

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: March 31, 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 X 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 March 31, 1994: 22,624,000

This report, including all exhibits and attachments, contains 12 pages.

KLA INSTRUMENTS CORPORATION

INDEX

	Page
PART I	
FINANCIAL INFORMATION	Number
-----	-----
Item 1	
Financial Statements:	
Condensed Consolidated Statement of Operations	
Three Months Ended March 31, 1993 and 1994	3
Nine Months Ended March 31, 1993 and 1994	4
Condensed Consolidated Balance Sheet	5
Condensed Consolidated Statement of Cash Flows	6
Notes to Condensed Consolidated Financial Statements	7
Item 2	
Management's Discussion and Analysis of Results of	
Operations and Financial Condition	8-10
PART II	
OTHER INFORMATION	

Items 1-6	11
Signatures	12

KLA INSTRUMENTS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
 THREE MONTHS ENDED MARCH 31,
 (In thousands except per share amounts)
 (Unaudited)

	1993	1994
	----	----
Net sales	\$42,240	\$62,665
	-----	-----

Costs and expenses:		
Cost of sales	26,633	33,308
Engineering, research and development	4,390	5,486
Selling, general and administrative	8,383	12,014
	-----	-----
	39,406	50,808
	-----	-----
Income from operations	2,834	11,857
Interest income and other, net	537	642
Interest expense	(767)	(458)
	-----	-----
Income before income taxes	2,604	12,041
Provision for income taxes	653	3,010
	-----	-----
Net income	\$ 1,951	\$ 9,031
	=====	=====
Net income per share	\$ 0.10	\$ 0.40
	=====	=====
Weighted average number of common and dilutive common equivalent shares outstanding	20,007	22,729

See accompanying notes to condensed consolidated financial information.

Page 3 of 12

4

KLA INSTRUMENTS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
NINE MONTHS ENDED MARCH 31,
(In thousands except per share amounts)
(Unaudited)

	1993	1994
	----	----
Net sales	\$119,353	\$171,656
	-----	-----
Costs and expenses:		
Cost of sales	77,168	96,886
Engineering, research and development	12,583	15,262
Selling, general and administrative	23,585	33,257
Restructuring recovery	(718)	-
	-----	-----
	112,618	145,405
	-----	-----
Income from operations	6,735	26,251
Interest income and other, net	1,022	1,191
Interest expense	(2,568)	(1,453)
	-----	-----
Income before income taxes	5,189	25,989
Provision for income taxes	1,298	6,500
	-----	-----
Net income	\$ 3,891	\$ 19,489
	=====	=====
Net income per share	\$ 0.20	\$ 0.91
	=====	=====
Weighted average number of common and dilutive common equivalent shares outstanding	19,454	21,479

See accompanying notes to condensed consolidated financial information.

Page 4 of 12

5

KLA INSTRUMENTS CORPORATION
 CONDENSED CONSOLIDATED BALANCE SHEET
 (In thousands)
 (Unaudited)

	June 30, 1993	March 31, 1994
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 52,362	\$113,924
Accounts receivable, net of allowances of \$1,469 and \$1,783	48,077	82,099
Inventories	42,489	49,577
Deferred income taxes	3,917	3,917
Other current assets	4,724	4,920
	-----	-----
Total current assets	151,569	254,437
	-----	-----
Land, property and equipment, net	39,384	36,362
Other assets	8,136	6,099
	-----	-----
Total assets	\$199,089	\$296,898
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable and current portion of long-term debt	\$ 6,532	\$ 3,032
Accounts payable	8,953	10,533
Income taxes payable	9,403	12,759
Other current liabilities	33,070	34,509
	-----	-----
Total current liabilities	57,958	60,833
	-----	-----
Deferred income taxes	7,081	7,081
Long-term debt	20,000	20,000
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, \$0.001 par value, 1,000 shares authorized, none outstanding	--	--
Common shares, \$0.001 par value, 75,000 shares authorized, 19,503 and 22,624 shares issued and outstanding	20	23
Capital in excess of par value	64,638	140,023
Retained earnings	50,087	69,576
Treasury stock	(581)	(581)
Cumulative translation adjustment	(114)	(57)
	-----	-----
Total stockholders' equity	114,050	208,984
	-----	-----
Total liabilities and stockholders' equity	\$199,089	\$296,898
	=====	=====

See accompanying notes to condensed consolidated financial information.

6

KLA INSTRUMENTS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 NINE MONTHS ENDED MARCH 31,
 (In thousands)
 (Unaudited)

	1993	1994
	-----	-----
Cash flows from operating activities:		
Net income	\$ 3,891	\$ 19,489
	-----	-----
Adjustments required to reconcile net income to cash provided by (used for) operations:		
Depreciation and amortization	6,173	8,530
Investment write-downs	94	-
Changes in assets and liabilities:		
Accounts receivable, net	(4,314)	(34,022)
Inventories, net	4,974	(7,088)
Other current assets	932	(196)
Accounts payable	3,347	1,580
Income taxes payable and deferred income taxes	(2,953)	3,356
Other current liabilities	(642)	1,439
Other assets	(348)	(174)
	-----	-----
	7,263	(26,575)
	-----	-----
Cash provided by (used for) operating activities	11,154	(7,086)
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(1,932)	(3,297)
Capitalization of software development costs	(899)	-
	-----	-----
Cash (used for) investing activities	(2,831)	(3,297)
	-----	-----
Cash flows from financing activities:		
Short-term borrowings and current portion of long-term debt, net	(2,812)	(3,500)
Sales of common stock	3,050	75,388
	-----	-----
Cash provided by financing activities	238	71,888
	-----	-----
Effect of exchange rate changes on cash	(725)	57
	-----	-----
Increase in cash and cash equivalents	7,836	61,562
Cash and cash equivalents at beginning of period	23,711	52,362
	-----	-----
Cash and cash equivalents at end of period	\$ 31,547	\$113,924
	-----	-----
Supplemental disclosure to cash flow information		
CASH PAID DURING THE PERIOD FOR:		
INTEREST	\$ 2,453	\$ 1,096
INCOME TAXES	2,333	2,802

See accompanying notes to condensed consolidated financial information.

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 March 31, 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, 1993.
- 2) Details of certain balance sheet components:

	June 30, 1993 -----	March 31, 1994 -----
Inventories:		

Systems raw materials	\$ 8,389	\$13,113
Customer service spares	13,530	11,862
Work-In-Process	10,004	11,252
Demonstration Equipment	10,566	13,350
	-----	-----
	\$42,489	\$49,577
	=====	=====
Other Current Liabilities:		

Accrued compensation and benefits	\$11,682	\$15,195
Accrued warranty and installation	12,188	13,556
Unearned service contract revenue	2,854	2,404
Other	6,346	3,354
	-----	-----
	\$33,070	\$34,509
	=====	=====

- 3) In February 1994, KLA Instruments Corporation ("the Company") raised approximately \$68.8 million, net of offering costs, in a public offering of 2,300,000 new shares of common stock.

Page 7 of 12

KLA INSTRUMENTS CORPORATION

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

Results of Operations

Third Quarter and Nine Months of Fiscal 1994 Compared with Third Quarter and Nine Months of Fiscal 1993

Net Sales

Net sales increased \$20.4 million or 48.4% and \$52.3 million or 43.8%, respectively, for the three and nine month periods ended March 31, 1994 as compared to the prior fiscal year. The largest increase in sales was in the WISARD business unit. The RAPID business unit, the Metrology division and the ATS division also contributed to the rise in sales. The WISARD business unit

achieved record shipments of the KLA 2100 series of yield monitoring systems. This success was primarily attributable to the on-going market adoption of the KLA 2100 series as an in-line monitoring system and secondarily to industry additions to manufacturing capacity in the U.S. and Asia Pacific. A shift in product mix from the KLA 200 series to the new generation KLA 300 series was the primary contributor to the increases experienced by the RAPID business unit. The Metrology division and the ATS division increases were due to higher unit volume.

Gross Margin

Gross margins were 46.8 % for the three-month and 43.6% for the nine-month periods ended March 31, 1994, compared to gross margins of 36.9% and 35.3% in the comparable periods for the prior fiscal year. The increase in both periods is due primarily to manufacturing efficiencies in the WISARD business unit as volumes rose substantially and also to a favorable mix effect as the KLA 2100 series portion of total KLA revenues increased. Gross margins were also favorably impacted by cost controls and efficiencies in the Field Service division.

Page 8 of 12

9

KLA INSTRUMENTS CORPORATION

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

Engineering Research and Development

Engineering research and development expenses were 8.8% of net sales in the three month period and 8.9% in the nine month period ended March 31, 1994, compared to 10.4% and 10.5% in the comparable periods in the prior fiscal year. Net engineering expenditures rose \$1.1 million and \$2.7 million during the three and nine month periods of fiscal 1994 compared to the prior fiscal year. The absolute dollar increase was primarily due to funding of incremental engineering programs in the Company's expanding WISARD business unit.

Selling General and Administrative

Selling general and administrative expenses decreased 0.6% to 19.2% and 0.4% to 19.4%, respectively, for the three and nine month periods ended March 31, 1994 as compared to the prior fiscal year. Headcount-related overhead expenses increased in total, but at a lower rate of increase than revenues. However, commission expenses for outside sales representatives increased faster than revenues, reflecting the increased share of Japanese and Asia Pacific business. In addition, profit sharing expense grew substantially faster than revenues due to the sharp upturn in the Company's profitability.

Provision for Income Tax

The 25% effective tax rate for both the three and nine-month periods ended March 31, 1993 and March 31, 1994 results from 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. Management believes that sufficient uncertainty continues to exist regarding the realization of the remaining deferred tax assets such that a full valuation allowance is still required.

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.

Page 9 of 12

10

KLA INSTRUMENTS CORPORATION

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

Liquidity and Capital Resources

Total cash and cash equivalents increased by \$61.6 million during the nine month fiscal period ended March 31, 1994. Cash used for operations was \$7.1 million. The major factors contributing to the use of cash for operations was an increase in accounts receivable and inventories, respectively, of \$34.0 million and \$7.1 million offset by net income of \$19.5 million and non-cash adjustments, for depreciation and amortization, of \$8.5 million. The accounts receivable increase is attributable to (a) the increase in revenue, (b) non-linear delays in the manufacturing ramp-up of the KLA 2131 product entry during the third fiscal quarter of 1994 and (c) the comparison to a strong collection effort at the end of fiscal 1993. Higher production levels contributed to the increase in inventories. In February 1994, the Company raised approximately \$68.8 million in a public offering of 2,300,000 new shares of common stock. Stock option exercises contributed \$5.6 million to cash. The Company believes that its current level of liquid assets, credit facilities and cash generated from operations are sufficient to fund growth for the foreseeable future.

Page 10 of 12

11

KLA INSTRUMENTS CORPORATION

FORM 10-Q

PART II: OTHER INFORMATION

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	Not Applicable

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

May 13, 1994

 [Date]

Kenneth Levy

 Kenneth Levy
 Chairman of the Board

May 13, 1994

 [Date]

Kenneth L. Schroeder

 Kenneth L. Schroeder
 President

May 13, 1994

 [Date]

Robert J. Boehlke

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

