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, 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 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

-----        -----        

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.

Page 1 of 12

KLA INSTRUMENTS CORPORATION
INDEX

<table>
<thead>
<tr>
<th>PART I</th>
<th>FINANCIAL INFORMATION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>---------------------</td>
</tr>
<tr>
<td>&lt;S&gt;</td>
<td>&lt;C&gt;</td>
</tr>
</tbody>
</table>

Item 1
Financial Statements:

Condensed Consolidated Statement of Operations
KLA INSTRUMENTS CORPORATION

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

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$42,240</td>
<td>$62,665</td>
</tr>
<tr>
<td>Costs and expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>26,633</td>
<td>33,308</td>
</tr>
<tr>
<td>Engineering, research and development</td>
<td>4,390</td>
<td>5,486</td>
</tr>
<tr>
<td>Selling, general and administrative</td>
<td>8,383</td>
<td>12,014</td>
</tr>
<tr>
<td></td>
<td>39,406</td>
<td>50,808</td>
</tr>
<tr>
<td>Income from operations</td>
<td>2,834</td>
<td>11,857</td>
</tr>
<tr>
<td>Interest income and other, net</td>
<td>537</td>
<td>642</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(767)</td>
<td>(458)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>2,604</td>
<td>12,041</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>653</td>
<td>3,010</td>
</tr>
<tr>
<td>Net income</td>
<td>$1,951</td>
<td>$9,031</td>
</tr>
<tr>
<td>Net income per share</td>
<td>$0.10</td>
<td>$0.40</td>
</tr>
</tbody>
</table>

Weighted average number of common and
dilutive common equivalent shares outstanding
20,007          22,729

See accompanying notes to condensed consolidated financial information.
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
NINE MONTHS ENDED MARCH 31,
(In thousands except per share amounts)
(Unaudited)

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$119,353</td>
<td>$171,656</td>
</tr>
<tr>
<td>Costs and expenses:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>77,168</td>
<td>96,886</td>
</tr>
<tr>
<td>Engineering, research and development</td>
<td>12,583</td>
<td>15,262</td>
</tr>
<tr>
<td>Selling, general and administrative</td>
<td>23,585</td>
<td>33,257</td>
</tr>
<tr>
<td>Restructuring recovery</td>
<td>(718)</td>
<td>-</td>
</tr>
<tr>
<td>Total costs and expenses</td>
<td>112,618</td>
<td>145,405</td>
</tr>
<tr>
<td>Income from operations</td>
<td>6,735</td>
<td>26,251</td>
</tr>
<tr>
<td>Interest income and other, net</td>
<td>1,022</td>
<td>1,191</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(2,568)</td>
<td>(1,453)</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>5,189</td>
<td>25,989</td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>1,298</td>
<td>6,500</td>
</tr>
<tr>
<td>Net income</td>
<td>$3,891</td>
<td>$19,489</td>
</tr>
<tr>
<td>Net income per share</td>
<td>$0.20</td>
<td>$0.91</td>
</tr>
</tbody>
</table>

See accompanying notes to condensed consolidated financial information.

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

<table>
<thead>
<tr>
<th></th>
<th>June 30, 1993</th>
<th>March 31, 1994</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$52,362</td>
<td>$113,924</td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net of allowances of $1,469 and $1,783</td>
<td>48,077</td>
<td>82,099</td>
</tr>
<tr>
<td>Inventories</td>
<td>42,489</td>
<td>49,577</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>3,917</td>
<td>3,917</td>
</tr>
<tr>
<td>Other current assets</td>
<td>4,724</td>
<td>4,920</td>
</tr>
<tr>
<td>Total current assets</td>
<td>151,569</td>
<td>254,437</td>
</tr>
<tr>
<td>Land, property and equipment, net</td>
<td>39,384</td>
<td>36,362</td>
</tr>
<tr>
<td>Other assets</td>
<td>8,136</td>
<td>6,099</td>
</tr>
<tr>
<td>Total assets</td>
<td>$199,089</td>
<td>$296,898</td>
</tr>
</tbody>
</table>

LIABILITIES AND STOCKHOLDERS' EQUITY
Current liabilities:

See accompanying notes to condensed consolidated financial information.
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

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
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.
Supplemental disclosure to cash flow information

CASH PAID DURING THE PERIOD FOR:

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
<th>1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTEREST</td>
<td>$2,453</td>
<td>$1,096</td>
</tr>
<tr>
<td>INCOME TAXES</td>
<td>2,333</td>
<td>2,802</td>
</tr>
</tbody>
</table>

See accompanying notes to condensed consolidated financial information.
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.

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.

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.

Item 1 - Legal Proceedings
Item 2 - Changes in Securities
Item 3 - Defaults Upon Senior Securities
Item 4 - Submission of Matters to a Vote of Security Holders
Item 5 - Other Events
Item 6 - Exhibits and Reports on Form 8-K

Not Applicable
Not Applicable
Not Applicable
Not Applicable
Not Applicable
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
Kenneth Levy
[Date]
Chairman of the Board

May 13, 1994
Kenneth L. Schroeder
[Date]
President

May 13, 1994
Robert J. Boehlke
[Date]
V.P. Finance and Administration
Chief Financial Officer