactions with interested shareholders. Any of the following, subject to the exception below, require the vote of the holders of at least 80% of the outstanding shares of the capital stock of the corporation, voting together as a single class:

- any merger or consolidation of the corporation or any majority-owned subsidiary with (a) any interested shareholder or (b) any other corporation which is, or after such merger or consolidation would be, an affiliate of an interested shareholder;
- any sale, lease, exchange, mortgage, pledge, transfer or other disposition to or with any interested shareholder or affiliate of an interested shareholder of any assets of the corporation or any majority-owned subsidiary having an aggregate fair market value of $1 million or more;
- the issuance or transfer by the corporation or any majority-owned subsidiary of any securities of the corporation or any subsidiary to any interested shareholder or any affiliate of an interested shareholder in exchange for cash, securities or other property having an aggregate fair market value of $1 million or more;
- the adoption of any plan or proposal for the liquidation or dissolution of the corporation proposed by or on behalf of any interested shareholder or an affiliate of an interested shareholder; or
- any reclassification of securities, or recapitalization of the corporation, or any merger or consolidation of the corporation with any of its subsidiaries or any other transaction which has the effect of increasing the proportionate share of the outstanding shares of any class of equity of the corporation or any majority-owned subsidiary which is directly or indirectly owned by an interested shareholder or any affiliate of an interested shareholder.

Our certificate of incorporation defines an “interested shareholder” as any person who (i) is the beneficial owner of more than five percent of capital stock of the corporation, (b) is an affiliate of the corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner of five percent or more of the capital stock of the corporation, or (c) is an assignee or has otherwise succeeded to any shares of capital stock which were at any time within the two-year period immediately prior to the date in question beneficially owned by any interested shareholder, excluding shares acquired in a public offering within the meaning of the Securities Act of 1933, as amended.

These provisions of our certificate of incorporation restricting business combination transactions are not applicable to any such transaction, and any such transaction will only require an affirmative vote as if required by law or other provisions of our certificate, if such transaction was approved by a majority of our continuing directors at a meeting at which a continuing director quorum is present. Our certificate of incorporation defines the term “continuing director” as each member of the board of directors who is unaffiliated with the interested shareholder and who was a member of the board prior to the time the interested shareholder became an interested shareholder, and any successor of a continuing director who is unaffiliated with the interested shareholder or is recommended or elected to succeed a continuing director by a majority of continuing directors, so long as the recommendation or election is made at a meeting at which a continuing director quorum is present. Under our certificate of incorporation, a “continuing director quorum” means four continuing directors capable of exercising the powers conferred upon them by our certificate of incorporation, bylaws and applicable law. These provisions of our certificate of incorporation restricting specified business combination transactions with interested shareholders may not be amended or repealed, and no provision inconsistent with these provisions may be adopted, without the affirmative vote of holders of at least 80% of our outstanding capital stock.

The application of this provision of our certificate of incorporation may make it difficult and expensive for a third party to pursue a takeover attempt we do not approve of even if a change in control would be beneficial to the interests of our stockholders.

Exhibit 10.1

August 18, 2020

MaryBeth Wilkinson
[**]
[**]

Dear MaryBeth:

I am pleased to offer you the opportunity and challenge to join the KLA team. As Executive Vice President, Chief Legal Officer and Corporate Secretary, based in KLA's Ann Arbor, Michigan office, you will work under my direction. The details of your employment offer are as follows:

BASE SALARY: $500,000.00 annualized; paid bi-weekly at approximately $19,230.77

FLSA STATUS: Exempt

HIRING BONUS: You will be paid a hiring bonus in the gross amount of $350,000.00 which amount will become fully earned if you continue your employment with KLA Corporation **("KLA"** or the **"Company")** for twenty-four (24) continuous months following your first day of work **("Effective Hire Date").** Payment of this bonus will be made within thirty (30) days following your Effective Hire Date, subject to tax withholdings. In the event your employment with KLA ends within twenty-four (24) months of your Effective Hire Date, either voluntarily or for any reason other than a reduction in force or reorganization, before you have completely earned all of the bonus advanced, you will be required to immediately reimburse KLA, on a pro-rata basis, the unearned portion of the advanced bonus paid to you. By signing below, you expressly agree to pay any balance owing to KLA in full within two (2) weeks of your termination date.

RESTRICTED STOCK UNITS: It will be recommended at the next Board of Directors' Compensation Committee meeting, pursuant to the Company's Equity Incentive Plan, that you be granted restricted stock units **("RSUs")** of KLA stock with an estimated value of $3,000,000.00. These RSUs shall be subject to vesting (currently expected to be one-third vesting on each the 1st, 2nd, and 3rd annual anniversaries of the award date subject to your continuing employment as of the applicable vesting date). In accordance with Company practice, the Compensation Committee reviews and determines the actual equity awards. The number of RSUs will be based on the KLAC closing price on the date of grant. You will receive notification of the award, grant date, as well as the terms and conditions of the grant within 30 days following the Compensation Committee's approval. Any such award will be subject to the terms of the applicable grant document and the 2004 Equity Incentive Plan, as it may be amended from time to time at the Company's sole discretion.

EXECUTIVE LONG-TERM INCENTIVE: You will be eligible to participate in the KLA annual Executive LongTerm Incentive Plan, with an initial target value of $1,100,000.00. This initial recommendation will be reviewed on or about August 1, 2021.

EXECUTIVE INCENTIVE BONUS: You will be eligible to earn an annual incentive bonus based on a bonus target of 80% of your base salary The amount of any bonus will be based on performance to plans established early each Plan Year. Any bonus payments to be made will be paid once per year and you must be an employee on the date of payout to receive this incentive bonus. Note that an employee must be in an eligible position on or before October 1 to qualify for participation in the Executive Incentive Bonus Plan for that year. A copy of the current Executive Incentive Bonus Plan is attached for review.

HEALTH & WELFARE BENEFITS: You will be eligible for the health and welfare benefits generally available to U.S. employees in a like job position. You will need to enroll in U.S. Benefits within 31 days of your Start Date. Benefit coverage is contingent upon you having a valid U.S. Social Security Number ("**SSN**"). If you do not have a valid U.S. SSN within 31 days of your Start Date, access to coverage under the health and welfare plans may be delayed. All benefits are at all times subject to the eligibility requirements and other terms of any relevant plan documents and are subject to change from time to time at the Company's discretion.

RELOCATION: KLA will engage a Relocation Service Provider to manage your move from [**] to the Ann Arbor, MI area A copy of KLA's Relocation Summary Sheet is provided as an example of services that may be included. Upon acceptance of KLA's offer of employment, you will be contacted by the Company's Relocation Service Provider and receive a customized letter that specifies the terms of your relocation package. No other relocation expenses will be provided unless otherwise outlined in this letter or in writing from the U.S. Global Mobility Group. Relocation arrangements are expected to start on or before your Effective Hire Date. You are expected to be in and able to work from the Ann Arbor, MI area as of your Effective Hire Date.

Relocation Expenses are regulated by the Internal Revenue Service ("**IRS**"). In accordance to the IRS Guidelines, the relocation should be completed within one (1) year from your Effective Hire Date. Any exceptions to this timeframe must be reviewed and approved in writing by the U.S. Global Mobility Group.

The relocation benefits shall become fully earned if you continue your employment with the Company for twenty-four (24) continuous months following your Effective Hire Date. In the event that your employment with KLA ends within twenty-four (24) months of your Effective Hire Date, either voluntarily or for any reason other than a reduction in force or reorganization, you will be required to immediately reimburse KLA, on a pro-rata basis, the unearned portion of the amounts paid for relocation whether disbursed to you directly or paid on your behalf. By signing below, you expressly agree to pay any balance owing to KLA in full within two (2) weeks of your termination date.

TERMINATION WITHIN THE FIRST 12 MONTHS: If you are terminated, without Cause (as defined below), within twelve (12) months following your Effective Hire Date, KLA will pay you severance in the gross amount of $900,000.00, which is equal to one (1) year of your base salary plus payout of your target annual incentive bonus, and waive repayment of the pro-rated hiring bonus and relocation benefits (collectively, "**Severance Pay and Benefits**"). Receipt of the Severance Pay and Benefits summarized herein is contingent upon your execution of a general release of claims in favor of KLA, to be prepared by KLA (the "**Release**"), within sixty (60) days following your separation date. Payment of the severance will be made in lump sum, less applicable deductions and withholdings, within fourteen (14) days following the effectiveness of the Release or as soon thereafter as reasonably practicable. You will not be entitled to any other severance pay or benefits, including under the KLA Corporation Tier 2 Severance Benefits Plan and Summary Plan Description - January 1, 2020 - December 31, 2020 or any other severance plan established during the relevant period.

"Cause" shall mean conviction of or plea of nolo contendere to any felony or any crime involving moral turpitude; commission of any act or omission involving dishonesty or fraud with respect to the Company or the Company's customers, vendors or suppliers; misappropriation of Company funds or assets for personal use; breach of any material Company policy or term of employment (including the engagement in unlawful harassment or unlawful discrimination); continued neglect of duties or unsatisfactory performance that continues after written notice thereof from the Company; gross negligence or willful misconduct in the performance of duties to the Company; or engaging in conduct constituting a breach of your obligations to the Company with respect to confidentiality, use or disclosure of proprietary information, or conflict of interest.

The offer of Severance Pay and Benefits if terminated, without Cause, during the first twelve (12) months of employment does not alter the at-will nature of your employment.

AT-WILL EMPLOYMENT: Employment with KLA is at will. Therefore, you may resign at any time, for any reason or for no reason. Similarly, KLA may end its employment relationship with you at any time, with or without cause, and with or without advanced notice. Nothing herein guarantees you the right of continued employment through any particular date. This letter contains the entire agreement between you and the Company with respect to the at-will nature of your employment, and the at-will term may be modified only in a writing that is signed by you and the KLA Executive Vice President of Human Resources which specifically states the intent to modify the at-will term.

Compensation and benefits usually are reviewed annually. Changes to compensation and benefits, however, may be made by the Company at any time, at the Company's discretion.

This offer is contingent upon the approval of the Compensation Committee of the Company's Board of Directors, and the satisfactory completion of a background and reference check.

U.S. immigration law requires that employers verify each individual's eligibility to work in the U.S., including U.S. citizens. Your employment offer is contingent upon you providing satisfactory proof of identity and authorization to work in the U.S. within three (3) business days of your Effective Hire Date. A list of acceptable documents for this purpose may be found at https://www.uscis.gov/i-9 on pages 8-11 of the Form 1-9 Instructions. Please bring the appropriate documentation on your first day of work. In addition, the U.S. Export Administration Regulations restrict the transfer of certain technology out of the U.S., as well as the release of certain technology to foreign persons even if they are in the U.S. This offer of employment is contingent upon receipt of an export license from the U.S. Department of Commerce, if required.

This offer is made based on the assumption that you will be able to begin active work with KLA on or within a reasonable time after the start date indicated below. In the event that your background check is not satisfactorily completed, an anticipated educational degree is not completed, any required approval from the U.S. Department of Commerce is not obtained, your right to work in the U.S. cannot be verified, or any other circumstance prevents you from beginning work within a reasonable time following your anticipated start date, as determined in the sole discretion of KLA, this offer may be revoked or rescinded.

This offer will expire on August 25, 2020. To accept this employment offer, email a signed copy of this offer letter to [**] at [**]@kla.com and send the original signed letter to her attention at 1 Technology Drive, Milpitas, CA 95035. You are encouraged to keep a copy for your records.

I am convinced that you will be an asset to KLA and hope you will find many opportunities to grow both professionally and personally.

If you have any questions concerning this offer of employment, please feel free to contact me. We look forward to you joining KLA.

Sincerely,

/s/ Rick Wallace

Rick Wallace
President and Chief Executive Officer
KLA Corporation

By my signature directly below, I accept the offer of employment with KLA Corporation on the terms and conditions described above. In particular, I accept the terms of the relocation benefits and hiring bonus described above and understand that I will be obligated to repay, on a pro-rata basis, any portion of such benefits and bonus that may be unearned if I leave KLA within twenty-four (24) months of my Effective Hire Date.

Accepted by: /s/ MaryBeth Wilkinson Date: August 20, 2020
MaryBeth Wilkinson

Anticipated Start Date: September 21, 2020

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) As Adopted
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Richard P. Wallace, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of KLA Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 30, 2020	/s/ RICHARD P. WALLACE
(Date)	Richard P. Wallace President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) As Adopted
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Bren D. Higgins, certify that:

1 I have reviewed this Quarterly Report on Form 10-Q of KLA Corporation;

2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4 The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5 The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 30, 2020	/s/ BREN D. HIGGINS
(Date)	Bren D. Higgins Executive Vice President and Chief Financial Officer (Principal Financial Officer)

Exhibit 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard P. Wallace, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of KLA Corporation on Form 10-Q for the fiscal quarter ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of KLA Corporation.

October 30, 2020	By:	/s/ RICHARD P. WALLACE
(Date)	Name:	Richard P. Wallace
	Title:	President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Bren D. Higgins, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of KLA Corporation on Form 10-Q for the fiscal quarter ended September 30, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of KLA Corporation.

October 30, 2020	By:	/s/ BREN D. HIGGINS
(Date)	Name:	Bren D. Higgins
	Title:	Executive Vice President and Chief Financial Officer