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: September 30, 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)

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

95134
(Zip Code)

Registrant's telephone number, including area code: (408) 468-4200

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 September 30, 1995: 50,421,000

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

KLA INSTRUMENTS CORPORATION

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<table>
<thead>
<tr>
<th>TABLE</th>
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<thead>
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<td>.7-8</td>
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## PART I
### FINANCIAL INFORMATION

### Item 1
**Financial Statements**

**CONSENSUS CONSOLIDATED STATEMENTS OF OPERATIONS**

**THREE MONTHS ENDED SEPTEMBER 30,**

*(In thousands except per share amounts)*

*(Unaudited)*

<table>
<thead>
<tr>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$ 83,179</td>
</tr>
</tbody>
</table>

**Costs and expenses:**

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
<th>1995</th>
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</thead>
<tbody>
<tr>
<td>Cost of sales</td>
<td>40,602</td>
<td>66,672</td>
</tr>
<tr>
<td>Engineering, research and development</td>
<td>8,182</td>
<td>15,621</td>
</tr>
<tr>
<td>Selling, general and administrative</td>
<td>16,450</td>
<td>27,855</td>
</tr>
<tr>
<td></td>
<td>65,234</td>
<td>110,148</td>
</tr>
</tbody>
</table>

**Income from operations**

<table>
<thead>
<tr>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 17,945</td>
<td>$ 38,928</td>
</tr>
</tbody>
</table>

**Interest income and other, net**

<table>
<thead>
<tr>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 1,497</td>
<td>$ 4,187</td>
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</table>

**Interest expense**

<table>
<thead>
<tr>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ (474)</td>
<td>$ (418)</td>
</tr>
</tbody>
</table>

**Income before income taxes**

<table>
<thead>
<tr>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 18,468</td>
<td>$ 42,697</td>
</tr>
</tbody>
</table>

**Provision for income taxes**

<table>
<thead>
<tr>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 6,070</td>
<td>$ 15,371</td>
</tr>
</tbody>
</table>

**Net income**

<table>
<thead>
<tr>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 12,898</td>
<td>$ 27,326</td>
</tr>
</tbody>
</table>

**Net income per share**

<table>
<thead>
<tr>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 0.27</td>
<td>$ 0.52</td>
</tr>
</tbody>
</table>

**Shares used in computing net income per share**

<table>
<thead>
<tr>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>47,760</td>
<td>52,408</td>
</tr>
</tbody>
</table>

See accompanying notes to unaudited condensed consolidated financial statements.
ASSETS

Current assets:
- Cash and cash equivalents $ 92,059 $ 65,820
- Short-term investments 26,681 38,529
- Accounts receivable, net of allowances of $2,196 and $2,645 129,274 148,355
- Inventories 79,759 92,584
- Deferred income taxes 18,155 18,155
- Other current assets 14,949 8,262

Total current assets 360,877 371,705

Land, property and equipment, net 49,004 53,716
Marketable securities 126,013 137,227
Other assets 10,402 7,828

Total assets $ 546,296 $ 570,476

LIABILITIES AND STOCKHOLDERS’ EQUITY

Current liabilities:
- Notes payable $ 4,458 $ 2,440
- Current portion of long-term debt 20,000 --
- Accounts payable 19,376 20,742
- Income taxes payable 22,797 29,742
- Other current liabilities 66,220 76,859

Total current liabilities 132,851 129,783

Deferred income taxes 9,476 9,476

Commitments and contingencies

Stockholders’ equity:
- Preferred stock, $0.001 par value, 1,000 shares authorized, none issued and outstanding -- --
- Common stock, $0.0005 par value, 150,000 shares authorized, 50,160 and 50,421 shares issued and outstanding 25 25
- Capital in excess of par value 263,016 263,804
- Retained earnings 138,893 166,219
- Treasury stock (581) (581)
- Net unrealized gain on investments 1,241 1,074
- Cumulative translation adjustment 1,375 676

Total stockholders’ equity 403,969 431,217

Total liabilities and stockholders’ equity $ 546,296 $ 570,476

See accompanying notes to condensed consolidated financial statements.
Cash provided by operating activities 8,338 27,016

Cash flows from investing activities:
Capital expenditures (2,590) (8,097)
Purchases of short and long-term available for sale securities -- (137,685)
Sales and maturities of short and long-term available for sale securities -- 114,456
Cash used for investing activities (2,590) (31,326)

Cash flows from financing activities:
Short-term borrowings, net (2,480) (2,018)
Payment of current portion of long-term debt -- (20,000)
Sales of common stock/tax benefit of options exercised 1,543 788
Cash used for financing activities (937) (21,230)

Effect of exchange rate changes 136 (699)

Increase (decrease) in cash and cash equivalents 4,947 (26,239)
Cash and cash equivalents at beginning of period 139,126 92,059
Cash and cash equivalents at end of period $ 144,073 $ 65,820

Supplemental disclosure of cash flow information
CASH PAID DURING THE PERIOD FOR:
INTEREST $ 470 $ 405
INCOME TAXES 2,955 8,552

See accompanying notes to condensed consolidated financial statements.

KLA INSTRUMENTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 1995, 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, 1995.

2) Details of certain balance sheet components:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 1995</th>
<th>September 30, 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories:</td>
<td>(In thousands)</td>
<td></td>
</tr>
<tr>
<td>Systems raw materials</td>
<td>$ 18,944</td>
<td>$ 25,875</td>
</tr>
<tr>
<td>Customer service spares</td>
<td>13,050</td>
<td>12,524</td>
</tr>
<tr>
<td>Work-In-Process</td>
<td>26,863</td>
<td>33,491</td>
</tr>
<tr>
<td>Demonstration Equipment</td>
<td>20,902</td>
<td>20,694</td>
</tr>
<tr>
<td></td>
<td>$ 79,759</td>
<td>$ 92,584</td>
</tr>
</tbody>
</table>

3) In August of 1995, the Company repaid the $20.0 million mortgage on its principal facility.

4) Net Income per share is computed using the weighted average number of common and common equivalent shares outstanding during the respective periods, including the assumed net shares issuable upon exercise of
A two-for-one stock split was declared by the Board of Directors on July 24, 1995. The stock split was in the form of a 100% stock dividend. The dividend was paid on September 29, 1995, to stockholders of record on August 31, 1995. Earnings per share was calculated on a post-split basis.
Provision for Income Taxes

The Company's effective tax rate increased to 36% for the three months ended September 30, 1995. The Company's tax rate was 34% for the year ended June 30, 1995. The increase from 34% to 36% is due primarily to the lower impact of the realization of previously reserved deferred tax assets and the expiration of the federal research and development tax credit on June 30, 1995.

The IRS is currently auditing the Company's federal income tax returns for fiscal years 1985 to 1992. The Company has not yet received a notice of proposed tax deficiency. However, it anticipates a notice will be received in fiscal 1996. Management believes sufficient taxes have been provided in prior years and that the ultimate outcome of the IRS audit will not have a material adverse impact on the Company's financial position or results of operations.

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, cash equivalents and marketable securities balances remained relatively flat at $241.6 million for the three months ended September 30, 1995. Cash generated by operations was $27.0 million. This was offset by the repayment in full of the $20.0 million mortgage on the Company's principal facility, and by $8.0 million of capital expenditures. The Company's capital expenditures were primarily in facility improvements, new computers to accommodate the planned introduction of new enterprise business systems, and engineering computers and equipment to support the Company's rapidly expanding research and development efforts. The Company believes that its current level of liquid assets, credit facilities and expected cash generated from operations are sufficient to fund growth through the next fiscal year.
INDEX TO EXHIBITS

(i) EXHIBITS INCORPORATED BY REFERENCE:

3.1 Certificate of Incorporation as amended(7)
3.2 Bylaws, as amended(7)
4.1 Amended and Restated Rights Agreement dated as of August 30, 1995, between the Company and First National Bank of Boston, as Rights Agent. The Rights Agreement includes as Exhibit A, the form of Right Certificate.(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 BB&K Partnership and the Company(2)
10.18 Purchase and Sale Agreement dated January 10, 1983, between BB&K 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 Principal 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 Technology made effective as of January 1, 1990, by and between KLA Development No. 4, and the Company(5)
10.54 Micron 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)
10.76 Amendment of Credit Agreement between Bank of America NT & SA and the Company dated February 15, 1995(10)
10.77 Lease Agreement, Ground Lease Agreement and Purchase Agreement dated June 5, 1995, between BNP Leasing Corporation and the Company(10)
10.78 Lease Agreement and Purchase Agreement dated August 10, 1995, between BNP Leasing Corporation and the Company(10)

(ii) EXHIBITS INCLUDED HEREWITH:

27 Financial Data Schedule

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(1) Filed as exhibit number 1 to Form 8-A/A, filed effective September 25, 1995
(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-K for the year ended June 30, 1995
### 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.

### Multiplier

1000

<table>
<thead>
<tr>
<th>Period Type</th>
<th>Fiscal Year-End</th>
<th>Period Start</th>
<th>Period End</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Cash</th>
<th>Securities</th>
<th>Receivables</th>
<th>Allowances</th>
<th>Inventory</th>
<th>Current Assets</th>
<th>PP&amp;E</th>
<th>Depreciation</th>
<th>Total Assets</th>
<th>Current Liabilities</th>
<th>Bonds</th>
<th>Common</th>
<th>Preferred-Mandatory</th>
<th>Preferred</th>
<th>Other-SE</th>
<th>Total Liability-And-Equity</th>
<th>Sales</th>
<th>Total Revenues</th>
<th>CGS</th>
<th>Total Costs</th>
<th>Other-Expenses</th>
<th>Loss-Provision</th>
<th>Interest Expense</th>
<th>Income-Pretax</th>
<th>Income-Tax</th>
<th>Income-Continuing</th>
<th>Discontinued</th>
<th>Extraordinary</th>
<th>Changes</th>
<th>Net Income</th>
<th>EPS-Primary</th>
<th>EPS-Diluted</th>
</tr>
</thead>
<tbody>
<tr>
<td>65,820</td>
<td>38,529</td>
<td>151,000</td>
<td>2,645</td>
<td>92,584</td>
<td>371,705</td>
<td>96,177</td>
<td>42,461</td>
<td>570,476</td>
<td>129,783</td>
<td>0</td>
<td>25</td>
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<td>431,192</td>
<td>570,476</td>
<td>149,076</td>
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<td>66,672</td>
<td>66,672</td>
<td>0</td>
<td>418</td>
<td>42,697</td>
<td>15,371</td>
<td>27,326</td>
<td>0</td>
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<td>27,326</td>
<td>0.52</td>
<td>0.52</td>
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### Table

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<tr>
<th>Sales</th>
<th>Total Revenues</th>
<th>CGS</th>
<th>Total Costs</th>
<th>Other-Expenses</th>
<th>Loss-Provision</th>
<th>Interest Expense</th>
<th>Income-Pretax</th>
<th>Income-Tax</th>
<th>Income-Continuing</th>
<th>Discontinued</th>
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<th>Changes</th>
<th>Net Income</th>
<th>EPS-Primary</th>
<th>EPS-Diluted</th>
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<td>149,076</td>
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<td>66,672</td>
<td>66,672</td>
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<td>418</td>
<td>42,697</td>
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<td>27,326</td>
<td>0.52</td>
<td>0.52</td>
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