

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

FORM 10-Q

(Mark One)

/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: March 31, 1995

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

04-2564110

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

(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

Common shares outstanding at March 31, 1995: 23,443,000

This report, including all exhibits and attachments, contains 21 pages.

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KLA INSTRUMENTS CORPORATION

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KLA INSTRUMENTS CORPORATION

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

	1994 ----	1995 ----
<S>	<C>	<C>
Net sales	\$ 62,665	\$ 118,142
	-----	-----
Costs and expenses:		
Cost of sales	33,308	54,202
Engineering, research and development	5,486	12,294
Selling, general and administrative	12,014	21,565
	-----	-----
	50,808	88,061
	-----	-----
Income from operations	11,857	30,081
Interest income and other, net	642	2,327
Interest expense	(458)	(643)
	-----	-----
Income before income taxes	12,041	31,765
Provision for income taxes	3,010	10,927
	-----	-----
Net income	\$ 9,031	\$ 20,838
	=====	=====
Net income per share	\$ 0.40	\$ 0.86
	=====	=====
Weighted average number of common and dilutive common equivalent shares outstanding	22,729	24,266

See accompanying notes to condensed consolidated financial information.

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KLA INSTRUMENTS CORPORATION

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

	1994 ----	1995 ----
<S>	<C>	<C>
Net sales	\$ 171,656	\$ 306,032
	-----	-----
Costs and expenses:		
Cost of sales	96,886	143,178
Engineering, research and development	15,262	29,284
Selling, general and administrative	33,257	59,754
Write-off of acquired in-process technology	--	25,240
	-----	-----
	145,405	257,456
	-----	-----
Income from operations	26,251	48,576
Interest income and other, net	1,191	5,359
Interest expense	(1,453)	(1,725)
	-----	-----
Income before income taxes	25,989	52,210
Provision for income taxes	6,500	17,528
	-----	-----
Net income	\$ 19,489	\$ 34,682
	=====	=====
Net income per share	\$ 0.91	\$ 1.44
	=====	=====

Weighted average number of common and
dilutive common equivalent shares outstanding 21,479 24,080
</TABLE>

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	March 31, 1995
	-----	-----
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 139,126	\$ 59,723
Short-term investments	--	23,596
Accounts receivable, net	74,226	122,513
Inventories	53,265	75,001
Other current assets	11,838	11,957
	-----	-----
Total current assets	278,455	292,790
Land, property and equipment, net	37,149	44,172
Marketable securities	--	57,708
Other assets	5,966	6,638
	-----	-----
Total assets	\$ 321,570	\$ 401,308
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 4,673	\$ 2,721
Current portion of long-term debt	--	20,000
Accounts payable	11,890	14,306
Income taxes payable	12,466	22,982
Other current liabilities	36,553	63,209
	-----	-----
Total current liabilities	65,582	123,218
	-----	-----
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 23,443 shares issued and outstanding	23	23
Capital in excess of par value	147,358	153,204
Retained earnings	80,275	114,957
Treasury stock	(581)	(581)
Net unrealized gain on investments	--	571
Cumulative translation adjustment	307	1,310
	-----	-----
Total stockholders' equity	227,382	269,484
	-----	-----
Total liabilities and stockholders' equity	\$ 321,570	\$ 401,308
	=====	=====

</TABLE>

See accompanying notes to condensed consolidated financial information.

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KLA INSTRUMENTS CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

NINE MONTHS ENDED MARCH 31,
(In thousands)
(Unaudited)

<TABLE>
<CAPTION>

	1994	1995
	-----	-----
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 19,489	\$ 34,682
Adjustments required to reconcile net income to cash provided by (used for) operations:		
Depreciation and amortization	8,530	7,994
Write-off of acquired in-process technology	--	16,154
Changes in assets and liabilities:		
Accounts receivable, net	(34,022)	(47,701)
Inventories, net	(7,088)	(18,354)
Other current assets	(196)	(90)
Accounts payable	1,580	1,439
Income taxes payable and deferred income taxes	3,356	10,516
Other current liabilities	1,439	22,562
Other assets	(174)	(2,559)
	-----	-----
Cash provided by (used for) operating activities	(7,086)	24,643
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(3,297)	(12,756)
Short-term investments	--	(23,596)
Long-term marketable securities	--	(57,708)
Net unrealized gain on investments		571
Acquisition of Metrologix	--	(14,182)
	-----	-----
Cash (used for) investing activities	(3,297)	(107,671)
	-----	-----
Cash flows from financing activities:		
Short-term borrowings and current portion of long-term debt, net	(3,500)	(3,225)
Sales of common stock	75,388	5,847
	-----	-----
Cash provided by financing activities	71,888	2,622
	-----	-----
Effect of exchange rate changes on cash	57	1,003
	-----	-----
Increase/(decrease) in cash and cash equivalents	61,562	(79,403)
Cash and cash equivalents at beginning of period	52,362	139,126
	-----	-----
Cash and cash equivalents at end of period	\$ 113,924	\$ 59,723
	=====	=====
Supplemental disclosure for cash flow information.		
CASH PAID DURING THE PERIOD FOR:		
INTEREST	\$ 1,096	\$ 1,712
INCOME TAXES	2,802	15,530

</TABLE>

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 the Company'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 and the nine month period ended March 31, 1995, are not necessarily indicative of results to be expected for the entire fiscal year. This financial information should be read in conjunction with the Company's Annual Report on Form 10-K (including items incorporated by reference therein) for the year ended June 30, 1994.

- 2) Effective July 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Investments in Certain

Debt and Equity Securities" (FAS 115), which requires investment securities to be classified as either held to maturity, trading or available for sale. The Company reviewed its portfolio and determined that its investment portfolio would be classified as available for sale. Under FAS 115, for those investments classified as available for sale, the difference between an investment's cost and its fair value has been recorded as a separate component of stockholder's equity.

3) Details of certain balance sheet components:

<TABLE>
<CAPTION>

	June 30, 1994 ----- <C>	March 31, 1995 ----- <C>
Inventories: -----		
Systems raw materials	\$ 12,597	\$ 17,878
Customer service spares	12,220	11,994
Work-in-process	13,348	25,007
Demonstration equipment	15,100	20,122
	-----	-----
	\$ 53,265	\$ 75,001
	=====	=====
Other Current Liabilities: -----		
Accrued compensation and benefits	\$ 16,328	\$ 26,005
Accrued warranty and installation	14,367	20,075
Unearned service contract revenue	3,054	12,098
Other	2,804	5,031
	-----	-----
	\$ 36,553	\$ 63,209
	=====	=====

</TABLE>

4) In December 1994, the Company acquired Metrologix Inc., (Metrologix), a manufacturer of advanced electron beam measurement equipment for \$14.2 million in cash. This acquisition was accounted for as a purchase and the total acquisition cost of \$16.1 million has been allocated to assets acquired and liabilities assumed. A significant portion of the acquisition cost was allocated to acquired in-process technology. During December 1994, the Company wrote-off the acquired in-process technology resulting in an after-tax charge of \$16.2 million (\$25.2 million pre-tax). The results of operations for Metrologix from the date of the acquisition to March 31, 1995 were immaterial.

5) In April, 1995, the Company raised approximately \$90.7 million, net of offering costs, in a public offering of 1,500,000 new shares of common stock.

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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 1995 Compared with Third Quarter and Nine Months of Fiscal 1994

Metrologix

In December 1994, the Company acquired Metrologix Inc., (Metrologix), a manufacturer of advanced electron beam measurement equipment. Except for the non-recurring write-off of the Metrologix technology, the acquisition did not have a material impact on the financial performance of the Company. The Company does not expect the Metrologix business to have a significant impact on earnings during the remainder of the fiscal year.

Net Sales

Net sales increased 88.5% and 78.3%, respectively, for the three and nine month periods ended March 31, 1995 as compared to the prior fiscal year. Sales of wafer inspection units by the Company's WISARD business unit (WISARD) were predominantly responsible for the dollar increase in net sales. The Company attributes the continuing increase of WISARD's sales primarily to the fact that the world's most sophisticated users of KLA's yield monitoring systems continued the trend of adopting multiple units per fab. Presently, the most extensive

users have between six and nine KLA yield monitoring units installed or on order per fab. The Metrology division also recorded significant increases in net sales, due to overall strength in the semiconductor industry and increasing customer acceptance of the KLA 5100.

Gross Margin

Gross margins were 54.1% and 53.2%, respectively, for the three and nine month periods ended March 31, 1995 compared to 46.8% and 43.6% for the same periods of the prior fiscal year. The increase in the gross margins was due primarily to the increasing favorable mix of business towards the more profitable WISARD products. Volume efficiencies also contributed to gross margin improvement in WISARD and in the Metrology division. The Metrology division's gross margin increase was also attributable to a favorable product mix.

Engineering, Research and Development

Engineering, research and development expenses were 10.4% and 9.6% of net sales, respectively, for the three and nine month periods ended March 31, 1995 compared to 8.8% and 8.9% of net sales, for the same periods of the prior fiscal year. Net engineering expenditures rose \$6.8 million and \$14.0 million, respectively, during the three and nine month periods of fiscal 1995 compared to the prior fiscal year. WISARD, the Rapid business unit, and new product lines (PRISM and E-Beam Metrology) each contributed to the dollar increase in engineering expenses. WISARD's increase was due to the business unit's on-going effort to add and expand research and development programs.

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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 were 18.3% and 19.5% of net sales, respectively, for the three and nine month periods ended March 31, 1995 compared to 19.2% and 19.4% of net sales, for the same periods of the prior fiscal year. During the quarter ended March 31, 1995, administrative expenses and representative commissions grew at a rate slower than sales. This was partially offset by profit sharing and sales expenses, which grew faster than revenues. For the nine months ended March 31, 1995, the percentage decrease in sales and administrative expenses was slightly smaller than the percentage increase in profit sharing expense and representative commissions.

Write -off of Acquired In-process Technology

In December 1994, the Company acquired Metrologix, a manufacturer of advanced electron beam measurement equipment. A significant portion of the purchase price was allocated to acquired in-process technology. During December 1994, the Company wrote-off the acquired in-process technology resulting in a pre-tax charge of \$25.2 million (\$16.2 million after-tax).

Interest Income and Other, net

Interest income and other, net increased \$1.7 million and \$4.2 million, respectively, for the three and nine month periods ended March 31, 1995 as compared to the same periods of the prior fiscal year. This increase is attributable to both higher average cash, cash equivalent and marketable security balances and to higher average interest rates.

Provision for Income Taxes

The 33.6% estimated effective tax rate for the nine month period ended March 31, 1995 is lower than the U.S. statutory rate primarily as a result of (a) income in foreign jurisdictions having a lower than U.S. tax rate, (b) the realization of Foreign Sales Corporation benefits, (c) the utilization of research and development tax credits and (d) 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.

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Liquidity and Capital Resources

Cash and cash equivalents decreased \$79.4 million at March 31, 1995 compared to June 30, 1994. The decrease in cash and cash equivalents is due to the adoption of new investment strategies and the reclassification of \$81.3 million from cash and cash equivalents to short term investments and marketable securities. Cash generated by operations was \$24.6 million. Included in the cash generated from operations was a cash use of \$47.7 million for accounts receivable. Receivables increased in part because of a \$44.9 million increase in net quarterly sales from the fourth fiscal quarter of 1994 to the third fiscal quarter of 1995. The Company used \$14.2 million to acquire Metrologix in December 1994. The Company also invested \$12.8 million in new cleanrooms, leasehold improvements and computer equipment. Proceeds from the exercise of stock options and the employee stock purchase plan were \$5.8 million. In order to accommodate increasing demand for its products, the Company has begun the construction of an additional facility at its San Jose campus. In May 1995, the Company received net proceeds of approximately \$90.7 million from its public offering of 1,500,000 new shares of common stock. The Company believes 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 CORPORATION LOGO] INSTRUMENTS CORPORATION

FORM 10-Q

PART II: OTHER INFORMATION

<TABLE>		<C>
<S>		
Item 1	- Legal Proceedings	Not Applicable
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
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EXHIBITS AND REPORTS ON FORM 8-K

See exhibit index on page 14. The Company had no Form 8-K filings during the period ended March 31, 1995.

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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 CORPORATION LOGO] INSTRUMENTS CORPORATION

May 11, 1995

/s/ Robert J. Boehlke

[Date]

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

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INDEX TO EXHIBITS

<TABLE>
<CAPTION>

(i) EXHIBITS INCORPORATED BY REFERENCE:

<S> <C>

- 3.1 Certificate of Incorporation as amended(7)
- 3.2 Bylaws, as amended(7)
- 4.1 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(1)
- 10.15 Statement of Partnership to Triangle Partners dated April 12, 1983(2)
- 10.16 Lease Agreement and Addendum thereto dated January 10, 1983, between BBK Partnership and the Company(2)
- 10.18 Purchase and Sale Agreement dated January 10, 1983, between BBK Partnership, Triangle Partners and the Company(2)
- 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(3)
- 10.45 Distribution Agreement dated July 1990, by and between Tokyo Electron Limited, a Japanese Corporation, and the Company(4)
- 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(4)
- 10.47 Joint Venture Agreement between the Company and Nippon Mining Company, Limited, dated September 18, 1990(5)
- 10.49 Exercise of Option to Purchase made effective as of January 1, 1990, by and between KLA Development No. 4, and the Company(5)
- 10.54 Micrion Corporation Series E Preferred Stock Purchase Agreement, dated September 13, 1991(6)
- 10.67 Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated March 31, 1994(9)
- 10.68 Credit Agreement between Bank of America NT & SA and the Company, dated April 30, 1994(9)
- 10.71 1990 Outside Directors Stock Option Plan(8)
- 10.73 Amendment of Credit Agreement between Bank of America NT & SA and the Company dated December 31, 1994(10)
- 10.74 1981 Employee Stock Purchase Plan, as amended by the Board of Directors on October 7, 1994(10)
- 10.75 1982 Stock Option Plan, as amended by the Board of Directors on October 7, 1994(10)
- (ii) EXHIBITS INCLUDED HEREWITH:
- 10.76 Amendment of Credit Agreement between Bank of America NT & SA and the Company dated February 15, 1995

27 Financial Data Schedule

</TABLE>

-
- (1) Filed as exhibit number 1 to Form 8-A, filed effective March 23, 1989
 - (2) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1983
 - (3) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1987
 - (4) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1990
 - (5) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1991
 - (6) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1992
 - (7) Filed as the same exhibit number to Registrant's registration statement no.33-51819 on Form S-3, dated February 2, 1994
 - (8) Filed as exhibit number 4.6 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, 1994
 - (10) Filed as the same exhibit number as set forth herein to Registrant's Form 10-Q for the quarter ended December 31, 1994

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT (the "Amendment"), dated as of February 15, 1995, is entered into by and between KLA INSTRUMENTS CORPORATION (the "Borrower") and BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION (the "Bank").

RECITALS

A. The Borrower and the Bank are parties to a Credit Agreement dated as of April 30, 1994, as amended by that certain First Amendment to Credit Agreement dated as of December 31, 1994 (as so amended, the "Credit Agreement") pursuant to which the Bank has extended certain credit facilities to the Borrower and certain of its Subsidiaries.

B. The Borrower has requested that the Bank agree to certain amendments of the Credit Agreement.

C. The Bank is willing to amend the Credit Agreement, subject to the terms and conditions of this Amendment.

NOW, THEREFORE, for valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein shall have the meanings, if any, assigned to them in the Credit Agreement.

2. Amendments to Credit Agreement.

(a) Section 1.01 of the Credit Agreement shall be amended as follows:

(i) The definition of "Acceptable Subsidiary" shall be amended and restated in its entirety as follows:

"'Acceptable Subsidiary': a Subsidiary of the Borrower acceptable to the Bank in its sole discretion that (a) is specified as a "Borrower" on a continuing guaranty executed by the Borrower in form and substance satisfactory to the Bank, (b) has executed such credit and related documentation with and in favor of the Bank as the Bank may request, and (c) for purposes of Section 2.05, is located outside of the United States."

(ii) The definition of "Availability Period" set forth in such Section shall be amended by deleting "February 15, 1995" and inserting "December 31, 1995" in lieu thereof.

(iii) The definition of "Final Maturity Date" set forth in such Section shall be amended in its entirety to read as follows:

"'Final Maturity Date': (a) in respect of any Advances, June 30, 1996; (b) in respect of any commercial letters of credit, June 30, 1996; and (c) in respect of any standby letters of credit, December 31, 1996."

(b) Section 2.01(b) of the Credit Agreement shall be amended in its entirety to read as follows:

"(b) Advances hereunder may be made in (i) dollars ("Dollar Advances"), to the Borrower and Acceptable Subsidiaries, (ii) in a lawful currency other than dollars which is freely transferable and convertible into dollars and is traded in the offshore interbank currency markets at the time of the Advance (an "Offshore Currency") ("Offshore Currency Advances"), to the Borrower and Acceptable Subsidiaries, or (iii) in a lawful currency other than dollars which is available at a branch or affiliate of the Bank located in a country other than the United States and is the legal tender of that country where the branch or affiliate is located (a "Local Currency") ("Local Currency Advances"), to Acceptable Subsidiaries located outside of the United States."

(c) Section 2.02(b) of the Credit Agreement shall be amended by deleting "0.875%" and inserting "0.75%" in lieu thereof.

(d) Section 2.02(c) of the Credit Agreement shall be amended by deleting "0.875%" and inserting "0.75%" in lieu thereof.

(e) Section 2.04(c) of the Credit Agreement shall be amended by (i) deleting "0.875%" and inserting "0.75%" in lieu thereof, and (ii) deleting ".0625%" and inserting "0.5%" in lieu thereof.

(f) Section 2.05 of the Credit Agreement shall be amended and

restated in its entirety as follows:

"2.05 Local Currency Advances. (a) From time to time during the Availability Period, the Bank, through any Offshore Credit Provider may, in its sole discretion, make Local Currency Advances to Acceptable Subsidiaries.

(b) Neither the Bank nor any Offshore Credit Provider shall have any obligation to make any Local Currency Advance unless the following conditions are satisfied:

(i) the Bank, the Offshore Credit Provider and the relevant Acceptable Subsidiary agree, at the time of such

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Acceptable Subsidiary's request for a Local Currency Advance, on the currency, the amount, the principal payment date(s), the interest rate and payment date(s), the prepayment and overdue payment terms, and the reserve, tax and other material provisions for such Advance; and

(ii) The Acceptable Subsidiary and the Borrower shall execute such additional documentation as the Bank or such Offshore Credit Provider may require relating to each Local Currency Advance."

(g) Section 2.07 of the Credit Agreement shall be amended and restated in its entirety as follows:

"2.07 Commitment Fee. The Borrower shall pay to the Bank a commitment fee at the rate of 0.20% per annum on the average daily unused portion of the credit provided under this Agreement. For purposes of computing the unused portion, the L/C Outstanding Amount shall be deemed to be usage. The commitment fee shall be computed on a calendar quarter basis, except for the first period which shall commence on February 15, 1995, and end on March 31, 1995, and the last period which shall end on the last day of the Availability Period. The commitment fee shall be payable in arrears on March 31, 1995, on the last day of each successive calendar quarter thereafter, and on the last day of the Availability Period."

(h) Section 7.02 of the Credit Agreement shall be amended by deleting "\$145,000,000" and inserting "\$215,000,000" in lieu thereof.

(i) Section 7.03 of the Credit Agreement shall be amended and restated in its entirety as follows:

"7.03 Quick Ratio. The Borrower shall not permit as of the last day of any fiscal quarter on a consolidated basis, "A" to be less than 1.25 times "B". For purposes of this Section, "A" means the sum of cash, short-term cash investments, marketable securities not classified as long-term investments and accounts receivable, and "B" means current liabilities.

(j) Section 7.05 of the Credit Agreement shall be amended by deleting the word "The" at the beginning thereof and inserting the words "From and after January 1, 1995, the " in lieu thereof.

3. Representations and Warranties. The Borrower hereby represents and warrants to the Bank as follows:

(a) No Default or Event of Default has occurred and is continuing.

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(b) The execution, delivery and performance by the Borrower of this Amendment have been duly authorized by all necessary corporate and other action and do not and will not require any registration with, consent or approval of, notice to or action by, any person (including any governmental authority) in order to be effective and enforceable. The Credit Agreement as amended by this Amendment constitutes the legal, valid and binding obligations of the Borrower, enforceable against it in accordance with its respective terms, without defense, counterclaim or offset.

(c) All representations and warranties of the Borrower contained in the Credit Agreement are true and correct.

(d) The Borrower is entering into this Amendment on the basis of its own investigation and for its own reasons, without reliance upon the Bank or any other person.

4. Effective Date. This Amendment will become effective as of February 15, 1995 (the "Effective Date"), provided that each of the following conditions precedent has been satisfied:

(a) The Bank has received from the Borrower a duly executed original of this Amendment.

(b) The Bank has received from the Borrower a copy of a resolution passed by the board of directors of such corporation, certified by the Secretary or an Assistant Secretary of such corporation as being in full force and effect on the date hereof, authorizing the execution, delivery and performance of this Amendment.

5. Reservation of Rights. The Borrower acknowledges and agrees that the execution and delivery by the Bank of this Amendment shall not be deemed to create a course of dealing or otherwise obligate the Bank to forbear or execute similar amendments under the same or similar circumstances in the future.

6. Payment of Facility Fee. The Borrower covenants to pay the Bank, upon receipt of an invoice therefor, for all facility fees payable under Section 2.07 of the Credit Agreement (without giving effect to this Amendment) accrued and unpaid through the Effective Date.

7. Miscellaneous.

(a) Except as herein expressly amended, all terms, covenants and provisions of the Credit Agreement are and shall remain in full force and effect and all references therein to such Credit Agreement shall henceforth refer to the Credit Agreement as amended by this Amendment. This Amendment shall be deemed incorporated into, and a part of, the Credit Agreement.

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(b) This Amendment shall be binding upon and inure to the benefit of the parties hereto and thereto and their respective successors and assigns. No third party beneficiaries are intended in connection with this Amendment.

(c) This Amendment shall be governed by and construed in accordance with the law of the State of California.

(d) This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

(e) This Amendment, together with the Credit Agreement, contains the entire and exclusive agreement of the parties hereto with reference to the matters discussed herein and therein. This Amendment supersedes all prior drafts and communications with respect thereto. This Amendment may not be amended or modified except in writing executed by both of the parties hereto.

(f) If any term or provision of this Amendment shall be deemed prohibited by or invalid under any applicable law, such provision shall be invalidated without affecting the remaining provisions of this Amendment or the Credit Agreement, respectively.

(g) Borrower covenants to pay to or reimburse the Bank, upon demand, for all costs and expenses (including allocated costs of in-house counsel) incurred in connection with the development, preparation, negotiation, execution and delivery of this Amendment.

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IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment as of the date first above written.

KLA INSTRUMENTS CORPORATION

By: /s/ Christopher Stoddart

Title: Treasurer

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION

By: /s/ Stephen L. Parry

Title: Vice President

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENT OF OPERATIONS, THE CONSOLIDATED BALANCE SHEET AND THE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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