

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, 1997

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-TENCOR CORPORATION  
(Exact name of registrant as specified in its charter)

DELAWARE 04-2564110  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

160 Rio Robles  
San Jose, California  
95134  
(Address of principal executive offices)  
(Zip Code)

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

-----  
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

As of April 29, 1997 there were 51,711,809 shares of the registrant's Common Stock, \$0.001 par value, outstanding.

KLA-TENCOR CORPORATION  
FORM 10-Q  
FOR THE QUARTER ENDED MARCH 31, 1997

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PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS  
(Unaudited)

<TABLE>  
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(In thousands)	March 31, 1997	June 30, 1996
	-----	-----
<S>	<C>	<C>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 149,573	\$ 109,404
Short-term investments	11,003	14,279
Accounts receivable, net	122,027	203,470
Inventories	118,289	132,377
Deferred income taxes	27,909	27,246
Other current assets	14,756	6,783
	-----	-----
Total current assets	443,557	493,559
Land, property and equipment, net	73,428	71,825
Marketable securities	257,795	137,728
Other assets	13,512	9,660
	-----	-----
Total assets	\$ 788,292	\$ 712,772
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Notes payable	\$ 2,115	\$ 3,111
Accounts payable	19,732	27,330
Income taxes payable	34,762	34,595
Other current liabilities	113,725	104,167
	-----	-----
Total current liabilities	170,334	169,203
	-----	-----
Deferred income taxes	6,316	6,320
	-----	-----
Commitments and contingencies		
Stockholders' equity:		
Common stock and additional paid-in capital	285,377	277,943
Retained earnings	328,789	259,777
Treasury stock	(581)	(581)
Net unrealized loss on investments	(1,181)	(131)
Cumulative translation adjustment	(762)	241
	-----	-----
Total stockholders' equity	611,642	537,249
	-----	-----

Total liabilities and stockholders' equity      \$ 788,292      \$ 712,772  
=====

</TABLE>

See accompanying notes to condensed consolidated interim financial statements.

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CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS  
(Unaudited)

<TABLE>  
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(In thousands, except per share amounts)	Three Months Ended March 31,		Nine Months Ended March 31,	
	1997	1996	1997	1996
<S>	<C>		<C>	
Net sales	\$157,761	\$187,494	\$473,586	\$502,320
Costs and expenses:				
Cost of sales	75,322	85,215	224,508	227,239
Engineering, research and development	22,046	20,942	62,212	54,599
Selling, general and administrative	29,622	33,655	94,368	90,957
	-----	-----	-----	-----
	126,990	139,812	381,088	372,795
	-----	-----	-----	-----
Income from operations	30,771	47,682	92,498	129,525
Interest income and other, net	5,144	2,033	12,065	9,504
	-----	-----	-----	-----
Income before income taxes	35,915	49,715	104,563	139,029
Provision for income taxes	12,211	17,898	35,551	50,051
	-----	-----	-----	-----
Net income	\$ 23,704	\$ 31,817	\$ 69,012	\$ 88,978
	=====	=====	=====	=====
Net income per share	\$ 0.44	\$ 0.61	\$ 1.30	\$ 1.70
	=====	=====	=====	=====
Shares used in computing net income per share	53,830	52,170	53,014	52,321

</TABLE>

See accompanying notes to condensed consolidated interim financial statements.

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CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS  
(Unaudited)

<TABLE>  
<CAPTION>

(In thousands)	Nine Months Ended March 31,	
	1997	1996
<S>	<C>	
Cash flows from operating activities:		
Net income	\$ 69,012	\$ 88,978
Adjustments required to reconcile net income to cash provided by/ (used in) operations:		
Depreciation and amortization	16,385	10,700
Deferred income taxes	(667)	--
Changes in assets and liabilities:		
Accounts receivable	81,443	(97,958)
Inventories	14,088	(51,205)

Other assets	(11,825)	4,718
Accounts payable	(7,598)	16,954
Income taxes payable	167	6,869
Other current liabilities	9,558	34,757
	-----	-----
Cash provided by operating activities	170,563	13,813
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(17,988)	(27,321)
Purchases of short and long-term available for sale securities	(391,890)	(374,289)
Sales and maturities of short and long-term available for sale securities	274,049	361,085
	-----	-----
Cash used for investing activities	(135,829)	(40,525)
	-----	-----
Cash flows from financing activities:		
Short-term borrowings, net	(996)	(2,487)
Payment of current portion of long-term debt	--	(20,000)
Issuance of common stock, net	7,434	4,786
	-----	-----
Cash provided by/(used in) financing activities	6,438	(17,701)
	-----	-----
Effect of exchange rate changes	(1,003)	(1,020)
	-----	-----
Increase/(decrease) in cash and cash equivalents	40,169	(45,433)
Cash and cash equivalents at beginning of period	109,404	92,059
	-----	-----
Cash and cash equivalents at end of period	\$ 149,573	\$ 46,626
	=====	=====
Cash paid during the period for:		
Interest	\$ 365	\$ 841
Income taxes	\$ 34,599	\$ 43,924

</TABLE>

See accompanying notes to condensed consolidated interim financial statements.

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KLA-TENCOR CORPORATION  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS

- Note 1 In the opinion of the Company's management, the unaudited condensed consolidated interim financial statements include all adjustments (consisting only of adjustments that are of a normal recurring nature) necessary for a fair statement of results. The results for the quarter ended March 31, 1997, are not necessarily indicative of results to be expected for the entire year. This financial information should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended June 30, 1996. The financial statements presented in this Form 10-Q represent financial results of KLA Instruments Corporation on a historical basis only, without giving effect to the merger (see Note 2).
- Note 2 On April 30, 1997, a wholly-owned subsidiary of the Company merged into Tencor Instruments, a manufacturer of wafer defect inspection, software-based yield management, film measurement, and metrology systems used in semiconductor manufacturing. In connection with the merger, the Company changed its name to KLA-Tencor Corporation and increased its number of authorized shares to 251,000,000. The Company issued approximately 32 million shares of Common Stock for all the outstanding Common Stock and options of Tencor Instruments on the basis of one share of the Company's Common Stock for one share of Tencor Instruments. The merger will be accounted for as a pooling of interests.

The following summary, prepared on a pro forma basis, combines the results of operations of the Company and Tencor Instruments as if the merger had been effective as of the beginning of each of the periods presented (in thousands, except per share amounts):

<TABLE>  
<CAPTION>

Three Months Ended                      Nine Months Ended

	March 31,		March 31,	
	1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>
Sales	\$252,346	\$293,777	\$755,641	\$792,528
Net income	\$ 36,995	\$ 52,068	\$104,794	\$146,182
Net income per share	\$ 0.43	\$ 0.62	\$ 1.23	\$ 1.73
Weighted average shares outstanding	86,643	83,891	85,149	84,264

</TABLE>

The pro forma combined results are presented for illustrative purposes only and are not necessarily indicative of what actually would have occurred if the acquisition had been in effect for the entire periods presented. In addition, the pro forma results are not intended to be a projection of future results.

Note 3 Inventories (in thousands):

<TABLE>

<CAPTION>

	March 31,	June 30,
	1997	1996
<S>	<C>	<C>
Systems raw materials	\$ 17,559	\$ 33,521
Customer service spares	22,529	13,614
Work-in-process	53,033	47,012
Demonstration equipment	25,167	38,230
	\$118,289	\$132,377

</TABLE>

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Note 4 In August 1996, the Compensation Committee of the Board of Directors authorized the Company to re-price stock options issued during the period August 1994 through August 1996, which had exercise prices well above the August 1996 trading prices of the Company's Common Stock. This re-pricing was done in the form of an exchange, whereby eligible optionees could cancel their current options in exchange for new options with exercise prices at the fair market value on the date of grant.

Note 5 The Company has entered into an agreement with a bank to sell, with recourse, certain of its trade receivables. The amount of proceeds received was approximately \$35 million and \$80 million, respectively, for the three and nine month periods ended March 31, 1997. As of March 31, 1997, approximately \$41 million of the factored trade receivables remains uncollected by the bank.

Note 6 Engineering, research and development expenditures were net of external funding of \$3.3 million and \$11.0 million for the three and nine month periods ended March 31, 1997, respectively.

Note 7 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 stock options.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings per Share." The Statement redefines earnings per share under generally accepted accounting principles, and will be effective for the Company's fiscal year ending June 30, 1998. Under the new standard, primary earnings per share will be replaced by basic earnings per share and fully diluted earnings per share will be replaced by diluted earnings per share. If the Company had adopted this Statement for the three and nine month periods ended March 31, 1997 and March 31, 1996, the Company's earnings per share would have been as follows:

<TABLE>

<CAPTION>

	Three Months Ended		Nine Months Ended	
	March 31,		March 31,	
	1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>
Earnings per share:				
Basic	\$ 0.46	\$ 0.63	\$ 1.35	\$ 1.76

Diluted \$ 0.44 \$ 0.61 \$ 1.30 \$ 1.70

</TABLE>

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ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis may contain forward-looking statements that reflect the Company's current judgment regarding the matters addressed by such statements. Because such statements apply to future events, they are subject to risks and uncertainties that could cause actual results to differ. Important factors that could cause actual results to differ are described in the following discussion and are particularly noted under "Risk Factors" on page 10.

RECENT DEVELOPMENTS

On April 30, 1997, a wholly-owned subsidiary of the Company merged into Tencor Instruments, a manufacturer of wafer defect inspection, software-based yield management, film measurement, and metrology systems used in semiconductor manufacturing. In connection with the merger, the Company changed its name to KLA-Tencor Corporation and increased its number of authorized shares to 251,000,000. The Company issued approximately 32 million shares of Common Stock for all the outstanding Common Stock and options of Tencor Instruments on the basis of one share of the Company's Common Stock for one share of Tencor Instruments. The merger will be accounted for as a pooling of interests.

RESULTS OF OPERATIONS

**Net Sales** Net sales were \$157.8 million and \$473.6 million for the three and nine month periods ended March 31, 1997, respectively, compared to \$187.5 million and \$502.3 million for the same periods of the prior fiscal year, which represents a decrease of 15.9% and 5.7% for the respective periods. The decrease in net sales, both on a quarter on quarter and year on year basis, is primarily attributed to the slowdown in the semiconductor manufacturing industry's capital spending levels. While average selling prices remained relatively consistent during the three and nine month periods ended March 31, 1997, compared to the same periods of the prior fiscal year, overall unit shipment volumes decreased, which was primarily associated with the wafer inspection products.

**Gross Margin** Gross margins were 52.3% and 52.6% of net sales, respectively, for the three and nine month periods ended March 31, 1997, compared to 54.6% and 54.8% of net sales for the same periods of the prior fiscal year. Gross margins decreased as a result of a change in the product mix as wafer inspection products with higher relative gross margins decreased as a percentage of total Company revenues. Additionally, wafer inspection gross margins decreased as a result of unit volume inefficiencies and new product introduction costs. These effects were partially offset by rising gross margins in reticle inspection and metrology products as a result of higher unit volume efficiencies and lower installation and warranty costs.

**Engineering, Research and Development** Engineering, research and development expenses were \$22.0 million and \$62.2 million for the three and nine month periods ended March 31, 1997, respectively, compared to \$20.9 million and \$54.6 million for the same periods of the prior fiscal year. As a percentage of net sales, engineering, research and development expenses increased to 14.0% and 13.1% for the three and nine month periods ended March 31, 1997, compared to 11.2% and 10.9% for the same periods of the prior fiscal year. Engineering, research and development expenses consist primarily of employee compensation-related costs, project material, and other costs associated with the Company's ongoing efforts for product development and enhancements to existing products. The increase is attributable to increases in headcount, as well as increases in other new product spending including expenses related in part to the next generation reticle inspection products. Engineering, research and development expenditures were

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net of external funding of \$3.3 million and \$11.0 million for the three and nine month periods ended March 31, 1997, respectively.

**Selling, General and Administrative** Selling, general and administrative (SG&A) expenses were \$29.6 million and \$94.4 million for the three and nine month periods ended March 31, 1997, respectively, compared to \$33.7 million and \$91.0

million for the same periods of the prior fiscal year. As a percentage of net sales, SG&A increased to 18.8% and 19.9%, respectively, for the three and nine month periods ended March 31, 1997, compared to 17.9% and 18.1% for the same periods of the prior fiscal year. The increase during both comparative periods is due in part to increases in headcount, and increases in the Company's investment in its customer group sales and applications resources worldwide. SG&A also included sales representative commissions of approximately \$3 million and \$12 million, respectively, for the three and nine month periods ended March 31, 1997, which related to orders previously taken by the Company's former representative in Japan but which shipped during the respective periods.

**Interest Income and Other** Interest income and other, net, increased \$3.1 million and \$2.6 million, respectively, for the three and nine month periods ended March 31, 1997, compared to the same periods of the prior fiscal year. These increases are due primarily to slightly higher yields on higher cash and investment balances.

**Provision for Income Taxes** The Company's effective tax rate decreased to 34% for the nine months ended March 31, 1997, compared to 36% for the same period of the prior fiscal year. This decrease is due primarily to the benefits associated with reinstatement of the federal research and development tax credit.

The IRS is currently auditing the Company's federal income tax returns for fiscal years 1985 through 1992. The Company has received a notice of proposed tax deficiency for such years. The Company filed a tax protest letter with the IRS on June 10, 1996, in response to the IRS notice. 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.

**Liquidity and Capital Resources** Cash, cash equivalents, short-term investments and marketable securities balances increased \$157 million to \$418 million during the nine month period ended March 31, 1997. Cash generated from operations for the nine month period was \$170.6 million, derived primarily from net income and reductions in accounts receivable. The decrease in accounts receivable is due in part to an agreement the Company has with a bank to factor certain of its accounts receivable. During the nine months ended March 31, 1997, approximately \$80 million of the Company's accounts receivable were factored.

The Company's capital expenditures during the nine month period ended March 31, 1997 were primarily in facilities improvements, new computers, manufacturing tooling to improve production efficiencies, and engineering equipment to support the Company's expanding research and development efforts.

The Company believes that success in its industry requires substantial capital in order to maintain the flexibility to take advantage of opportunities as they may arise. Accordingly, the Company may, from time to time, as market and business conditions warrant, invest in or acquire businesses, products, or technologies which it believes complement its overall business strategy. Borrowings under the Company's credit facilities, or public offerings of equity or debt securities, are available if the need arises. The sale of additional equity or convertible debt securities could result in additional dilution to the Company's stockholders.

#### RISK FACTORS

**Fluctuations in Quarterly Operating Results** The Company's quarterly operating results have fluctuated in the past and may fluctuate in the future. The Company's operating results are dependent on many factors, including the economic conditions in the semiconductor industry, the size and timing of the receipt of orders from customers, customer cancellations or delays of shipments, the Company's ability to develop, introduce, and market new and enhanced products on a timely basis, the introduction of new products by its competitors, changes in average selling prices and product mix, and exchange rate fluctuations, among others. There can be no assurance that one or more of these factors will not adversely impact the Company's quarterly operating results.

**Current Slowdown and Volatility in the Semiconductor Equipment Industry** The Company's business depends and will depend in the future upon the capital equipment expenditures of semiconductor manufacturers, which in turn depend on the current and anticipated market demand for integrated circuits and products utilizing integrated circuits. The semiconductor industry has been cyclical in nature and historically has experienced periodic downturns. The semiconductor industry is presently experiencing a slowdown in terms of product demand and volatility in terms of product pricing. This slowdown and volatility has caused the semiconductor industry to reduce purchases of semiconductor manufacturing equipment and construction of new fabrication facilities. There

can be no assurance that this slowdown will not continue. Even during periods of reduced revenues, in order to remain competitive, the Company will be required to continue to invest in research and development and to maintain extensive ongoing worldwide customer service and support capability which could adversely affect its financial results.

**Dependence on New Products and Processes; Rapid Technological Change** Rapid technological changes in semiconductor manufacturing processes subject the semiconductor manufacturing equipment industry to increased pressure to maintain technological parity with deep submicron process technology. The Company believes that its future success will depend in part upon its ability to develop, manufacture and successfully introduce new products with improved capabilities and to continue to enhance existing products. Due to the risks inherent in transitioning to new products, the Company will be required to accurately forecast demand for new products while managing the transition from older products. If new products have reliability or quality problems, reduced orders, higher manufacturing costs, delays in acceptance of and payment for new products and additional service and warranty expense may result. In the past, the Company has experienced some delays as well as reliability and quality problems in connection with product introductions, resulting in some of these consequences. There can be no assurance that the Company will successfully develop and manufacture new products, or that new products introduced by the Company will be accepted in the marketplace. If the Company does not successfully introduce new products, the Company's results of operations will be materially adversely affected.

In addition, the Company expects to continue to make significant investments in research and development. There can be no assurance that future technologies, processes or product developments will not render the Company's current product offerings obsolete or that the Company will be able to develop and introduce new products or enhancements to its existing products which satisfy customer needs in a timely manner or achieve market acceptance. The failure to do so could adversely affect the Company's business.

**Highly Competitive Industry** The semiconductor equipment industry is highly competitive. The Company has experienced and expects to continue to face substantial competition throughout the world. The Company believes that to remain competitive, it will require significant financial resources in order to offer a broad range of products, to maintain customer service and support

centers worldwide, and to invest in product and process research and development. The Company believes that the semiconductor equipment industry is becoming increasingly dominated by large manufacturers, who have the resources to support customers on a worldwide basis. Many of these competitors have substantially greater financial resources and more extensive engineering, manufacturing, marketing and customer service and support capabilities than the Company. In addition, there are smaller emerging semiconductor equipment companies which provide innovative technology. No assurance can be given that the Company will be able to compete successfully worldwide.

**Importance of International Sales** International sales accounted for 65%, 69% and 68% of the Company's net sales for fiscal years 1994, 1995 and 1996, respectively. The Company expects that international sales will continue to represent a significant percentage of its net sales. The future performance of the Company will be dependent, in part, upon its ability to continue to compete successfully in Asia, one of the largest areas for the sale of yield management and process monitoring equipment. International sales and operations may be adversely affected by imposition of governmental controls, restrictions on export technology, political instability, trade restrictions, changes in tariffs and the difficulties associated with staffing and managing international operations. In addition, international sales may be adversely affected by the economic conditions in each country. The net sales and income from the Company's international business may be affected by fluctuations in currency exchange rates. Although the Company attempts to manage near term currency risks through "hedging," there can be no assurance that such efforts will be adequate. These factors could have a material adverse effect on the Company's future business and financial results.



## PART II OTHER INFORMATION

- ITEM 1 LEGAL PROCEEDINGS  
None.
- 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
- (a) Exhibits
- 3.1 Amended and Restated Articles of Incorporation
- 3.2 Bylaws
- 11.1 Calculation of Earnings Per Share
- 27 Financial Data Schedule
- (b) Reports on Form 8-K
- The Company filed a Form 8-K on January 22, 1997 announcing the signing on January 14, 1997 of an Agreement and Plan of Reorganization with Tencor Instruments.

## 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-TENCOR CORPORATION

(Registrant)

May 13, 1997

-----  
Date

JON D. TOMPKINS

-----  
Jon D. Tompkins  
Chief Executive Officer

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EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION. -----
3.1	Amended and Restated Articles of Incorporation
3.2	Bylaws
11.1	Calculation of Earnings Per Share
27	Financial Data Schedule

Exhibit 3.1  
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

OF

KLA INSTRUMENTS CORPORATION

KLA Instruments Corporation, a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of the corporation is KLA Instruments Corporation, and the name under which the corporation was originally incorporated is KLA Corporation. The date of filing its original Certificate of Incorporation with the Secretary of State was July 9, 1975.

The amendment to the corporation's Certificate of Incorporation set forth was approved by the corporation's Board of Directors and stockholders and was duly adopted in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware.

2. The text of the Certificate of Incorporation as amended or supplemented heretofore is hereby amended and restated to read as herein set forth in full:

"FIRST: The name of the corporation (hereinafter called the "corporation") is KLA-Tencor Corporation.

SECOND: The address, including street, number, city and county, of the registered office of the corporation in the State of Delaware is 1209 Orange Street, City of Wilmington, County of New Castle, and the name of the registered agent of the corporation in the State of Delaware at such address is The Corporation Trust Company.

THIRD: The nature of the business and of the purposes to be conducted and promoted by the corporation is as follows:

To manufacture, purchase or otherwise acquire, import and export, invest in, own, mortgage, pledge, sell, assign, and transfer or otherwise dispose of, trade, deal in and deal with goods, wares, merchandise and personal property of every kind, nature and description, both on its own account and for others.

To render services of every kind, nature and description (including, but not limited to, consulting, financial, engineering, research and similar or related services) both on its own account and for others.

To develop, obtain, purchase or otherwise acquire, and to hold, own, use, sell, limit or otherwise dispose of processes, formulae, inventions and devices of every kind, nature and description, whether patented or not; and to apply for and obtain letters patent under the laws of the United States or of any foreign country.

To borrow or lend money, and to make and issue notes, bonds, debentures, obligations, and evidences of indebtedness of all kinds, whether secured by mortgage, pledge, or otherwise, without limit as to amount, and to secure the same by mortgage, pledge, or otherwise and generally to make and perform agreements and contracts of every kind and description.

To subscribe for, take, acquire, hold, sell, exchange and deal in shares, stock, bonds, obligations and securities of any corporation, government, authority or company; to form, promote, subsidize and assist companies, syndicates, or partnerships of all kinds, and to finance and refinance the same; and to guarantee the obligations of other persons, firms, or corporations.

In general, to do any act necessary or incidental to the conduct of said businesses and in the transaction thereof, to carry on any other business, whether manufacturing or otherwise, and to do any other thing permitted by all present and future laws of the State of Delaware applicable to business corporations.

FOURTH: The aggregate number of shares of stock which the corporation shall have authority to issue shall be 251,000,000 shares, with the par value of each of such shares being \$0.001. These shares shall be divided into the following classes:

- (1) 250,000,000 shares shall be designated as Common Stock; and
- (2) 1,000,000 shares shall be designated as Preferred Stock.

The Board of Directors is authorized, subject to any limitations prescribed by law, to provide for the issuance of shares of Preferred Stock in series, and by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included

in each such series, and to fix the designation, powers, preferences, and rights of the shares of each such series and any qualifications, limitations or restrictions thereof. The number of authorized shares of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the then outstanding shares of Common Stock, without a vote of the holders of the Preferred Stock, or of any series thereof, unless a vote of any such holders is required pursuant to the certificate or certificates establishing the series of Preferred Stock.

FIFTH: The name and the mailing address of the incorporator are as follows:

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Name	Mailing Address
----- R.G. Dickerson	----- 229 South State Street Dover, Delaware

SIXTH: The corporation is to have perpetual existence.

SEVENTH: Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction with the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors and/or of the stockholders or class of stockholders of this corporation; as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this corporation.

EIGHTH: For the management of the business and for the conduct of the affairs of the corporation, and in further definition, limitation and regulation of the powers of the corporation and of its directors and of its stockholders or any class thereof, as the case may be, it is further provided:

1. (a) The business and affairs of the corporation shall be managed by or under the direction of the Board of Directors. In addition to the powers and authority expressly conferred upon them by the General Corporation Law of the State of Delaware or by this Certificate of Incorporation or the By-Laws of the corporation, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the corporation.

(b) The number of directors shall initially be 6 and, thereafter, shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption).

(c) The directors shall be divided into three classes, as nearly equal in number as reasonably possible, with the term of office of the first class to expire at the 1990 annual meeting of stockholders, the term of office of the second class to expire at the 1991 annual meeting of stockholders and the term of office of the third class to expire at the 1992 annual meeting of

stockholders. At each annual meeting of stockholders following such initial classification and election, directors shall be elected to succeed those directors whose terms expires for a term of office to expire at the third succeeding annual meeting of stockholders after their election. All directors shall hold office until the expiration of the term for which elected, and until their respective successors are elected, except in the case of the death, resignation, or removal of any director.

(d) Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification or other cause (other than removal from office by a vote of stockholders) may be filled only by a majority vote of the directors then in office, though less than a quorum, and directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

(e) Subject to the rights of the holders of any series of Preferred Stock then outstanding, any directors, or the entire Board of Directors, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least a majority of the voting power of all of the then outstanding shares of capital stock of the corporation entitled to vote generally in the election of directors, voting together as a single class. Vacancies in the Board of Directors resulting from such removal may be filled by (i) a majority of the directors then in office, though less than a quorum, or (ii) the stockholders at a special meeting of the stockholders properly called for that purpose, by the vote of the holders of a majority of the shares entitled to vote at such special meeting. Directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires.

2. After the original or other By-Laws of the corporation have been adopted, amended, or repealed, as the case may be, in accordance with the provisions of Section 109 of the General Corporation Law of the State of Delaware, and, after the corporation has received any payment for any of its stock, the power to adopt, amend, or repeal the By-Laws of the corporation may be exercised by the Board of Directors of the corporation.

3. Whenever the corporation shall be authorized to issue only one class of stock, each outstanding share shall entitle the holder thereof to notice of, and the right to vote at, any meeting of stockholders. Whenever the corporation shall be authorized to issue more than one class of stock, no outstanding share of any class of stock which is denied voting power under the provisions of the certificate of incorporation shall entitle the holder thereof to the right to vote, at any meeting of stockholders except as the provisions of paragraph (c) (2) of Section 242 of the General Corporation Law of the State of Delaware shall otherwise require; provided, that no share of any such class which is otherwise denied voting power shall entitle the holder thereof to vote upon the increase or decrease in the number of authorized shares of said class.

4. Any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of stockholders of the corporation and may not be effected by any consent in writing by such stockholders.

NINTH: The corporation shall, to the fullest extent permitted by Section 145 of the General Corporation Law of the State of Delaware, as the same may be amended and supplemented, indemnify any and all persons whom it shall have power to indemnify under said section from and against any and all of the expenses, liabilities and other matters referred to in or covered by said section, and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any By-Law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

TENTH: From time to time any of the provisions of this certificate of incorporation may be amended, altered or repealed, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inspected in the manner and at the time prescribed by said laws, and all rights at any time conferred upon the stockholders of the corporation by this certificate of incorporation are granted subject to the provisions of this

Article TENTH.

ELEVENTH:

1. (a) In addition to any affirmative vote required by law or this certificate of incorporation, and except as otherwise expressly provided in paragraph 2 of this Article ELEVENTH:

(i) any merger or consolidation of the corporation or any Subsidiary (as hereinafter defined) with (a) any Interested Shareholder (as hereinafter defined) or (b) any other corporation (whether or not itself an Interested Shareholder) which is, or after such merger or consolidation would be, an Affiliate (as hereinafter defined) of an Interested Shareholder; or

(ii) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any Interested Shareholder or any Affiliate of any Interested Shareholder of any assets of the corporation or any Subsidiary having an aggregate fair market value of \$1,000,000 or more; or

(iii) the issuance or transfer by the corporation or any Subsidiary (in one transaction or a series of transactions) of any securities of the corporation or any Subsidiary to any Interested Shareholder or any Affiliate of any Interested Shareholder in exchange for cash, securities or other property (or a combination thereof) having an aggregate fair market value of \$1,000,000 or more; or

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(iv) the adoption of any plan or proposal for the liquidation or dissolution of the corporation proposed by or on behalf of an Interested Shareholder or any Affiliate of any Interested Shareholder; or

(v) any reclassification of securities (including any reverse stock split), or recapitalization of the corporation, or any merger or consolidation of the corporation with any of its subsidiaries or any other transaction (whether or not with or into or otherwise involving an Interested Shareholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of the corporation or any Subsidiary which is directly or indirectly owned by an Interested Shareholder or any Affiliate of any Interested Shareholder; shall require the affirmative vote of the holders of at least 80% of the then outstanding shares of capital stock of the corporation authorized to be issued from time to time under Article FOURTH of this certificate of incorporation (the "Voting Stock"), voting together as a single class. Such affirmative vote shall be required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or in any agreement with any national securities exchange or otherwise. Notwithstanding any other provision of this certificate of incorporation to the contrary, for purposes of this Article ELEVENTH, each share of the Voting Stock shall have one vote.

(b) The term "Business Combination" as used in this Article ELEVENTH shall mean any transaction which is referred to in any one or more of clauses (i) through (v) of subparagraph (a) of this paragraph 1.

2. The provisions of paragraph 1 of this Article ELEVENTH shall not be applicable to any particular Business Combination, and such Business Combination shall require only such affirmative vote as if required by law and any other provision of this certificate of incorporation, if all of the conditions specified in the following subparagraph (a) are met:

(a) The Business Combination shall have been approved by a majority of the Continuing Directors (as hereinafter defined): provided, however, that such approval shall only be effective if obtained at a meeting at which a Continuing Director Quorum (as hereinafter defined) is present.

3. For the purposes of this Article ELEVENTH:

(a) The term "person" shall mean any individual, firm, corporation or other entity.

(b) The term "Interested Shareholder" shall mean any person (other than the corporation or any Subsidiary and other than any profit-sharing, employee stock ownership or other employee benefit plan of the corporation or any Subsidiary or any trustee of or fiduciary with respect to any such plan when acting in such capacity) who or which:

(i) is the beneficial owner (as hereinafter defined) of more than five percent of the Voting Stock; or

(ii) is an Affiliate (as hereinafter defined) of the corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner of five percent or more of the Voting Stock; or

(iii) is an assignee of or has otherwise succeeded to any shares of Voting Stock which were at any time within the two-year period immediately prior to the date in question beneficially owned by any Interested Shareholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933, as amended.

(c) A person shall be a "beneficial owner" of any Voting Stock:

(i) which such person or any of its Affiliates or Associates (as hereinafter defined) beneficially owns, directly or indirectly; or

(ii) which such person or any of its Affiliates or Associates has, directly or indirectly, (a) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (b) the right to vote pursuant to any agreement, arrangement or understanding; or

(iii) which are beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

(d) For the purposes of determining whether a person is an Interested Shareholder pursuant to subparagraph (b) of this paragraph 3, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of subparagraph (c) of this paragraph 3 may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(e) The terms "Affiliate" or "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on January 1, 1984.

(f) The term "Subsidiary" means any corporation of which a majority of any class of equity security is owned, directly or indirectly, by the corporation; provided, however, that for the purposes of the definition of Interested Shareholder set forth in subparagraph (b) of this paragraph 3, the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the corporation.

(g) The term "Continuing Director" means any member of the Board of Directors of the corporation (the "Board") who is unaffiliated with the Interested Shareholder and was a

member of the Board prior to the time that the Interested Shareholder became an Interested Shareholder, and any successor of a Continuing Director who is unaffiliated with the Interested Shareholder or is recommended or elected to succeed a Continuing Director by a majority of Continuing Directors, provided that such recommendation or election shall only be effective if made at a meeting at which a Continuing Director Quorum is present.

(h) The term "Continuing Director Quorum" means four Continuing Directors capable of exercising the powers conferred upon them under the provisions of the certificate of incorporation or By-Laws of the corporation or by law.

4. Notwithstanding any other provisions of this certificate of incorporation or the By-Laws of the corporation (and notwithstanding the fact that a lesser percentage may be specified by law, this certificate of incorporation or the By-Laws of the corporation), the affirmative vote of the holders of 80% or single class, shall be required to amend or repeal, or adopt any provisions inconsistent with, this Article ELEVENTH.

TWELFTH: A director of this corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith of which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

If the Delaware General Corporation Law is hereafter amended to authorize the further elimination or limitation of the liability of a director, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended.

Any repeal or modification of the foregoing provisions of this Article TWELFTH by the stockholders of the corporation shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification."

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IN WITNESS WHEREOF, said KLA Instruments Corporation has caused this certificate to be signed by Kenneth Levy, its Chief Executive Officer, and attested by Larry W. Sonsini, its Secretary, this 30th day of April, 1997.

KLA INSTRUMENTS CORPORATION

By: /s/ Kenneth Levy  
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Kenneth Levy  
Chief Executive Officer

ATTEST:

By: /s/ Larry W. Sonsini  
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Larry W. Sonsini  
Secretary

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Exhibit 3.2

KLA-TENCOR CORPORATION,

A DELAWARE CORPORATION

BY-LAWS

ORIGINALLY ADOPTED: JUNE 12, 1989

AS AMENDED: APRIL 30, 1997

ARTICLE I

STOCKHOLDERS

Section 1. Annual Meeting. An annual meeting of the stockholders, for the election of directors to succeed those whose terms expire and for the transaction of such other business as may properly come before the meeting, shall be held at such place, on such date, and at such time as the Board of Directors shall each year fix, which date shall be within thirteen months subsequent to the last annual meeting of stockholders.

Section 2. Special Meetings. Special meetings of the stockholders, for any purpose or purposes prescribed in the notice of the meeting, may be called only by the Board of Directors and shall be held at such place, on such date, and at such time as they shall fix. Business transacted at special meetings shall be confined to the purpose or purposes stated in the notice.

Section 3. Notice of Meetings. Written notice of the place, date, and time of all meetings of the stockholders shall be given, not less than ten (10) nor more than sixty to each stockholder entitled to vote at such meeting, except as otherwise provided herein or required by law (meaning, here and hereinafter, as required from time to time by the Delaware General Corporation Law or the Certificate of Incorporation of the Corporation). When a meeting is adjourned to another place, date

or time, written notice need not be given of the adjourned meeting if the place, date and time thereof are announced at the meeting at which the adjournment is taken; provided, however, that if the date of any adjourned meeting is more than thirty (30) days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, written notice of the place, date, and time of the adjourned meeting shall be given in conformity herewith. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

Section 4. Quorum. At any meeting of the stockholders, the holders of a majority of all of the shares of the stock entitled to vote at the meeting, present in person or by proxy, shall constitute a quorum for all purposes, unless or except to the extent that the presence of a larger number may be required by law.

If a quorum shall fail to attend any meeting, the chairman of the meeting or the holders of a majority of the shares of stock entitled to vote who are present, in person or by proxy, may adjourn the meeting to another place, date or time.

If a notice of any adjourned special meeting of stockholders is sent to all stockholders entitled to vote thereat, stating that it will be held with those present constituting a quorum, then, provided that those present hold more than 33-1/3% of the shares entitled to vote, those present at such adjourned meeting shall constitute a quorum, and all matters shall be determined by a majority of the votes cast at such meeting.

\* Section 5. Conduct of the Stockholders' Meeting. At every meeting of the stockholders, the Chairman of the Board of the Corporation, or in his absence the Chief Executive Officer of the Corporation, or in his absence the President of the Corporation, or in his absence the Vice President designated by the Chairman of the Board or the Chief Executive Officer, or in the absence of such designation any Vice President, or in the absence of the Chairman of the Board, Chief Executive Officer, President or any Vice President a chairman chosen by the majority of the voting shares represented in person or by proxy, shall act as chairman of the meeting. The Secretary of the Corporation or a person designated by the chairman shall act as Secretary of the meeting. Unless otherwise approved by the chairman, attendance at the Stockholders' Meeting shall be restricted to stockholders of record, persons authorized in accordance with Section 8 of these By-Laws to act by proxy, and officers of the Corporation.

Section 6. Conduct of Business. The Chairman shall call the meeting to order, establish the agenda, and conduct the business of the meeting in accordance herewith or, at the Chairman's discretion, in accordance with the wishes of the stockholders in attendance.

The Chairman shall also conduct the meeting in an orderly manner, rule on the precedence of, and procedure on, motions and other procedural matters, and exercise discretion with respect to such procedural matters with fairness and good faith toward all those entitled to take part. The Chairman may impose reasonable limits on the amount of time taken up at the meeting on discussion in general or on remarks by any one stockholder. Should any person in attendance become unruly or obstruct the meeting proceedings, the Chairman shall have the power to have such person removed from participation. Notwithstanding anything in these By-Laws to the contrary, no business shall be

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\* As amended April 30, 1997.

conducted at any meeting except in accordance with the procedures set forth in this Section 6, Section 7 below and Section 11 of Article II below. The Chairman of any meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 6, Section 7 below and Section 11 of Article II below, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Section 7. Notice of Stockholder Business. At an annual or special meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before a meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) properly brought before the meeting by or at the direction of the Board of Directors, (c) if at an annual meeting, properly brought before the meeting by a stockholder, or (d) if at a special meeting, if, and only if, the notice of a special meeting provides for business to be brought before the meeting by stockholders, properly brought before the meeting by a stockholder.

For business to be properly brought before a meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation no later than the date upon which stockholder proposals to be included in the Corporation's Proxy Statement must be received by the Corporation under the requirements of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder.

A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual or special meeting (a) a brief description of the business desired

to be brought before the annual or special meeting and the reasons for conducting such business at the annual or special meeting, (b) the name and address, as they appear on the Corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the Corporation which are beneficially owned by the stockholder, (d) any material interest of the stockholder in such business and (e) such other information relating to the stockholder or the proposal as is required to be disclosed under the rules of the Securities and Exchange Commission governing the solicitation of proxies with respect to such proposal, whether or not such proxies are in fact solicited by the stockholder.

Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at an annual or special meeting except in accordance with the procedures set forth in this Section 7. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 7, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Section 8. Proxies and Voting. At any meeting of the stockholders, every stockholder entitled to vote may vote in person or by proxy authorized by an instrument in writing filed in accordance with the procedure established for meeting. No stockholder may authorize more than one proxy for his shares.

Each stockholder shall have one vote for every share of stock entitled to vote which is registered in his or her name on the record date for the meeting, except as otherwise provided herein or required by law.

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All voting, including on the election of directors but excepting where otherwise required by law, may be by a voice vote; provided, however, that upon demand therefor by a stockholder entitled to vote or his or her proxy, a stock vote shall be taken. Every stock vote shall be taken by ballots, each of which shall state the name of the stockholder or proxy voting and such other information as may be required under the procedure established for the meeting. Every vote taken by ballots shall be counted by an inspector or inspectors appointed by the chairman of the meeting.

All elections shall be determined by a plurality of the votes cast, and except as otherwise required by law or By-Laws, all other matters shall be determined by a majority of the votes cast.

Section 9. Stock List. A complete list of stockholders entitled to vote at any meeting of stockholders, arranged in alphabetical order for each class of stock and showing address of each such stockholder and the number of shares registered in his or her name, shall be open to the examination of any such stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or if not so specified, at the place where the meeting is to be held.

The stock list shall also be kept at the place of the meeting during the whole time thereof and shall be open to the examination of any such stockholder who is present. This list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

Section 10. Elimination of Written Consent. Any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of

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stockholders of the corporation and may not be effected by any consent in writing by such stockholders.

BOARD OF DIRECTORS

\* Section 1. Number and Term of Office. The number of directors shall initially be twelve (12) and, thereafter, shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exists any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption). The directors shall be divided into three classes, as nearly equal in number as reasonably possible, with the term of office of the first class to expire at the 1990 annual meeting of stockholders, the term of office of the second class to expire at the 1991 annual meeting of stockholders and the term of office of the third class to expire at the 1992 annual meeting of stockholders. At each annual meeting of stockholders following such initial classification and election, directors shall be elected to succeed those directors whose term expire for a term of office to expire at the third succeeding annual meeting of stockholders after their election. All directors shall hold office until the expiration of the term for which elected and until their successors are elected, except in the case of the death, resignation or removal of any director.

Section 2. Vacancies and Newly Created Directorships. Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors

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\* As amended April 30, 1997.

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resulting from death, resignation, retirement, disqualification or other cause (other than removal from office by a vote of stockholders) may be filled only by a majority vote of the directors then in office, though less than a quorum, and directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

Section 3. Removal. Subject to the rights of the holders of any series of Preferred Stock then outstanding, any directors, or the entire Board of Directors, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least a majority of the voting power of all of the then-outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class. Vacancies in the Board of Directors resulting from such removal may be filled by (i) a majority of the directors then in office, though less than a quorum, or (ii) the stockholders at a special meeting of the stockholders properly called for that purpose, by the vote of the holders of a majority of the shares entitled to vote at such special meeting. Directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires.

Section 4. Regular Meetings. Regular meetings of the Board of Directors shall be held at such place or places, on such date or dates, and at such time or times as shall have been established by the Board of Directors and publicized among all directors. A notice of each regular meeting shall not be required.

Section 5. Special Meetings. Special meetings of the Board of Directors may be called by one-third of the directors then in office (rounded up to the nearest whole number), the Chairman

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of the Board or by the chief executive officer and shall be held at such place, on such date, and at such time as they or he shall fix. Notice of the place, date, and time of each such special meeting shall be given each director by whom it is not waived by mailing written notice not fewer than five (5) days before the meeting or by telecopying or delivering by overnight courier service

the same not fewer than twenty-four (24) hours before the meeting. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

Section 6. Quorum. At any meeting of the Board of Directors, a majority of the total number of authorized Directors shall constitute a quorum for all purposes. If a quorum shall fail to attend any meeting, a majority of those present may adjourn the meeting to another place, date, or time, without further notice or waiver thereof.

Section 7. Participation in Meetings by Conference Telephone. Members of the Board of Directors, or of any committee thereof, may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in person at such meeting.

Section 8. Conduct of Business. At any meeting of the Board of Directors, business shall be transacted in such order and manner as the Board may from time to time determine, and all matters shall be determined by the vote of a majority of the directors present, except as otherwise provided herein or required by law. Action may be taken by the Board of Directors without a meeting if all members thereof consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the Board of Directors.

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Section 9. Powers. The Board of Directors may, except as otherwise required by law, exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, including, without limiting the generality of the foregoing, the unqualified power:

- (1) To declare dividends from time to time in accordance with law;
- (2) To purchase or otherwise acquire any property, rights or privileges on such terms as it shall determine;
- (3) To authorize the creation, making and issuance, in such form as it may determine, of written obligations of every kind, negotiable or non-negotiable, secured or unsecured, and to do all things necessary in connection therewith;
- (4) To remove any officer of the Corporation with or without cause, and from time to time to devolve the powers and duties of any officer upon any other person for the time being;
- (5) To confer upon any officer of the Corporation the power to appoint, remove and suspend subordinate officers, employees and agents;
- (6) To adopt from time to time such stock, option, stock purchase, bonus or other compensation plans for directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine;
- (7) To adopt from time to time such insurance, retirement, and other benefit plans for directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine; and
- (8) To adopt from time to time regulations, not inconsistent with these By-Laws, for the management of the Corporation's business and affairs.

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Section 10. Compensation of Directors. Directors, as such, may receive, pursuant to resolution of the Board of Directors, fixed fees and other compensation for their services as directors, including, without limitation, their services as members of committees of the Board of Directors.

Section 11. Nomination of Director Candidates. Subject to the rights of holders of any class or series of Preferred Stock then outstanding, nominations for the election of directors may be made by the Board of Directors or any nominating or proxy committee appointed by the Board of Directors or by any stockholder entitled to vote in the election of Directors generally who complies with the notice and procedural requirements of this Section 11. All

nominees for election to the Board shall satisfy the qualification requirements for membership on the Board of Directors of the Corporation established by any nominating committee designated by the Board, which requirements shall be designed to evaluate, without limitation, the following:

(a) The applicability of the Candidate's business experience and knowledge to the Corporation's business, including any technical skills, industry contacts or other special qualifications which would make the Candidate a valuable member of the Board.

(b) The resulting balance of knowledge and experience which would exist on the Board if the Candidate were elected in light of the business experience and knowledge of the other persons likely to be elected to the Board.

(c) The Candidate's other business interests and commitments and the extent to which such interests and commitments are inconsistent or incompatible with such Candidate's effective board membership, including the extent to which the Nominating Committee believes that such Candidate's membership on the Board may be detrimental to the long-term interests of the

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Corporation and to the maximization of the value of the Corporation's stockholders' investment in the Corporation.

In addition to any other applicable requirements, any such stockholder nomination shall be made only pursuant to timely notice in writing to the Secretary of the Corporation setting forth such stockholder's intent to make a nomination or nominations. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal offices of the Corporation not later than the date on which stockholder proposals to be included in the proxy statement with respect to any annual or special meeting must be received by the Corporation under the requirements of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder.

Each such notice by a stockholder shall set forth: (a) the name and address, as they appear on the Corporation's stock register, of the stockholder who intends to make the nomination; (b) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote for the election of Directors on the date of such notice and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) the name, age, business and residence address and principal occupation of each person the stockholder proposes to nominate for election as a director; (e) such other information regarding the stockholder and each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, whether or not proxies are in fact solicited for the election of such person; and (f) the signed consent of each nominee to serve as a director of the Corporation if so elected.

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The Corporation or any nominating committee designated by the Board of Directors may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation or such committee to determine the qualification of such nominee for election as a director of the Corporation.

In the event that a person is validly designated as a nominee in accordance with this Section 11 and shall thereafter become unable or unwilling to stand for election to the Board of Directors, the Board of Directors or the stockholder who proposed such nominee as the case may be, may designate a substitute nominee; provided, however, that (i) in the case of the persons nominated by a stockholder, such a substitution may only be made if a written notice to the Secretary setting forth such information regarding such substitute nominee as would have been required to be delivered to the Secretary pursuant to this Section 11 had such substitute nominee been initially proposed as a nominee is received by the Corporation at its principal executive offices

not less than thirty (30) days before the date of the election at which the initial nominee was nominated to stand or (ii) in the case of persons nominated by the Board of Directors the substitute nominee must be designated not less than thirty (30) days before the date of the election at which the initial nominee was nominated to stand.

If the chairman of the meeting for the election of Directors determines that a nomination of any candidate for election as a Director at such meeting was not made in accordance with the applicable provisions of this Section 11, such nomination shall be void; provided, however, that nothing in this Section 11 shall be deemed to limit any voting rights upon the occurrence of dividend arrearages, provided to holders of Preferred Stock pursuant to the Preferred Stock designation for any series of Preferred Stock.

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### ARTICLE III

#### COMMITTEES

Section 1. Committees of the Board of Directors. The Board of Directors, by a resolution passed by a vote of a majority of the whole Board, may from time to time designate committees of the Board, with such lawfully delegable powers and duties as it thereby confers, to serve at the pleasure of the Board and shall, for those committees and any others provided for herein, elect a director or directors to serve as the member or members, designating, if it desires, other directors as alternate members who may replace any absent or disqualified member at any meeting of the committee. Any committee so designated may exercise the power and authority of the Board of Directors to declare a dividend, to authorize the issuance of stock or to adopt a certificate of ownership and merger pursuant to Section 253 of the Delaware General Corporation Law if the resolution which designates the committee or a supplemental resolution of the Board of Directors shall so provide. In the absence or disqualification of any member of any committee and any alternate member in his place, the member or members of the committee present at the meeting and not disqualified from voting, whether or not he or they constitute a quorum, may by unanimous vote appoint another member of the Board of Directors to act at the meeting in the place of the absent or disqualified member.

Section 2. Conduct of Business. Each committee may determine the procedural rules for meeting and conducting its business and shall act in accordance therewith, except as otherwise provided herein or required by law. Adequate provision shall be made for notice to members of all meetings; one-third of the authorized members shall constitute a quorum unless the committee shall consist of one or two members, in which event one member shall constitute a quorum; and all

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matters shall be determined by a majority vote of the members present. Action may be taken by any committee without a meeting if all members thereof consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of such committee.

### ARTICLE IV

#### OFFICERS

\* Section 1. Generally. The officers of the Corporation shall consist of a Chairman of the Board, a Chief Executive Officer, a President, one or more Vice Presidents, a Secretary, a Chief Financial Officer and such other officers as may from time to time be appointed by the Board of Directors. Officers shall be elected by the Board of Directors, which shall consider that subject at its first meeting after every annual meeting of stockholders. Each officer shall hold office until his successor is elected and qualified or until his earlier resignation or removal. The Chairman of the Board, the Chief Executive Officer and the President shall each be members of the Board of Directors. Any number of offices may be held by the same person.

\* Section 2. Chairman of the Board. The Chairman of the Board, if such an officer be elected, shall, if present, preside at meetings of the Board of Directors and exercise and perform such other powers and duties as may from

time to time be assigned to him by the Board of Directors or as may be prescribed by these By-Laws. If there is no Chief Executive Officer, then the Chairman of the Board shall also be the Chief Executive Officer of the Corporation and shall have the powers and duties prescribed in Article IV, Section 3 of these By-Laws.

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\* As amended April 30, 1997.

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\* Section 3. Chief Executive Officer. Subject to such supervisory powers, if any, as may be given by the Board of Directors to the Chairman of the Board, if there be such an officer, the Chief Executive Officer of the Corporation shall, subject to the control of the Board of Directors, have general supervision, direction, and control of the business and the officers of the Corporation. He shall preside at all meetings of the stockholders and, in the absence or nonexistence of a Chairman of the Board, at all meetings of the Board of Directors. He shall have the general powers and duties of management usually vested in the Chief Executive Officer of a Corporation and shall have such other powers and duties as may be prescribed by the Board of Directors or these By-Laws.

\* Section 4. President. The President shall be the chief operating officer of the Corporation with such duties and powers as may be prescribed by the Chief Executive Officer or the Board of Directors.

\* Section 5. Vice President. Each Vice President shall have such powers and duties as may be delegated to him by the Board of Directors.

Section 6. Chief Financial Officer. The Chief Financial Officer shall have the responsibility for maintaining the financial records of the Corporation and shall have custody of all monies and securities of the Corporation. He shall make or cause to be made such disbursements of the funds of the Corporation as are authorized and shall render from time to time an account of all such transactions and of the financial condition of the Corporation. The Chief Financial Officer shall also perform such other duties as the Board of Directors may from time to time prescribe.

Section 7. Secretary. The Secretary shall issue all authorized notices for, and shall keep, or cause to be kept, minutes of all meetings of the stockholders, the Board of Directors, and all committees of the Board of Directors. The Secretary shall keep, or cause to be kept at the principal

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executive office or at the office of the Corporation's transfer agent or registrar, a record of the Corporation's stockholders, giving the names and addresses of all stockholders and the number and class of shares held by each. The Secretary shall have charge of the seal and the corporate books of the Corporation and shall perform such other duties as the Board of Directors may from time to time prescribe.

Section 8. Delegation of Authority. The Board of Directors may from time to time delegate the powers or duties of any officer to any other officers or agents, notwithstanding any provision hereof.

Section 9. Removal. Any officer of the Corporation may be removed at any time, with or without cause, by the Board of Directors.

\* Section 10. Action With Respect to Securities of Other Corporations. Unless otherwise directed by the Board of Directors, the Chairman of the Board, the Chief Executive Officer or any officer of the Corporation authorized by the Chairman of the Board or the Chief Executive Officer shall have power to vote and otherwise act on behalf of the Corporation, in person or by proxy, at any meeting of stockholders of or with respect to any action of stockholders of any other corporation in which this Corporation may hold securities and otherwise to exercise any and all rights and powers which this Corporation may possess by reason of its ownership of securities in such other corporation.



\* As amended April 30, 1997.

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ARTICLE V

STOCK

\* Section 1. Certificates of Stock. Each stockholder shall be entitled to a certificate signed by, or in the name of the Corporation by, the Chairman of the Board, the Chief Executive Officer, the President or a Vice President, and by the Secretary or an Assistant Secretary, or the Chief Financial Officer or Treasurer (if there be such an officer), certifying the number of shares owned by him or her. Any of or all the signatures on the certificate may be facsimile.

Section 2. Transfers of Stock. Transfers of stock shall be made only upon the transfer books of the Corporation kept at an office of the Corporation or by transfer agents designated to transfer shares of the stock of the Corporation. Except where a certificate is issued in accordance with Section 4 of Article V of these By-Laws, an outstanding certificate for the number of shares involved shall be surrendered for cancellation before a new certificate is issued therefor.

Section 3. Record Date. The Board of Directors may fix a record date, which shall not be more than sixty (60) days nor fewer than ten (10) days before the date of any meeting of stockholders, no more than sixty (60) days prior to the time for other action hereinafter described, as of which there shall be determined the stockholders who are entitled: to notice of or to vote at any meeting of stockholders or any adjournment thereof; to express consent to corporate action in writing without a meeting (if the Corporation's charter allows such action without a meeting); to receive payment of any dividend or other distribution or allotment of any rights; or to exercise any rights with respect to any change, conversion or exchange of stock or with respect to any other lawful action.

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\* As amended April 30, 1997.

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Section 4. Lost, Stolen or Destroyed Certificates. In the event of the loss, theft or destruction of any certificate of stock, another may be issued in its place pursuant to such regulations as the Board of Directors may establish concerning proof of such loss, theft or destruction and concerning the giving of a satisfactory bond or bonds of indemnity.

Section 5. Regulations. The issue, transfer, conversion and registration of certificates of stock shall be governed by such other regulations as the Board of Directors may establish.

ARTICLE VI

NOTICES

Section 1. Notices. Except as otherwise specifically provided herein or required by law, all notices required to be given to any stockholder, director, officer, employee or agent shall be in writing and may in every instance be effectively given by hand delivery to the recipient thereof, by depositing such notice in the mails, postage paid, or by sending such notice by prepaid telegram, mailgram or commercial courier service. Any such notice shall be addressed to such stockholder, director, officer, employee or agent at his or her last known address as the same appears on the books of the Corporation. The time when such notice shall be deemed to be given shall be the time such notice is received by such stockholder, director, officer, employee or agent, or by any person accepting such notice on behalf of such person, if hand delivered, or the time such notice is dispatched, if delivered through the mails or by telegram, mailgram or courier.

Section 2. Waivers. A written waiver of any notice, signed by a stockholder, director, officer, employee or agent, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to the notice required to be given to such stockholder, director,

officer, employee or agent. Neither the business nor the purpose of any meeting need be specified in such a waiver. Attendance of a person at a meeting shall constitute a waiver of notice for such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

## ARTICLE VII

### MISCELLANEOUS

Section 1. Facsimile Signatures. In addition to the provisions for use of facsimile signatures elsewhere specifically authorized in these By-Laws, facsimile signatures of any officer or officers of the Corporation may be used whenever and as authorized by the Board of Directors or a committee thereof.

Section 2. Corporate Seal. The Board of Directors may provide a suitable seal, containing the name of the Corporation, which seal shall be in the charge of the Secretary. If and when so directed by the Board of Directors or a committee thereof, duplicates of the seal may be kept and used by the Chief Financial Officer or by an Assistant Secretary.

Section 3. Reliance Upon Books, Reports and Records. Each director, each member of any committee designated by the Board of Directors, and each officer of the Corporation shall, in the performance of his duties, be fully protected in relying in good faith upon the books of account or other records of the Corporation, including reports made to the Corporation by any of its officers, by an independent certified public accountant, or by an appraiser selected with reasonable care.

Section 4. Fiscal Year. The fiscal year of the Corporation shall be as fixed by the Board of Directors.

Section 5. Time Periods. In applying any provision of these By-Laws which require that an act be done or not done a specified number of days prior to an event or that an act be done during a period of a specified number of days prior to an event, calendar days shall be used, the day of the doing of the act shall be excluded, and the day of the event shall be included.

## ARTICLE VIII

### INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 1. Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative ("proceeding"), by reason of the fact that he or a person of whom he is the legal representative, is or was a director, officer or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer or employee of another corporation, or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer or employee or in any other capacity while serving as a director, officer or employee, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by Delaware Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said Law permitted the Corporation to provide prior to such amendment) against all expenses, liability and loss (including attorneys' fees, judgments, fines, ERISA excise

taxes or penalties, amounts paid or to be paid in settlement and amounts expended in seeking indemnification granted to such person under applicable law, this by-law or any agreement with the Corporation) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer or employee and shall inure to the benefit of his or her heirs, executors and administrators; provided however, that, except as provided in Section 2 of this Article VIII, the Corporation shall indemnify any such person seeking indemnity in connection with an action, suit or proceeding (or part thereof) initiated by such person only if such action, suit or proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. Such right shall be a contract right and shall include the right to be paid by the Corporation expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the Delaware General Corporation Law then so requires, the payment of such expenses incurred by a director or officer of the Corporation in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of such proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it should be determined ultimately that such director or officer is not entitled to be indemnified under this Section 1 or otherwise.

Section 2. Right of Claimant to Bring Suit. If a claim under Section 1 of this Article VIII is not paid in full by the Corporation within twenty (20) days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if such suit is not frivolous or brought in bad faith, the

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claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any, has been tendered to this Corporation) that the claimant has not met the standards of conduct which make it permissible under the Delaware General Corporation Law for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct.

Section 3. Non-Exclusivity of Rights. The rights conferred on any person in Sections 1 and 2 of this Article VIII shall not be exclusive of any other right which such persons may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, by-law, agreement, vote of stockholders or disinterested directors or otherwise.

Section 4. Indemnification Contracts. The Board of Directors is authorized to enter into a contract with any director, officer, employee or agent of the Corporation, or any person serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including employee benefit plans, providing for

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indemnification rights equivalent to or, if the Board of Directors so determines, greater than, those provided for in this Article VIII.

Section 5. Insurance. The Corporation shall maintain insurance to the extent reasonably available, at its expense, to protect itself and any such director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law.

Section 6. Effect of Amendment. Any amendment, repeal or modification of any provision of this Article VIII by the stockholders and the Directors of the Corporation shall not adversely affect any right or protection of a director or officer of the Corporation existing at the time of such amendment, repeal or modification.

Section 7. Savings Clause. If this Article VIII or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director, officer, employee and agent of the Corporation as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the Corporation, to the full extent permitted by an applicable portion of this Article VIII that shall not have been invalidated and to the full extent permitted by applicable law.

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#### ARTICLE IX

#### AMENDMENTS

The Board of Directors is expressly empowered to adopt, amend or repeal By-Laws of the Corporation. Any adoption, amendment or repeal of By-Laws of the Corporation by the Board of Directors shall require the approval of a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any resolution providing for adoption, amendment or repeal is presented to the Board). The stockholders shall also have power to adopt, amend or repeal the By-Laws of the Corporation. In the event of any such adoption, amendment or repeal of these By-Laws by Stockholders, in addition to any vote of the holders or any class or series of stock of this Corporation required by law or by these By-Laws, the affirmative vote of the holders of at least a majority of the voting power of all of the then-outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required.

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## EXHIBIT 11.1

KLA-TENCOR CORPORATION  
 CALCULATION OF EARNINGS PER SHARE  
 (UNAUDITED)

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(In thousands except per share amounts)	Three Months Ended March 31,		Nine Months Ended March 31,	
	1997	1996	1997	1996
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Primary earnings per share				
Net income	\$23,704 =====	\$31,817 =====	\$69,012 =====	\$88,978 =====
Average common and common equivalent shares:				
Average common shares outstanding	51,559	50,648	51,250	50,427
Dilutive options	2,271	1,522	1,764	1,894
	----- 53,830 =====	----- 52,170 =====	----- 53,014 =====	----- 52,321 =====
Net income per share	\$ 0.44 =====	\$ 0.61 =====	\$ 1.30 =====	\$ 1.70 =====

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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.

</LEGEND>

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