

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: September 30, 1994

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 0-9992

KLA INSTRUMENTS CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

04-2564110
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

160 Rio Robles
San Jose, California
(Address of principal executive offices)

95134
(Zip Code)

Registrant's telephone number, including area code: (408) 434-4200

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 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

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:
Common Stock, \$0.001 par value
Common Stock Purchase Rights

Common shares outstanding at September 30, 1994: 23,054,000

This report, including all exhibits and attachments, contains 13 pages.

KLA INSTRUMENTS CORPORATION

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KLA INSTRUMENTS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
 THREE MONTHS ENDED SEPTEMBER 30,
 (In thousands except per share amounts)
 (Unaudited)

	1993 -----	1994 -----
Net sales	\$51,904 -----	\$83,179 -----
Costs and expenses:		
Cost of sales	31,161	40,602
Engineering, research and development	4,929	8,182
Selling, general and administrative	9,933	16,450
	----- 46,023 -----	----- 65,234 -----
Income from operations	5,881	17,945
Interest income and other, net	173	1,497
Interest expense	(496)	(474)
	----- 5,558 -----	----- 18,968 -----
Income before income taxes	5,558	18,968
Provision for income taxes	1,392	6,070
	----- \$ 4,166	----- \$12,898
Net income		

Net income per share	=====	=====
	\$ 0.20	\$ 0.54
	=====	=====
Weighted average number of common and dilutive common equivalent shares outstanding	20,798	23,880

See accompanying notes to condensed consolidated financial information.

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KLA INSTRUMENTS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(In thousands except per share amounts)
(Unaudited)

	June 30, 1994 -----	September 30, 1994 -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$139,126	\$144,073
Accounts receivable, net of allowances of \$1,754 and \$1,787	74,226	84,006
Inventories	53,265	59,955
Deferred income taxes	7,495	7,495
Other current assets	4,343	4,723
Total current assets	278,455 -----	300,252 -----
Land, property and equipment, net	37,149	38,266
Other assets	5,966	6,101
Total assets	\$321,570 =====	\$344,619 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 4,673	\$ 2,193
Current portion of long term debt	-	20,000
Accounts payable	11,890	13,787
Income taxes payable	12,466	15,333
Other current liabilities	36,553	42,741
Total current liabilities	65,582 -----	94,054 -----
Deferred income taxes	8,606	8,606
Long-term debt	20,000	-
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 1,000 shares authorized, none outstanding	-	-
Common stock, \$0.001 par value, 75,000 shares authorized, 22,864 and 23,054 shares issued and outstanding	23	23
Capital in excess of par value	147,358	148,901
Retained earnings	80,275	93,173
Treasury stock	(581)	(581)
Cumulative translation adjustment	307	443
Total stockholders' equity	227,382 -----	241,959 -----
Total liabilities and stockholders' equity	\$321,570 =====	\$344,619 =====

See accompanying notes to condensed consolidated financial information.

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KLA INSTRUMENTS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
THREE MONTHS ENDED SEPTEMBER 30,
(In thousands)
(Unaudited)

	1993 ----	1994 ----
Cash flows from operating activities:		
Net income	\$ 4,166	\$ 12,898
Adjustments required to reconcile net income to cash provided by operations:		
Depreciation and amortization	2,408	2,105
Changes in assets and liabilities:		
Accounts receivable, net	(16,841)	(9,780)
Inventories, net	(171)	(6,690)
Other current assets	(37)	(380)
Accounts payable	428	1,897
Income taxes payable and deferred income taxes	295	2,867
Other current liabilities	(1,868)	6,188
Other assets	(42)	(767)
	-----	-----
Cash provided by (used for) operating activities	(11,662)	8,338
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(756)	(2,590)
Capitalization of software development costs	(248)	-
	-----	-----
Cash (used for) investing activities	(1,004)	(2,590)
	-----	-----
Cash flows from financing activities:		
Short-term borrowings and current portion of long-term debt, net	(3,931)	(2,480)
Sales of common stock	1,679	1,543
	-----	-----
Cash (used for) financing activities	(2,252)	(937)
	-----	-----
Effect of exchange rate changes on cash	125	136
	-----	-----
Increase/(decrease) in cash and cash equivalents	(14,793)	4,947
Cash and cash equivalents at beginning of period	52,362	139,126
	-----	-----
Cash and cash equivalents at end of period	\$ 37,569	\$144,073
	=====	=====
Supplemental disclosure to cash flow information		
CASH PAID DURING THE PERIOD FOR:		
INTEREST	\$ 440	\$ 470
INCOME TAXES	781	2,955

See accompanying notes to condensed consolidated financial information.

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KLA INSTRUMENTS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
(IN '000'S)
UNAUDITED

1) This information is unaudited but, in the opinion of Registrant's

management, all adjustments (consisting only of adjustments that are of a normal recurring nature) necessary for a fair statement of results have been included. The results for the quarter ended September 30, 1994, are not necessarily indicative of results to be expected for the entire year. This financial information should be read in conjunction with the Registrant's Annual Report on Form 10-K (including items incorporated by reference therein) for the year ended June 30, 1994.

2) Details of certain balance sheet components:

	June 30, 1994 -----	September 30, 1994 -----
Inventories:		
Systems raw materials	\$12,597	\$12,548
Customer service spares	12,220	12,380
Work-In-Process	13,348	21,387
Demonstration Equipment	15,100	13,640
	-----	-----
	\$53,265	\$59,955
	=====	=====
Other Current Liabilities:		
Accrued compensation and benefits	\$16,328	\$19,176
Accrued warranty and installation	14,367	14,514
Unearned service contract revenue	3,054	3,355
Other	2,804	5,696
	-----	-----
	\$36,553	\$42,741
	=====	=====

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KLA INSTRUMENTS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations

First Quarter of Fiscal 1995 Compared with First Quarter of Fiscal 1994

Net Sales

Net sales increased \$31.3 million or 60.3% for the three month period ended September 30, 1994 as compared to the prior fiscal year. The WISARD business unit was predominantly responsible for the dollar increase in net sales. The Company attributes the continuing increases of WISARD's sales primarily to the continuing adoption by customers of KLA's methodology of in-line monitoring, and secondarily to the fact that KLA's most sophisticated users are continuing to add to the number of systems they employ in a single fab line. During the quarter, the Metrology division, the ATS division and the RAPID division also recorded increases in net sales. In particular, the Metrology division's net sales rose by more than 50% versus the year-earlier comparable period and the Company believes that it now has over 50% of the worldwide market.

Gross Margin

Gross margins were 51.2% for the three month period ended September 30, 1994 compared to 40.0% for the prior fiscal year. Most of the improvement in the gross margin percentage was due to a favorable mix effect as the WISARD business unit's share of total revenues rose substantially. The WISARD business unit's gross margin was also favorably impacted by learning curve effects, volume efficiencies and the use of lower cost components. The Customer Service division's return to profitability also improved gross margins.

Engineering, Research and Development

Engineering, research and development expenses were 9.8% of net sales for the three month period ended September 30, 1994, compared to 9.5% in the first quarter of the prior fiscal year. Net engineering expenditures rose \$3.3 million during the three month period of fiscal 1995 compared to the prior fiscal year. Engineering headcount additions in the WISARD business unit were the primary contributor to the dollar increase in net engineering expenses. However, the rate at which the WISARD business unit added engineering headcount was lower than the rate at which the business unit sales increased. The newly formed PRISM division also contributed to the increase in net engineering expense.

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KLA INSTRUMENTS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Selling, General and Administrative

Selling, general and administrative expenses increased 0.7% to 19.8% of sales for the three month period ended September 30, 1994 as compared to the prior fiscal year. Sales and administration expenses increased at a rate slower than sales while profit sharing and representative commissions increased at a rate higher than sales. The profit sharing increase reflected the improvement in the Company's financial performance. Representative commissions grew slightly as a percentage of sales primarily due to the increase in the share of revenues from the Asia-Pacific region.

Interest Income and Other, net

Interest income and other, net increased \$1.3 million for the three month period ended September 30, 1994 as compared to the prior fiscal year. This increase is primarily attributable to higher average cash balances of approximately \$97 million.

Provision for Income Taxes

The 32% estimated effective tax rate for the three month period ended September 30, 1994 is lower than the U.S. statutory rate as a result of income in foreign jurisdictions having a lower than U.S. tax rate and from the realization of net deferred tax assets previously reserved including tax credit carryforwards.

Future Operating Results

The Company's future results will depend on its ability to continuously introduce new products and enhancements to its customers as demands for higher performance yield management and process control systems change or increase. Due to the risks inherent in transitioning to new products, the Company must accurately forecast demand in both volume and configuration and also manage the transition from older products. The Company's results could be affected by the ability of competitors to introduce new products which have technological and/or pricing advantages. The Company's results also will be affected by strategic decisions made by management regarding whether to continue particular product lines, and by volume, mix and timing of orders received during a period, fluctuations in foreign exchange rates, and changing conditions in both the semiconductor industry and key semiconductor markets around the world. As a result, the Company's operating results may fluctuate, especially when measured on a quarterly basis.

Liquidity and Capital Resources

Cash generated by operations was \$8.3 million. Due to the ongoing sales ramp, the Company invested \$9.8 million in accounts receivable, \$6.7 million in inventories, and \$2.6 million in new capital equipment. KLA's capital spending rate is expected to increase modestly over the next two years as the Company adds manufacturing capacity and office space at its San Jose Campus site. The Company is confident that its current level of liquid assets, credit facilities and cash generated from operations are sufficient to fund growth through the foreseeable future.

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KLA INSTRUMENTS CORPORATION
FORM 10-Q
PART II: OTHER INFORMATION

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Item 2	-	Changes in Securities	Not Applicable
Item 3	-	Defaults Upon Senior Securities	Not Applicable
Item 4	-	Submission of Matters to a Vote of Security Holders	Not Applicable
Item 5	-	Other Events	Not Applicable
Item 6	-	Exhibits and Reports on Form 8-K	Page 12 - 13

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ITEM 1
LEGAL PROCEEDINGS

The Company had no significant changes in legal proceedings during the quarter ended September 30, 1994. For further information, refer to the Company's Form 10-K for the fiscal year ended June 30, 1994.

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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 INSTRUMENTS CORPORATION

November 13, 1994

[Date]

KENNETH LEVY

Kenneth Levy
Chairman of the Board

November 13, 1994

[Date]

KENNETH L. SCHROEDER

Kenneth L. Schroeder
President

November 13, 1994

[Date]

ROBERT J. BOEHLKE

Robert J. Boehlke
V.P. Finance and Administration
Chief Financial Officer

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INDEX TO EXHIBITS

- (i) EXHIBITS INCORPORATED BY REFERENCE:
- 4.1 1982 Stock Option Plan(1)
 - 4.2 1981 Employee Stock Purchase Plan(1)
 - 4.3 Rights Agreement dated as of March 15, 1989, between the Company and First National Bank of Boston, as Rights Agent. The Rights Agreement includes as Exhibit A, the form of Right Certificate, and as Exhibit B, the form of Summary of Rights to Purchase Common Stock(2)
 - 4.4 1982 Stock Option Plan, as amended by the Board of Directors on July 20, 1990(7)
 - 4.5 1981 Employee Stock Purchase Plan, as amended by the Board of Directors on July 20, 1990(7)
 - 4.6 1990 Outside Directors Stock Option Plan(8)
 - 4.7 1993 Employee Stock Purchase Plan, as amended by the Board of Directors on September 14, 1992(10)
 - 10.15 Statement of Partnership to Triangle Partners dated April 12, 1983(3)
 - 10.16 Lease Agreement and Addendum thereto dated January 10, 1983, between BK Partnership and the Company(3)
 - 10.18 Purchase and Sale Agreement dated January 10, 1983, between BK Partnership, Triangle Partners and the Company(3)
 - 10.23 Research and Development Agreement, Cross License and Technology Transfer Agreement and Agreement for Option to License and Purchase Resulting Technology, all dated February 21, 1985, by and between KLA Development No. 3, Ltd., and the Company(4)
 - 10.24 Research and Development Agreement dated February 21, 1985, by and between KLA Development No. 3, Ltd., and the Company(4)
 - 10.25 Agreement for Option to License and Purchase Resulting Technology dated February 21, 1985, by and between KLA Development No. 3, Ltd., and the Company(4)

- 10.33 (Research and Development) Agreement dated as of February 1, 1987, by and between IBM Corporation and the Company(5)
- 10.35 Research and Development Agreement, Cross License and Technology Transfer Agreement and Agreement for Option to License and Purchase Resulting Technology, all dated October 1, 1986, by and between KLA Development No. 4, Ltd., and the Company(5)
- 10.36 Agreement for Option to License and Purchase Resulting Technology dated October 1, 1986, by and between KLA Development No. 4, Ltd., and the Company(5)
- 10.43 Amendment to the Exclusive Marketing Agreement dated February 23, 1989, by and between Micrion Limited Partnership and the Company(6)
- 10.44 Bank Loan Guarantee dated June 29, 1989, by the Company in favor of The First National Bank of Boston for the Micrion Limited Partnership(6)
- 10.45 Distribution Agreement, Manufacturing License Agreement, and Technical Marketing Assistance Agreement, all dated July 1990, by and between Tokyo Electron Limited, a Japanese Corporation, and the Company(7)
- 10.46 Principle facility Purchase Agreement dated July 1990, including all exhibits and amendments; Lease Agreement, Termination of Lease, Lot line adjustment, rights of first refusal, Deeds of Trust(7)
- 10.47 Joint Venture Agreement between the Company and Nippon Mining Company, Limited, dated September 18, 1990(8)
- 10.48 Exercise of Option to Purchase Technology made effective as of September 30, 1989, by and between KLA Development No. 3, and the Company(8)
- 10.49 Exercise of Option to Purchase Technology made effective as of January 1, 1990, by and between KLA Development No. 4, and the Company(8)

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- 10.51 Guarantee Agreement between First National Bank of Boston and the Company, dated June 29, 1989(8)
- 10.52 Amendment to the Guarantee Agreement between First National Bank of Boston and the Company, dated April 19, 1991(8)
- 10.53 Secured Installment Note between Micrion and First National Bank of Boston, dated April 19, 1991(8)
- 10.54 Micrion Corporation Series E Preferred Stock Purchase Agreement, dated September 13, 1991(8)
- 10.55 Micrion Corporation Guaranty and Warrant Agreement, dated December 8, 1989(8)
- 10.57 Stock repurchase and option grant agreement between Bob Boehlke and the Company, dated April 22, 1991(8)
- 10.58 Purchase Agreement between the Company and Ono Sokki Co., Ltd., dated October 18, 1991 with certain portions for which confidential treatment has been requested, excised(9)
- 10.59 Credit Agreement between Bank of America NT & SA and the Company, dated November 15, 1991, as amended July 29, 1992(9)
- 10.60 Employment agreement between the Company and Kenneth L. Schroeder dated October 4, 1991(9)
- 10.61 Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated October 28, 1992(10)
- 10.62 Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated December 31, 1992(10)
- 10.63 Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated February 28, 1993(10)
- 10.64 Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated March 31, 1993(10)
- 10.65 Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated June 1, 1993(10)
- 10.66 Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated December 31, 1993(16)
- 10.67 Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated March 31, 1994(16)
- 10.68 Credit Agreement between Bank of America NT & SA and the Company, dated April 30, 1994(16)
- 10.69 1982 Stock Option Plan, as amended by the Board of Directors on July 20, 1990(12)
- 10.70 1981 Employee Stock Purchase Plan, as amended by the Board of Directors on July 20, 1990(13)
- 10.71 1990 Outside Directors Stock Option Plan(14)
- 10.72 1993 Employee Stock Purchase Plan, as amended by the Board of Directors on September 14, 1992(15)

- - - - -

- (1) Filed as the same exhibit number as set forth herein to Form S-8, File No. 33-15784, effective August 2, 1987
- (2) Filed as exhibit number 1 to Form 8-A, filed effective March 23, 1989
- (3) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1983
- (4) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1985
- (5) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1987
- (6) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1989
- (7) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1990
- (8) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1991
- (9) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1992
- (10) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1993
- (11) Filed as the same exhibit number to Registrant's registration statement no. 33-51819 on Form S-3, dated February 2, 1994
- (12) Filed as exhibit number 4.4 as set forth herein to Registrant's Form 10-K for the year ended June 30, 1990
- (13) Filed as exhibit number 4.5 as set forth herein to Registrant's Form 10-K for the year ended June 30, 1990
- (14) Filed as exhibit number 4.6 as set forth herein to Registrant's Form 10-K for the year ended June 30, 1991
- (15) Filed as exhibit number 4.7 as set forth herein to Registrant's Form 10-K for the year ended June 30, 1993
- (16) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1994