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 December 31, 2021

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 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 January 14, 2022, there were 150,715,343 shares of the registrant's Common Stock, $0.001 par value per share, outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KLA CORPORATION
Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands)	December 31, 2021	June 30, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,657,057	$ 1,434,610
Marketable securities	1,153,404	1,059,912
Accounts receivable, net	1,728,376	1,305,479
Inventories	1,829,412	1,575,380
Other current assets	333,226	320,867
Total current assets	6,701,475	5,696,248
Land, property and equipment, net	717,178	663,027
Goodwill	2,042,794	2,011,172
Deferred income taxes	662,854	270,461
Purchased intangible assets, net	1,104,991	1,185,311
Other non-current assets	450,945	444,905
Total assets	$ 11,680,237	$ 10,271,124
LIABILITIES, NON-CONTROLLING INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 379,875	$ 342,083
Deferred system revenue	432,854	295,192
Deferred service revenue	307,250	284,936
Short-term debt	20,000	20,000
Other current liabilities	1,636,119	1,161,016
Total current liabilities	2,776,098	2,103,227
Long-term debt	3,424,106	3,422,767
Deferred tax liabilities	679,688	650,623
Deferred service revenue	102,776	87,575
Other non-current liabilities	650,813	631,290
Total liabilities	7,633,481	6,895,482
Commitments and contingencies (Notes 9, 14 and 15)		
Stockholders' equity:		
Common stock and capital in excess of par value	2,181,025	2,175,988
Retained earnings	1,943,981	1,277,123
Accumulated other comprehensive loss	(76,479)	(75,557)
Total KLA stockholders' equity	4,048,527	3,377,554
Non-controlling interest in consolidated subsidiaries	(1,771)	(1,912)
Total stockholders' equity	4,046,756	3,375,642
Total liabilities and stockholders' equity	$ 11,680,237	$ 10,271,124

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

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KLA CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020	Six Months Ended December 31, 2021	Six Months Ended December 31, 2020
Revenues:				
Product	$ 1,895,769	$ 1,238,023	$ 3,525,657	$ 2,383,518
Service	456,861	412,847	910,811	805,972
Total revenues	2,352,630	1,650,870	4,436,468	3,189,490
Costs and expenses:				
Costs of revenues	908,162	669,733	1,721,786	1,290,295
Research and development	265,031	229,064	523,184	448,102
Selling, general and administrative	213,479	181,909	406,740	354,540
Interest expense	37,852	38,880	76,164	78,266
Other expense (income), net	1,201	3,882	15,341	7,079
Income before income taxes	926,905	527,402	1,693,253	1,011,208
Provision (benefit) for income taxes	209,388	70,419	(92,749)	134,083
Net income	717,517	456,983	1,786,002	877,125
Less: Net income (loss) attributable to non-controlling interest	73	(268)	141	(693)
Net income attributable to KLA	$ 717,444	$ 457,251	$ 1,785,861	$ 877,818
Net income per share attributable to KLA				
Basic	$ 4.74	$ 2.96	$ 11.77	$ 5.67
Diluted	$ 4.71	$ 2.94	$ 11.68	$ 5.62
Weighted-average number of shares:				
Basic	151,251	154,273	151,791	154,777
Diluted	152,331	155,560	152,886	156,057

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

KLA CORPORATION
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(In thousands)	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020	Six Months Ended December 31, 2021	Six Months Ended December 31, 2020
Net income	$ 717,517	$ 456,983	$ 1,786,002	$ 877,125
Other comprehensive income (loss):				
Currency translation adjustments:				
Cumulative currency translation adjustments	(1,391)	8,901	(4,146)	14,341
Income tax (provision) benefit	78	(787)	395	(1,190)
Net change related to currency translation adjustments	(1,313)	8,114	(3,751)	13,151
Cash flow hedges:				
Net unrealized gains (losses) arising during the period	6,741	(1,357)	7,593	(2,275)
Reclassification adjustments for net (gains) losses included in net income	(912)	1,115	(2,130)	1,061
Income tax (provision) benefit	(963)	52	(1,024)	260
Net change related to cash flow hedges	4,866	(190)	4,439	(954)
Net change related to unrecognized losses and transition obligations in connection with defined benefit plans	580	(379)	1,208	(3,498)
Available-for-sale securities:				
Net unrealized losses arising during the period	(3,273)	(911)	(3,590)	(1,862)
Reclassification adjustments for net (gains) losses included in net income	3	(111)	2	(212)
Income tax benefit	702	219	770	445
Net change related to available-for-sale securities	(2,568)	(803)	(2,818)	(1,629)
Other comprehensive income (loss)	1,565	6,742	(922)	7,070
Less: Comprehensive income (loss) attributable to non-controlling interest	73	(268)	141	(693)
Total comprehensive income attributable to KLA	$ 719,009	$ 463,993	$ 1,784,939	$ 884,888

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 Shares	Common Stock and Capital in Excess of Par Value Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total KLA Stockholders' Equity	Non-Controlling Interest	Total Stockholders' Equity
Balances as of June 30, 2021	152,776	$ 2,175,988	$ 1,277,123	$ (75,557)	$ 3,377,554	$ (1,912)	$ 3,375,642
Net income attributable to KLA	—	—	1,068,417	—	1,068,417	—	1,068,417
Net income attributable to non-controlling interest	—	—	—	—	—	68	68
Other comprehensive income	—	—	—	(2,487)	(2,487)	—	(2,487)
Net issuance under employee stock plans	160	(46,532)	—	—	(46,532)	—	(46,532)
Repurchase of common stock	(1,190)	(16,966)	(382,711)	—	(399,677)	—	(399,677)
Cash dividends ($1.05 per share) and dividend equivalents declared	—	—	(161,561)	—	(161,561)	—	(161,561)
Stock-based compensation expense	—	25,216	—	—	25,216	—	25,216
Balances as of September 30, 2021	151,746	2,137,706	1,801,268	(78,044)	3,860,930	(1,844)	3,859,086
Net income attributable to KLA	—	—	717,444	—	717,444	—	717,444
Net income attributable to non-controlling interest	—	—	—	—	—	73	73
Other comprehensive income	—	—	—	1,565	1,565	—	1,565
Net issuance under employee stock plans	205	31,157	—	—	31,157	—	31,157
Repurchase of common stock	(1,104)	(15,604)	(414,270)	—	(429,874)	—	(429,874)
Cash dividends ($1.05 per share) and dividend equivalents declared	—	—	(160,461)	—	(160,461)	—	(160,461)
Stock-based compensation expense	—	27,766	—	—	27,766	—	27,766
Balances as of December 31, 2021	150,847	$ 2,181,025	$ 1,943,981	$ (76,479)	$ 4,048,527	$ (1,771)	$ 4,046,756

(In thousands, except per share amounts)	Common Stock and Capital in Excess of Par Value Shares	Common Stock and Capital in Excess of Par Value Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total KLA Stockholders' Equity	Non-Controlling Interest	Total Stockholders' Equity
Balances 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
Net loss attributable to non-controlling interest	—	—	—	—	—	(425)	(425)
Other comprehensive income	—	—	—	328	328	—	328
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
Balances as of September 30, 2020	154,606	2,072,715	753,915	(79,446)	2,747,184	15,161	2,762,345
Net income attributable to KLA	—	—	457,251	—	457,251	—	457,251
Net loss attributable to non-controlling interest	—	—	—	—	—	(268)	(268)
Other comprehensive income	—	—	—	6,742	6,742	—	6,742
Net issuance under employee stock plans	329	15,356	—	—	15,356	—	15,356
Repurchase of common stock	(774)	(10,477)	(167,015)	—	(177,492)	—	(177,492)
Cash dividends ($0.90 per share) and dividend equivalents declared	—	—	(140,455)	—	(140,455)	—	(140,455)
Stock-based compensation expense	—	26,596	—	—	26,596	231	26,827
Balances as of December 31, 2020	154,161	$ 2,104,190	$ 903,696	$ (72,704)	$ 2,935,182	$ 15,124	$ 2,950,306

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

KLA CORPORATION
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	Six Months Ended December 31, 2021	2020
Cash flows from operating activities:		
Net income	$ 1,786,002	$ 877,125
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	170,369	164,323
Unrealized foreign exchange (gain) loss and other	21,728	(18,570)
Asset impairment charges	5,962	865
Stock-based compensation expense	52,982	53,819
Deferred income taxes	(371,228)	(39,507)
Changes in assets and liabilities, net of assets acquired and liabilities assumed in business acquisitions:		
Accounts receivable	(444,685)	(117,189)
Inventories	(239,890)	(112,206)
Other assets	2,243	(11,780)
Accounts payable	40,579	(1,783)
Deferred system revenue	145,856	(61,595)
Deferred service revenue	33,468	(1,431)
Other liabilities	471,209	341,181
Net cash provided by operating activities	1,674,595	1,073,252
Cash flows from investing activities:		
Proceeds from sale of assets	—	1,855
Business acquisitions, net of cash acquired	(37,986)	—
Capital expenditures	(133,856)	(115,069)
Purchases of available-for-sale securities	(525,840)	(492,048)
Proceeds from sale of available-for-sale securities	40,792	110,812
Proceeds from maturity of available-for-sale securities	372,953	259,327
Purchases of trading securities	(58,342)	(35,371)
Proceeds from sale of trading securities	59,914	39,668
Proceeds from other investments	795	614
Net cash used in investing activities	(281,570)	(230,212)
Cash flows from financing activities:		
Proceeds from issuance of debt, net of issuance costs	—	40,343
Proceeds from revolving credit facility	300,000	—
Repayment of debt	(300,000)	(50,000)
Common stock repurchases	(829,551)	(365,389)
Payment of dividends to stockholders	(321,950)	(280,748)
Issuance of common stock	36,912	26,356
Tax withholding payments related to vested and released restricted stock units	(52,287)	(36,145)
Net cash used in financing activities	(1,166,876)	(665,583)
Effect of exchange rate changes on cash and cash equivalents	(3,702)	19,600
Net increase in cash and cash equivalents	222,447	197,057
Cash and cash equivalents at beginning of period	1,434,610	1,234,409
Cash and cash equivalents at end of period	$ 1,657,057	$ 1,431,466
Supplemental cash flow disclosures:		
Income taxes paid	$ 226,943	$ 113,949
Interest paid	$ 76,771	$ 76,996
Non-cash activities:		
Contingent consideration (receivable) payable - financing activities	$ 14,663	$ (8,748)
Dividends payable - financing activities	$ 3,737	$ 3,321
Unsettled common stock repurchase - financing activities	$ 5,999	$ 6,000
Accrued purchases of land, property and equipment - investing activities	$ 18,504	$ 25,987

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. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to such rules and regulations.

The unaudited interim Condensed Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for audited financial statements. The balance sheet as of June 30, 2021 was derived from the Company's audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021 but does not include all disclosures required by GAAP for audited financial statements. 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, 2021.

The Condensed Consolidated Financial Statements include the accounts of KLA and its majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

The results of operations for the three and six months ended December 31, 2021 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, 2022.

Management Estimates. The preparation of the Condensed Consolidated Financial Statements in conformity with GAAP 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 for the reporting periods. Actual results could differ from those estimates.

Significant Accounting Policies. There have been no material changes to our significant accounting policies summarized in Note 1 "Description of Business and Summary of Significant Accounting Policies" to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021.

Recent Accounting Pronouncements

In October 2021, Financial Accounting Standards Board ("FASB") issued authoritative guidance that requires companies to apply revenue guidance to recognize and measure contract assets and contract liabilities from contracts with customers acquired in a business combination at carrying value. Under the current business combination guidance, such assets and liabilities are recognized by the acquirer at fair value on the acquisition date. This update is effective for us in the first quarter of our fiscal year ending June 30, 2024 and should be applied on a prospective basis. Early adoption is permitted. We are currently evaluating the impact of this guidance on our condensed consolidated financial statements.

Recently Adopted

In December 2019, the FASB issued an Accounting Standards Update ("ASU") to simplify the accounting for income taxes in Accounting Standards Codification ("ASC") 740, Income Taxes ("ASC 740"). This amendment removes certain exceptions and improves consistent application of accounting principles for certain areas in ASC 740. We adopted this update beginning in the first quarter of our fiscal year ending June 30, 2022 on a prospective basis and the adoption had no material impact on our Condensed Consolidated Financial Statements.

In August 2020, the FASB issued an ASU 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 features 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. We adopted this update beginning in the first quarter of our fiscal year ending June 30, 2022 on a modified retrospective basis and the adoption had no material impact on our Condensed Consolidated Financial Statements.

NOTE 2 – REVENUE

Contract Balances

The following table represents the opening and closing balances of accounts receivable, net, contract assets and contract liabilities as of the indicated dates.

(Dollar amounts in thousands)	As of December 31, 2021	As of June 30, 2021	$ Change	% Change
Accounts receivable, net	$ 1,728,376	$ 1,305,479	$ 422,897	32 %
Contract assets	$ 96,676	$ 91,052	$ 5,624	6 %
Contract liabilities	$ 842,880	$ 667,703	$ 175,177	26 %

Our payment terms and conditions vary by contract type, although the terms generally include a requirement of payment of 70% 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 six months ended December 31, 2021 was mainly due to $62.1 million of revenue recognized for which the payment is subject to conditions other than passage of time, partially offset by $56.9 million of contract assets reclassified to net accounts receivable as our right to consideration for these contract assets became unconditional. Contract assets are included in Other current assets on our Condensed Consolidated Balance Sheets.

The change in contract liabilities during the six months ended December 31, 2021 was mainly due to the recognition in revenue of $424.4 million that was included in contract liabilities as of July 1, 2021, 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. The change in contract liabilities during the six months ended December 31, 2020 was mainly due to the recognition in revenue of $439.9 million that was included in contract liabilities as of July 1, 2020, 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 December 31, 2021, we had $8.35 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 25% to 40% of these performance obligations as revenue beyond the next 12 months, but this estimate is subject to constant change depending upon supply chain constraints, customer slot change requests and potential elevated demand levels which could have even longer lead times.

Refer to Note 18 “Segment Reporting and Geographic Information” to our Condensed Consolidated Financial Statements for information related to revenues 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. See Note 8 “Debt” to our Condensed Consolidated Financial Statements for disclosure of the fair value of our Senior Notes.

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. Besides the transfer listed in the table below, there were no other transfers between Level 1, Level 2 and Level 3 fair value measurements during the six months ended December 31, 2021.

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

The types of instruments valued based on other observable inputs include 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 values 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" to our 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 December 31, 2021 (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	$ 776,782	$ 776,782	$ —	$ —
Marketable securities:				
Corporate debt securities	479,974	—	479,974	—
Municipal securities	67,268	—	67,268	—
Sovereign securities	5,031	—	5,031	—
U.S. Government agency securities	121,089	121,089	—	—
U.S. Treasury securities	294,380	288,082	6,298	—
Equity securities(1)	21,033	21,033	—	—
Total cash equivalents and marketable securities(2)	1,765,557	1,206,986	558,571	—
Other current assets:				
Derivative assets	14,039	—	14,039	—
Other non-current assets:				
Executive Deferred Savings Plan	274,529	208,307	66,222	—
Total financial assets(2)	$ 2,054,125	$ 1,415,293	$ 638,832	$ —
Liabilities				
Derivative liabilities	$ (3,817)	$ —	$ (3,817)	$ —
Deferred payments	(4,700)	—	—	(4,700)
Contingent consideration payable	(23,177)	—	—	(23,177)
Total financial liabilities	$ (31,694)	$ —	$ (3,817)	$ (27,877)

(1) Transfer from Level 2 to Level 1 as the security specific restriction expired during the first quarter of the fiscal year ending June 30, 2022.

(2) Excludes cash of $783.0 million held in operating accounts and time deposits of $261.9 million (of which $97.3 million were cash equivalents) as of December 31, 2021.

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, 2021 (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	$ 691,375	$ 691,375	$ —	$ —
Marketable securities:				
Corporate debt securities	468,746	—	468,746	—
Municipal securities	70,228	—	70,228	—
Sovereign securities	3,052	—	3,052	—
U.S. Government agency securities	145,921	145,921	—	—
U.S. Treasury securities	233,064	205,055	28,009	—
Equity securities	29,930	—	29,930	—
Total cash equivalents and marketable securities(1)	1,642,316	1,042,351	599,965	—
Other current assets:				
Derivative assets	8,252	—	8,252	—
Other non-current assets:				
Executive Deferred Savings Plan	266,199	200,925	65,274	—
Total financial assets(1)	$ 1,916,767	$ 1,243,276	$ 673,491	$ —
Liabilities				
Derivative liabilities	$ (2,807)	$ —	$ (2,807)	$ —
Deferred payments	(4,550)	—	—	(4,550)
Contingent consideration payable	(8,514)	—	—	(8,514)
Total financial liabilities	$ (15,871)	$ —	$ (2,807)	$ (13,064)

(1) Excludes cash of $641.6 million held in operating accounts and time deposits of $210.6 million (of which $101.7 million were cash equivalents) as of June 30, 2021.

NOTE 4 – FINANCIAL STATEMENT COMPONENTS

Condensed Consolidated Balance Sheets

(In thousands)	As of December 31, 2021	As of June 30, 2021
Accounts receivable, net:		
Accounts receivable, gross	$ 1,747,734	$ 1,323,515
Allowance for credit losses	(19,358)	(18,036)
	$ 1,728,376	$ 1,305,479
Inventories:		
Customer service parts	$ 371,341	$ 349,743
Raw materials	786,744	595,151
Work-in-process	427,972	453,432
Finished goods	243,355	177,054
	$ 1,829,412	$ 1,575,380
Other current assets:		
Contract assets	$ 96,676	$ 91,052
Deferred costs of revenues	83,153	59,953
Prepaid expenses	78,064	76,649
Prepaid income and other taxes	37,731	68,847
Other current assets	37,602	24,366
	$ 333,226	$ 320,867
Land, property and equipment, net:		
Land	$ 67,862	$ 67,862
Buildings and leasehold improvements	469,025	458,605
Machinery and equipment	756,921	743,710
Office furniture and fixtures	33,067	32,856
Construction-in-process	236,543	182,320
	1,563,418	1,485,353
Less: accumulated depreciation	(846,240)	(822,326)
	$ 717,178	$ 663,027
Other non-current assets:		
Executive Deferred Savings Plan[(1)]	$ 274,529	$ 266,199
Operating lease right of use assets	97,836	102,883
Other non-current assets	78,580	75,823
	$ 450,945	$ 444,905
Other current liabilities:		
Compensation and benefits	$ 500,301	$ 305,445
Customer credits and advances	482,991	250,784
Executive Deferred Savings Plan[(1)]	274,508	268,028
Other accrued expenses	184,347	180,982
Income taxes payable	125,535	87,320
Interest payable	35,970	36,135
Operating lease liabilities	32,467	32,322
	$ 1,636,119	$ 1,161,016
Other non-current liabilities:		
Income taxes payable	$ 340,890	$ 333,866
Pension liabilities	85,677	87,602
Operating lease liabilities	62,553	70,739
Other non-current liabilities	161,693	139,083
	$ 650,813	$ 631,290

(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 associated with changes in the EDSP liability included in selling, general and administrative ("SG&A") expense was $12.0 million and $22.1 million during the three months ended December 31, 2021 and 2020, respectively and was $11.0 million and $35.3 million during the six months ended December 31, 2021 and 2020, respectively. The amount of net gains associated with changes in the EDSP assets included in SG&A expense was $11.8 million and $22.2 million during the three months ended December 31, 2021 and 2020, respectively and was $10.7 million and $35.5 million during the six months ended December 31, 2021 and 2020, respectively. For additional details, refer to Note 1 "Description of Business and Summary of Significant Accounting Policies" to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021.

Accumulated Other Comprehensive Income (Loss) ("AOCI")

The components of AOCI 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 Derivatives	Unrealized Gains (Losses) on Defined Benefit Plans	Total
Balance as of December 31, 2021	$ (36,314)	$ (2,223)	$ (15,653)	$ (22,289)	$ (76,479)
Balance as of June 30, 2021	$ (32,563)	$ 595	$ (20,092)	$ (23,497)	$ (75,557)

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

AOCI Components	Location in the Condensed Consolidated Statement of Operations	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020	Six Months Ended December 31, 2021	Six Months Ended December 31, 2020
Unrealized gains (losses) on cash flow hedges from foreign exchange and interest rate contracts	Revenues	$ 1,539	$ (711)	$ 3,268	$ (928)
	Costs of revenues and operating expenses	(348)	(125)	(580)	425
	Interest expense	(279)	(279)	(558)	(558)
	Net gains (losses) reclassified from AOCI	$ 912	$ (1,115)	$ 2,130	$ (1,061)
Unrealized gains (losses) on available-for-sale securities	Other expense (income), net	$ (3)	$ 111	$ (2)	$ 212

The amounts reclassified out of AOCI related to our defined benefit pension plans that were recognized as a component of net periodic cost for the three months ended December 31, 2021 and 2020 were $0.4 million and $0.3 million, respectively and for the six months ended December 31, 2021 and 2020 were $0.7 million and $0.5 million, respectively. For additional details, refer to Note 13 "Employee Benefit Plans" to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021.

NOTE 5 – MARKETABLE SECURITIES

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

As of December 31, 2021 (In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	$ 481,191	$ 95	$ (1,312)	$ 479,974
Money market funds and other	776,782	—	—	776,782
Municipal securities	67,501	14	(247)	67,268
Sovereign securities	5,036	5	(10)	5,031
U.S. Government agency securities	121,255	58	(224)	121,089
U.S. Treasury securities	295,590	4	(1,214)	294,380
Equity securities(1)	3,211	17,822	—	21,033
Subtotal	1,750,566	17,998	(3,007)	1,765,557
Add: Time deposits(2)	261,942	—	—	261,942
Less: Cash equivalents	874,095	—	—	874,095
Marketable securities	$ 1,138,413	$ 17,998	$ (3,007)	$ 1,153,404

As of June 30, 2021 (In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	$ 468,192	$ 689	$ (135)	$ 468,746
Money market funds and other	691,375	—	—	691,375
Municipal securities	70,155	106	(33)	70,228
Sovereign securities	3,045	7	—	3,052
U.S. Government agency securities	145,810	160	(49)	145,921
U.S. Treasury securities	233,052	129	(117)	233,064
Equity securities(1)	3,211	26,719	—	29,930
Subtotal	1,614,840	27,810	(334)	1,642,316
Add: Time deposits(2)	210,636	—	—	210,636
Less: Cash equivalents	793,040	—	—	793,040
Marketable securities	$ 1,032,436	$ 27,810	$ (334)	$ 1,059,912

(1) Unrealized gains on equity securities included in our portfolio include the initial fair value adjustment recorded upon a security becoming marketable.

(2) Time deposits excluded from fair value measurements.

Our investment portfolio includes both corporate and government securities that have a maximum maturity of three 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 December 31, 2021, we had 488 investments in a gross 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 December 31, 2021 (In thousands)	Fair Value	Gross Unrealized Losses
Corporate debt securities	$ 383,964	$ (1,312)
Sovereign securities	1,993	(10)
Municipal securities	60,649	(247)
U.S. Government agency securities	66,225	(224)
U.S. Treasury securities	278,686	(1,214)
Total	$ 791,517	$ (3,007)

As of June 30, 2021 (In thousands)	Fair Value	Gross Unrealized Losses
Corporate debt securities	$ 161,012	$ (135)
Municipal securities	21,605	(33)
U.S. Government agency securities	38,904	(49)
U.S. Treasury securities	117,761	(117)
Total	$ 339,282	$ (334)

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 December 31, 2021 (In thousands)	Amortized Cost	Fair Value
Due within one year	$ 519,562	$ 537,300
Due after one year through three years	618,851	616,104
Total	$ 1,138,413	$ 1,153,404

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 and six months ended December 31, 2021 and 2020 were immaterial.

NOTE 6 - BUSINESS COMBINATIONS

On September 17, 2021, we signed a purchase agreement to acquire the outstanding shares of a privately held company for $460.0 million plus closing cash, less closing debt and certain other expenses. The purpose of the proposed acquisition is to expand our products and service offerings. We expect the acquisition to be completed in the third quarter of fiscal year 2022, subject to the satisfaction or waiver of the closing conditions to the purchase agreement.

On July 1, 2021, we acquired the outstanding shares of Anchor Semiconductor Inc., a privately-held company, primarily to expand our products and services offerings, for a total purchase consideration of $81.7 million, including a post-closing working capital adjustment accrued in the quarter ended December 31, 2021, as well as the fair value of the promise to pay an additional consideration up to $35.0 million contingent on the achievement of certain revenue milestones. As of December 31, 2021, the estimated fair value of the additional consideration was $13.0 million, which was classified as a non-current liability on the Condensed Consolidated Balance Sheets. The total purchase consideration was allocated as follows: $31.7 million to identifiable intangible assets, $26.4 million to net tangible assets, $8.0 million to deferred tax liabilities, and $31.6 million to goodwill. The total purchase consideration is preliminary, and as additional information becomes available, we may further revise it during the remainder of the measurement period, which will not exceed 12 months from the closing of the acquisition. The $31.6 million of goodwill was assigned to the Wafer Inspection and Patterning reporting unit, and the amount recognized was not deductible for tax purposes.

We have included the financial results of the acquisition completed during the first quarter of the fiscal year 2022 in our Condensed Consolidated Financial Statements from the date of acquisition. These results were not material to our Condensed Consolidated Financial Statements.

As of December 31, 2021, we have $23.2 million of contingent consideration recorded for this acquisition and other acquisitions from the fiscal year ended June 30, 2019, of which $1.1 million is classified as a current liability and $22.1 million as a non-current liability on the Condensed Consolidated Balance Sheet.

For additional details, please refer to Note 6 "Business Combinations" to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021.

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 quarters' business combinations. We have four reportable segments and six operating segments. The operating segments are determined to be the same as reporting units. For additional details, refer to Note 18 "Segment Reporting and Geographic Information" to our Condensed Consolidated Financial Statements. The following table presents changes in goodwill carrying value during the six months ended December 31, 2021(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, 2021	$ 416,860	$ 25,908	$ 681,858	$ 872,971	$ 13,575	$ 2,011,172
Acquired goodwill	31,621	—	—	—	—	31,621
Foreign currency adjustments	1	—	—	—	—	1
Balance as of December 31, 2021	$ 448,482	$ 25,908	$ 681,858	$ 872,971	$ 13,575	$ 2,042,794

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

As of December 31, 2021, there have been no significant events or circumstances affecting the valuation of goodwill subsequent to the annual assessment performed in the third quarter of the fiscal year ended June 30, 2021. There was no goodwill impairment as a result of that assessment. For additional details, refer to Note 7 "Goodwill and Purchased Intangible Assets" to our Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2021.

Purchased Intangible Assets

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

(In thousands)		As of December 31, 2021			As of June 30, 2021		
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	$ 1,400,191	$ 581,249	$ 818,942	$ 1,382,612	$ 499,219	$ 883,393
Customer relationships	4-9	313,317	148,452	164,865	305,817	131,386	174,431
Trade name / Trademark	4-7	117,983	60,707	57,276	117,383	53,493	63,890
Backlog and other	<1-9	52,836	50,522	2,314	50,403	49,962	441
Intangible assets subject to amortization		1,884,327	840,930	1,043,397	1,856,215	734,060	1,122,155
In-process research and development		67,656	6,062	61,594	63,256	100	63,156
Total		$ 1,951,983	$ 846,992	$ 1,104,991	$ 1,919,471	$ 734,160	$ 1,185,311

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.

As of December 31, 2021, 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 December 31, 2021	Three Months Ended December 31, 2020	Six Months Ended December 31, 2021	Six Months Ended December 31, 2020
Amortization expense - Costs of revenues	$ 41,124	$ 38,738	$ 82,248	$ 75,778
Amortization expense - SG&A	12,389	12,301	24,778	25,730
Amortization expense - Research and development	31	31	62	62
Total	$ 53,544	$ 51,070	$ 107,088	$ 101,570

Based on the purchased intangible assets gross carrying amount recorded as of December 31, 2021, the remaining estimated annual amortization expense is expected to be as follows:

Fiscal year ending June 30:	Amortization (In thousands)
2022 (remaining six months)	$ 107,197
2023	212,659
2024	209,665
2025	197,596
2026	182,271
2027 and thereafter	134,009
Total	$ 1,043,397

NOTE 8 – DEBT

The following table summarizes our debt as of December 31, 2021 and June 30, 2021:

	As of December 31, 2021 Amount (In thousands)	As of December 31, 2021 Effective Interest Rate	As of June 30, 2021 Amount (In thousands)	As of June 30, 2021 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 %
Fixed-rate 3.590% Note Payable due on February 20, 2022	20,000	2.300 %	20,000	2.300 %
Total	3,470,000		3,470,000	
Unamortized discount/premium, net	(6,878)		(7,168)	
Unamortized debt issuance costs	(19,016)		(20,065)	
Total	$ 3,444,106		$ 3,442,767	
Reported as:				
Short-term debt	$ 20,000		$ 20,000	
Long-term debt	3,424,106		3,422,767	
Total	$ 3,444,106		$ 3,442,767	

As of December 31, 2021, future minimum principal payments for our debt are as follows: $20.0 million in fiscal year 2022, $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 December 31, 2021.

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 Investors Service, S&P Global Ratings 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 December 31, 2021 and June 30, 2021 was $3.92 billion and $3.98 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 December 31, 2021, 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 first quarter of the fiscal year ending June 30, 2022, we borrowed $300.0 million from the Revolving Credit Facility, which was paid in full in the same quarter. As of December 31, 2021, 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 December 31, 2021, we elected to pay interest on the borrowed amount under the Revolving Credit Facility at LIBOR plus a spread of 100 bps, and we pay an annual commitment fee of 10 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 December 31, 2021, our maximum allowed leverage ratio was 3.00 to 1.00.

We were in compliance with all covenants under the Credit Agreement as of December 31, 2021.

Notes Payable

In December 2020 we sold promissory notes to a financial institution, borrowing an aggregate principal amount of $40.0 million ("Notes Payable"). Of the aggregate amount borrowed, $20.0 million matured and was paid on February 20, 2021 and the balance of $20.0 million matures on February 20, 2022. The premium of $0.3 million from the sale of the Notes

Payable is being amortized over the life of the debt. The net proceeds from the sale of the Notes Payable were used for general corporate purposes.

For additional details, refer to Note 8 "Debt" to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021.

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 ("R&D"), 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 the 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 was $9.1 million and $18.3 million for the three and six months ended December 31, 2021, respectively, and $10.0 million and $19.6 million for the three and six months ended December 31, 2020, respectively. Expense related to short-term leases, which are not recorded on the Condensed Consolidated Balance Sheets, was not material for three and six months ended December 31, 2021 and 2020. As of December 31, 2021 and June 30, 2021, the weighted-average remaining lease term was 4.3 years and 4.6 years, respectively, and the weighted-average discount rate for operating leases was 1.62% and 1.64%, respectively.

Supplemental cash flow information related to leases was as follows:

	Six Months Ended December 31,	
In thousands	**2021**	**2020**
Operating cash outflows from operating leases	$ 19,050	$ 19,253
Right of use assets obtained in exchange for new operating lease liabilities	$ 11,389	$ 20,584

Maturities of lease liabilities as of December 31, 2021 were as follows:

Fiscal Year Ending June 30:	**(In thousands)**
2022 (remaining six months)	$ 18,100
2023	27,797
2024	17,891
2025	12,716
2026	9,633
2027 and thereafter	12,798
Total lease payments	98,935
Less imputed interest	(3,915)
Total	$ 95,020

As of December 31, 2021, 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 December 31, 2021, 9.9 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" to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021.

Assumed Equity Plans

As part of the acquisition of Orbotech Ltd. ("Orbotech") in February 2019, we assumed outstanding equity incentive awards under the following Orbotech equity incentive plans: (i) Equity Remuneration Plan for Key Employees of Orbotech and its Affiliates and Subsidiaries (as Amended and Restated in 2005), (ii) 2010 Equity-Based Incentive Plan, and (iii) 2015 Equity-Based Incentive Plan (the "Assumed Equity Plans").

As of December 31, 2021, there were 23,788 shares of our common stock underlying the outstanding Assumed restricted stock units ("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" to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021.

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, 2021	10,253
RSUs granted(3)	(467)
RSUs granted adjustment(4)	39
RSUs canceled	62
Balance as of December 31, 2021	9,887

(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 six months ended December 31, 2021 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 six months ended December 31, 2021 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 six months ended December 31, 2021 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-based vesting criteria during the six months ended December 31, 2021.

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 grant date fair value using a Monte Carlo simulation.

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

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	2021	2020	2021	2020
Stock-based compensation expense by:				
Costs of revenues	$ 4,094	$ 4,104	$ 7,932	$ 7,771
R&D	4,901	5,225	9,595	10,696
SG&A	18,771	17,498	35,455	35,352
Total stock-based compensation expense	$ 27,766	$ 26,827	$ 52,982	$ 53,819

Stock-based compensation capitalized as inventory as of December 31, 2021 and June 30, 2021 was $7.4 million and $8.0 million, respectively.

Restricted Stock Units

The following table shows the activity and weighted-average grant date fair values for RSUs during the six months ended December 31, 2021:

	Shares[(1)] (In thousands)	Weighted-Average Grant Date Fair Value
Outstanding RSUs as of June 30, 2021[(2)]	1,710	$ 133.76
Granted[(3)]	234	$ 356.39
Granted adjustments	(19)	$ 118.47
Vested and released	(226)	$ 126.60
Withheld for taxes	(148)	$ 126.60
Forfeited	(35)	$ 137.88
Outstanding RSUs as of December 31, 2021[(2)]	1,516	$ 169.87

(1) Share numbers reflect actual shares subject to awarded RSUs.

(2) Includes performance-based RSUs.

(3) This line item includes performance-based RSUs granted during the six months ended December 31, 2021 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 six months ended December 31, 2021).

The RSUs granted by us generally vest as follows: with respect to awards with only service-based vesting criteria, over periods ranging from two to four years; 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 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:

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands, except for weighted-average grant date fair value)	2021	2020	2021	2020
Weighted-average grant date fair value per unit	$ 393.67	$ 220.53	$ 356.39	$ 202.60
Grant date fair value of vested RSUs	$ 10,563	$ 23,267	$ 47,303	$ 50,569
Tax benefits realized by us in connection with vested and released RSUs	$ 4,913	$ 6,694	$ 13,921	$ 13,431

As of December 31, 2021, the unrecognized stock-based compensation expense balance related to RSUs was $177.5 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 1.4 years. The intrinsic value of outstanding RSUs as of December 31, 2021 was $652.2 million.

Cash-Based Long-Term Incentive Compensation

We have adopted a cash-based long-term incentive (“Cash LTI”) program (“Cash LTI Plan”) 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 the Cash LTI Plan. During the six months ended December 31, 2021 and 2020, we approved Cash LTI awards of $12.9 million and $4.1 million, respectively. Cash LTI awards issued to employees under the Cash LTI Plan will 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 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 December 31, 2021 and 2020 we recognized $22.2 million and $17.3 million, respectively, in compensation expense under the Cash LTI Plan. During the six months ended December 31, 2021 and 2020, we recognized $44.0 million and $36.7 million, respectively, in compensation expense under the Cash LTI Plan. As of December 31, 2021, the unrecognized compensation balance (excluding the impact of estimated forfeitures) related to the Cash LTI Plan was $184.5 million. For details, refer to Note 10 "Equity, Long-Term Incentive Compensation Plans and Non-Controlling Interest" to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021.

Employee Stock Purchase Plan

Our Employee Stock Purchase Plan ("ESPP") provides that eligible employees may contribute up to 15% 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 of six months, and the purchase price with respect to each offering period, 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 December 31,		Six Months Ended December 31,	
	2021	2020	2021	2020
Stock purchase plan:				
Expected stock price volatility	34.9 %	51.9 %	34.9 %	51.9 %
Risk-free interest rate	0.1 %	0.7 %	0.1 %	0.7 %
Dividend yield	1.4 %	1.9 %	1.4 %	1.9 %
Expected life (in years)	0.5	0.5	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:

(In thousands, except for weighted-average fair value per share)	Three Months Ended December 31,		Six Months Ended December 31,	
	2021	2020	2021	2020
Total cash received from employees for the issuance of shares under the ESPP	$ 36,912	$ 26,356	$ 36,912	$ 26,356
Number of shares purchased by employees through the ESPP	139	161	139	161
Tax benefits realized by us in connection with the disqualifying dispositions of shares purchased under the ESPP	$ 231	$ 272	$ 1,198	$ 1,164
Weighted-average fair value per share based on Black-Scholes model	$ 71.82	$ 52.23	$ 71.82	$ 52.23

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 December 31, 2021, a total of 2.1 million shares were reserved and available for issuance under the ESPP.

Quarterly Cash Dividends

On December 1, 2021, we paid a quarterly cash dividend of $1.05 per share to stockholders of record as of the close of business on November 15, 2021. The total amount of regular quarterly cash dividends and dividend equivalents paid during the three months ended December 31, 2021 and 2020 was $159.1 million and 139.6 million, respectively. The total amount of regular quarterly cash dividends and dividend equivalents paid during the six months ended December 31, 2021 and 2020 was $322.0 million and $280.7 million, respectively. The amount of accrued dividend equivalents payable for regular quarterly cash dividends on unvested RSUs with dividend equivalent rights as of December 31, 2021 and June 30, 2021 was $10.4 million and $10.3 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 Orbotech LT Solar, LLC (“OLTS”), which 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. The sale was completed in the first quarter of fiscal 2021 and the proceeds were not material. We consolidate the results of OLTS, which is considered a non-strategic business, of which we own 97% of the outstanding equity interest as of December 31, 2021.

NOTE 11 – STOCK REPURCHASE PROGRAM

Our Board of Directors has authorized a program that permits us to repurchase our common stock. As of June 30, 2021, there was an aggregate of approximately $93 million remaining available for repurchase under previous authorizations, and on July 29, 2021, the Board of Directors authorized an additional $2.00 billion. The intent of this program is to offset the dilution from our equity incentive plans, shares issued in connection with purchases under our ESPP, 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 December 31, 2021, an aggregate of $1.26 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 December 31,		Six Months Ended December 31,	
(In thousands)	**2021**	**2020**	**2021**	**2020**
Number of shares of common stock repurchased	1,104	774	2,294	1,801
Total cost of repurchases	$ 429,874	$ 177,492	$ 829,551	$ 371,389

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 RSUs had been issued. The dilutive effect of outstanding RSUs 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:

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands, except per share amounts)	**2021**	**2020**	**2021**	**2020**
Numerator:				
Net income attributable to KLA	$ 717,444	$ 457,251	$ 1,785,861	$ 877,818
Denominator:				
Weighted-average shares - basic, excluding unvested RSUs	151,251	154,273	151,791	154,777
Effect of dilutive RSUs and options	1,080	1,287	1,095	1,280
Weighted-average shares - diluted	152,331	155,560	152,886	156,057
Basic net income per share attributable to KLA	$ 4.74	$ 2.96	$ 11.77	$ 5.67
Diluted net income per share attributable to KLA	$ 4.71	$ 2.94	$ 11.68	$ 5.62
Anti-dilutive securities excluded from the computation of diluted net income per share	—	—	5	—

NOTE 13 – INCOME TAXES

The following table provides details of income taxes:

	Three Months Ended December 31,		Six Months Ended December 31,	
(Dollar amounts in thousands)	**2021**	**2020**	**2021**	**2020**
Income before income taxes	$ 926,905	$ 527,402	$ 1,693,253	$ 1,011,208
Provision (benefit) for income taxes	$ 209,388	$ 70,419	$ (92,749)	$ 134,083
Effective tax rate	22.6 %	13.4 %	(5.5) %	13.3 %

Our effective tax rate is higher than the U.S. federal statutory rate during the three months ended December 31, 2021 primarily due to a non-recurring tax expense resulting from a new Israel tax law enacted on November 15, 2021; partially offset by the proportion of earnings generated in jurisdictions with tax rates lower than the U.S. statutory rate and the proportion of U.S. earnings eligible for the Foreign Derived Intangible Income deduction. The new Israel tax law limits our ability to maintain our previous assertion that certain historical earnings of our subsidiaries were permanently reinvested in Israel. Given this, we recorded a deferred tax liability and related tax expense of $163.7 million during the three months ended December 31, 2021 for the future Israel income tax due upon repatriation of these historical earnings in accordance with the new Israel tax law.

Our effective tax rate is lower than the U.S. federal statutory rate during the six months ended December 31, 2021 primarily due to a non-recurring tax benefit resulting from the intra-entity transfers of certain intellectual property rights (“IP rights”). During the six months ended December 31, 2021, we completed intra-entity transfers of IP rights to one of our Singapore subsidiaries in order to better align the ownership of these rights with how our business operates. The transfers did not result in taxable gains; however, our Singapore subsidiary recognized deferred tax assets for the book and tax basis difference of the eligible transferred IP rights. As a result of these transactions, we recorded deferred tax assets and related tax benefits of $394.5 million, based on the fair value of the eligible IP rights transferred in September 2021. The tax-deductible amortization related to the eligible transferred IP rights will be recognized over 15 years as allowed under Singapore tax law.

In the normal course of business, we are subject to examination by tax authorities throughout the world. We are subject to U.S. federal income tax examinations for all years beginning from the fiscal year ended June 30, 2018 and are under United States income tax examination for the fiscal year ended June 30, 2018, June 30, 2019 and June 30, 2020. We are subject to state income tax examinations for all years beginning from the fiscal year ended June 30, 2017. 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.

It is possible that certain examinations may be concluded in the next 12 months. The timing and resolution of income tax examinations is uncertain. Given the uncertainty around the timing of the resolution of these ongoing examinations, we are unable to estimate the full range of possible adjustments to our unrecognized tax benefits within the next 12 months.

In May 2017, Orbotech received an assessment from the Israel Tax Authority (“ITA”) with respect to its fiscal years 2012 through 2014 (the “Assessment”), for an aggregate amount of tax, after offsetting all net operating losses (“NOL”) available through the end of 2014, of approximately NIS 229 million (equivalent to approximately $66 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, as defined below).

On August 31, 2018, Orbotech filed an objection in respect of the 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. 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.

In December 2020, Orbotech received an assessment from the ITA with respect to its fiscal years 2015 through 2018 (the "Second Assessment") for an aggregate amount of tax, after offsetting all NOLs available through the end of 2018, of approximately NIS 227 million (equivalent to approximately $68 million which includes related interest and linkage differentials to the Israeli consumer price index as of the date of the issuance of the Second Assessment). We filed an objection to the Second Assessment with the ITA in March 2021. The objection moved the 2015-2018 audit to the second stage, in which the ITA will review the objections. We believe that our recorded unrecognized tax benefits are sufficient to cover the resolution of the Second Assessment.

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 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 ("LC"), 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 LC for the indicated periods:

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	2021	2020	2021	2020
Receivables sold under factoring agreements	$ 79,918	$ 49,917	$ 147,036	$ 138,562
Proceeds from sales of LC	$ 19,493	$ 21,709	$ 41,166	$ 40,839

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 primarily for material, services, supplies and asset purchases is approximately $2.5 billion as of December 31, 2021, 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 LTI Plan. As of December 31, 2021, we have committed $245.5 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 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.

Guarantees and Contingencies. We maintain guarantee arrangements available through various financial institutions for up to $84.7 million, of which $59.5 million had been issued as of December 31, 2021, primarily to fund guarantees to customs authorities for value-added tax 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 by several of our current and former directors, officers and employees 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. 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 therefrom, or provide 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 we 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. In accordance with the accounting guidance, we also designate foreign currency exchange contracts to hedge a portion of our investment in a foreign denominated subsidiary.

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 currency 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 AOCI 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 AOCI, and are being amortized to interest expense over the lives of the associated debt. We recognized net expenses of $0.3 million and $0.6 million for the three and six months ended December 31, 2021, respectively, and net expenses of $0.3 million and $0.6 million for the three and six months ended December 31, 2020, respectively, for the amortization of the net of the three rate lock agreements that had been recognized in AOCI, which increased the interest expense on a net basis. As of December 31, 2021, the aggregate unamortized portion of the fair value of the forward contracts for the Rate Lock Agreements was $28.4 million.

For derivatives that are designated and qualify as cash flow hedges, the effective portion of the gains or losses is reported in AOCI 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 AOCI until the hedged item is recognized in earnings. The assessment of effectiveness of options contracts designated as cash flow hedges continues 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 AOCI.

For derivatives that are designated and qualify as a net investment hedge in a foreign operation and that meet the effectiveness requirements, the net gains or losses attributable to changes in spot exchange rates are recorded in cumulative translation within AOCI. The remainder of the change in value of such instruments is recorded in earnings using the mark-to-market approach. Recognition in earnings of amounts previously recorded in cumulative translation is limited to circumstances such as complete or substantially complete liquidation or sale of the net investment in the hedged foreign operations.

For derivatives that are not designated as 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 Designated in Hedging Relationships: Foreign Exchange and Interest Rate Contracts

The gains (losses) on derivatives in cash flow and net investment hedging relationships recognized in other comprehensive income for the indicated periods were as follows:

(In thousands)	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020	Six Months Ended December 31, 2021	Six Months Ended December 31, 2020
Derivatives Designated as Cash Flow Hedging Instruments:				
Foreign exchange contracts:				
Amounts included in the assessment of effectiveness	$ 6,749	$ (1,310)	$ 7,602	$ (2,182)
Amounts excluded from the assessment of effectiveness	$ (8)	$ (47)	$ (9)	$ (93)
Derivatives Designated as Net Investment Hedging Instruments:				
Foreign exchange contracts[1]:	$ (293)	$ —	$ 357	$ —

(1) No amounts were reclassified from AOCI into earnings related to the sale of a subsidiary, as there were no such sales during the periods presented.

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

	Three Months Ended December 31, 2021				Three Months Ended December 31, 2020			
(In thousands)	Revenues	Costs of Revenues and Operating Expenses	Interest Expense	Other Expense (Income), Net	Revenues	Costs 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	$ 2,352,630	$ 1,386,672	$ 37,852	$ 1,201	$ 1,650,870	$ 1,080,706	$ 38,880	$ 3,882
Gains (Losses) on Derivatives Designated as Hedging Instruments:								
Rate lock agreements:								
Amount of gains (losses) reclassified from AOCI to earnings	$ —	$ —	$ (279)	$ —	$ —	$ —	$ (279)	$ —
Foreign exchange contracts:								
Amount of gains (losses) reclassified from AOCI to earnings	$ 1,643	$ (348)	$ —	$ —	$ (560)	$ (125)	$ —	$ —
Amount excluded from the assessment of effectiveness recognized in earnings	$ (104)	$ —	$ —	$ 658	$ (151)	$ —	$ —	$ —
Gains (Losses) on Derivatives Not Designated as Hedging Instruments:								
Amount of gains (losses) recognized in earnings	$ —	$ —	$ —	$ 5,994	$ —	$ —	$ —	$ 2,661

(In thousands)	Six Months Ended December 31, 2021 Revenues	Six Months Ended December 31, 2021 Costs of Revenues and Operating Expenses	Six Months Ended December 31, 2021 Interest Expense	Six Months Ended December 31, 2021 Other Expense (Income), Net	Six Months Ended December 31, 2020 Revenues	Six Months Ended December 31, 2020 Costs of Revenues and Operating Expenses	Six Months Ended December 31, 2020 Interest Expense	Six Months Ended December 31, 2020 Other Expense (Income), Net
Total amounts presented in the Condensed Consolidated Statements of Operations in which the effects of cash flow hedges are recorded	$ 4,436,468	$ 2,651,710	$ 76,164	$ 15,341	$ 3,189,490	$ 2,092,937	$ 78,266	$ 7,079
Gains (Losses) on Derivatives Designated as Hedging Instruments:								
Rate lock agreements:								
Amount of gains (losses) reclassified from AOCI to earnings	$ —	$ —	$ (558)	$ —	$ —	$ —	$ (558)	$ —
Foreign exchange contracts:								
Amount of gains (losses) reclassified from AOCI to earnings	$ 3,486	$ (580)	$ —	$ —	$ (650)	$ 425	$ —	$ —
Amount excluded from the assessment of effectiveness recognized in earnings	$ (218)	$ —	$ —	$ 1,315	$ (278)	$ —	$ —	$ —
Gains (Losses) on Derivatives Not Designated as Hedging Instruments:								
Amount of gains (losses) recognized in earnings	$ —	$ —	$ —	$ 7,063	$ —	$ —	$ —	$ (2,937)

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

(In thousands)	As of December 31, 2021	As of June 30, 2021
Cash flow hedge contracts - foreign currency		
Purchase	$ 125,914	$ 12,550
Sell	$ 177,766	$ 134,845
Net Investment hedge contracts - foreign currency		
Sell	$ 66,848	$ 66,848
Other foreign currency hedge contracts		
Purchase	$ 386,460	$ 264,292
Sell	$ 342,420	$ 278,635

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 December 31, 2021	As of June 30, 2021	Balance Sheet Location	As of December 31, 2021	As of June 30, 2021
(In thousands)		Fair Value			Fair Value	
Derivatives designated as hedging instruments						
Foreign exchange contracts	Other current assets	$ 8,057	$ 3,940	Other current liabilities	$ (175)	$ 272
Total derivatives designated as hedging instruments		8,057	3,940		(175)	272
Derivatives not designated as hedging instruments						
Foreign exchange contracts	Other current assets	5,982	4,312	Other current liabilities	(3,642)	2,535
Total derivatives not designated as hedging instruments		5,982	4,312		(3,642)	2,535
Total derivatives		$ 14,039	$ 8,252		$ (3,817)	$ 2,807

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

	Three Months Ended December 31,		Six Months Ended December 31,	
(In thousands)	2021	2020	2021	2020
Beginning AOCI	$ (25,546)	$ (30,574)	$ (25,830)	$ (29,602)
Amount reclassified to earnings as net (gains) losses	(912)	1,115	(2,130)	1,061
Net change in unrealized gains (losses)	5,627	(1,357)	7,129	(2,275)
Ending AOCI	$ (20,831)	$ (30,816)	$ (20,831)	$ (30,816)

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 December 31, 2021				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	$ 14,039	$ —	$ 14,039	$ (3,427)	$ —	$ 10,612
Derivatives - Liabilities	$ (3,817)	$ —	$ (3,817)	$ 3,427	$ —	$ (390)

As of June 30, 2021				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	$ 8,252	$ —	$ 8,252	$ (2,492)	$ —	$ 5,760
Derivatives - Liabilities	$ (2,807)	$ —	$ (2,807)	$ 2,492	$ —	$ (315)

NOTE 17– RELATED PARTY TRANSACTIONS

During the three and six months ended December 31, 2021 and 2020, 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., together with its affiliates, beneficially owns more than 10% of our outstanding stock, including Ansys, Inc., Citrix Systems, Inc., HP Inc., Keysight Technologies, Inc., and for the three and six months ended December 31, 2020 Proofpoint, 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 December 31,		Six Months Ended December 31,	
(In thousands)	**2021**	**2020**	**2021**	**2020**
Total revenues	$ 264	$ 324	$ 623	$ 638
Total purchases	$ 193	$ 279	$ 272	$ 571

Our receivable balances from these parties were $0.9 million and $1.3 million as of December 31, 2021 and June 30, 2021, respectively. Our payable balances to these parties were immaterial as of December 31, 2021 and June 30, 2021.

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 (“SPC”); Specialty Semiconductor Process; Printed Circuit Board (“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 SPC segment offers a comprehensive portfolio of inspection, metrology and data analytics products, and related service, which helps integrated circuit ("IC") manufacturers achieve target yield throughout the entire semiconductor fabrication process – from 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, Wafer Inspection and Patterning and GSS.

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, radio frequency 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 PCBs, flat panel displays 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, PCB and Display and Component Inspection.

Other

The Other segment is comprised of one operating segment. 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 accounted for the majority of our Other reportable segment. The sale was completed in the first quarter of fiscal 2021.

The CODM assesses the performance of each operating segment and allocates resources to those segments based on total revenues and segment gross profit and does not evaluate the segments using discrete asset information. Segment gross profit excludes corporate allocations and effects of foreign currency 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 December 31, 2021	Three Months Ended December 31, 2020	Six Months Ended December 31, 2021	Six Months Ended December 31, 2020
SPC:				
Revenues	$ 2,052,202	$ 1,380,184	$ 3,831,285	$ 2,648,138
Segment gross profit	1,342,937	884,090	2,504,866	1,698,900
Specialty Semiconductor Process:				
Revenues	112,738	90,587	214,767	179,540
Segment gross profit	60,274	51,171	114,995	101,099
PCB, Display and Component Inspection:				
Revenues	187,977	179,267	390,785	360,444
Segment gross profit	82,322	84,584	176,798	174,753
Other:				
Revenues	—	449	—	590
Segment gross profit	—	(121)	—	(108)
Totals:				
Revenues for reportable segments	$ 2,352,917	$ 1,650,487	$ 4,436,837	$ 3,188,712
Segment gross profit	$ 1,485,533	$ 1,019,724	$ 2,796,659	$ 1,974,644

The following table reconciles total revenues for reportable segments to total revenues for the indicated periods:

(In thousands)	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020	Six Months Ended December 31, 2021	Six Months Ended December 31, 2020
Total revenues for reportable segments	$ 2,352,917	$ 1,650,487	$ 4,436,837	$ 3,188,712
Corporate allocations and effects of changes in foreign currency exchange rates	(287)	383	(369)	778
Total revenues	$ 2,352,630	$ 1,650,870	$ 4,436,468	$ 3,189,490

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

(In thousands)	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020	Six Months Ended December 31, 2021	Six Months Ended December 31, 2020
Total segment gross profit	$ 1,485,533	$ 1,019,724	$ 2,796,659	$ 1,974,644
Acquisition-related charges, corporate allocations, and effects of changes in foreign currency exchange rates(1)	41,065	38,587	81,977	75,449
R&D	265,031	229,064	523,184	448,102
SG&A	213,479	181,909	406,740	354,540
Interest expense	37,852	38,880	76,164	78,266
Other expense (income), net	1,201	3,882	15,341	7,079
Income before income taxes	$ 926,905	$ 527,402	$ 1,693,253	$ 1,011,208

(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:

	Three Months Ended December 31,				Six Months Ended December 31,			
(Dollar amounts in thousands)	2021		2020		2021		2020	
Revenues:								
Taiwan	$ 776,442	33 %	$ 380,785	23 %	$ 1,403,526	31 %	$ 749,886	24 %
China	544,537	23 %	382,157	23 %	1,229,693	28 %	868,246	27 %
Korea	323,095	14 %	347,947	21 %	562,278	13 %	537,465	17 %
North America	271,594	12 %	214,808	13 %	449,334	10 %	384,984	12 %
Japan	196,282	8 %	156,721	10 %	371,449	8 %	321,140	10 %
Europe and Israel	175,195	7 %	100,201	6 %	262,635	6 %	183,318	6 %
Rest of Asia	65,485	3 %	68,251	4 %	157,553	4 %	144,451	4 %
Total	$ 2,352,630	100 %	$ 1,650,870	100 %	$ 4,436,468	100 %	$ 3,189,490	100 %

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

	Three Months Ended December 31,				Six Months Ended December 31,			
(Dollar amounts in thousands)	2021		2020		2021		2020	
Revenues:								
Wafer Inspection	$ 1,104,032	48 %	$ 687,030	42 %	$ 1,991,544	45 %	$ 1,206,581	38 %
Patterning	508,785	22 %	307,512	19 %	948,376	21 %	678,444	21 %
Specialty Semiconductor Process	104,932	4 %	71,978	4 %	198,052	4 %	146,005	5 %
PCB, Display and Component Inspection	121,750	5 %	115,825	7 %	259,637	6 %	236,451	7 %
Services	456,861	19 %	412,847	25 %	910,811	21 %	805,972	25 %
Other	56,270	2 %	55,678	3 %	128,048	3 %	116,037	4 %
Total	$ 2,352,630	100 %	$ 1,650,870	100 %	$ 4,436,468	100 %	$ 3,189,490	100 %

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

In the three months ended December 31, 2021, two customers accounted for approximately 26% and 10% of total revenues. In the three months ended December 31, 2020 two customers each accounted for approximately 14% of total revenues. In the six months ended December 31, 2021, one customer accounted for approximately 25% of total revenues. In the six months ended December 31, 2020, two customers accounted for approximately 14% and 13% of total revenues. One customer on an individual basis accounted for greater than 10% of net accounts receivable at December 31, 2021 and at June 30, 2021, respectively.

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

(In thousands)	As of December 31, 2021	As of June 30, 2021
Land, property and equipment, net:		
United States	$ 490,597	$ 447,359
Singapore	79,880	76,882
Israel	65,269	57,403
Europe	55,262	56,895
Rest of Asia	26,170	24,488
Total	$ 717,178	$ 663,027

NOTE 19 – RESTRUCTURING CHARGES

From time to time, management approves restructuring plans including workforce reductions in an effort to streamline operations.

Restructuring charges were $0.5 million and $4.6 million for the three months ended December 31, 2021 and 2020, respectively. Restructuring charges were $0.9 million and $8.1 million for the six months ended December 31, 2021 and 2020, respectively. Restructuring charges for the three and six months ended December 31, 2020, included $1.0 million and $2.0 million, respectively, of non-cash charges for accelerated depreciation related to certain right-of-use assets and fixed assets to be abandoned. As of December 31, 2021 and June 30, 2021, the accrual for restructuring charges was $2.9 million and $3.3 million, respectively.

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," "continues," "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 those regarding, among others: 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 ("R&D") expenses and selling, general and administrative ("SG&A") 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 R&D; 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; 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, including the supply chain constraints we are experiencing as a result of the pandemic;*
- *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, onboard and retain key personnel;*
- *Cybersecurity threats, cyber incidents affecting our and our customers, suppliers and other service providers' systems and networks and our and their 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;*
- *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 and our ability to comply with relevant laws and regulations;*
- *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 and 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 where we conduct our business;*
- *Changes in our effective tax rate resulting from changes in the tax rates imposed by jurisdictions where our 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 Part I, Item 1, "Business" and Part II, 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, 2021. 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 ("SEC"). 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 inspection and metrology products, and related service, software and other offerings, support R&D and manufacturing of integrated circuits ("IC"), wafers and reticles. Our products, services and expertise are used by our customers to measure, detect, analyze and resolve critical and nanometric level product defects, helping them to manage manufacturing process challenges and to obtain higher finish product yields at lower cost. We also offer advanced technology solutions to address various manufacturing needs of Printed Circuit Boards ("PCB"), Flat Panel Displays ("FPD"), Specialty Semiconductor Devices and other electronic components, including advanced packaging, light-emitting diodes, power devices, compound semiconductors, and data storage, as well as general materials research.

The pervasive and increasing needs for semiconductors in many consumer and industrial products, 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, and this demand is expected to continue for the foreseeable future. At the same time, technology is transforming how we live and work, and the data driven economy is fundamentally changing how businesses operate and deliver value. This digital transformation is enabling secular demand drivers such as High-Performance Computing, Artificial Intelligence, Machine Learning, and rapid growth in new automotive electronics and 5G communications markets. Each trend is driving investments and innovation in advanced Logic and Memory semiconductor devices, as well as new and increasingly more complex advanced packaging and PCB technologies. The favorable end-market dynamics are driving our customers to make increased investments in our process control and yield management solutions as part of their overall capital investment plans. These trends also drive demand for our other products such as those used in 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. As a result of these factors, we saw a general strengthening of demand for our products throughout fiscal 2021 and in the first half of fiscal 2022. We continue to focus on our close collaborative relationships with our customers, which allows us improved insight into customer demand to more efficiently manage our business, ranging from product development to balancing inventory levels, in order to meet their needs.

We are organized into four reportable segments. We manage our Specialty Semiconductor Process and PCB, Display and Component Inspection reporting segments within our Electronics, Packaging and Components ("EPC") group.

- Semiconductor Process Control ("SPC"): 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 ("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, Commerce has imposed 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 to manufacture products connected to Huawei or its affiliates. While these 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. For additional information regarding risks related to our international operations, see Part II, Item 1A, "Risk Factors" in this report.

The following table sets forth some of our key quarterly unaudited financial information:

	Three Months Ended				
(In thousands, except net income per share)	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**	**March 31, 2021**	**December 31, 2020**
Total revenues	$ 2,352,630	$ 2,083,838	$ 1,925,471	$ 1,803,773	$ 1,650,870
Costs of revenues	$ 908,162	$ 813,624	$ 772,241	$ 709,629	$ 669,733
Gross margin	61 %	61 %	60 %	61 %	59 %
Net income attributable to KLA(1)	$ 717,444	$ 1,068,417	$ 632,978	$ 567,496	$ 457,251
Diluted net income per share attributable to KLA(2)	$ 4.71	$ 6.96	$ 4.10	$ 3.66	$ 2.94

(1) Our net income attributable to KLA increased to $717.4 million in the three months ended December 31, 2021 compared to the three months ended December 31, 2020 primarily as a result of higher revenues partially offset by higher costs of revenues and higher income taxes. Refer to the sections below for further information.

(2) 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 had resulted in a reduction in economic activity across the globe in calendar year 2020 and early 2021. Vaccinations and pandemic containment measures have now created an environment that is driving economic growth, even as the pace of economic recovery remains uneven in various geographies. The resumption of growth has caused us to experience new constraints in our supply chain. Supply chain lead times are extended and shortages have sometimes required us to plan further ahead and increase our purchase commitments to secure critical components on a timely basis. We continue to monitor our supply chain and work with our suppliers to identify and mitigate potential gaps to ensure continuity of supply.

While all of our global sites are currently operational, any local pandemic outbreaks or advent of new variants could require us to temporarily curtail production levels or temporarily cease operations based on government mandates or due to outbreaks affecting our manufacturing employees. 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 pandemic have included health screenings, social distancing, employee separation protocols at our facilities, suspension of non-essential business travel and work from home to the extent possible. We have also developed augmented reality-based solutions for remote services that allow for rapid response to customer needs. 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 or alter 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.

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.

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, 2021. Refer to Note 1 "Basis of Presentation" to our 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, 2021 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" to our Condensed Consolidated Financial Statements.

RESULTS OF OPERATIONS

Revenues and Gross Margin

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 we receive during that period and, depending upon the duration of manufacturing and installation cycles, in the preceding period. Revenue is also impacted by average customer pricing, customer revenue deferrals associated with volume purchase agreements, and the effect of fluctuations in foreign currency exchange rates.

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 currency exchange rates.

(Dollar amounts in thousands)	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020	Q2 FY22 vs. Q2 FY21	
Revenues:				
Product	$ 1,895,769	$ 1,238,023	$ 657,746	53 %
Service	456,861	412,847	44,014	11 %
Total revenues	$ 2,352,630	$ 1,650,870	$ 701,760	43 %
Costs of revenues	$ 908,162	$ 669,733	$ 238,429	36 %
Gross margin	61.4 %	59.4 %		

(Dollar amounts in thousands)	Six Months Ended December 31, 2021	Six Months Ended December 31, 2020	Q2 FY22 YTD vs. Q2 FY21 YTD	
Revenues:				
Product	$ 3,525,657	$ 2,383,518	$ 1,142,139	48 %
Service	910,811	805,972	104,839	13 %
Total revenues	$ 4,436,468	$ 3,189,490	$ 1,246,978	39 %
Costs of revenues	$ 1,721,786	$ 1,290,295	$ 431,491	33 %
Gross margin	61.2 %	59.5 %		

Product revenues during the three and six months ended December 31, 2021 increased compared to the three and six months ended December 31, 2020, respectively, primarily due to strong demand for many of our products, especially our inspection portfolio, as well as increases from continued growth in the advanced packaging, 5G infrastructure and specialty semiconductor markets.

Service revenues during the three and six months ended December 31, 2021 increased compared to the three and six months ended December 31, 2020, primarily due to an increase in our installed base.

Revenues by segment[(1)]

(Dollar amounts in thousands)	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020	Q2 FY22 vs. Q2 FY21	
Revenues:				
SPC	$ 2,052,202	$ 1,380,184	$ 672,018	49 %
Specialty Semiconductor Process	112,738	90,587	22,151	24 %
PCB, Display and Component Inspection	187,977	179,267	8,710	5 %
Other	—	449	(449)	(100)%
Total revenues for reportable segments	$ 2,352,917	$ 1,650,487	$ 702,430	43 %

(Dollar amounts in thousands)	Six Months Ended December 31, 2021	Six Months Ended December 31, 2020	Q2 FY22 YTD vs. Q2 FY21 YTD	
Revenues:				
SPC	$ 3,831,285	$ 2,648,138	$ 1,183,147	45 %
Specialty Semiconductor Process	214,767	179,540	35,227	20 %
PCB, Display and Component Inspection	390,785	360,444	30,341	8 %
Other	—	590	(590)	(100)%
Total revenues for reportable segments	$ 4,436,837	$ 3,188,712	$ 1,248,125	39 %

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

Revenues from our SPC segment during the three and six months ended December 31, 2021 increased compared to the three and six months ended December 31, 2020, respectively, primarily due to strong demand for many of our products especially from our inspection portfolio. Revenues in the EPC group during the three and six months ended December 31, 2021 increased compared to the three and six months ended December 31, 2020, respectively, primarily due to continued growth in advanced packaging, 5G infrastructure and specialty semiconductor markets.

Revenues by region

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

	Three Months Ended December 31,				Six Months Ended December 31,			
(Dollar amounts in thousands)	2021		2020		2021		2020	
Taiwan	$ 776,442	33 %	$ 380,785	23 %	$ 1,403,526	31 %	$ 749,886	24 %
China	544,537	23 %	382,157	23 %	1,229,693	28 %	868,246	27 %
Korea	323,095	14 %	347,947	21 %	562,278	13 %	537,465	17 %
North America	271,594	12 %	214,808	13 %	449,334	10 %	384,984	12 %
Japan	196,282	8 %	156,721	10 %	371,449	8 %	321,140	10 %
Europe and Israel	175,195	7 %	100,201	6 %	262,635	6 %	183,318	6 %
Rest of Asia	65,485	3 %	68,251	4 %	157,553	4 %	144,451	4 %
Total	$ 2,352,630	100 %	$ 1,650,870	100 %	$ 4,436,468	100 %	$ 3,189,490	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:

	Gross Margin	
	Three Months Ended	Six Months Ended
December 31, 2020	59.4%	59.5%
Revenue volume of products and services	2.9%	2.8%
Mix of products and services sold	0.2%	—%
Manufacturing labor, overhead and efficiencies	(0.1)%	(0.2)%
Other service and manufacturing costs	(1.0)%	(0.9)%
December 31, 2021	61.4%	61.2%

Changes in gross margin, which are driven by the revenue volume of products and services, reflect our ability to leverage existing infrastructure to generate higher revenues. Changes in gross margin 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 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 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 comparative periods presented is primarily due to a higher revenue volume of products and services sold, partially offset by an increase in service and manufacturing costs.

Segment gross profit[1]

(Dollar amounts in thousands)	Three Months Ended December 31, 2021	2020	Q2 FY22 vs. Q2 FY21	
Segment gross profit:				
SPC	$ 1,342,937	$ 884,090	$ 458,847	52 %
Specialty Semiconductor Process	60,274	51,171	9,103	18 %
PCB, Display and Component Inspection	82,322	84,584	(2,262)	(3)%
Other	—	(121)	121	(100)%
	$ 1,485,533	$ 1,019,724	$ 465,809	46 %

(Dollar amounts in thousands)	Six Months Ended December 31, 2021	2020	Q2 FY22 YTD vs. Q2 FY21 YTD	
Segment gross profit:				
SPC	$ 2,504,866	$ 1,698,900	$ 805,966	47 %
Specialty Semiconductor Process	114,995	101,099	13,896	14 %
PCB, Display and Component Inspection	176,798	174,753	2,045	1 %
Other	—	(108)	108	(100)%
	$ 2,796,659	$ 1,974,644	$ 822,015	42 %

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

Gross profit in the SPC segment during the three and six months ended December 31, 2021 increased compared to the three and six months ended December 31, 2020, respectively, primarily due to a higher revenue volume of products and services sold, partially offset by an increase in other service and manufacturing costs. Gross profit in the Specialty Semiconductor Process segment during the three and six months ended December 31, 2021 increased compared to the three and six months ended December 31, 2020, respectively, primarily due to higher revenue volume, partially offset by a less favorable mix of products and services sold. Gross profit in the PCB, Display and Component Inspection segment during the three months ended December 31, 2021 decreased compared to the three months ended December 31, 2020 primarily due to a less favorable mix of products and services sold as well as an increase in other service and manufacturing costs. Gross profit in the PCB, Display and Component Inspection segment for the six months ended December 31, 2021 remained relatively unchanged from the six months ended December 31, 2020.

Research and Development ("R&D")

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.

(Dollar amounts in thousands)	Three Months Ended December 31, 2021	2020	Q2 FY22 vs. Q2 FY21	
R&D expenses	$ 265,031	$ 229,064	$ 35,967	16 %
R&D expenses as a percentage of total revenues	11 %	14 %		

R&D expenses during the three months ended December 31, 2021 increased compared to the three months ended December 31, 2020, primarily due to an increase in employee-related expenses of $43.5 million as a result of additional engineering headcount as well as higher employee compensation and benefit costs, partially offset by a decrease in engineering project material costs of $9.0 million.

(Dollar amounts in thousands)	Six Months Ended December 31, 2021		Six Months Ended December 31, 2020		Q2 FY22 YTD vs. Q2 FY21 YTD		
R&D expenses	$	523,184	$	448,102	$	75,082	17 %
R&D expenses as a percentage of total revenues		12 %		14 %			

R&D expenses during the six months ended December 31, 2021 increased compared to the six months ended December 31, 2020, primarily due to an increase in employee-related expenses of $71.2 million as a result of additional engineering headcount as well as higher employee compensation and benefit costs, an in-process R&D write-off of $6.0 million, and an increase in consulting costs of $5.6 million, partially offset by a decrease in engineering project material costs of $10.5 million.

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 we must continue to make substantial and focused investments in our R&D. We remain committed to product development in new and emerging technologies.

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

(Dollar amounts in thousands)	Three Months Ended December 31, 2021		Three Months Ended December 31, 2020		Q2 FY22 vs. Q2 FY21		
SG&A expenses	$	213,479	$	181,909	$	31,570	17 %
SG&A expenses as a percentage of total revenues		9 %		11 %			

SG&A expenses during the three months ended December 31, 2021 increased compared to the three months ended December 31, 2020, primarily due to increases in the following: employee-related expenses of $22.6 million as a result of additional headcount as well as higher employee compensation and benefit costs, facilities-related expense of $2.4 million, depreciation expense of $1.9 million and consulting costs of $1.4 million.

(Dollar amounts in thousands)	Six Months Ended December 31, 2021		Six Months Ended December 31, 2020		Q2 FY22 YTD vs. Q2 FY21 YTD		
SG&A expenses	$	406,740	$	354,540	$	52,200	15 %
SG&A expenses as a percentage of total revenues		9 %		11 %			

SG&A expenses during the six months ended December 31, 2021 increased compared to the six months ended December 31, 2020, primarily due to increases in the following: employee-related expenses of $34.1 million as a result of additional headcount as well as higher employee compensation and benefit costs, consulting costs of $6.2 million, facilities-related expense of $3.7 million, depreciation expense of $2.6 million and travel-related expense of $2.2 million.

Restructuring Charges

Restructuring charges were $0.5 million and $4.6 million for the three months ended December 31, 2021 and 2020, respectively. Restructuring charges were $0.9 million and $8.1 million for the six months ended December 31, 2021 and 2020, respectively. Restructuring charges for the three and six months ended December 31, 2020, included $1.0 million and $2.0 million, respectively, of non-cash charges for accelerated depreciation related to certain right-of-use assets and fixed assets to be abandoned. As of December 31, 2021, the accrual for restructuring charges was $2.9 million.

For additional information refer to Note 19 "Restructuring Charges" to our Condensed Consolidated Financial Statements.

Interest Expense and Other Expense (Income), Net

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, 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.

(Dollar amounts in thousands)	Three Months Ended December 31, 2021	2020	Q2 FY22 vs. Q2 FY21	
Interest expense	$ 37,852	$ 38,880	$ (1,028)	(3)%
Other expense (income), net	1,201	3,882	(2,681)	(69)%
Interest expense as a percentage of total revenues	2 %	2 %		
Other expense (income), net as a percentage of total revenues	< 1%	< 1%		

Interest expense during the three months ended December 31, 2021 decreased compared to the three months ended December 31, 2020, primarily due to lower interest expense on our Revolving Credit Facility.

Other expense (income), net during the three months ended December 31, 2021 decreased compared to the three months ended December 31, 2020, primarily due to more favorable exchange rates.

(Dollar amounts in thousands)	Six Months Ended December 31, 2021	2020	Q2 FY22 YTD vs. Q2 FY21 YTD	
Interest expense	$ 76,164	$ 78,266	$ (2,102)	(3)%
Other expense (income), net	$ 15,341	$ 7,079	8,262	117 %
Interest expense as a percentage of total revenues	2 %	2 %		
Other expense (income), net as a percentage of total revenues	< 1%	< 1%		

Interest expense during the six months ended December 31, 2021 decreased compared to the six months ended December 31, 2020, primarily due to lower interest expense on our Revolving Credit Facility.

Other expense (income), net during the six months ended December 31, 2021 increased compared to the six months ended December 31, 2020, primarily due to a fair value loss of $8.9 million from an equity security in the six months ended December 31, 2021..

Provision for Income Taxes

The following table provides details of income taxes:

(Dollar amounts in thousands)	Three Months Ended December 31, 2021	2020	Six Months Ended December 31, 2021	2020
Income before income taxes	$ 926,905	$ 527,402	$ 1,693,253	$ 1,011,208
Provision (benefit) for income taxes	209,388	70,419	(92,749)	134,083
Effective tax rate	22.6 %	13.4 %	(5.5)%	13.3 %

The effective tax rate during the three months ended December 31, 2021 was higher compared to the three months ended December 31, 2020 primarily due to the impact of the following items:

- Tax expense increased by $163.7 million during the three months ended December 31, 2021 relating to a non-recurring tax expense resulting from a new Israel tax law enacted on November 15, 2021. The new Israel tax law limits our ability to maintain our previous representation that the historical earnings were permanently reinvested in Israel. We recorded deferred tax liability and related tax expense of $163.7 million in accordance with the new Israel tax law; partially offset by
- Tax expense decreased by $69.1 million during the three months ended December 31, 2021 relating to an internal restructuring reducing the deferred tax liability on unremitted earnings.

The effective tax rate during the six months ended December 31, 2021 was lower compared to the six months ended December 31, 2020 primarily due to the impact of the following items:

- Tax expense decreased by $394.5 million during the six months ended December 31, 2021 relating to a non-recurring tax benefit resulting from the intra-entity transfers of certain intellectual property rights (“IP rights”). During the three months ended September 30, 2021, we completed intra-entity transfers of IP rights to one of our Singapore subsidiaries in order to better align the ownership of these rights with how our business operates. The transfers did not result in taxable gains; however, our Singapore subsidiary recognized deferred tax assets for the book and tax basis difference of the eligible transferred IP rights; and

- Tax expense decreased by $69.1 million during the six months ended December 31,2021 relating to an internal restructuring reducing the deferred tax liability on unremitted earnings; partially offset by
- Tax expense increased by $163.7 million during the six months ended December 31, 2021 relating to a non-recurring tax expense resulting from a new Israel tax law enacted on November 15, 2021. The new Israel tax law limits our ability to maintain our previous assertion that certain historical earnings of our subsidiaries were permanently reinvested in Israel. Given this, we recorded a deferred tax liability and related tax expense of $163.7 million during the three months ended December 31, 2021 for the future Israel income tax due upon repatriation of these historical earnings in accordance with the new Israel tax law.

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, R&D 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.

For discussions on tax examinations, assessments and certain related proceedings, see Note 13 “Income Taxes” to our Condensed Consolidated Financial Statements.

Liquidity and Capital Resources

(Dollar amounts in thousands)	As of December 31, 2021	As of June 30, 2021
Cash and cash equivalents	$ 1,657,057	$ 1,434,610
Marketable securities	1,153,404	1,059,912
Total cash, cash equivalents and marketable securities	$ 2,810,461	$ 2,494,522
Percentage of total assets	24 %	24 %

(In thousands)	Six Months Ended December 31, 2021	2020
Cash flows:		
Net cash provided by operating activities	$ 1,674,595	$ 1,073,252
Net cash used in investing activities	(281,570)	(230,212)
Net cash used in financing activities	(1,166,876)	(665,583)
Effect of exchange rate changes on cash and cash equivalents	(3,702)	19,600
Net (decrease) increase in cash and cash equivalents	$ 222,447	$ 197,057

Cash, Cash Equivalents and Marketable Securities

As of December 31, 2021, our cash, cash equivalents and marketable securities totaled $2.81 billion, which represents an increase of $315.9 million from June 30, 2021. The increase is due to net cash provided by operating activities of $1.67 billion, partially offset by stock repurchases of $829.6 million, cash used for payment of dividends and dividend equivalents of $322.0 million, capital expenditures of $133.9 million and $38.0 million in net cash paid for an acquisition.

As of December 31, 2021, $1.22 billion of our $2.81 billion of cash, cash equivalents and marketable securities were held by our foreign subsidiaries and branch offices. We currently intend to indefinitely reinvest $702.2 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 $519.8 million of the $1.22 billion 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 December 31, 2021, our Board of Directors declared a regular quarterly cash dividend of $1.05 per share on our outstanding common stock, which was paid on December 1, 2021 to our stockholders of record as of the close of business on November 15, 2021. During the same period in fiscal year ended June 30, 2021, our Board of Directors declared and paid a regular quarterly cash dividend of $0.90 per share on our outstanding common stock. The total amount of regular quarterly cash dividends and dividend equivalents paid during the three months ended December 31, 2021 and 2020 was $159.1 million and $139.6 million, respectively. The total amount of regular quarterly cash dividends and dividend equivalents paid during the six months ended December 31, 2021 and 2020 was $322.0 million and $280.7 million, respectively. The amount of accrued dividend equivalents payable for regular quarterly cash dividends on unvested RSUs with dividend equivalent rights as of December 31, 2021 and June 30, 2021 was $10.4 million and $10.3 million, respectively. These amounts will be paid upon vesting of the underlying unvested RSUs as described in Note 10 "Equity, Long-term Incentive Compensation Plans and Non-Controlling Interest" to our 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 six months ended December 31, 2021 and 2020. 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 as well as to return excess cash to our shareholders.

Cash Flows from Operating Activities

Historically, we have financed our liquidity requirements through cash generated from our operations. Net cash provided by operating activities during the six months ended December 31, 2021 was $1.67 billion compared to $1.07 billion during the six months ended December 31, 2020. This increase of $601.3 million resulted primarily from the following:

- An increase in collections of approximately $1.25 billion mainly driven by higher shipments and prepayments during the six months ended December 31, 2021;
- A decrease in other tax payments of approximately $17 million during the six months ended December 31, 2021; partially offset by
- An increase in accounts payable payments of approximately $475 million during the six months ended December 31, 2021; and
- An increase in employee related payments of approximately $87 million during the six months ended December 31, 2021; and
- An increase in income tax payments of approximately $113 million during the six months ended December 31, 2021.

Cash Flows used in Investing Activities

Net cash used in investing activities during the six months ended December 31, 2021 was $281.6 million compared to $230.2 million during the six months ended December 31, 2020. This increase in cash used was mainly due to increases in cash paid for business acquisition of $38.0 million and cash paid to purchase fixed assets of $17.9 million, partially offset by a decrease in net purchases of available for sale and trading securities of $7.1 million.

Cash Flows used in Financing Activities

Net cash used in financing activities during the six months ended December 31, 2021 was $1.17 billion compared to cash used in financing activities of $665.6 million during the six months ended December 31, 2020. This increase was mainly due to increases in cash used for common stock repurchases of $464.2 million and cash paid for dividends and dividend equivalents of $41.2 million, partially offset by a decrease in net debt repayments of $9.7 million.

Senior Notes

We have senior unsecured notes in the aggregate principal amount of $3.45 billion outstanding as of December 31, 2021. In February 2020, we issued $750.0 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. 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. See Note 8 "Debt" to our Condensed Consolidated 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 Investors Service (“Moody's”), S&P Global Ratings (“S&P”) and Fitch Inc. (“Fitch”), 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 December 31, 2021, 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. 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 which brought the balance under the Revolving Credit Facility to zero. During the first quarter of the fiscal year ending June 30, 2022, we borrowed $300.0 million from the Revolving Credit Facility, which was paid in full in the same quarter. As of December 31, 2021, 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 December 31, 2021, we elected to pay interest on the borrowed amount under the Revolving Credit Facility at LIBOR plus a spread of 100 bps, and we pay an annual commitment fee of 10 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 a maximum of 4.00 to 1.00 for a period of time in connection with a material acquisition or a series of material acquisitions. As of December 31, 2021, our maximum allowed leverage ratio was 3.00 to 1.00.

We were in compliance with all covenants under the Credit Agreement as of December 31, 2021 (the interest expense coverage ratio was 23.43 to 1.00 and the leverage ratio was 0.95 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, 2022.

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, 2021, except for an increase in purchase obligations for inventory. For additional details regarding our debt and commitments, refer to Note 8 “Debt” and Note 15 “Commitments and Contingencies,” respectively, to our 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, 2021.

Working Capital

Working capital was $3.93 billion as of December 31, 2021, which represents an increase of $332.4 million compared to our working capital of $3.59 billion as of June 30, 2021. As of December 31, 2021, our principal sources of liquidity consisted of $2.81 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.

In June 2021, Moody's upgraded our senior unsecured credit rating from Baa1 to A2. Our credit ratings as of December 31, 2021 are summarized below:

Rating Agency	Rating
Fitch	BBB+
Moody's	A2
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 December 31, 2021, 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" to our 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 analyses performed on our financial position as of December 31, 2021. Actual results may differ materially.

As of December 31, 2021, we had an investment portfolio of fixed income securities of $972.5 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 December 31, 2021, the fair value of the portfolio would have declined by $9.7 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 market interest rates fall and decrease as market interest rates rise. As of December 31, 2021, our fixed rate Senior Notes had a principal amount, fair value and book value of $3.45 billion, $3.92 billion and $3.42 billion, respectively, due in various fiscal years ranging from 2024 to 2050.

As of December 31, 2021, we do not have any outstanding floating rate debts that are subject to an increase in interest rates. As of December 31, 2021, 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 $1 million.

Our equity investment in a publicly traded company is subject to market price risk, which we typically do not attempt to reduce or eliminate through hedging activities. As of December 31, 2021, the fair value of our investment in the marketable equity security, which begun publicly trading on the Tokyo Stock Exchange on April 5, 2021, was $21.0 million. Assuming a decline of 50% in market prices, the aggregate value of our investment in the marketable equity security could decrease by approximately $11 million, based on the value as of December 31, 2021.

See Note 5 “Marketable Securities” to our Condensed Consolidated Financial Statements in Part I, Item 1 and “Risk Factors” in Part II, Item 1A of this Quarterly Report on Form 10-Q for additional details and risks that may affect the value of the investments in our portfolio as of December 31, 2021.

As of December 31, 2021, we had net forward and option contracts to sell $74.7 million in foreign currency in order to hedge certain currency exposures (see Note 16 “Derivative Instruments and Hedging Activities” to our Condensed Consolidated Financial Statements for additional details). If we had entered into these contracts on December 31, 2021, the U.S. dollar equivalent would have been $64.4 million. A 10% adverse move in all currency exchange rates affecting the contracts would decrease the fair value of the contracts by $77.3 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, that 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 reasonably 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. Our Disclosure Controls include components of our internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States of America ("GAAP"). To the extent that components of our internal control over financial reporting are included within our Disclosure Controls, they are included in the scope of our annual controls evaluation.

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 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 errors or mistakes. 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" to our 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 Factors 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

- shortages or disruption in the supply chain could affect our ability to timely process components for our products;
- travel bans or quarantine requirements could delay our ability to install or service our products;
- governmental orders or employee exposure could cause manufacturing stoppages for us or our customers or suppliers;
- reduced demand for our products, delivery pushouts or cancellations of orders by our customers;
- increased costs or inability to acquire components necessary for the manufacture of our products;
- absence of liquidity at customers and suppliers; and
- loss of efficiencies due to remote working requirements for our employees.

Commercial, Operational, 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, onboard and 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 disruption, remediation, regulatory investigations, litigation and reputational damage;
- we may face disruptions if we cannot access critical information in a timely manner due to system failures;
- we may not find suitable acquisition candidates or fail to successfully integrate our acquisitions;
- natural disasters, health epidemics, acts of terrorism or war or other catastrophic events could significantly disrupt our operations for lengthy periods of time;
- we are exposed to fluctuations in foreign currency exchange rates, interest rates and the market values of our portfolio investments;
- we are subject to 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 or the value of our investment portfolio.

Business Model and Capital Structure Risks

- 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;
- we may incur significant restructuring charges or other asset impairment charges or inventory write-offs; and
- we are subject to risks related to receivables factoring arrangements, and compliance risk of certain settlement agreements with the government.

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. While all of our global sites are currently operational, any local pandemic outbreaks or the advent of new variants could require us to temporarily curtail production levels or temporarily cease operations based on government mandates.

Despite the wide availability of COVID-19 vaccines in the United States and in other parts of the world, we are unable to predict how effective they will be in preventing the spread of COVID-19 (including its variant strains). In addition, although economic activity improved in recent months from the global reduction in economic activity in calendar year 2020 caused by the COVID-19 pandemic, the resumption of growth has caused us to experience new constraints in our supply chain as discussed below.

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;
- shortages or disruption in the supply chain could affect our ability to procure components for our products on a timely basis or at all, or could require us to commit to increased purchases and provide longer lead times to secure critical components, which could increase inventory obsolescence risk (refer to the Executive Summary in Part I, Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for additional information on supply constraints related to the COVID-19 pandemic);
- 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, delivery pushouts 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.

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, our customers or our suppliers have operations or where we or they 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;
- our ability to receive 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, Commerce has added numerous China-based entities to the U.S. Entity List, including Fujian Jinhua Integrated Circuit Company, Ltd., Huawei and Semiconductor Manufacturing International Corporation, restricting our ability to provide products and services to such entities without an export license. Even if we apply for licenses to sell our products or provide services to companies on Commerce's U.S. Entity List, there can be no assurance that licenses will be granted. In addition, Commerce has imposed 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, 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 rules have not significantly impacted our operations, but we are continually monitoring their impact. If additional companies are added to Commerce's U.S. Entity List, or other licensing requirements or restrictions are imposed, thereby limiting our ability to sell our products or services to other customers in China, our business could be significantly harmed. 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, and can cause our customers to decrease, cancel or delay their equipment and service orders. The tightening of credit markets and concerns regarding the availability of credit can make 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 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, economic sanctions and export control regulations. We have policies and procedures designed to promote compliance with applicable law, but there can be no assurance our policies and procedures will prove completely effective in ensuring compliance by all our personnel, business partners and representatives, for whose misconduct we may under some circumstances be legally responsible. Our failure or inability to comply with existing or future laws, rules or regulations in the countries in which we operate could result in government investigations and/or enforcement actions, which could result in significant financial cost (including investigation expenses, defense costs, assessments and criminal or civil penalties), reputational harm and other consequences that may adversely affect our operating results, financial condition and ability to conduct our business. From time to time, we may receive inquiries, subpoenas, investigative demands or audit notices from governmental or regulatory bodies, or we may make voluntary disclosures, related to legal, regulatory or tax compliance matters, and these matters may result in significant financial cost (including investigation expenses, defense costs, assessments and criminal or civil penalties), reputational harm and other consequences that could materially and adversely affect our operating results and financial condition. In addition, we may be subject to new or amended laws, including laws that conflict with other applicable laws, which may impose compliance challenges and create the risk of non-compliance.

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 and the elevated demand for talent from the growth in the demand for semiconductors following the onset of the COVID-19 pandemic has increased demand and competition for qualified personnel. Competition for engineering and other technical personnel in many areas of the world in which we operate is especially intense due to the proliferation of technology companies worldwide. 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, onboard and retain key personnel, or if we are not able to attract, assimilate, onboard 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 depend on secure information technology for our business and are exposed to risks related to cybersecurity threats and cyber incidents affecting our, our customers, suppliers and other service providers' systems and networks.

In the conduct of our business, we collect, use, transmit and store data on information systems and networks, including systems and networks owned and maintained by KLA and/or by third-party providers. 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. Despite network security measures, our, our customers, suppliers and other third-party providers' information systems and networks are susceptible to computer viruses, ransomware, cyber-related security breaches and similar disruptions from unauthorized intrusions, tampering, misuse, or criminal acts made directly against, or through our third-party providers in the supply chain, and against, our systems and networks, including phishing, or other events or developments that we may be unable to anticipate or fail to mitigate, which are subject to the inherent vulnerabilities of network security measures. We have experienced cyber-related attacks in the past, and are likely to 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, may not be recognized until launched against a target and are increasingly designed to circumvent controls, avoid detection and remove or obfuscate forensic artifacts, we may be unable to anticipate these techniques, implement adequate preventative measures, or adequately identify and investigate cybersecurity incidents.

Any cybersecurity incident or occurrence could impact our business directly, or indirectly by impacting third parties in the supply chain, in many potential ways: disruptions to 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 information systems and networks; and increased cybersecurity protection and remediation costs. Cybersecurity incidents affecting our customers could result in substantial delays in our ability to ship to those customers or install our products, which could result in delays in revenue recognition or the cancellation of orders, and cybersecurity incidents affecting our suppliers could result in substantial delays in our ability to obtain necessary components for our products from those suppliers, which could hamper our ability to ship our products to our customers, harming our results of operations.

We carry insurance that provides limited protection against the potential losses arising from a cybersecurity incident but it will not likely cover all such losses, and the losses 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 malfunctions, such as difficulties with our customer relationship management 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, or due to cybersecurity events such as ransomware attacks) 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, that we can close such acquisitions 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 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 face other risks associated with acquisition transactions that may lead to a material adverse effect on our business and financial results, 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 controls, procedures and policies appropriate for a larger, U.S.-based public company at companies that prior to acquisition may not have as robust controls, procedures and policies, particularly, with respect to the effectiveness of cyber and information security practices and incident response plans, compliance with data privacy and protection and other laws and regulations, and compliance with U.S.-based economic policies and sanctions which may not have previously been applicable to the acquired company's operations;
- 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 those of our suppliers, 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 and suppliers located in numerous countries throughout the world. Operations at our manufacturing facilities and our assembly subcontractors and those of our suppliers, 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 or power blackouts, 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, the ability of our suppliers to supply us components for our products in a timely manner, or the timely 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 of 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, and an 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 ITA Assessment described in more detail in Note 13 “Income Taxes” to our Condensed 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 R&D 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 GAAP; 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. We have completed our accounting for the tax effects of the Tax Cuts and Jobs Act (the “Tax 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 Tax 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. Numerous countries are evaluating their existing tax laws due in part, to recommendations made by the Organization for Economic Co-operation and Development’s Base Erosion and Profit Shifting project. Furthermore, President Biden put forth several corporate income tax proposals during his campaign, including a significant increase in the corporate income tax rate and changes in the taxation of non-U.S. income. While it is too early to predict the outcome of these proposals, if enacted, they could have a material impact on our income tax liability.

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.

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 we serve, including the semiconductor, FPD and PCB 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. The trends 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 and foundry/logic;
- lower level of process control adoption by our memory customers compared to our foundry/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 ICs, 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 R&D 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 and

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/logic 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/logic 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 credit losses 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.
- 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 revenues 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, financial condition and operating results could be adversely impacted.

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, 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.

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, FPD and PCB industries depends, in part, on the 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 R&D in order to enhance the performance, features and functionality of our products, to keep pace with competitive products and to satisfy customer demands. Substantial R&D 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 R&D 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 R&D 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. We also try to control access to and distribution of our technology and proprietary information. Despite our efforts, internal or external parties may attempt to copy, disclose, obtain or misappropriate our intellectual property or technology. In addition, former employees may seek employment with our customers, suppliers or competitors and there can be no assurance that the confidential nature of our proprietary information will be maintained in the course of such future employment. 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 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 R&D. 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. Generally, we 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 able to do so only 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. Refer to the Executive Summary in Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations," for additional information on supply constraints related to the COVID-19 pandemic.

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 December 31, 2021, 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 $3.00 billion of our common stock, a large portion of which may be financed with new indebtedness. Our ability to pay interest and repay the principal amount 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 Item 1A. 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 our Senior Notes (as defined below) by at least two of Moody's, S&P and Fitch, unless we have exercised our right 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. We cannot make any assurance that we will have sufficient financial resources at such time nor that we will be able to arrange financing to pay the repurchase price of that series of Senior Notes. Our ability to repurchase that series of Senior Notes in such event may be limited by law, by the indenture associated with that series of Senior 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 Senior Notes as required by the terms of such Senior Notes, it would constitute an event of default under the indenture governing that series of Senior Notes which, in turn, may also constitute an event of default under our other 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" to our 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 nor that 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 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 substantial amount 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 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" to our Condensed Consolidated Financial Statements.

Our ability to satisfy our future expenses as well as our 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 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.

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. However, 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 R&D; 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, third-party claims that our products when used for their intended purposes infringe the intellectual property rights of such 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 larger 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 December 31, 2021:

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)]
October 1, 2021 to October 31, 2021	293,656	$	335.75	293,656	$	1,594,728,108
November 1, 2021 to November 30, 2021	406,968	$	408.36	406,968	$	1,428,537,436
December 1, 2021 to December 31, 2021	403,419	$	409.22	403,419	$	1,263,450,608
Total	1,104,043	$	389.36	1,104,043		

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(1) Our Board of Directors has authorized a program that permits us to repurchase our common stock. 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
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 (formatted as Inline XBRL and contained in Exhibit 101)				

^ Furnished herewith

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)

January 28, 2022	/s/ RICHARD P. WALLACE
(Date)	Richard P. Wallace President and Chief Executive Officer (Principal Executive Officer)
January 28, 2022	/s/ BREN D. HIGGINS
(Date)	Bren D. Higgins Executive Vice President and Chief Financial Officer (Principal Financial Officer)
January 28, 2022	/s/ VIRENDRA A. KIRLOSKAR
(Date)	Virendra A. Kirloskar Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)