

SECURITIES AND EXCHANGE COMMISSION

FORM S-3

Registration statement for specified transactions by certain issuers

Filing Date: **1994-01-06**
SEC Accession No. **0000891618-94-000009**

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FILER

KLA INSTRUMENTS CORP

CIK: **319201** | IRS No.: **042564110** | State of Incorpor.: **DE** | Fiscal Year End: **0630**
Type: **S-3** | Act: **33** | File No.: **033-51819** | Film No.: **94500504**
SIC: **3825** Instruments for meas & testing of electricity & elec signals

Mailing Address
*160 RIO ROBLES
SAN JOSE CA 95161-9055*

Business Address
*160 RIO ROBLES
SAN JOSE CA 95134
4084344200*

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-3

REGISTRATION STATEMENT
UNDER

THE SECURITIES ACT OF 1933

KLA INSTRUMENTS CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

<TABLE>		
<S>	DELAWARE	<C>
	(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	04-256411 (I.R.S. EMPLOYER IDENTIFICATION NO.)
</TABLE>		

160 RIO ROBLES
SAN JOSE, CALIFORNIA 95161
(408) 434-4200
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA
CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

KENNETH LEVY
CHIEF EXECUTIVE OFFICER
KLA INSTRUMENTS CORPORATION
160 RIO ROBLES
SAN JOSE, CALIFORNIA 95161
(408) 434-4200

(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,
OF AGENT FOR SERVICE)

COPIES TO:

<TABLE>		
<S>	PAUL E. KREUTZ, ESQ. GEORGE H. HOHNSBEEN II, ESQ. SUSAN GOODHUE, ESQ. ELIZABETH M. BAUM, ESQ. GRAY CARY WARE & FREIDENRICH 400 HAMILTON AVENUE PALO ALTO, CA 94301	<C> GAVIN B. GROVER, ESQ. GREGORY H. HANSON, ESQ. A. ALLISON LISBONNE, ESQ. MORRISON & FOERSTER 345 CALIFORNIA STREET SAN FRANCISCO, CALIFORNIA 94104
</TABLE>		

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as
practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered
pursuant to dividend or interest reinvestment plans, please check the following
box: / /

If any of the securities being registered on this Form are to be offered on
a delayed or continuous basis pursuant to Rule 415 under the Securities Act of
1933, check the following box: / /

CALCULATION OF REGISTRATION FEE

<TABLE>				
<S>	<C>	<C>	<C>	<C>

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED (1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE (2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (2)	AMOUNT OF REGISTRATION FEE
Common Stock (\$0.001 par value).....	2,300,000	\$27.00	\$62,100,000	\$21,413.94

</TABLE>

- (1) Includes 300,000 shares which the Underwriters have the option to purchase to cover overallocments, if any.
- (2) Estimated solely for the purpose of computing the registration fee in accordance with Rule 457 and based on the average of the high and low prices of the Common Stock of KLA Instruments Corporation as reported on The Nasdaq National Market on January 5, 1994.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

2

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION; DATED JANUARY 6, 1994

2,000,000 SHARES

(LOGO) KLA INSTRUMENTS CORPORATION

COMMON STOCK

All of the 2,000,000 shares of Common Stock offered hereby are being sold by KLA Instruments Corporation (the "Company"). The Company's Common Stock is quoted on The Nasdaq National Market under the symbol "KLAC." The last reported sale price of the Common Stock on The Nasdaq National Market on January 5, 1994 was \$27.00 per share.

SEE "RISK FACTORS" FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE INVESTORS IN THE COMMON STOCK OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

<TABLE>

<S>	<C> PRICE TO PUBLIC	<C> UNDERWRITING DISCOUNT	<C> PROCEEDS TO COMPANY (1)
Per Share.....	\$	\$	\$
Total (2).....	\$	\$	\$

</TABLE>

- -----
- (1) Before deducting estimated expenses of \$ payable by the Company.
 - (2) The Company has granted the Underwriters a 30-day option to purchase up to 300,000 additional shares of Common Stock solely to cover over-allotments, if any. If such option is exercised in full, the total price to the public will be \$, the total underwriting discount will be \$, and the total proceeds to Company will be \$. See "Underwriting."

The shares of Common Stock are offered by the several Underwriters named herein, subject to receipt and acceptance by them and to their right to reject any order in whole or in part. It is expected that delivery of the shares will be made on or about , 1994.

<TABLE>
<S> <C>
KIDDER, PEABODY & CO. MORGAN STANLEY & CO.
INCORPORATED INCORPORATED
</TABLE>

THE DATE OF THIS PROSPECTUS IS , 1994.

3

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NASDAQ NATIONAL MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS AND SELLING GROUP MEMBERS (IF ANY) OR THEIR RESPECTIVE AFFILIATES MAY ENGAGE IN PASSIVE MARKET MAKING TRANSACTIONS IN THE COMPANY'S COMMON STOCK ON THE NASDAQ NATIONAL MARKET IN ACCORDANCE WITH RULE 10B-6A UNDER THE EXCHANGE ACT. SEE "UNDERWRITING."

4

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus and in the information and documents incorporated by reference herein. Unless otherwise indicated, all information in this Prospectus assumes no exercise of the Underwriters' over-allotment option. See "Underwriting." Unless the context otherwise requires, "KLA" and the "Company" refer to KLA Instruments Corporation, a Delaware corporation, and its subsidiaries.

THE COMPANY

KLA is the leader in the design, manufacture, marketing and service of yield management and process monitoring systems for the semiconductor industry. KLA believes that it is the world's largest supplier to the wafer and reticle inspection equipment markets. The Company sells to virtually all of the world's semiconductor manufacturers and has achieved very high market shares in its principal businesses. KLA's systems are used to analyze product and process quality at critical steps in the manufacture of integrated circuits, providing feedback so that fabrication problems can be identified, addressed and contained. This understanding of defect sources and how to contain them enables semiconductor manufacturers to increase yields. Quickly attaining and then maintaining high yields is one of the most important determinants of profitability in the semiconductor industry. The Company believes that its customers typically experience rapid paybacks on their investments in the Company's systems.

The growing complexity of semiconductor devices, including shrinking feature dimensions, has substantially increased the cost to manufacture semiconductors, making yield loss more expensive. This trend has increased semiconductor manufacturers' demand for systems which permit the detection and containment of process problems. The sensitivity of fabrication yields to defect densities increases as devices become more complex. For example, an average of 0.1 fatal defects per square centimeter will allow a yield of 60% for a 4 Mbit DRAM, but only 5% for a 64 Mbit DRAM. Further, the escalating capital investments necessary for the construction of semiconductor fabrication

facilities heighten manufacturers' need for yield enhancing systems which can leverage their returns on these investments.

Several years ago, the Company recognized the industry's need for in-line monitoring to provide real-time process management capability. In response, the Company devoted substantial resources to developing systems with the throughput, reliability and associated data analysis capabilities for in-process inspection. During the past year, customers' use of the Company's wafer inspection systems began evolving from single system, off-line engineering analysis applications to multiple systems monitoring critical steps directly on advanced fabrication lines. Positive customer evaluation of the Company's in-line production monitoring systems led to record order levels for the Company's 1993 fiscal year and its 1994 fiscal year to date. The Company believes that the potential market for its in-line monitoring systems is several times larger than its traditional market for engineering analysis systems.

The Company's technological strength has enabled it to develop and introduce major new product families in the past two years for the following three business units: WISARD, which addresses semiconductor wafer inspection; RAPID, which addresses reticle inspection; and Metrology, which addresses overlay registration and linewidth measurement. The Company believes that its WISARD and RAPID product families incorporate proprietary technologies which provide greater sensitivity to defects than any competing systems. The Company's key technologies include advanced image acquisition and conversion at up to 100 million pixels per second, proprietary algorithms which identify possible defects, and image computers capable of processing data at speeds up to 72 billion instructions per second (72,000 MIPS). Following the introduction of these new product families, the related engineering, research and development expenses decreased in fiscal year 1993. The Company is still incurring significant start-up expenses related to the introduction of these new product families.

KLA also sells wafer probers in the United States and Europe through its ATS division. The Company purchases the base prober from Tokyo Electron Ltd. ("TEL") and modifies it with image processing systems, software and various custom interfaces. The Company's WATCHER division sells image processing systems to TEL for use in its probers sold in Japan, Korea and certain other markets.

KLA was incorporated in Delaware in July 1975. The Company's principal offices are located at 160 Rio Robles, San Jose, California 95161, and its telephone number is (408) 434-4200.

THE OFFERING

<TABLE>	
<S>	<C>
Common Stock offered by the Company.....	2,000,000 shares
Common Stock to be outstanding after the offering.....	21,657,000 shares(1)
Use of proceeds.....	The Company intends to use the net proceeds for general corporate purposes. In addition, the Company may use a portion of the net proceeds to acquire businesses, products or technologies complementary to the Company's current businesses. See "Use of Proceeds."
The Nasdaq National Market symbol.....	KLAC
</TABLE>	

(1) Based on the number of shares outstanding at September 30, 1993. Excludes 3,468,000 shares of Common Stock reserved for issuance under the Company's stock option and employee stock purchase plans, including 2,568,000 shares issuable upon the exercise of outstanding options at an average exercise price of \$7.90 per share.

SUMMARY FINANCIAL INFORMATION
(IN MILLIONS, EXCEPT PER SHARE DATA)

<TABLE>							
<CAPTION>							
		YEARS ENDED JUNE 30,				QUARTERS ENDED	
		-----				SEPTEMBER 30,	
		1989	1990	1991	1992	1993	1992
							1993

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data:							
Net sales.....	\$157.8	\$161.6	\$148.4	\$156.0	\$167.2	\$ 38.5	\$ 51.9
Gross profit.....	73.7	75.5	65.6	56.0	59.8	13.0	20.7
Engineering, research and development expense.....	23.4	26.3	27.1	25.9	16.3	4.0	4.9
Selling, general and administrative expense.....	28.3	31.5	33.5	35.5	32.7	7.5	9.9
Restructuring charges (recovery).....	--	--	--	8.2	(0.7)	--	--
Income (loss) from operations...	22.0	17.7	5.0	(13.6)	11.5	1.5	5.9
Interest income and other, net.....	1.0	1.8	1.8	1.2	1.2	0.3	0.2
Interest expense.....	(1.0)	(0.6)	(3.3)	(3.9)	(3.4)	(1.0)	(0.5)
Income (loss) from continuing operations before income taxes.....	22.0	18.9	3.5	(16.3)	9.3	0.8	5.6
Provision for income taxes.....	8.0	6.7	1.1	0.3	2.3	0.2	1.4
Income (loss) from continuing operations.....	\$ 14.0	\$ 12.2	\$ 2.4	\$ (16.6)	\$ 7.0	\$ 0.6	\$ 4.2
Income (loss) per share from continuing operations.....	\$ 0.78	\$ 0.67	\$ 0.13	\$ (0.90)	\$ 0.35	\$ 0.03	\$ 0.20
Weighted average common and dilutive common equivalent shares.....	17.9	18.0	18.6	18.5	19.7	18.9	20.8

</TABLE>

<TABLE>
<CAPTION>

<S>	AT JUNE 30,		AT SEPTEMBER 30, 1993	
	1992	1993	ACTUAL	AS ADJUSTED (1)
	<C>	<C>	<C>	<C>
Balance Sheet Data:				
Cash and cash equivalents.....	\$23.7	\$52.4	\$ 37.6	\$88.4
Working capital.....	84.0	93.6	101.4	152.2
Total assets.....	188.5	199.1	199.7	250.5
Notes payable and current portion of long-term debt...	5.0	6.5	2.6	2.6
Long-term debt.....	24.0	20.0	20.0	20.0
Stockholders' equity.....	103.0	114.1	120.0	170.8

</TABLE>

(1) As adjusted to give effect to the sale by the Company of 2,000,000 shares of Common Stock offered hereby.

4

6

RISK FACTORS

POTENTIAL FLUCTUATIONS IN QUARTERLY RESULTS

The Company has experienced and expects to continue to experience significant fluctuations in its quarterly operating results. The Company's expense levels are based, in part, on expectations of future revenues. If revenue levels in a particular quarter do not meet expectations, operating results will be adversely affected, which may have an adverse impact on the market price of the Company's Common Stock. Since in a typical quarter the Company sells a relatively small number of high priced systems, the sale by the Company of fewer systems than anticipated in any quarter may have a substantial impact on the operating results for the quarter.

New product introductions may also contribute to fluctuations in quarterly operating results, especially since customers may defer ordering products from the Company's existing product lines. The Company's results also will be affected by strategic decisions made by management regarding whether to continue particular product lines, new product introductions by the Company's

competitors, the volume, mix and timing of orders received during a period, fluctuations in foreign exchange rates, and changing conditions in both the semiconductor industry and key semiconductor markets around the world.

VOLATILITY OF SEMICONDUCTOR INDUSTRY

The Company's business depends in large part upon the capital 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 is highly cyclical and has historically experienced periodic downturns, which often have had a severe effect on the semiconductor industry's demand for yield management and process monitoring systems. Semiconductor industry downturns have adversely affected the Company's results of operations. The Company believes that the depressed capital expenditures by semiconductor manufacturers in Japan adversely affected the Company's revenues and operating results in fiscal years 1991 and 1992. No assurance can be given that revenues and operating results will not be adversely affected by a downturn in the rate of capital investment in the semiconductor industry. In addition, the need for continued investment in engineering, research and development and extensive ongoing customer service and support requirements worldwide will limit the Company's ability to reduce expenses in response to any such downturn.

DEPENDENCE ON INTRODUCTION OF NEW PRODUCTS AND PRODUCT ENHANCEMENTS

The Company believes that its continued success will depend on its ability to continuously develop and manufacture new products and product enhancements and to introduce them into the market in response to demands for higher performance yield management and process monitoring systems. Failure to develop and introduce new products and product enhancements or to gain customers' acceptance of such products in a timely fashion could harm the Company's competitive position. Furthermore, due to the risks inherent in transitioning to new products, the Company must accurately forecast demand in both volume and configuration and also manage the transition from older products. If new products have reliability or quality problems, reduced orders, higher manufacturing costs, delays in collecting accounts receivable and additional service and warranty expense may result. In the past, the Company has experienced some reliability and quality problems in connection with product introductions, resulting in some of these consequences. For example, during fiscal 1993 and fiscal 1994 to date, delays in completing all features of the KLA 331 caused a decline in RAPID's business as many customers waited for the new model. Certain ease-of-use and performance enhancements to the KLA 331 which are yet to be completed will be required before some customers will order systems. The Company introduced several new products in fiscal 1993 and plans to have introduced several new products in fiscal 1994. 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.

COMPETITION AND RAPID TECHNOLOGICAL CHANGE

The semiconductor equipment industry is highly competitive and is characterized by rapidly advancing technology. In each of the markets it serves, the Company faces competition and the threat of competition

5

7

from established and potential competitors, some of which may have greater financial, engineering, manufacturing and marketing resources than the Company. Development of new technologies that have price/performance characteristics superior to the Company's technologies could adversely affect the Company's results of operations. There can be no assurance that the Company will be able to develop and market new products successfully or that the products introduced by others will not render the Company's products or technologies non-competitive or obsolete. In addition, there can be no assurance that developments in the semiconductor industry will occur at the rate or in the manner expected by the Company. See "Business -- Competition."

LIMITED PROTECTION OF INTELLECTUAL PROPERTY

The Company's success depends in part on its proprietary technology. While the Company attempts to protect its proprietary technology through patents, copyrights and trade secrets, it believes that its success will depend more upon technological expertise, continuing development of new systems, market penetration and installed base and the ability to provide comprehensive support and service to customers. There can be no assurance that the Company will be able to protect its technology or that competitors will not be able to develop

similar technology independently. The Company currently has a number of United States and foreign patents and patent applications. There can be no assurance that the claims allowed on any patents held by the Company will be sufficiently broad to protect the Company's technology, or that any patents will issue from any application pending or filed by the Company. In addition, there can be no assurance that any patents issued to the Company will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide competitive advantages to the Company.

The semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. In addition, the Company and its customers from time to time receive letters from third parties, including some of the Company's competitors, alleging infringement of such parties' rights by the Company's products. See "-- Notice of Patent Infringement Received by Customers." Such letters are prevalent in the Company's industry and there can be no assurance that the Company would prevail in any litigation seeking damages or expenses from the Company or to enjoin the Company from selling its products on the basis of such alleged infringement, or that the Company would be able to license any valid and infringed patents held by third parties on reasonable terms. In the event of litigation to determine the validity of any third-party claims, such litigation could result in significant expense to the Company or other adverse consequences to the Company and divert the efforts of the Company's technical and management personnel, whether or not such litigation is determined in favor of the Company.

NOTICE OF PATENT INFRINGEMENT RECEIVED BY CUSTOMERS

Some customers using certain products of the Company have received a notice of infringement from Technivision Corporation and Jerome H. Lemelson, alleging that equipment used in the manufacture of semiconductor products infringes patents issued to Mr. Lemelson relating to "computer image analysis" or "digital signal generation and analysis." Certain of these customers have notified the Company that they may seek indemnification from the Company for any damages and expenses resulting from this matter. Certain of the Company's customers are engaged in litigation with Mr. Lemelson involving a number of Mr. Lemelson's patents, and are challenging the validity of these patents and whether these patents are infringed. It is possible that the Company's direct participation in this litigation may be required. The Company is likely to incur costs if such participation is required. Although management of the Company believes that this matter will not have a material adverse effect on the Company, the Company cannot predict the outcome of this or similar litigation or its effect upon the Company.

DEPENDENCE ON JAPANESE MARKET

The future performance of the Company will be dependent, in part, upon its ability to continue to compete successfully in the Japanese market, one of the largest markets for yield management and process monitoring equipment. The Company's ability to compete in this market in the future is dependent upon continuing free trade between Japan and the United States in this industry, the continuing ability of the Company to develop products in a timely manner that meet the technical requirements of its Japanese customers, and the continuing ability of the Company and its Japanese distributor, TEL, to maintain satisfactory relationships with leading companies in the Japanese semiconductor industry. The Company's sales to Japan will also be affected by the overall health of the Japanese economy, which recently has been

6

8

experiencing a downturn. In addition, any adverse developments in the Company's relationship with TEL could adversely affect the Company's operating results. Over the last two years, the Company significantly increased its customer service organization in Japan in order to assume service and support responsibilities from TEL.

IMPORTANCE OF INTERNATIONAL SALES

International sales accounted for 60%, 57% and 62% of the Company's net sales for fiscal years 1991, 1992 and 1993, respectively. The Company expects that international sales will continue to represent a significant percentage of net sales. International sales and operations may be adversely affected by the imposition of governmental controls, export license requirements, restrictions on the export of technology, political instability, trade restrictions, changes in tariffs and difficulties in staffing and managing international operations. The net sales and earnings 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 in each case. These factors could

have a material adverse effect on the Company's future sales and operating results.

DEPENDENCE ON KEY EMPLOYEES

The future success of the Company is dependent, in part, on its ability to retain certain key personnel. The Company also needs to attract additional skilled personnel in all areas of its business to continue to grow. Competition for such personnel is intense. There can be no assurance that the Company will be able to retain its existing key management, engineering, and sales personnel or attract additional qualified employees in the future.

DEPENDENCE ON SUPPLIERS

Certain of the components and subassemblies included in the Company's systems are obtained from a single source or a limited group of suppliers. Although the Company seeks to reduce dependence on sole and limited source suppliers in some cases, the partial or complete loss of certain of these sources could have at least a temporary adverse effect on the Company's results of operations and damage customer relationships.

POTENTIAL VOLATILITY OF COMMON STOCK PRICE

The market price of the Common Stock could be subject to significant fluctuations in response to variations in quarterly operating results and other factors such as announcements of technological innovations or new products by the Company or by the Company's competitors, government regulations, developments in patent or other proprietary rights, and developments in the Company's relationships with parties to collaborative agreements. In addition, the stock market has in recent years experienced significant price fluctuations. These fluctuations often have been unrelated to the operating performance of the specific companies whose stocks are traded. Broad market fluctuations, as well as economic conditions generally and in the semiconductor industry specifically, may adversely affect the market price of the Company's Common Stock.

POTENTIAL ANTI-TAKEOVER EFFECTS

Certain provisions of the Company's stockholder rights plan, its Certificate of Incorporation and of Delaware law could discourage potential acquisition proposals and could delay or prevent a change in control of the Company. Such provisions could diminish the opportunities for a stockholder to participate in tender offers, including tender offers at a price above the then current market value of the Common Stock. Such provisions may also inhibit increases in the market price of the Common Stock that could result from takeover attempts. See "Description of Capital Stock." In addition, the Board of Directors has the authority to issue up to 1,000,000 shares of Preferred Stock and 1,000,000 shares of Junior Common Stock without any further vote or action by the stockholders. The issuance of Preferred Stock or Junior Common Stock may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the stockholders and could adversely affect the rights and powers, including voting rights, of the holders of Common Stock. Such effects could result in a decrease in the market price of the Company's Common Stock.

7

9

USE OF PROCEEDS

The net proceeds to be received by the Company from the sale of the Common Stock offered hereby are estimated to be \$50,800,000 (\$58,495,000 if the Underwriters' over-allotment option is exercised in full), assuming a public offering price of \$27.00 per share. The Company intends to use such net proceeds for general corporate purposes. In addition, the Company may use a portion of the net proceeds to acquire businesses, products or technologies complementary to the Company's current businesses, although it has no such commitments and no such acquisitions are currently being negotiated or planned. Pending such uses, the net proceeds of this offering will be invested in short-term, interest-bearing investments.

CAPITALIZATION

The following table sets forth the short-term debt and capitalization of the Company as of September 30, 1993, and as adjusted to give effect to the sale by the Company of 2,000,000 shares of Common Stock offered hereby at an assumed public offering price of \$27.00 per share.

(IN THOUSANDS)

<TABLE>
<CAPTION>

	AT SEPTEMBER 30, 1993	
	ACTUAL	AS ADJUSTED
<S>	<C>	<C>
Short-term notes payable to banks.....	\$ 2,627	\$ 2,627
Mortgage loan due August 1995.....	\$ 20,000	\$ 20,000
Stockholders' equity:		
Preferred Stock, \$0.001 par value, 1,000 shares authorized, none outstanding.....	--	--
Common Stock, \$0.001 par value, 75,000 shares authorized(1), 19,657 shares issued and outstanding, and 21,657 shares issued and outstanding, as adjusted.....	20	22
Capital in excess of par value.....	66,317	117,115
Retained earnings.....	54,253	54,253
Treasury stock.....	(581)	(581)
Cumulative translation adjustment.....	40	40
Total stockholders' equity:.....	120,049	170,849
Total capitalization.....	\$140,049	\$190,849

</TABLE>

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(1) Of the Common Stock authorized at September 30, 1993, 3,468,000 shares of Common Stock are reserved for issuance under the Company's stock option and employee stock purchase plans, including 2,568,000 outstanding Common Stock options at an average exercise price of \$7.90 per share.

PRICE RANGE OF COMMON STOCK

The Common Stock of KLA has been traded in the over-the-counter market under the symbol "KLAC" since KLA's initial public offering in October 1980. The following table sets forth the range of high and low closing sale prices for the Common Stock for the periods indicated, all as reported on The Nasdaq National Market.

<TABLE>
<CAPTION>

	PRICE RANGE OF COMMON STOCK	
	HIGH	LOW
<S>	<C>	<C>
YEAR ENDED JUNE 30, 1992		
First quarter.....	\$12 7/8	\$8 1/2
Second quarter.....	11 1/8	8 1/2
Third quarter.....	13 5/8	10 1/8
Fourth quarter.....	10 1/2	8 1/4
YEAR ENDED JUNE 30, 1993		
First quarter.....	9	7 1/8
Second quarter.....	12 1/4	7 3/4
Third quarter.....	14 3/4	10 5/8
Fourth quarter.....	19 1/2	11 1/4
YEAR ENDING JUNE 30, 1994		
First quarter.....	26 1/2	17
Second quarter.....	28	19
Third quarter (through January 5, 1994).....	27 3/4	27

</TABLE>

On January 5, 1994, the closing price of KLA Common Stock as reported on The Nasdaq National Market was \$27.00 per share. As of September 30, 1993, there were approximately 1,100 holders of record of the Common Stock.

KLA has never paid cash dividends on its Common Stock and does not anticipate paying cash dividends in the foreseeable future.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data presented below for, and as of the end of, each of the years in the five-year period ended June 30, 1993, have been derived from the consolidated financial statements of the Company, which have been audited by Price Waterhouse, independent accountants. The selected consolidated financial data presented below for each of the five fiscal quarters ended September 30, 1993, have been derived from unaudited interim financial information of the Company. In the opinion of management, the unaudited interim financial information has been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary to state fairly the information set forth therein. Such quarterly results are not necessarily indicative of future results of operations. This data should be read in conjunction with the consolidated financial statements, related notes and other financial information appearing elsewhere herein and incorporated by reference into this Prospectus.

(IN MILLIONS, EXCEPT PER SHARE DATA)

	YEARS ENDED JUNE 30,					QUARTERS ENDED SEPTEMBER 30,	
	1989	1990	1991	1992	1993	1992	1993
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Statement of Operations Data:							
Net sales.....	\$157.8	\$161.6	\$148.4	\$156.0	\$167.2	\$ 38.5	\$ 51.9
Gross profit.....	73.7	75.5	65.6	56.0	59.8	13.0	20.7
(% of net sales).....	46.7%	46.7%	44.2%	35.9%	35.7%	33.7%	40.0%
Engineering, research and development expense.....	23.4	26.3	27.1	25.9	16.3	4.0	4.9
(% of net sales).....	14.8%	16.2%	18.3%	16.6%	9.8%	10.4%	9.5%
Selling, general and administrative expense.....	28.3	31.5	33.5	35.5	32.7	7.5	9.9
(% of net sales).....	17.9%	19.5%	22.6%	22.8%	19.6%	19.5%	19.1%
Restructuring charges (recovery).....	--	--	--	8.2	(0.7)	--	--
Income (loss) from operations.....	22.0	17.7	5.0	(13.6)	11.5	1.5	5.9
(% of net sales).....	14.0%	11.0%	3.4%	(8.7%)	6.9%	3.8%	11.3%
Interest income and other, net.....	1.0	1.8	1.8	1.2	1.2	0.3	0.2
Interest expense.....	(1.0)	(0.6)	(3.3)	(3.9)	(3.4)	(1.0)	(0.5)
Income (loss) from continuing operations before income taxes.....	22.0	18.9	3.5	(16.3)	9.3	0.8	5.6
Provision for income taxes.....	8.0	6.7	1.1	0.3	2.3	0.2	1.4
Income (loss) from continuing operations.....	14.0	12.2	2.4	(16.6)	7.0	0.6	4.2
Discontinued operations:							
Loss from discontinued operations of PCB business, net of tax.....	(2.3)	(2.8)	(2.4)	--	--	--	--
Recovery of (provision for) loss on disposal of PCB business, net of tax.....	--	--	(10.6)	2.8	--	--	--
Net income (loss).....	\$ 11.7	\$ 9.4	\$(10.6)	\$(13.8)	\$ 7.0	\$ 0.6	\$ 4.2
Income (loss) per share from continuing operations.....	\$ 0.78	\$ 0.67	\$ 0.13	\$(0.90)	\$ 0.35	\$ 0.03	\$ 0.20
Net income (loss) per share.....	\$ 0.65	\$ 0.52	\$(0.57)	\$(0.75)	\$ 0.35	\$ 0.03	\$ 0.20
Weighted average common and dilutive common equivalent shares outstanding.....	17.9	18.0	18.6	18.5	19.7	18.9	20.8

SELECTED CONSOLIDATED FINANCIAL DATA-- (CONTINUED)
(IN MILLIONS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	AT JUNE 30,					AT
	1989	1990	1991	1992	1993	SEPT. 30, 1993
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance Sheet Data:						
Cash and cash equivalents.....	\$ 18.2	\$ 32.3	\$ 31.3	\$ 23.7	\$ 52.4	\$ 37.6
Working capital.....	84.2	99.2	91.1	84.0	93.6	101.4
Total assets.....	160.8	179.3	198.0	188.5	199.1	199.7
Notes payable and current portion of long-term debt.....	6.7	3.6	4.4	5.0	6.5	2.6
Long-term debt.....	--	--	24.0	24.0	20.0	20.0
Stockholders' equity.....	111.0	122.1	113.2	103.0	114.1	120.0

</TABLE>

<TABLE>
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	QUARTERS ENDED,				
	SEPT. 30, 1992	DEC. 31, 1992	MARCH 31, 1993	JUNE 30, 1993	SEPT. 30, 1993
<S>	<C>	<C>	<C>	<C>	<C>
Quarterly Statement of Operations Data:					
Net sales.....	\$ 38.5	\$38.7	\$42.2	\$ 47.9	\$51.9
Gross profit.....	13.0	13.6	15.6	17.6	20.7
Restructuring charges (recovery).....	--	(0.7)	--	--	--
Income (loss) from continuing operations.....	\$ 0.6	\$ 1.4	\$ 1.9	\$ 3.1	\$ 4.2
Income (loss) per share from continuing operations.....	\$ 0.03	\$0.07	\$0.10	\$ 0.15	\$0.20

</TABLE>

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

ANNUAL RESULTS OF OPERATIONS

Fiscal 1993 marked the beginning of a profit recovery at KLA. Development programs were finished or approached completion in the major operating business units. Bookings grew as customers were able to evaluate these new generations of products. Revenues and gross profits increased in each quarter throughout the year, despite high start-up costs which affected the gross margin percentage. The restructuring measures taken in fiscal 1992 were effective in reducing operating costs. As a result of the new product introductions, the reduction in the related engineering, research and development expenses, and tighter cost controls, the financial performance of the Company has begun a recovery which the Company believes will exceed previous achievements.

The new product introductions were widely anticipated, and the early customer evaluations were successful in generating new orders which were 19% higher than the prior year. The WISARD business unit's new 2100 family of process monitors was particularly well received in the semiconductor industry because the manufacturers were able to increase their production yields by using these systems. During the year, many customers increased the number of units employed per fabrication facility. This strength in new orders for the KLA 2100, aided by the demand for the higher priced KLA 2130, was the primary reason for the substantial increase in backlog from \$35 million at June 30, 1992 to \$52 million at June 30, 1993.

Sales increased 7% to \$167 million in fiscal 1993 compared with a 5% increase and an 8% decrease in fiscal 1992 and 1991, respectively. The sales increase in fiscal 1993 was primarily attributable to the KLA 2100 series, but metrology and prober sales were also higher than the previous year, offsetting declines in the RAPID business unit. During fiscal 1993 RAPID switched from the previous KLA 210 series to the new KLA 331 series of reticle inspection equipment. Delays in completing all features of the new product caused a decline in RAPID's business as many customers waited for the new model. RAPID's business also was affected by lower industry spending levels in fiscal 1993. The increase

from a significant increase in unit shipments at the WISARD business unit as a result of the successful introduction of several new products; these increases were partially offset by a decline in sales in the RAPID business unit. The sales decline in fiscal 1991 was largely caused by the product changeover at WISARD from the older KLA 2020 family to the newer KLA 2100 family.

International sales have averaged about 60% of sales for several years. The actual percentages were 60%, 57% and 62% in fiscal years 1991, 1992 and 1993, respectively. The higher international percent in fiscal 1993 occurred because KLA's Korean business was very strong, partially offset by some weakness in Japan. The lower proportion of international sales in fiscal 1992 occurred because the U.S. semiconductor industry recovery was beginning and Japan was beginning to slow.

Gross margins were significantly below the Company's historical levels during both fiscal years 1992 and 1993. The Company's gross margin for each of these years was 36% compared with 44% in fiscal 1991. The margins in both fiscal years 1992 and 1993 were adversely affected by new product introductions. In fiscal 1992, it was the introduction and ramp-up of the first models of the 2100 series. In fiscal 1993, it was the changeover and introduction of the KLA 331 which reduced the gross margins. Normally, new product introductions require the change of certain, but not all, of the subsystems. However, in each of these cases, the products' changeovers involved complete changes in the chassis, the system architecture, and every subsystem. This was the first time in the Company's history that such complete changeovers were implemented. These changeovers involved a high degree of scrap, rework, extra costs and start-up costs on a scale which would not usually be the case in a normal new product introduction. Gross margins during the last two years also were affected by the unusually high costs of providing service in Japan during the long transition of the responsibilities of those services to KLA from the Company's distributor. As these product and service transitions are completed, the Company expects a gradual improvement in gross margin percentages during the next fiscal year.

Engineering, research and development costs declined sharply in fiscal 1993 compared with the prior years. This decline was the natural result of completing the development programs described above. In order to complete these programs in time for the present industry expansion, KLA had stepped up engineering, research and development spending to \$32 million and \$33 million, or 22% and 21% of sales in fiscal 1991 and 1992, respectively. However, with the winding down of the intensive part of these programs, the spending dropped to \$24 million, or 14% of sales, in fiscal 1993.

KLA typically receives some external funding from customers, from industry groups, and from government sources to augment its engineering, research and development efforts. In addition, KLA capitalizes some software development costs. Although the timing and the level of these external funds cannot be predicted, the level of such funding and capitalization has been approximately 4% of sales for each of the last three years. The Company reports engineering, research and development expense net of this funding and capitalization. Thus, recorded amounts for engineering, research and development expense were 18%, 17% and 10% of sales in fiscal 1991, 1992 and 1993, respectively.

Selling, general and administrative costs were 23%, 23% and 20% of sales in fiscal years 1991, 1992 and 1993, respectively. The reduction in fiscal 1993 resulted from the restructuring actions and the reduction in head count taken at the end of fiscal 1992. The increase in absolute dollars during fiscal 1992 was due to higher commissions worldwide and compensation costs in Japan as staffing increased in anticipation of taking over field service from the Company's Japanese distributor.

Interest expense decreased in fiscal 1993 as compared to fiscal 1992 due to the combination of lower interest rates and the reduction of notes payable. Interest expense increased in fiscal 1992 largely due to the addition of \$24 million in mortgages in August 1990 to finance the acquisition of the Company's principal facility.

Effective July 1, 1992, the Company adopted Statement of Financial Accounting Standards No. 109 (FAS 109) "Accounting for Income Taxes." The adoption of FAS 109 changes the Company's method of accounting for income taxes from the deferred method (APB 11) to an asset and liability approach. Previously, the Company deferred the tax effects of timing differences between financial reporting and taxable

income. The asset and liability approach requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of other assets and liabilities. Adoption of FAS 109 did not have a significant effect on the consolidated financial statements.

The deferred tax assets valuation allowance at both July 1, 1992 and June 30, 1993 is attributed to U.S. federal and state deferred tax assets. Management believes sufficient uncertainty exists regarding the realizability of these items such that a full valuation allowance has been recorded at both the beginning and end of the year. During fiscal 1993, the Company realized \$0.4 million of deferred tax assets reserved at the beginning of the year, reducing the valuation allowance by a corresponding amount. In accordance with FAS 109, the valuation allowance is allocated pro rata to federal and state current and non-current deferred tax assets. Net deferred tax liabilities at July 1, 1992 and June 30, 1993 relate principally to foreign operations.

The provision for income taxes on pretax income (loss) from continuing operations was 31%, 2% and 25% in fiscal 1991, 1992 and 1993, respectively. In fiscal 1993, the income tax rate was lower than the statutory U.S. tax rate primarily as a result of tax holidays in certain foreign countries which resulted in lower net foreign tax rates, and to a lesser extent, the realization of deferred tax assets previously reserved. In fiscal 1992, the income tax provision of 2% on pretax loss was due primarily to limited loss carryback availability in the United States, combined with the effect of foreign income taxes on the Company's European and Asian operations.

FIRST QUARTER RESULTS OF OPERATIONS

Net sales rose 35% in the first quarter of fiscal 1994 compared to the year-earlier period. All product divisions recorded increases in sales. The largest increase was in the WISARD business unit where unit volumes rose based on strong demand for 2100 series products for in-line monitoring. RAPID and ATS also recorded sales increases, partially offset by a small decrease in field service revenues.

Gross margin was 40% in the first quarter of fiscal 1994 versus 34% in the comparable year-earlier period. This improvement was attributable to a rise in gross margin in the WISARD business unit where efficiencies were realized as unit volumes rose and the production process became increasingly stable. Improvement in manufacturing efficiencies in the RAPID product line also contributed to the higher gross margin.

Engineering, research and development expenses were 9.5% of net sales in the first quarter of fiscal 1994 versus 10.4% in the year-earlier period. Total engineering expenditures in the first quarter of fiscal 1994 were about equal to such expenditures for the year-earlier period, however, the amounts of external customer funding and of capitalized software were less than the corresponding amounts in the year-earlier period.

Selling, general and administrative expenses were 19.1% of net sales in the first quarter of fiscal 1994 versus 19.5% in the prior year's comparable quarter. Spending rose primarily in the applications engineering and marketing areas, but this was matched by a comparable percentage increase in net sales.

The 25% effective tax rate for the first quarters of both fiscal 1993 and 1994 results from income in foreign jurisdictions having a lower than U.S. tax rate, and from realization of deferred tax assets previously reserved.

RESTRUCTURING CHARGE AND DISCONTINUED OPERATIONS

In fiscal 1992, the Company recorded an \$8.2 million restructuring charge as a result of downsizing its work force and eliminating one corporate facility, as well as redefining certain product strategies, including discontinuing the emission microscope product (EMMI) line. During the second quarter of fiscal 1993, the Company sold the EMMI product line and realized a recovery of \$0.7 million of the provision recorded in fiscal 1992.

In fiscal 1991, the Company decided to divest its printed circuit board (PCB) inspection business and recorded a \$15 million pretax charge as a result. In fiscal 1992, the Company entered into an agreement to sell

substantially all of the assets and related technology of the PCB business for approximately \$4.3 million plus future royalties, resulting in a \$2.8 million

recovery of the fiscal 1991 provision. The Company's statement of operations segregates the PCB business from continuing operations.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased 121% or \$29 million in fiscal 1993. The Company generated \$30 million of cash from continuing operations in fiscal 1993, including \$6 million from inventory decreases, \$7 million from net income, and \$10 million from depreciation and amortization. Cash and cash equivalents decreased by \$15 million in the first quarter of fiscal 1994. This decrease was attributable primarily to an increase in accounts receivable of \$16.8 million in the first quarter of fiscal 1994.

Capital expenditures totaled approximately \$3 million in 1993. The Company expects capital expenditures in fiscal 1994 to be less than depreciation and amortization charges. Sales of the Company's Common Stock through stock plans generated \$6 million of cash in fiscal 1993.

The Company currently has a \$15 million multicurrency line of credit through March 31, 1994. Borrowings under this line of credit were \$1.5 million at September 30, 1993. The Company's operations worldwide borrow under this line of credit from time to time for short-term cash management purposes. In addition, certain of the Company's foreign subsidiaries had local currency borrowings of approximately \$1.1 million at September 30, 1993. The Company repaid a \$4 million mortgage in August 1993. The Company also has a \$20 million mortgage loan which is due in August 1995; effective August 1993, the interest rate on the \$20 million mortgage loan was reduced from 10.3% to 5.4%.

The Company believes that its existing capital resources are adequate to fund the Company's operations through at least fiscal 1995.

BUSINESS RISKS AND UNCERTAINTIES

The Company's future results will depend on its ability to continuously introduce new products and enhancements to its customers as demands for higher performance yield management and process control systems change or increase. Due to the risks inherent in transitioning to new products, the Company must accurately forecast demand in both volume and configuration and also manage the transition from older products. The Company's results could be affected by the ability of competitors to introduce new products which have technological and/or pricing advantages. The Company's results also will be affected by strategic decisions made by management regarding whether to continue particular product lines, and by volume, mix and timing of orders received during a period, fluctuations in foreign exchange rates, and changing conditions in both the semiconductor industry and key semiconductor markets around the world. As a result, the Company's operating results may fluctuate, especially when measured on a quarterly basis.

14

16

BUSINESS

INTRODUCTION

KLA is the leader in the design, manufacture, marketing and service of yield management and process monitoring systems for the semiconductor industry. KLA believes that it is the world's largest supplier to the wafer and reticle inspection equipment markets. The Company sells to virtually all of the world's semiconductor manufacturers and has achieved very high market shares in its principal businesses. KLA's systems are used to analyze product and process quality at critical steps in the manufacture of integrated circuits, providing feedback so that fabrication problems can be identified, addressed and contained. This understanding of defect sources and how to contain them enables semiconductor manufacturers to increase yields. Quickly attaining and then maintaining high yields is one of the most important determinants of profitability in the semiconductor industry. The Company believes that its customers typically experience rapid paybacks on their investments in the Company's systems.

The growing complexity of semiconductor devices, including shrinking feature dimensions, has substantially increased the cost to manufacture semiconductors, making yield loss more expensive. This trend has increased semiconductor manufacturers' demand for systems which permit the detection and containment of process problems. The sensitivity of fabrication yields to defect densities increases as devices become more complex. Further, the escalating capital investments necessary for the construction of semiconductor fabrication facilities heighten manufacturers' need for yield enhancing systems which can leverage their returns on these investments.

Several years ago, the Company recognized the industry's need for in-line monitoring to provide real-time process management capability. In response, the Company devoted substantial resources to developing systems with the throughput, reliability and associated data analysis capabilities for in-process inspection. During the past year, customers' use of the Company's wafer inspection systems began evolving from single system, off-line engineering analysis applications to multiple systems monitoring critical steps directly on advanced fabrication lines. Positive customer evaluation of the Company's in-line production monitoring systems led to record order levels for the Company's 1993 fiscal year and its 1994 fiscal year to date. The Company believes that the potential market for in-line monitoring systems is several times larger than its traditional market for engineering analysis systems.

YIELD MANAGEMENT

Maximizing yields, or the number of good die per wafer, is a key goal of modern semiconductor manufacturing. Higher yields increase the revenue a manufacturer can obtain for each semiconductor wafer processed. As line width geometries decrease, yields become more sensitive to the size and density of defects. For example, an average of 0.1 fatal defects per square centimeter will allow a yield of 60% for a 4 Mbit DRAM, but only 5% for a 64 Mbit DRAM. Semiconductor manufacturers use yield management and process monitoring systems to improve yields by identifying defects, by analyzing them to determine process problems, and, after corrective action has been taken, by monitoring subsequent results to ensure that the problem has been contained. Monitoring and analysis may take place at many points in the fabrication process as wafers move through a production cycle consisting of hundreds of separate process steps.

Semiconductor factories are increasingly expensive to build and equip. The Company believes that the average cost of building and equipping a new semiconductor factory increased several fold over the last few years and that the next generation of factories is expected to cost \$1 billion or more. Yield management and process monitoring systems, which typically represent a fraction of the total investment required to build and equip a fabrication facility, enable integrated circuit manufacturers to leverage these expensive facilities and improve their returns on investment.

The most significant opportunities for yield improvement generally occur when production is started at new factories and when new products are first built. Equipment that helps a manufacturer to increase yields quickly when products are new enables the manufacturer to offer products in volume at the time when they are likely to generate the greatest profits.

15

17

The following are some of the methods used to manage yield; they all require the capture and analysis of data gathered through many measurements:

- Engineering analysis is performed off the manufacturing line to identify and analyze defect sources. Engineering analysis equipment operates with very high sensitivity to enable comprehensive analysis of reticles and wafers. Because they operate off-line, engineering analysis systems do not require high speeds of operation.

- In-line monitoring is used to review the status of circuits during production steps. Information generated is used to determine whether the fabrication process steps are within required tolerances and to make any necessary process adjustments in real time before wafer lots move to subsequent process stations. Because the information is needed quickly to be of greatest value, in-line monitoring requires both high throughput and high sensitivity.

- Pass/fail tests are used at several steps in the manufacturing process to evaluate products. For example, a pass/fail test is used to determine whether reticles used in photolithography are defect-free; electrical pass/fail testing is performed at the end of the manufacturing process to determine whether products meet performance specifications.

KLA STRATEGY

KLA is the premier supplier of yield management and process monitoring systems to the semiconductor manufacturing industry. Key elements of KLA's strategy are as follows:

- Leadership in Yield Management. The Company believes that yield management requires both the ability to identify defects and the ability to use defect data: (i) to recognize patterns which reveal process problems; and (ii) to resolve and contain process flaws which are causing reduced

yields. The Company has developed yield management solutions that consist of sophisticated defect detection sensors located at key steps in the production process, as well as analysis stations with relational database software that enable isolation of defect sources, identification of problem causes and implementation of corrective action.

The Company believes that its world-wide organization of more than 30 applications engineers provides an important competitive advantage. These applications engineers serve as yield management consultants to the Company's customers, assisting in applying KLA's systems to accelerate yield improvement and achieve real-time process control.

- Development of In-Line Monitoring Market. KLA has introduced a family of wafer inspection systems with the wafer throughput and sensitivity necessary for in-line monitoring. Prior to the introduction of KLA's 2100 series, no suppliers' products were capable of both the speed and the sensitivity needed for in-line inspection for all defect types at critical process steps. In-line inspection is a critical yield enhancement and cost reduction technique because it allows defect detection in real time rather than waiting until after final test results become available to discover problems that have a significant yield impact. As a result of these advantages, the Company believes that its customers will install multiple systems directly monitoring critical steps in the integrated circuit manufacturing process.

- Technology Leadership. The Company believes that it is the technological leader in integrated circuit yield management and process control monitoring. To maintain its leadership position, KLA is committed to state-of-the-art multidisciplinary technologies. See "--- Technology."

The Company's long range objective is to develop an integrated yield management network which spans the semiconductor fabrication process.

16

18

YIELD MANAGEMENT AND PROCESS MONITORING SYSTEMS

KLA's systems are developed to work together to offer its customers not just tools, but integrated yield management solutions. KLA offers inspection systems for key steps in the semiconductor manufacturing process and analysis systems comprised of database management hardware and software to translate raw inspection data into patterns which reveal process problems. The Company's wafer inspection and metrology systems are used for engineering analysis and in-line monitoring, and its reticle inspection systems and wafer probers are used for pass/fail tests.

WISARD -- WAFER INSPECTION SYSTEMS. KLA's WISARD business unit created the market for automated inspection of semiconductor wafers with the introduction of the KLA 2000 series over nine years ago. KLA continues to have a predominant market share with its current generation of wafer inspection systems, the 2100 series. KLA has on order or installed approximately 140 of the 2100 series systems since it shipped the first systems three years ago.

KLA's 2100 series, combined with a dedicated defect data gathering and analysis workstation, the KLA 2550, and an off-line Review Station, the KLA 2608, provide semiconductor manufacturers with a yield management system sensitive enough for engineering analysis and fast enough for in-line monitoring of the semiconductor manufacturing process. The 2100 series of inspection systems offers an increase in inspection speed of up to 2,000 times over that of KLA's original wafer inspection system. This marked increase in speed and sensitivity allows customers to obtain very prompt feedback on process status by placing wafer inspection systems on the production line.

The selection of the technology architecture for the 2100 series was made to allow the base unit to support a family of products capable of performance enhancements through upgrades of various subsystems. The first model, the KLA 2110, was introduced in 1991 with sufficient speed and sensitivity to enable in-line inspection of repeating arrays typical in memory devices. One year later, in 1992, KLA introduced a new repeating array model, the KLA 2111, which operates at up to five times the speed of the KLA 2110 and has improved sensitivity.

Shortly thereafter in 1992, KLA introduced the KLA 2130 which is capable of "all pattern" inspection required for microprocessors and other logic devices as well as both the logic and repeating array portions of memory devices. In late 1993, KLA introduced the new KLA 2131 model for all pattern inspection which operates at up to twice the speed of the KLA 2130 and with higher sensitivity. The Company believes that there are further opportunities to expand the 2100

series family of systems and has several new models under development.

To manage defect data, KLA offers the KLA 2551 Analysis Station, a multi-user work station using a relational database for storing defect coordinates and digitized images. Defect analysis and image review operates through a Windows(TM)-based interface. The KLA 2551 incorporates an open architecture which consolidates data from inspection systems, review stations, wafer sort electrical testers, host computers, and scanning electron microscopes (SEMs). The data analysis software provides statistical process control reports, defect source analysis, and automated correlation of in-line process defects to bit failures. The graphical software combines both data and images to produce wafer maps, trend charts, and video review. When coupled with an optional remote terminal, the KLA 2551 permits process engineers in remote locations to link to the database of defect records and images to perform further analyses or compare data from different wafer fabrication facilities.

The KLA 2608 Review Station provides a platform for reviewing and classifying defects detected on KLA and non-KLA wafer inspection systems. An operator may append classification codes to the defect record, a record which also includes wafer number, die coordinates, defect location, and defect size.

The average selling prices of KLA's 2100 series of wafer inspection systems range from approximately \$1 million to approximately \$2 million.

RAPID -- RETICLE INSPECTION SYSTEMS. RAPID, KLA's first business unit, created the market for automated inspection of reticles and photomasks for the semiconductor manufacturing industry over 15 years

17

19

ago, and continues to have a predominant market share. KLA has delivered over 700 reticle and photomask inspection systems worldwide.

During photolithography, a stepper projects a circuit pattern from a reticle onto a wafer. Error-free reticles are the first step in ensuring high yields in the manufacturing process because defects in reticles can translate into millions of ruined die.

In 1992, KLA introduced its new generation of reticle inspection systems, the 300 series. The new KLA 301 Reticle Inspection System and the KLA 30 Reference Data Computer together form the KLA 331 Inspection System which represents a major advance in speed, sensitivity and flexibility. The KLA 331 offers the highest inspection sensitivity available in the marketplace, which the Company believes is vital to meet reticle inspection requirements for today's more complex microprocessors and larger DRAMs. To maintain throughput while inspecting at such high sensitivity, a fully configured KLA 331-4 incorporates a proprietary parallel image processing computer running at up to 72 billion instructions per second (72,000 MIPS).

This dedicated image processor employs a flexible system architecture which permits future upgrades and enhancements through software, rather than hardware changes. Further, the KLA 331's optics include a rotating telescope turret to provide three sensitivities in one system. The KLA 331 offers flexibility for users who need a versatile inspection system to address the inspection needs of both the most demanding and the more routine semiconductor manufacturing processes. Users may select lower sensitivity inspections in return for higher throughput.

The KLA 331 incorporates a reference database generator and data preparation system which gives full die-to-database functionality to the inspection, permitting reticle inspection against the ideal schematic as specified by the user's circuit design CAD program. In addition, to meet customers' production throughput requirements, the KLA 331 may be equipped with a variety of options to provide automatic set-up, unattended inspection, and categorized results storage.

During fiscal 1993 and fiscal 1994 to date, delays in completing all features of the KLA 331 systems caused a decline in RAPID's business as many customers waited for the new model. Certain ease-of-use and performance enhancements to the KLA 331 which are yet to be completed will be required before some customers will order systems.

The average selling prices of KLA's 331 inspection systems range from approximately \$1.7 million to approximately \$2.6 million.

METROLOGY -- OVERLAY INSPECTION AND CRITICAL DIMENSION MEASUREMENT SYSTEMS. Lithography for sub-micron semiconductor fabrication requires increasingly stringent overlay registration and critical dimension tolerances.

In particular, decreasing line widths, larger die sizes, and additional layers have made overlay registration errors a crucial cause of yield loss. To address these challenges, KLA offers the KLA 5000 series metrology systems: the 5011 for overlay registration; and the 5015 for both overlay registration and critical dimension measurement. KLA estimates that during its fiscal 1993 and its fiscal 1994 to date, it had the leading share in the worldwide market for overlay registration systems.

The KLA 5000 series uses a patented coherence probe microscopy technology which permits fast autofocus and precision critical dimension measurements. Applying its expertise in digital image processing, KLA has developed sophisticated algorithms for process-tolerant measurement. With coherence probe microscopy, the system scans the image-forming coherence region through the wafer plane, only gathering information from in-focus surfaces. As a result, measurements are more tolerant of process and substrate reflectivity variations than those from ordinary optical systems.

The precision measurements from the KLA 5000 series identify the magnitude and direction of overlay registration errors arising from the stepping process and from optical distortion inherent in the stepper lens. Based upon these measurements, users can fine-tune the stepper program to compensate for process errors.

The average selling prices of KLA's metrology systems for the semiconductor industry range from approximately \$300,000 to approximately \$550,000.

18

20

The disk drive manufacturing industry is an emerging market for KLA's metrology systems. Disk drive manufacturers use a semiconductor photolithography process to produce thin film heads. The Company's coherence probe technology is particularly well-suited to handle the complex topography characteristics encountered in the thin film head process. The Company believes that its solution to these requirements has allowed it to achieve the major share of the thin film head metrology market.

WAFER PROBING SYSTEMS. The ATS division sells and services a family of automated wafer probers and network controllers which position individual semiconductor devices still in wafer form under electrical test probes. The probers work in conjunction with electronic parametric and functional testers to perform fully automated tests of the performance of completed die before the wafers are diced and packaged. The electrical test procedure also identifies failed die, classifies die by performance and generates a database of test results for use in process control.

KLA develops, manufactures and markets these products in cooperation with TEL. KLA develops and manufactures the prober's image processing electronics and optical subsystems. TEL manufactures the prober's mechanical chassis and incorporates the KLA electronics and subsystems. The ATS division sells the integrated prober systems in the United States and Europe with its own control software and custom interfaces. TEL sells and services the integrated prober systems in Japan and the rest of Asia.

To enable multiple probers on the test floor to communicate with each other and with the customer's host computer, ATS developed the KLA Navigator network software ("Navigator"). Navigator increases test floor efficiency by enabling off-line set-up and editing of prober operations as well as by providing data analysis and network communications. Navigator uses test results to generate real-time reports of yields for each lot and to provide analysis which augments the results of wafer defect and metrology inspections to identify process problems.

The WATCHER division develops the image processing subsystems used in ATS' and TEL's wafer prober systems. This image processing computer performs a number of steps: (i) optical character recognition (OCR) to identify the wafer; (ii) precise wafer alignment and positioning to the probe head; and (iii) probe process inspection to monitor prober performance.

The average selling prices of KLA's basic wafer prober systems range from approximately \$150,000 to approximately \$350,000.

SEMSPEC -- SCANNING ELECTRON MICROSCOPE INSPECTION SYSTEMS. As feature sizes of semiconductor circuits continue to decrease for leading edge semiconductor products, the Company believes that conventional optical technologies ultimately will begin to reach physical limits imposed by the wavelength of light and fail to provide the necessary inspection resolution. Working closely with those customers with the most advanced inspection requirements, KLA has developed the world's only fully automatic electron beam

inspection systems. These systems, comprised of the world's fastest scanning electron-optical column and a high speed image computer, are used for reticle and wafer inspection. The development of these systems was funded in part by customer-sponsored research and development programs. KLA has sold four of these systems to customers. KLA expects the market for these inspection systems to emerge slowly.

KLA ACROTEC LTD. The Company has an 8% equity investment, with an option to purchase a controlling interest, in KLA Acrotec, a Japanese company that develops optical systems that inspect flat panel displays utilizing technology developed by the Company. The Company has a research and development agreement with KLA Acrotec to provide research, development and engineering, on a best efforts cost reimbursement basis. In addition, the Company temporarily manufactures for KLA Acrotec on a contract basis. The Company believes that KLA Acrotec is the leading supplier of flat screen inspection systems.

CUSTOMERS

The Company believes that it is one of the few suppliers which sells its systems to virtually all of the world's semiconductor manufacturers. In fiscal 1991 and 1992, no single customer accounted for more than 10% of the Company's revenues. During fiscal 1993, Motorola accounted for approximately 11% of the Company's revenues.

19

21

Set forth below is a list of some of the Company's customers:

AMD
AT&T
Bosch
Canon
Cypress
Digital Equipment
DNP Micro
Du Pont
Fujitsu
Goldstar
Hewlett-Packard
Hitachi
Hoya
Hyundai
IBM
IDT
Intel
Matsushita
Micron
Mitsubishi
Motorola
National Semiconductor
NEC
NKK
Nippon Denso
NTT
Oki
Photronics
Ricoh
Rockwell
Rohm
Samsung
STM
Sharp
Siemens
Sony
TEL
Texas Instruments
Toppan
Toshiba
TSMC
UMC

SALES, SERVICE AND MARKETING

The Company sells products through a combination of direct sales and distribution channels. The Company believes that the size and location of its field sales, service and applications engineering organization represents a significant competitive advantage in its served markets. In the United States and Europe, the Company has a direct sales force located in major geographical

markets. Sales, service and applications facilities throughout the world employ over 350 sales, service and applications engineers.

In Japan, the Company sells systems for the semiconductor market through TEL, the leading distributor of semiconductor equipment in Japan. TEL has been the Company's distributor to the Japanese semiconductor market since 1978. The sales effort in Japan is supported by KLA Japan, which provides marketing, applications support, technical support and service to Japanese customers. Over the last two years, the Company significantly increased its customer service organization in Japan in order to assume service and support responsibilities from TEL. KLA Japan has approximately 75 local employees and occupies facilities at Tachikawa and Osaka.

In Korea and Taiwan, the Company sells its systems through local sales representatives. The sales, service and applications activities are supported by approximately 20 Korean employees and by approximately 10 Taiwanese employees in the respective countries.

TECHNOLOGY

KLA's inspection and metrology systems precisely capture trillions of features on wafers and reticles that are as small as 10 millionths of an inch on a side and analyze each of these features for possible defects through the use of the following technologies:

Image Acquisition. KLA's systems acquire images of sub-micron features on wafers and reticles. The quality and brightness of the images greatly influence the speed and sensitivity of the final inspection system. KLA has developed a wide range of optical imaging systems, such as laser scanners, interference microscope systems, and conventional white light and deep UV optical systems. To satisfy the future sensitivity requirements of X-ray lithography, KLA has already developed an electron beam system which incorporates the world's fastest scanning electron-optical column.

Image Conversion. The Company's equipment converts the photon or electron image to an electronic digital format. KLA has pioneered the use of time-delay-integration sensors that convert as many as 100 million pixels (points of light) to 256 gray scale images each second. KLA also utilizes other image conversion technologies such as avalanche diode detectors, photo multiplier systems, and fixed frame pickups.

Precision Mechanics. In the most common configuration of an inspection system, the reticle or the wafer is moved at a constant speed through the field of the imaging system. Since areas of interest are as small

20

22

as 5 millionths of an inch, and vibrations in the scanning system of one-tenth of the area of interest can degrade system performance, the mechanical stage must be extremely smooth and precise. To address these requirements, KLA has eight years experience in the design and manufacture of air-bearing linear drive stages.

Proprietary Algorithms. To perform the inspection or measurement task, the Company's equipment examines the properties of the digitized images using a set of logical steps (algorithms) which measure the desired image property. KLA's engineers develop sets of algorithms that are specifically tailored to obtain optimum performance for its wafer, reticle and metrology systems. These algorithms are largely responsible for the state-of-the-art performance of KLA's systems.

Image Computers. The combination of proprietary algorithms and special purpose computers allows KLA's equipment to have a high performance to cost ratio. While general purpose computers are capable of executing KLA's algorithms, very few computer architectures can sustain the computing speed that is required in KLA's systems (as high as 72,000 MIPS). To address this requirement, KLA develops and builds special purpose image computers designed to execute its algorithms.

Database Analysis. Many of the inspections that KLA systems perform require a digital representation of the aerial image from the circuit design data. This capability allows inspection systems to compare the actual circuit with its design specifications. KLA has been developing database systems for over 14 years to satisfy this objective. Its present generation of special purpose database computers is capable of generating simulated images at the same high speeds at which KLA's image conversion systems generate the digital image from the actual image.

Statistical Process Control. Integrated circuit yield management and process monitoring systems generate hundreds of thousands of data items each day. To enhance the utility of these data, KLA has a team of software engineers who build systems containing statistical process control software to simplify data and present these data in a useful manner. KLA is continuing to work on new software, including expert systems, to enhance its statistical process control systems.

RESEARCH AND DEVELOPMENT

The market for yield management and process monitoring systems is characterized by rapid technological development and product innovation. The Company believes that continued and timely development of new products and enhancements to existing products are necessary to maintain its competitive position. Accordingly, the Company devotes a significant portion of its personnel and financial resources to research and development programs and seeks to maintain close relationships with customers to remain responsive to their needs.

Engineering, research and development costs declined sharply in fiscal 1993 compared with prior years. This decline was the result of completing the development programs required for the introduction of the 2100 series and 300 series of products, which for the first time in the Company's history involved complete changes in the chassis, system architecture and every subsystem. See "-- Yield Management and Process Monitoring Systems." In order to complete these programs in time for the present industry expansion, KLA had stepped up engineering, research and development spending to \$32 million and \$33 million, or 22% and 21% of sales in fiscal 1991 and 1992, respectively. However, with the winding down of the intensive part of these programs, engineering, research and development expenditures dropped to \$24 million, or 14% of sales, in fiscal 1993.

KLA typically receives some external funding from customers, from industry groups, and from government sources to augment its engineering, research and development efforts. In addition, KLA capitalizes some software development costs. Although the timing and the level of these external funds cannot be predicted, the level of such funding and capitalization has been approximately 4% of sales for each of the last three years. The Company reports engineering, research and development expense net of this funding and capitalization. Thus, recorded amounts for engineering, research and development expense were 18%, 17% and 10% of sales in fiscal 1991, 1992 and 1993, respectively.

21

23

MANUFACTURING

The Company's principal manufacturing activities take place in San Jose, California; Bevaix, Switzerland; and Migdal Ha'Emek, Israel; and consist primarily of assembling and testing components and subassemblies which are acquired from third party vendors and then integrated into the Company's finished products. During fiscal 1993, KLA streamlined its manufacturing process to increase the flexibility of its manufacturing resources and to reduce the manufacturing cycle time for inspection systems. During fiscal 1993 the Company vacated its former WISARD manufacturing building in order to consolidate WISARD and RAPID manufacturing operations in the Company's San Jose headquarters. Through this consolidation, the two business groups now share clean room space, assembly and test personnel, and inventory management resources. The Company has the ability to increase manufacturing volumes by adding additional shifts before significant capital investments in clean room space or tooling would be required. The Company is also cross-training personnel, so that it can respond to changes in product mix by reallocating personnel rather than by additional hiring.

During this same period, the Company has been working with key vendors to improve inventory management. Volume purchase agreements and just-in-time delivery schedules have reduced both inventory levels and costs. The Company's manufacturing engineers, in conjunction with key vendors, are improving the manufacturability and reliability of the new wafer and reticle inspection systems.

Many of the components and subassemblies are standard products, although certain items are made to Company specifications. Certain of the components and subassemblies included in the Company's systems are obtained from a single source or a limited group of suppliers. Those parts subject to single or limited source supply are routinely monitored by management and the Company endeavors to ensure that adequate supplies are available to maintain manufacturing schedules, should supply for any part be interrupted. Although the Company seeks to reduce its dependence on sole and limited source suppliers in some cases, the partial

or complete loss of certain of these sources could have at least a temporary adverse effect on the Company's results of operations and damage customer relationships.

COMPETITION

The market for yield management and process control systems is highly competitive. In each of the markets it serves the Company faces competition from established and potential competitors, some of which may have greater financial, engineering, manufacturing and marketing resources than the Company. Significant competitive factors in the market for yield management and process control systems include system performance, ease of use, reliability, installed base and technical service and support.

The Company believes that, while price and delivery are important competitive factors, customers' overriding requirement is for systems which easily and effectively incorporate automated, highly accurate inspection capabilities into their existing manufacturing processes, thereby enhancing productivity. The Company's yield management and process control systems for the semiconductor industry are generally higher priced than those of its present competitors and are intended to compete based upon performance and technical capabilities. These systems also compete with less expensive, more labor-intensive manual inspection devices.

The Company's wafer and reticle inspection systems have a predominant share of their markets. The Company is the leading provider of overlay registration systems. The Company believes it is the second largest supplier of wafer prober systems in the U.S. and Europe.

Many of the Company's competitors are investing in the development of new products aimed at applications currently served by the Company. The Company's competitors in each product area can be expected to continue to improve the design and performance of their products and to introduce new products with competitive price/performance characteristics. Competitive pressures often necessitate price reductions which can adversely affect operating results. Although the Company believes that it has certain technical and other advantages over its competitors, maintaining such advantages will require a continued high level of investment by the Company in research and development and sales and marketing. There can be no assurance

22

24

that the Company will have sufficient resources to continue to make such investments or that the Company will be able to make the technological advances necessary to maintain these competitive advantages.

The yield management and process control industry is characterized by rapidly changing technology and a high rate of technological obsolescence. Development of new technologies that have price/performance characteristics superior to the Company's technologies could adversely affect the Company's results of operations. In order to remain competitive, the Company believes that it will be necessary to expend substantial effort on continuing product improvement and new product development. There can be no assurance that the Company will be able to develop and market new products successfully or that the products introduced by others will not render the Company's products or technologies non-competitive or obsolete.

PATENTS AND OTHER PROPRIETARY RIGHTS

The Company believes that, due to the rapid pace of innovation within the yield management and process control systems industry, the Company's protection of patent and other intellectual property rights is less important than factors such as its technological expertise, continuing development of new systems, market penetration and installed base and the ability to provide comprehensive support and service to customers.

The Company protects its proprietary technology through a variety of intellectual property laws including patents, copyrights and trade secrets. The Company's source code is protected as a trade secret and as an unpublished copyright work. The Company has a number of United States and foreign patents and patent applications. The Company's efforts to protect its intellectual property rights through trade secret and copyright protection may be impaired if third parties are able to copy or otherwise obtain and use the Company's technology without authorization. Effective intellectual property protection may be unavailable or limited in certain foreign countries. In addition, the semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. No assurance can be given that any patent held by the Company will be sufficient to protect the Company. See "Risk

EMPLOYEES

As of September 30, 1993, KLA employed a total of approximately 1,000 persons, including approximately 100 in sales, marketing and applications engineering, 165 in product development, 265 in manufacturing, 340 in field service, and 120 in management and administration. None of KLA's employees is represented by a labor union. KLA has experienced no work stoppages and believes that its employee relations are excellent.

Competition in the recruiting of personnel in the semiconductor and semiconductor equipment industry is intense. KLA believes that its future success will depend in part on its continued ability to hire and retain qualified management, marketing and technical employees.

FACILITIES

KLA owns a corporate facility which houses engineering, manufacturing and administrative functions in San Jose, California, occupying approximately 232,000 square feet. The Company purchased this facility in 1990 at a total cost of approximately \$30 million, including improvements. The Company leases additional office space for manufacturing, engineering, sales and service activities, including seven locations in the U.S., four in Europe, three in Japan, and one each in Malaysia, Korea, Taiwan and Israel.

MANAGEMENT

The names of the directors and executive officers of the Company and their ages as of June 30, 1993 are as follows.

<TABLE>
<CAPTION>

NAME	AGE	POSITION
<S>	<C>	<C>
Kenneth Levy.....	50	Chairman of the Board of Directors and Chief Executive Officer
Kenneth L. Schroeder.....	47	President, Chief Operating Officer and Director
Robert J. Boehlke.....	52	Vice President of Finance and Administration, Chief Financial Officer, and Assistant Secretary
Patrick H. Lamey, Jr.....	46	Vice President, General Manager, WATCHER Business Unit
Michael D. McCarver.....	47	Vice President, Corporate Sales
Arthur P. Schnitzer.....	50	Group Vice President, Wafer and Reticle Inspection
William Turner.....	37	Vice President, Corporate Controller
Virginia J. DeMars.....	51	Vice President, Human Resources
Christopher Stoddart.....	37	Treasurer
Robert R. Anderson.....	55	Vice Chairman of the Board of Directors
Leo J. Chamberlain.....	63	Director
Robert E. Lorenzini.....	56	Director
Yoshio Nishi.....	53	Director
Samuel Rubinovitz.....	63	Director
Dag Tellefsen.....	51	Director

</TABLE>

Mr. Levy co-founded the Company in July 1975 and served as President and Chief Executive Officer and a Director of the Company until November 1991, when he became Chairman of the Board of Directors and Chief Executive Officer. Since May 1993, Mr. Levy has been a director of Ultratech Stepper, Inc., a manufacturer of photolithography equipment.

Mr. Schroeder rejoined the Company in November 1991 as President, Chief Operating Officer and Director. Mr. Schroeder had worked previously at KLA from 1979 through 1987, during which time he held the positions of Vice President of Operations (1979); Vice President and General Manager, RAPID division (1982); Vice President and General Manager, WISARD division (1983); and Senior Vice President (1985). In July 1988, he became President and Chief Executive Officer of Photon Dynamics, Inc. In mid-1989, he was appointed President, Chief Operating Officer, and Director of Genus, Inc. He left Genus in October 1991, to rejoin KLA.

Mr. Boehlke joined the Company in April 1983 as Vice President and General Manager of the RAPID division. In June 1985, Mr. Boehlke was elected to Senior Vice President and to Executive Vice President in January 1989, and to Chief Operating Officer in August 1989 until July 1990, when he became Chief Financial

Officer.

Mr. Lamey, Jr., joined the Company in May 1984 as Vice President of Marketing of the RAPID division, became Vice President of Marketing of the WISARD division in May 1987, then General Manager of the WISARD division in May 1988. In September 1989, he became Vice President of Corporate Strategic Marketing. In July 1990, he became General Manager of the KLASIC division, and became General Manager of the ATS division in December 1991. In July 1992, he became General Manager of the WATCHER division which was spun out of the ATS division.

Mr. McCarver joined the Company in October 1985 as Vice President of Sales of the RAPID division, was promoted to General Manager in July 1987, and was additionally elected to Vice President of the Company in August 1989. In August 1993, he became Vice President of Corporate Sales. Mr. McCarver was employed by the Monsanto Company from 1969 through 1985 in various management positions.

Mr. Schnitzer joined the Company in July 1978 as Software Engineering Manager and was promoted to Director of Engineering of the RAPID division in July 1982, and was promoted to Vice President in July 1983.

24

26

He became Vice President of Technology and Marketing of the RAPID division in May 1987, and Vice President of Advanced Inspection in January 1989. In October 1989, he was promoted to General Manager of the WISARD division and, additionally, was elected to Vice President of the Company in July 1990. In July 1993, he became Group Vice President of the Wafer and Reticle Inspection Group ("WRInG"), composed of the former RAPID and WISARD divisions.

Mr. Turner joined the Company in September 1983 as a Corporate Financial Analyst, transferred to be the Field Service Financial Administrator of the RAPID division in August 1984, was promoted to RAPID division Controller in February 1986, transferred to International division Controller in July 1988, was promoted to Corporate Controller in December 1989, and was elected Vice President of the Company in July 1990.

Ms. DeMars joined KLA in 1988 as Director of Human Resources after a 13 year career in Employee Relations at Monolithic Memories, Inc., and Advanced Micro Devices. In November 1991, KLA promoted Ms. DeMars to Vice President of Human Resources, worldwide.

Mr. Stoddart joined the Company in December 1991 as Treasurer. Prior to joining the Company, Mr. Stoddart was Treasurer of General Cellular Corporation from October 1989 to September 1991 and previously with Cooper Companies, Inc., was Assistant Treasurer from August 1986 to July 1988, and then Treasurer from July 1988 to September 1989.

Mr. Anderson co-founded the Company in July 1975. He has served as Vice Chairman of the Board since November 1991. He previously served as Chairman of the Board from May 1985 to November 1991, Assistant Secretary from February 1989 to November 1991, Executive Vice President from July 1990 to November 1991 and Chief Financial Officer from February 1989 to July 1990.

Mr. Chamberlain has served as a Director of the Company since 1982. He has served as a Director of Octel Communications Corporation, a manufacturer of high-performance voice processing systems since March 1989.

Mr. Lorenzini has served as a Director of the Company since 1976. He has served, since October 1988, as President, Chairman and Chief Executive Officer of SunPower Corporation, a manufacturer of photovoltaic cells and silicon power devices. He was a founder and, until December 1986, Chairman of the Board of Siltec Corporation, a manufacturer of semiconductor materials and manufacturing equipment. Since October 1986, Mr. Lorenzini has also served as a director of FSI International, a semiconductor process equipment manufacturer.

Mr. Nishi has served as a Director of the Company since 1989. He is the Director of Silicon Process Laboratory, Hewlett-Packard Laboratories, a semiconductor technology research facility affiliated with Hewlett-Packard Company, and also a consultant professor in the Stanford University Department of Electrical Engineering.

Mr. Rubinovitz previously served as a director of the Company from October 1979 to January 1989, and rejoined the Company as a Director in 1990. From April 1989 through December 1993, he served as Executive Vice President of EG&G, Inc., a diversified manufacturer of scientific instruments and electronic, optical and mechanical equipment, and previously as Senior Vice President of EG&G, Inc. between April 1986 and April 1989. Since April 1989, Mr. Rubinovitz has served

as a Director of EG&G. Since October 1984, he has served as Director of Richardson Electronics, Inc., a manufacturer and distributor of electron tubes and semiconductors.

Mr. Tellefsen has served as a Director of the Company since 1978. He is General Partner of the investment manager of Glenwood Ventures I and II, venture capital funds. Since January 1983, he has served as a director of Arix Corporation, a manufacturer of computers for transaction oriented applications and since September 1982, as a director of Octel Communications Corporation.

25

27

DESCRIPTION OF CAPITAL STOCK

The Company's authorized capital stock consists of 75,000,000 shares of common stock, \$0.001 par value ("Common Shares"), 74,000,000 of which are designated "Common Stock" and 1,000,000 of which are designated "Junior Common Stock," and 1,000,000 shares of preferred stock, \$0.001 par value ("Preferred Stock"). As of September 30, 1993, there were 19,657,000 shares of Common Stock, no shares of Junior Common Stock, and no shares of Preferred Stock outstanding.

COMMON STOCK

The holders of the Common Stock are entitled to one vote per share on all matters to be voted upon by the stockholders. Stockholders are not entitled to cumulative voting for the election of directors. Subject to preferences applicable to any outstanding Preferred Stock, the holders of Common Stock are entitled to receive ratably such dividends as may be declared from time to time by the Board of Directors out of funds legally available therefor and In the event of liquidation, dissolution, or winding up of the Company, the holders of Common Stock are entitled to share in all assets remaining after payment of liabilities. The Common Stock has no preemptive or conversion rights and is not subject to further calls or assessments by the Company. There are no redemption or sinking fund provisions applicable to the Common Stock. The Common Stock currently outstanding is, and the Common Stock offered hereby will be, validly issued, fully paid, and non-assessable.

JUNIOR COMMON STOCK

The Board of Directors of the Company has the authority to issue the Junior Common Stock in one or more series and to fix the rights, preferences and privileges, including dividend rights, conversion rights, liquidation rights, voting rights, and the number of shares constituting any series or the designation of such series of Junior Common Stock, without any further vote or action by the stockholders. As of the date of this Prospectus, there are no outstanding shares of Junior Common Stock, or options to purchase Junior Common Stock. Although it has no present intention to do so, the Board of Directors of the Company may, without stockholder approval, issue Junior Common Stock with voting and conversion rights which could adversely affect the voting power of the holders of Common Stock. The issuance of Junior Common Stock may have the effect of delaying, deferring, or preventing a change of control of the Company.

PREFERRED STOCK

The Board of Directors of the Company has the authority to issue the Preferred Stock in one or more series and to fix the rights, preferences and privileges, including dividend rights, conversion rights, liquidation rights, voting rights, and the number of shares constituting any series or the designation of such series of Preferred Stock, without any further vote or action by the stockholders. As of the date of this Prospectus, there are no outstanding shares of Preferred Stock, or options to purchase Preferred Stock. Although it has no present intention to do so, the Board of Directors of the Company may, without stockholder approval, issue Preferred Stock with voting and conversion rights which could adversely affect the voting power of the holders of Common Stock. The issuance of Preferred Stock may have the effect of delaying, deferring, or preventing a change of control of the Company.

STOCKHOLDER RIGHTS PLAN

KLA has a stockholder rights plan (the "Plan") to protect the value of KLA stockholders' investment in the Company. Pursuant to the Plan, the Board has declared a dividend distribution of one Common Stock purchase right (a "Right"), at an exercise price of \$100.00, on each outstanding share of its Common Stock. In the event of certain hostile efforts to acquire control of the Company, the Plan would entitle holders of each Right to purchase stock in KLA or an acquiror of KLA with a market value equal to twice the exercise price of the Right. The Rights have certain anti-takeover effects as they will cause substantial dilution to a person or group that attempts to acquire the Company on terms or

in a manner not approved by the Company's Board of Directors, except pursuant to an offer conditioned upon the negotiation, purchase or redemption of the Rights.

The Board may redeem the Rights for \$0.01 per Right at any time prior to the day a person or group acquires 20% or more of the Company's stock without Board approval. After such date, the Board may redeem the Rights prior to the consummation of a business combination in which all holders of Common Stock are treated equally and which does not involve such 20% stockholder. The Company may, except with respect to the redemption price, amend the Rights in any manner. After a person becomes a 20% stockholder, the Company may amend the Rights in any manner which does not adversely affect the interests of the holders of the Rights.

DELAWARE TAKEOVER STATUTE

The Company is subject to the provisions of Section 203 of the Delaware General Corporation Law, which prohibits a publicly held Delaware corporation from engaging in any "business combination" with an "interested stockholder" for three years following the date that such stockholder became an interested stockholder, unless (i) prior to such date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder; (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the number of shares outstanding, those shares owned (a) by persons who are directors and also officers and (b) by employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or (iii) on or subsequent to such date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least 66-2/3% of the outstanding voting stock not owned by the interested stockholder.

Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the stockholders. An "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years prior did own) 15% or more of the corporation's voting stock.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Common Stock is First National Bank of Boston, Mail Stop 45-02-16, Blue Hills Office Park, 150 Royale Street, Canton, Massachusetts 02021.

UNDERWRITING

The Underwriters named below have severally agreed, subject to the terms and conditions of the Underwriting Agreement, to purchase from the Company the respective number of shares of Common Stock set forth opposite their names below:

UNDERWRITER	NUMBER OF SHARES
<S>	<C>
Kidder, Peabody & Co. Incorporated.....	
Morgan Stanley & Co. Incorporated.....	
Total.....	2,000,000

The Underwriting Agreement provides that the Underwriters are obligated to purchase all of the shares of Common Stock offered hereby, if any are purchased.

The Company has been advised by Kidder, Peabody & Co. Incorporated and

Morgan Stanley & Co. Incorporated, the Representatives of the several Underwriters, that the Underwriters propose to offer the Common Stock to the public at the offering price set forth on the cover page of this Prospectus and to certain dealers at such price less a concession not in excess of \$ per share, and that the Underwriters and such dealers may re-allow a discount of not in excess of \$ per share to other dealers. The public offering price and the concession and discount to dealers may be changed by the Representatives after the initial public offering of the Common Stock offered hereby.

The Company has granted the Underwriters an option, expiring at the close of business on the thirtieth day subsequent to the date of the initial public offering of the Common Stock offered hereby, to purchase up to 300,000 additional shares of Common Stock at the offering price to public, less the underwriting discount, set forth on the cover page of this Prospectus. The Underwriters may exercise such option solely to cover over-allotments, if any, in the sale of the shares.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended (the "Act").

Certain officers and directors of the Company have agreed that they will not, directly or indirectly, offer, sell or otherwise dispose of shares of Common Stock or securities convertible into or exchangeable for, or rights to purchase or acquire an aggregate of approximately 1,700,000 shares of Common Stock for a period of 90 days after the date of the initial public offering of the Common Stock offered hereby, without the prior written consent of one of the Representatives. All other shares of Common Stock or of such other securities or rights held by any officers or directors of the Company are not subject to such "lock-up" agreements and may be sold at any time absent other restrictions.

In addition, the Company has agreed, subject to certain limited exceptions, not to issue any Common Stock or securities convertible into or exchangeable for, or any rights to purchase or acquire, Common Stock for a period of 90 days after the date of the initial public offering of the Common Stock offered hereby, except pursuant to the Underwriting Agreement without the prior written consent of one of the Representatives.

In connection with this offering, the Underwriters and selling group members (if any) or their respective affiliates intend to engage in passive market making transactions in the Common Stock of the Company on The Nasdaq National Market in accordance with Rule 10b-6A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") during the two business day period before commencement of offers or sales of the shares of Common Stock offered hereby. The passive market making transactions must be identified as such and comply with applicable volume and price limits. In general, a passive market maker may display its bid at a price not in excess of the highest independent bid for the security; if all independent bids are lowered below the passive market makers bid, however, such bid must then be lowered when certain purchase limits are exceeded.

28

30

LEGAL MATTERS

The validity of the shares offered hereby will be passed upon for the Company by Gray Cary Ware & Freidenrich, Palo Alto, California. Certain legal matters will be passed upon for the Underwriters by Morrison & Foerster, San Francisco, California.

EXPERTS

The consolidated financial statements as of June 30, 1992 and 1993 and for each of the three years in the period ended June 30, 1993 included in this Prospectus have been so included in reliance on the report of Price Waterhouse, independent accountants, given on the authority of said firm as experts in auditing and accounting.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Exchange Act and the rules and regulations thereunder, and in accordance therewith files reports, proxy statements, and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information filed by the Company can be inspected and copied at the Commission's public reference room at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, as well as at the Regional Offices of the Commission

located at Northwest Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661, and Seven World Trade Center, 13th Floor, New York, New York 10048. Copies of such material can be obtained by mail from the public reference section of the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, upon payment of the fees prescribed by the Commission. The Common Stock of the Company is quoted on The Nasdaq National Market. Reports, proxy statements and other information concerning the Company may be inspected at the National Association of Securities Dealers, Inc. at 1735 K Street, N.W., Washington, D.C. 20006.

Additional information regarding the Company and the shares of Common Stock offered hereby, is contained in the Registration Statement on Form S-3 and the exhibits thereto filed with the Commission under the Act. For further information pertaining to the Company and the shares of Common Stock offered hereby, reference is made to the Registration Statement and the exhibits thereto, which may be inspected without charge at, and copies may be obtained at prescribed rates from, the office of the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington D.C. 20549.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents are incorporated herein by reference: (i) the Company's Annual Report on Form 10-K for the year ended June 30, 1993, as filed with the Commission on September 28, 1993, (ii) the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993, as filed with the Commission on November 12, 1993, and (iii) the description of the Company's Common Stock contained in the Company's Registration Statement on Form 8-A (including all amendments in respect thereof) as filed with the Commission on October 26, 1981.

All documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Prospectus and prior to the termination of this offering, shall be deemed to be incorporated by reference in this Prospectus and to be a part hereof from the date of filing of such documents. Any statement incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

The Company will provide without charge to each person to whom this Prospectus is delivered, upon written or oral request, a copy of any or all of the foregoing documents incorporated by reference in this Prospectus. Requests for such documents should be directed to KLA Instruments Corporation, 160 Rio Robles, San Jose, CA 95161, Attn: Investor Relations, telephone (408) 434-4200.

KLA INSTRUMENTS CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

	PAGE

<S>	<C>
AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEARS 1991, 1992 AND 1993:	
Report of Independent Accountants.....	F-2
Consolidated Statement of Operations.....	F-3
Consolidated Balance Sheet.....	F-4
Consolidated Statement of Stockholders' Equity.....	F-5
Consolidated Statement of Cash Flows.....	F-6
Notes to the Consolidated Financial Statements.....	F-7
UNAUDITED CONSOLIDATED FINANCIAL INFORMATION FOR FISCAL QUARTERS ENDED SEPTEMBER 30, 1992 AND 1993:	
Condensed Consolidated Statement of Operations.....	F-16
Condensed Consolidated Balance Sheet.....	F-17
Condensed Consolidated Statement of Cash Flows.....	F-18
Notes to the Condensed Consolidated Financial Information.....	F-19

</TABLE>

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and
Board of Directors of
KLA Instruments Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of KLA Instruments Corporation and its subsidiaries at June 30, 1992 and 1993, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1993, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE
San Jose, California
July 28, 1993

F-2

33

KLA INSTRUMENTS CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

<TABLE>
<CAPTION>

	YEARS ENDED JUNE 30,		
	1991	1992	1993
<S>	<C>	<C>	<C>
Net sales.....	\$148,432	\$155,963	\$167,236
Costs and expenses:			
Cost of sales.....	82,822	99,993	107,466
Engineering, research and development.....	27,132	25,860	16,314
Selling, general and administrative.....	33,498	35,537	32,684
Restructuring charges (recovery).....	--	8,158	(718)
	143,452	169,548	155,746
Income (loss) from operations.....	4,980	(13,585)	11,490
Interest income and other, net.....	1,847	1,170	1,217
Interest expense.....	(3,328)	(3,877)	(3,426)
Income (loss) from continuing operations before income taxes.....	3,499	(16,292)	9,281
Provision for income taxes.....	1,084	318	2,320
Income (loss) from continuing operations.....	2,415	(16,610)	6,961
Discontinued operations:			
Loss from discontinued operations of PCB business, less applicable income taxes of \$693 in fiscal 1991.....	(2,443)	--	--
Recovery of (provision for) loss on disposal of PCB business, less applicable income tax benefit of \$4,443 in fiscal 1991.....	(10,557)	2,800	--
Net income (loss).....	\$(10,585)	\$(13,810)	\$ 6,961
Income (loss) per share from continuing operations.....	\$ 0.13	\$ (0.90)	\$ 0.35
Income (loss) per share from discontinued PCB business.....	(0.70)	0.15	--
Net income (loss) per share.....	\$ (0.57)	\$ (0.75)	\$ 0.35

Weighted average common and dilutive common equivalent shares outstanding.....	18,552	18,451	19,707
---	--------	--------	--------

See accompanying notes to consolidated financial statements.

F-3

34

KLA INSTRUMENTS CORPORATION

CONSOLIDATED BALANCE SHEET
(IN THOUSANDS)

ASSETS

<TABLE>
<CAPTION>

	AT JUNE 30,	
	1992	1993
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents.....	\$ 23,711	\$ 52,362
Accounts receivable, net of allowances of \$1,652 and \$1,469.....	49,153	48,077
Inventories.....	48,575	42,489
Deferred income taxes.....	7,594	3,917
Other current assets.....	5,701	4,724
Total current assets.....	134,734	151,569
Land, property and equipment, net.....	44,799	39,384
Other assets.....	8,924	8,136
Total assets.....	\$188,457	\$199,089

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Notes payable and current portion of long-term debt.....	\$ 4,957	\$ 6,532
Accounts payable.....	5,551	8,953
Income taxes payable.....	9,823	9,403
Other current liabilities.....	30,442	33,070
Total current liabilities.....	50,773	57,958
Deferred income taxes.....	10,652	7,081
Long-term debt.....	24,000	20,000
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, \$0.001 par value, 1,000 shares authorized, none outstanding.....	--	--
Common shares, \$0.001 par value, 75,000 shares authorized, 18,696 and 19,503 shares issued and outstanding.....	19	20
Capital in excess of par value.....	58,938	64,638
Retained earnings.....	43,126	50,087
Treasury stock.....	(581)	(581)
Cumulative translation adjustment.....	1,530	(114)
Total stockholders' equity.....	103,032	114,050
Total liabilities and stockholders' equity.....	\$188,457	\$199,089

</TABLE>

See accompanying notes to consolidated financial statements.

F-4

35

KLA INSTRUMENTS CORPORATION

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)

<TABLE>
<CAPTION>

	COMMON STOCK		CAPITAL	RETAINED EARNINGS	TREASURY STOCK		TRANSLATION ADJUSTMENTS	NOTES
	SHARES	AMOUNT	IN EXCESS OF PAR VALUE		SHARES	AMOUNT		RECEIVABLE FROM STOCKHOLDERS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at June 30, 1990.....	17,987	\$ 18	\$ 53,760	\$ 67,521	--	\$ --	\$ 1,202	\$ (365)
Exercise of stock options.....	82		556					
Tax benefit on exercise of stock options.....			27					
Shares issued under stock purchase plan.....	229		1,733					
Shares repurchased at cost for use in employee benefit plans.....					(55)	(581)		
Net loss.....				(10,585)				
Translation adjustments.....							(490)	
Repayment of note for stock option exercise.....								365
Balance at June 30, 1991.....	18,298	18	56,076	56,936	(55)	(581)	712	--
Exercise of stock options.....	203	1	1,430					
Shares issued under stock purchase plan.....	195		1,432					
Net loss.....				(13,810)				
Translation adjustments.....							818	
Balance at June 30, 1992.....	18,696	19	58,938	43,126	(55)	(581)	1,530	--
Exercise of stock options.....	604	1	4,276					
Shares issued under stock purchase plan.....	203		1,424					
Net income.....				6,961				
Translation adjustments.....							(1,644)	
Balance at June 30, 1993.....	19,503	\$ 20	\$ 64,638	\$ 50,087	(55)	\$ (581)	\$ (114)	\$ --

</TABLE>

See accompanying notes to consolidated financial statements.

F-5

36

KLA INSTRUMENTS CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)

<TABLE>
<CAPTION>

	YEARS ENDED JUNE 30,		
	1991	1992	1993
<S>	<C>	<C>	<C>
Cash flows from continuing operating activities:			
Income (loss) from continuing operations.....	\$ 2,415	\$ (16,610)	\$ 6,961
Adjustments required to reconcile income (loss) from continuing operations to cash provided by (used for) continuing operations:			
Depreciation and amortization.....	9,088	10,732	9,646
Investment write-downs.....	333	333	94
Deferred income taxes.....	(2,540)	142	(466)
Changes in assets and liabilities:			
Accounts receivable.....	661	(2,583)	947
Inventories.....	(7,102)	70	6,048
Other current assets.....	(4,586)	(766)	2,062
Accounts payable.....	(597)	(1,970)	3,375
Income taxes payable.....	5,678	(820)	(429)

Other current liabilities.....	(6,787)	6,840	2,655
Other assets.....	1,681	193	(586)
		-----	-----
	(4,171)	12,171	23,346
	-----	-----	-----
Cash provided by (used for) continuing operations.....	(1,756)	(4,439)	30,307
	-----	-----	-----
Cash flows from investing activities:			
Capital expenditures.....	(33,611)	(5,085)	(3,226)
Proceeds from sale of fixed assets.....	--	--	844
Sale of short-term marketable securities.....	9,836	--	--
Capitalization of software development costs.....	(2,143)	(1,280)	(1,201)
	-----	-----	-----
Cash (used for) investing activities.....	(25,918)	(6,365)	(3,583)
	-----	-----	-----
Cash flows from financing activities:			
Short-term borrowings, net.....	712	125	(2,881)
Long-term debt borrowing.....	24,000	--	--
Sales of common stock.....	2,289	2,863	5,701
Repurchase of common stock.....	(581)	--	--
Proceeds from shareholder note.....	365	--	--
	-----	-----	-----
Cash provided by financing activities.....	26,785	2,988	2,820
	-----	-----	-----
Effect of exchange rate changes.....	(120)	273	(893)
	-----	-----	-----
Increase (decrease) in cash and cash equivalents.....	(1,009)	(7,543)	28,651
Cash and cash equivalents at beginning of year.....	32,263	31,254	23,711
	-----	-----	-----
Cash and cash equivalents at end of year.....	\$31,254	\$ 23,711	\$ 52,362
	-----	-----	-----

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the year for:

Interest.....	\$ 3,404	\$ 3,778	\$ 3,515
Income taxes.....	\$ 670	\$ 1,361	\$ 1,914

</TABLE>

See accompanying notes to consolidated financial statements.

F-6

37

KLA INSTRUMENTS CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation -- The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Subsidiaries with accounts denominated in foreign currencies have been translated principally using the local currencies as the functional currencies. Accordingly, the assets and liabilities of these subsidiaries are translated at the rates of exchange on the balance sheet date, income and expense items are translated at average rates of exchange for the year, and the resulting translation gains or losses are included in stockholders' equity. Foreign currency transaction gains and losses have not been material and are included in interest income and other, net.

Foreign Exchange Hedging -- The Company purchases forward exchange contracts and options to hedge against currency fluctuations which affect certain foreign currency denominated firm purchase orders, assets and liabilities. Unrealized gains and losses on these contracts are deferred and accounted for as part of the hedged transactions. Cash flows from these contracts are classified in the Statement of Cash Flows in the same category as the hedged transactions. At June 30, 1993, the Company had forward exchange contracts maturing throughout fiscal 1994 to sell approximately \$18.4 million of Japanese yen (2.1 billion yen) to purchase approximately \$0.7 million of Japanese yen (73 million yen) and to sell \$0.8 million of Swiss francs (1.2 million Swiss francs). At June 30, 1992, the Company had contracts maturing during fiscal 1993 to sell approximately \$22 million of Japanese yen (2.8 billion yen).

Revenue Recognition -- The Company recognizes sales of wafer inspection, reticle and photomask inspection systems upon acceptance at the Company's plant, which is when title transfers. Customers may observe and approve satisfactory completion of the tests. Sales of other systems are recognized upon shipment. A

provision for the estimated future cost of system installation and warranty is recorded at the time revenue is recognized. Revenues from service contracts are recognized during the terms of the contracts on a straight-line basis.

Income per Share -- Income per common and common equivalent 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, when dilutive.

Research and Development -- The Company is actively engaged in significant product improvement and new product development efforts. Research and development expenses relating to possible future products aggregated approximately \$11.2, \$19.3 and \$13.4 million for fiscal 1991, 1992 and 1993, respectively.

Software Development Costs -- The Company capitalizes software development costs in accordance with Statement of Financial Accounting Standards No. 86. For the years ended June 30, 1991, 1992 and 1993, the Company capitalized \$2.1, \$1.3 and \$1.2 million, respectively, of software development costs in connection with the development of new products and new features and functions on existing products. Such costs are amortized on a straight-line basis over the estimated useful life of three years or the ratio of current revenue to the total of current and anticipated future revenue, whichever is greater. Amortization charged to expense during the fiscal years ended 1991, 1992 and 1993 was \$0.6, \$2.1 and \$1.9 million, respectively. Capitalized software, net of software amortization, totaled \$5.0 and \$4.3 million at June 30, 1992 and 1993, respectively.

Income Taxes -- Effective July 1, 1992, the Company adopted Statement of Financial Accounting Standards No. 109 (FAS 109) "Accounting for Income Taxes." The adoption of FAS 109 changes the Company's method of accounting for income taxes from the deferred method (APB 11) to an asset and liability approach. Previously the Company deferred the tax effects of timing differences between financial reporting and taxable income. The asset and liability approach requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying

F-7

38

KLA INSTRUMENTS CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

amounts and the tax bases of other assets and liabilities. Adoption of FAS 109 did not have a significant effect on the consolidated financial statements.

Undistributed earnings of certain of the Company's foreign subsidiaries, for which no U.S. federal income taxes have been provided, aggregated approximately \$3.5 million at June 30, 1993. The amount of the unrecognized deferred tax liability related to the investments in foreign subsidiaries is estimated at approximately \$1.2 million at June 30, 1993.

Cash Equivalents -- Cash equivalents consist of highly liquid investments with a maturity date at acquisition of three months or less.

Inventories -- Inventories are stated at the lower of cost or market, cost being determined using standard costs which approximate actual costs on a first-in, first-out basis.

Property and Equipment -- Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which are 30 years for buildings and building improvements, five years for furniture and fixtures, and range from three to five years for machinery and equipment. The life of the lease or the useful life, whichever is shorter, is used for the amortization of leasehold improvements.

NOTE 2 -- DETAILS OF FINANCIAL STATEMENT COMPONENTS

<TABLE>
<CAPTION>

	1992 -----	1993 -----
	(IN THOUSANDS)	
<S>	<C>	<C>
Inventories:		
Customer service spares.....	\$ 14,129	\$ 13,530

Systems raw materials.....	17,919	8,389
Work-in-process.....	10,689	10,004
Demonstration equipment.....	5,838	10,566
	-----	-----
	\$ 48,575	\$ 42,489
	-----	-----
Land, property and equipment:		
Land.....	\$ 10,502	\$ 10,502
Buildings and improvements.....	19,776	20,361
Machinery and equipment.....	37,248	30,780
Furniture and fixtures.....	3,887	4,625
Leasehold improvements.....	4,603	6,321
	-----	-----
	76,016	72,589
Less accumulated depreciation and amortization.....	(31,217)	(33,205)
	-----	-----
	\$ 44,799	\$ 39,384
	-----	-----
Other current liabilities:		
Accrued compensation and benefits.....	\$ 9,695	\$ 11,682
Accrued warranty and installation.....	9,647	12,188
Unearned service contract revenue.....	3,260	2,854
Other.....	7,840	6,346
	-----	-----
	\$ 30,442	\$ 33,070
	-----	-----

</TABLE>

F-8

39

KLA INSTRUMENTS CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 3 -- GEOGRAPHIC REPORTING

The Company is a leading manufacturer of yield monitoring and process control systems for the semiconductor manufacturing industry. For geographic reporting, sales are attributed to the geographic location of the sales and service organizations and costs directly and indirectly incurred in generating sales are similarly assigned. During fiscal 1991 and 1992, no customer accounted for more than 10% of sales. During fiscal 1993, one customer accounted for 11% of net sales. The following is a summary of operations by geographical territories:

<TABLE>

<CAPTION>

	1991	1992	1993
	-----	-----	-----
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Net sales from unaffiliated customers:			
United States.....	\$ 58,659	\$ 67,240	\$ 62,802
Western Europe.....	25,187	22,484	34,141
Japan.....	51,793	48,825	46,914
Asia Pacific.....	12,793	17,414	23,379
	-----	-----	-----
	\$148,432	\$155,963	\$167,236
	-----	-----	-----
Operating results:			
United States.....	\$ 5,197	\$ (5,570)	\$ 7,558
Western Europe.....	2,474	608	6,262
Japan.....	3,106	(5,214)	(1,783)
Asia Pacific.....	1,078	2,204	3,896
	-----	-----	-----
	11,855	(7,972)	15,933
General corporate expenses.....	(6,875)	(5,613)	(4,443)
	-----	-----	-----
	\$ 4,980	\$ (13,585)	\$ 11,490
	-----	-----	-----
Identifiable assets:			
United States.....	\$106,502	\$103,960	\$ 96,383

Western Europe.....	21,911	15,272	22,631
Japan.....	23,354	27,026	18,627
Asia Pacific.....	11,288	18,581	13,487
	-----	-----	-----
General corporate assets.....	163,055	164,839	151,128
	34,968	23,618	47,961
	-----	-----	-----
Total assets.....	\$198,023	\$188,457	\$199,089
	-----	-----	-----
	-----	-----	-----

</TABLE>

Intercompany transfers of products from the United States to other regions, based on cost of products transferred, were approximately \$32.2, \$34.2 and \$39.7 million in fiscal years 1991, 1992 and 1993, respectively. Transfers from other regions were not significant. Corporate assets consist primarily of cash, marketable securities and other investments. Corporate expenses consist primarily of general, administrative and other expenses not attributable to geographical regions. Capital expenditures and depreciation expense have been primarily in the United States.

NOTE 4 -- EMPLOYEE BENEFIT PLANS

The Company has a profit sharing program, wherein a percentage of pretax profits, as determined by the Board of Directors, is accumulated and distributed quarterly to all employees who have completed a stipulated employment period. In addition, the Board may approve matching contributions to the Company's savings and investment plan, a qualified salary reduction plan under section 401(k) of the Internal Revenue Code. The

F-9

40

KLA INSTRUMENTS CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

total charge to operations under the profit sharing and 401(k) programs aggregated approximately \$0.4, \$0.4 and \$0.7 million in fiscal 1991, 1992 and 1993, respectively.

Under the 1982 Stock Option Plan, as amended, 4,750,000 shares have been reserved for issuance to eligible employees and directors as either Incentive Stock Options or nonqualified options. Options under this plan are granted at prices determined by the Board of Directors, but not less than the fair market value on the date of grant, and expire ten years after the date of grant. Generally, grants become exercisable at one fifty-fourth per month beginning six months from date of grant.

In October 1990, the Company adopted the 1990 Outside Directors Stock Option Plan to grant options to non-employee directors. This plan calls for an annual grant of 2,500 options, at fair market value, to each outside director. The options become exercisable at one fifty-fourth per month beginning six months from date of grant and expire ten years from grant date. A total of 100,000 shares have been reserved for issuance under this plan.

Also in October 1990, the Company granted 66,957 options at fair market value on the date of the grant to key employees in Israel. Of these options, 53,566 become exercisable ratably over 30 months, and the balance become exercisable over 60 months.

In October 1990, the Company allowed all holders of outstanding options to exchange higher priced options for new non-qualified options at \$7.00 per share, the fair market value on the date of the Board's action; 1,749,000 options were exchanged. In August 1992, the Company allowed all holders of outstanding options, with the exception of holders who were officers or directors of the Company during all of fiscal 1992, to exchange higher priced options for new non-qualified options at \$7.50 per share, the fair market value on the date of the Board's action; 412,000 options were exchanged.

Following is a summary of stock option transactions:

<TABLE>

<CAPTION>

	STOCK	RESERVED
OPTION	OPTIONS	SHARES
PRICE	OUTSTANDING	AVAILABLE
-----	-----	-----

<S>	<C>	<C>	<C>
Balance at June 30, 1990.....	\$0.33-21.25	2,515,613	915,427
Options granted.....	7.00-13.50	2,691,831	(2,691,831)
Options cancelled.....	0.33-21.25	(2,016,733)	2,016,733
Options exercised.....	8.75-14.13	(81,602)	
Increase in reserved shares.....			666,957

Balance at June 30, 1991.....	\$3.17-21.25	3,109,109	907,286
Options granted.....	8.63-11.88	264,050	(264,050)
Options cancelled.....	3.17-20.25	(231,665)	231,665
Options exercised.....	3.17-13.00	(202,902)	

Balance at June 30, 1992.....	\$6.13-21.25	2,938,592	874,901
Options granted.....	7.50-12.38	1,048,246	(1,048,246)
Options cancelled.....	6.13-20.50	(594,311)	594,311
Options exercised.....	6.13-14.00	(603,912)	

Balance at June 30, 1993.....	\$7.00-21.25	2,788,615	420,966

</TABLE>

At June 30, 1993, options to purchase 1,094,000 shares of stock were exercisable under all option plans.

The Company has reserved 1,700,000 shares of common stock to be issued under the 1981 Employee Stock Purchase Plan. The Plan permits eligible employees to purchase common stock, through payroll deductions, at 85% of the lower of the fair market value of the common stock on the date at the beginning of the two-year offering period or the last day of the purchase period. Substantially all employees are eligible to participate in the Plan. At June 30, 1993, 410,000 shares were available for issuance under the Plan.

F-10

41

KLA INSTRUMENTS CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 5 -- FINANCING ARRANGEMENTS

At June 30, 1993, the Company had two mortgage loans on its principal facility, a \$20 million interest-only mortgage due August 1995 at an interest rate of 10.3% per annum and a \$4 million interest-only mortgage due August 1993 at an interest rate of 6.4% per annum. Under the terms of the loan, the interest rate on the \$20 million mortgage will be reset in August 1993 to 5.4% per annum and again in August 1994 based on market interest rates at that time. The mortgage loans, which are secured by \$30.3 million in land, buildings and building improvements at June 30, 1993, require the Company to maintain, among other things, minimum working capital and tangible net worth.

As of June 30, 1993, the Company had a \$15 million multicurrency line of credit with a bank, expiring December 31, 1993. The line of credit has a commitment fee of 0.375% per annum. Interest on borrowings is based on the bank's reference rate, or its applicable offshore rate plus 1%. The agreement requires the Company to maintain, among other things, minimum quick ratio, tangible net worth and profitability. The Company was in compliance with all of these covenants. As of June 30, 1993, approximately \$1.2 million had been borrowed at the related offshore interest rates of 4.256% per annum.

In addition, certain of the Company's foreign subsidiaries have short term local currency borrowings of approximately \$1.4 million at an average interest rate of 4.8% at June 30, 1993.

Based upon interest rates available to the Company for issuance of debt with similar terms and remaining maturities, the fair value of the long-term mortgage debt and notes payable was approximately equal to the recorded value.

NOTE 6 -- RESEARCH AND DEVELOPMENT ARRANGEMENTS

The Company has entered into research and development arrangements with certain key customers and other entities to partially fund the development of new technology on a best efforts basis. In addition, prior to fiscal 1988, the Company entered into research and development arrangements with several partnerships to use its best efforts to develop certain new technologies. The financial risks of these research and development arrangements are substantively and genuinely those of the funding entities. In fiscal 1991, 1992 and 1993, revenues of \$2.9, \$6.1 and \$6.8 million, respectively, have been recognized on

these research and development contracts on the percentage of completion basis. These revenues are offset against gross engineering, research and development expenses.

Agreements with certain of the partnerships provide for warrants to purchase 100,875 shares of the Company's common stock at \$21.11 through August 1993.

NOTE 7 -- INVESTMENT IN ACROTEC

During fiscal 1991, the Company invested approximately \$0.2 million cash for an 8% equity investment in Acrotec, a Japanese company developing an automated optical inspection device for flat panel displays utilizing base technology provided by the Company. In addition, the Company has a research and development arrangement with Acrotec to provide research, development and engineering on a best efforts cost reimbursement basis. The Company received \$2.5 and \$2.1 million in fiscal 1992 and 1993, respectively, under this research and development arrangement and has recorded these amounts as a reduction of engineering, research and development expenses (see Note 6). The Company is also manufacturing test systems for Acrotec and recognized \$2.2 and \$2.8 million in sales in fiscal 1992 and 1993, respectively. The Company has an option until April 1994 to acquire an additional 43% equity interest in Acrotec for 350 million yen (\$3.3 million at the current exchange rate as of June 30, 1993).

F-11

42

KLA INSTRUMENTS CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 8 -- INCOME TAXES

The components of income (loss) from continuing operations before income taxes were as follows:

<TABLE>
<CAPTION>

	1991	1992	1993
	-----	-----	-----
		(IN THOUSANDS)	
<S>	<C>	<C>	<C>
Domestic.....	\$ (2,615)	\$ (22,582)	\$ 1,828
Foreign.....	6,114	6,290	7,453
	-----	-----	-----
	\$ 3,499	\$ (16,292)	\$ 9,281
	-----	-----	-----
	-----	-----	-----

</TABLE>

The provision for income taxes charged to continuing operations were as follows:

<TABLE>
<CAPTION>

	1991	1992	1993
	-----	-----	-----
		(IN THOUSANDS)	
<S>	<C>	<C>	<C>
Federal:			
Currently payable (refundable).....	\$ (1,523)	\$ (1,698)	\$ 495
Deferred.....	471	204	--
	-----	-----	-----
	(1,052)	(1,494)	495
	-----	-----	-----
State:			
Currently payable.....	1,270	175	321
Deferred.....	(1,204)	(175)	--
	-----	-----	-----
	66	--	321
	-----	-----	-----
Foreign:			
Currently payable.....	1,700	867	2,679
Deferred.....	370	945	(1,175)
	-----	-----	-----
	2,070	1,812	1,504
	-----	-----	-----
Provision for income taxes from continuing operations.....	\$ 1,084	\$ 318	\$ 2,320

</TABLE>

Following is a reconciliation of the effective income tax rates from continuing operations and the United States statutory federal income tax rate:

<TABLE>
<CAPTION>

	1991	1992	1993
<S>	<C>	<C>	<C>
Statutory federal income tax rate.....	34.0%	(34.0)%	34.0%
State income taxes, net of federal tax benefits.....	1.9	--	2.3
Effect of foreign operations at higher (lower) tax rates....	21.3	(2.0)	(11.1)
Non-taxable FSC income.....	(19.4)	--	--
Financial statement operating loss carryforward not recognized because realization is uncertain.....	--	35.3	--
Realized deferred tax assets previously reserved.....	--	--	(3.8)
Other.....	(6.8)	2.7	3.6
Effective tax rate.....	31.0%	2.0%	25.0%

</TABLE>

F-12

43

KLA INSTRUMENTS CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Deferred tax liabilities (assets) under FAS 109 at July 1, 1992 and June 30, 1993 (including reclassification for comparative purposes) are comprised of the following:

<TABLE>
<CAPTION>

	JULY 1, 1992	JUNE 30, 1993
<S>	<C>	<C>
(IN THOUSANDS)		
Deferred tax liabilities:		
Depreciation.....	\$ 4,342	\$ 4,317
Unremitted earnings of foreign subsidiaries not permanently reinvested.....	3,902	2,726
Capitalized software.....	1,963	1,679
Other.....	963	1,596
	11,170	10,318
Deferred tax assets:		
Inventory reserves and basis differences.....	(9,357)	(9,876)
Federal and state loss and credit carryforwards.....	(5,279)	(4,816)
Other asset valuation reserves.....	(2,079)	(1,874)
Reserves for restructured and discontinued operations.....	(1,749)	(668)
Employee benefit accruals.....	(1,026)	(1,528)
Warranty and installation accruals.....	(674)	(934)
Other.....	(984)	(853)
	(21,148)	(20,549)
Deferred tax assets valuation allowance.....	13,746	13,395
Total net deferred tax liabilities.....	\$ 3,768	\$ 3,164

</TABLE>

The income tax effect of timing differences for fiscal 1991 and 1992 under APB 11 were as follows:

<TABLE>
<CAPTION>

	1991	1992
	-----	-----
	(IN THOUSANDS)	
<S>	<C>	<C>
Installment method of sales revenue accounting for tax reporting purposes.....	\$ (1,500)	\$ --
Excess of tax over book depreciation.....	191	--
Financial statement accruals and valuation accounts currently deductible.....	333	--
Undistributed income of foreign subsidiaries not permanently reinvested.....	857	945
Other.....	(244)	29
	-----	-----
	\$ (363)	\$ 974
	-----	-----

</TABLE>

The Company has a net operating loss carry forward for U.S. federal income tax purposes of approximately \$1.2 million that expires in fiscal 2007. The Company has federal research and development and other tax credit carryovers of approximately \$4.0 million at June 30, 1993, that expire primarily in fiscal 1999 through 2007. In addition, the Company has U.S. tax deductions aggregating approximately \$5.7 million as a result of the exercise of employee stock options, the tax benefit of which has not been realized. The tax benefit of this deduction, when realized, will be accounted for as a credit to additional paid-in capital rather than a reduction of the income tax provision.

The deferred tax assets valuation allowance at both July 1, 1992 and June 30, 1993 is attributed to U.S. federal and state deferred tax assets. Management believes sufficient uncertainty exists regarding the realizability of these items such that a full valuation allowance has been recorded at both the beginning and end of the year. During fiscal 1993, the Company realized \$0.4 million of deferred tax assets reserved at the beginning of the year, reducing the valuation allowance by a corresponding amount. In accordance with FAS 109, the valuation allowance is allocated pro rata to federal and state current and noncurrent deferred tax assets. Net deferred tax liabilities at July 1, 1992, and June 30, 1993, relate principally to foreign operations.

F-13

44

KLA INSTRUMENTS CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company's manufacturing operations in Switzerland have an income tax holiday through 2001. The effect of this tax holiday was to increase net income in fiscal 1993 by approximately \$0.6 million (\$0.03 per share) and was not significant in prior years.

NOTE 9 -- COMMITMENTS AND CONTINGENCIES

The Company leases several facilities under operating leases expiring at various dates through fiscal 2025 with renewal options at fair market value for additional periods ranging up to ten years. The aggregate minimum rental commitment as of June 30, 1993, under these lease agreements, excluding property taxes, insurance and certain other costs to be paid by the Company, are approximately \$2.4, \$2.2, \$1.2, \$0.9, \$0.9 and \$1.6 million in fiscal 1994 through 1998 and thereafter, respectively. Total rental expense under all operating leases was \$2.8, \$3.2 and \$2.9 million in fiscal 1991, 1992 and 1993, respectively.

The Company is the plaintiff in a patent infringement lawsuit in which the defendant has filed a counterclaim against the Company, and the Company is a defendant in other litigation arising in the normal course of business. Also in the normal course of business, the Company from time to time receives and makes inquiries with regard to possible patent infringement. The Company believes that it is unlikely that the outcome of this litigation or of the patent infringement inquiries will have an adverse material effect on the Company's financial position or results of operations.

NOTE 10 -- STOCK PURCHASE RIGHTS

In March 1989, the Company implemented a plan to protect stockholders' rights in the event of a proposed takeover of the Company. Under the plan, each share of the Company's outstanding common stock carries one Common Stock Purchase Right (Right). The Right entitles the holder, under certain

circumstances, to purchase common stock of the Company or its acquirer at a discounted price. The Rights are redeemable by the Company and expire in 1999.

NOTE 11 -- FISCAL 1992 RESTRUCTURING

Restructuring charges in fiscal 1992 of \$8.2 million include \$2.4 million for costs associated with the discontinuance of the EMMI product line, \$1.6 million of anticipated expenses for eliminating one corporate facility, \$0.9 million in severance costs, and \$3.2 million for costs associated with a redefinition of certain product strategies. During fiscal 1993, a \$0.7 million recovery was recognized on the sale of the EMMI product line.

NOTE 12 -- DISCONTINUED PCB BUSINESS

In the second quarter of fiscal 1991, the Company decided to divest its printed circuit board (PCB) inspection business and recorded a \$15 million pretax charge as a result. In October 1991, the Company entered into an agreement to sell substantially all of the assets and related technology of the PCB business for approximately \$4.3 million plus future royalties. The agreement required the Company to transfer the technology, provide training and develop certain software to enhance the product. The Company recognized a \$2.8 million recovery of the fiscal 1991 provision in the third quarter of fiscal 1992 upon substantial completion of its obligations under the sale agreement. The Company has received cash of \$3.3 million from the sale to date. The remaining \$1 million is included in other current assets and will be received June 30, 1994.

The consolidated statement of operations and related notes segregate the discontinued PCB business from continuing operations. Revenues from this business were \$2.1 and \$0.6 million in fiscal years 1991 and 1992, respectively. The phaseout period losses aggregated approximately \$1.3 and \$1.5 million in fiscal 1991 and 1992, respectively.

F-14

45

KLA INSTRUMENTS CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 13 -- UNAUDITED QUARTERLY STATEMENT OF OPERATIONS DATA

<TABLE>
<CAPTION>

	QUARTERS ENDED			
	SEPTEMBER 30,	DECEMBER 31,	MARCH 31,	JUNE 30,
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
<S>	<C>	<C>	<C>	<C>
YEAR ENDED JUNE 30, 1992				
Net sales.....	\$40,984	\$ 39,628	\$42,720	\$ 32,631
Gross profit.....	16,616	16,746	16,581	6,027
Restructuring charges.....	--	384	2,160	5,614
Income (loss) from continuing operations.....	412	330	(2,424)	(14,928)
Recovery of loss from discontinued operations.....	--	--	2,800	--
Net income (loss).....	412	330	376	(14,928)
Income (loss) per share from continuing operations.....	0.02	0.02	(0.13)	(0.80)
Income per share from discontinued operations.....	--	--	0.15	--
Net income (loss) per share.....	\$ 0.02	\$ 0.02	\$ 0.02	\$ (0.80)
Weighted average common and dilutive common equivalent shares outstanding.....	18,990	18,827	19,208	18,627
YEAR ENDED JUNE 30, 1993				
Net sales.....	\$38,459	\$ 38,654	\$42,240	\$ 47,883
Gross profit.....	12,978	13,600	15,607	17,585
Restructuring charges (recovery).....	--	(718)	--	--
Net income.....	571	1,369	1,951	3,070
Net income per share.....	\$ 0.03	\$ 0.07	\$ 0.10	\$ 0.15
Weighted average common and dilutive common equivalent shares outstanding.....	18,884	19,471	20,007	20,466

</TABLE>

F-15

KLA INSTRUMENTS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

<TABLE>

<CAPTION>

	QUARTERS ENDED SEPTEMBER 30,	
	1992	1993
<S>	<C>	<C>
Net sales.....	\$38,459	\$51,904
Costs and expenses:		
Cost of sales.....	25,481	31,161
Engineering, research and development.....	4,015	4,929
Selling, general and administrative.....	7,504	9,933
	37,000	46,023
Income from operations.....	1,459	5,881
Interest income and other, net.....	266	173
Interest expense.....	(963)	(496)
Income before income taxes.....	762	5,558
Provision for income taxes.....	191	1,392
Net income.....	\$ 571	\$ 4,166
Net income per share.....	\$ 0.03	\$ 0.20
Weighted average common and dilutive common equivalent shares outstanding.....	18,884	20,798

</TABLE>

See accompanying notes to condensed consolidated financial information.

F-16

KLA INSTRUMENTS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET
(IN THOUSANDS)
(UNAUDITED)

ASSETS

<TABLE>

<CAPTION>

	JUNE 30, 1993	SEPTEMBER 30, 1993
	<S>	<C>
Current assets:		
Cash and cash equivalents.....	\$ 52,362	\$ 37,569
Accounts receivable, net of allowances of \$1,469 and \$1,465.....	48,077	64,945
Inventories.....	42,489	42,742
Deferred income taxes.....	3,917	3,917
Other current assets.....	4,724	4,773
Total current assets.....	151,569	153,946
Land, property and equipment, net.....	39,384	37,971
Other assets.....	8,136	7,751
Total assets.....	\$ 199,089	\$ 199,668

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Notes payable and current portion of long-term debt.....	\$ 6,532	\$ 2,627
Accounts payable.....	8,953	9,383
Income taxes payable.....	9,403	9,711
Other current liabilities.....	33,070	30,817
	-----	-----
Total current liabilities.....	57,958	52,538
	-----	-----
Deferred income taxes.....	7,081	7,081
Long-term debt.....	20,000	20,000
Commitments and contingencies.....		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 1,000 shares authorized, none issued and outstanding.....	--	--
Common shares, \$0.001 par value, 75,000 shares authorized, 19,503 and 19,657 shares issued and outstanding.....	20	20
Capital in excess of par value.....	64,638	66,317
Retained earnings.....	50,087	54,253
Treasury stock.....	(581)	(581)
Cumulative translation adjustment.....	(114)	40
	-----	-----
Total stockholders' equity.....	114,050	120,049
	-----	-----
Total liabilities and stockholders' equity.....	\$ 199,089	\$ 199,668
	-----	-----

</TABLE>

See accompanying notes to condensed consolidated financial information.

F-17

48

KLA INSTRUMENTS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

<TABLE>

<CAPTION>

	QUARTERS ENDED SEPTEMBER 30,	
	1992	1993
	-----	-----
<S>	<C>	<C>
Cash flows from operating activities:		
Net income.....	\$ 571	\$ 4,166
	-----	-----
Adjustments required to reconcile net income to cash provided by (used for) operations:		
Depreciation and amortization.....	2,434	2,408
Investment write-downs.....	84	--
Changes in assets and liabilities:		
Accounts receivable.....	(3,749)	(16,841)
Inventories.....	3,217	(171)
Other current assets.....	(506)	(37)
Accounts payable.....	943	428
Accrued compensation and benefits.....	(1,486)	(184)
Accrued warranty and installation.....	(97)	560
Income taxes payable.....	(21)	295
Other current liabilities.....	(1,784)	(2,244)
Other assets.....	110	(42)
	-----	-----
	(855)	(15,828)
	-----	-----
Cash (used for) operations.....	(284)	(11,662)
	-----	-----
Cash flows from investing activities:		
Capital expenditures.....	(401)	(756)
Capitalization of software development costs.....	(298)	(248)
	-----	-----
Cash (used for) investing activities.....	(699)	(1,004)
	-----	-----
Cash flows from financing activities:		

Short-term borrowings, net.....	(245)	(3,931)
Sales of common stock.....	14	1,679
	-----	-----
Cash (used for) financing activities.....	(231)	(2,252)
	-----	-----
Effect of exchange rate changes.....	65	125
	-----	-----
Increase (decrease) in cash and cash equivalents.....	(1,149)	(14,793)
Cash and cash equivalents at beginning of period.....	23,711	52,362
	-----	-----
Cash and cash equivalents at end of period.....	\$22,562	\$ 37,569
	-----	-----
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest.....	\$ 945	\$ 440
Income taxes.....	\$ 362	\$ 781

</TABLE>

See accompanying notes to condensed consolidated financial statements.

F-18

49

KLA INSTRUMENTS CORPORATION

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION
(UNAUDITED)

1. This information is unaudited but, in the opinion of the Company's management, all adjustments (consisting only of adjustments that are of a normal recurring nature) necessary for a fair statement of results have been included. The results for the quarter ended September 30, 1993, 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 consolidated financial statements for the year ended June 30, 1993.

2. Details of Certain Balance Sheet Components

<TABLE>
<CAPTION>

	JUNE 30, 1993	SEPTEMBER 30, 1993
	-----	-----
	-----	-----
	(IN THOUSANDS)	
<S>	<C>	<C>
Inventories:		
Customer service spares.....	\$13,530	\$12,963
Systems raw materials.....	8,389	7,923
Work-in-process.....	10,004	9,046
Demonstration equipment.....	10,566	12,810
	-----	-----
	\$42,489	\$42,742
	-----	-----
Other Accrued Liabilities:		
Accrued compensation and benefits.....	\$11,682	\$11,506
Accrued warranty and installation.....	12,188	12,791
Unearned service contract revenue.....	2,854	2,651
Other.....	6,346	3,869
	-----	-----
	\$33,070	\$30,817
	-----	-----

</TABLE>

F-19

50

NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS, AND ANY INFORMATION OR REPRESENTATION NOT CONTAINED OR INCORPORATED BY REFERENCE HEREIN MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR ANY UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES

A collage consisting of a photograph, in the center, of one of the Company's process monitoring systems, and additional photographs depicting various technologies and components incorporated in this system, including (1) image acquisition and image conversion subsystems, (2) a precision mechanical assembly, (3) an image computer on a printed circuit board, (4) a database analysis workstation, and (5) a computer screen displaying charts of wafer inspection data, with captions describing these matters.

52

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the various expenses in connection with the sale and distribution of the securities being registered, other than underwriting discounts and commissions. All of the amounts shown are estimates except the Securities and Exchange Commission registration fee, the Nasdaq National Market listing fee and the NASD filing fee.

<TABLE>

<CAPTION>

	TO BE PAID BY THE REGISTRANT <C>
<S>	
Securities and Exchange Commission registration fee.....	\$ 21,414
NASD filing fee.....	6,710
The Nasdaq National Market listing fee.....	17,500
Accounting fees and expenses.....	90,000
Printing.....	110,000
Transfer agent and registrar fees and expenses.....	2,500
Blue Sky fees and expenses (including counsel fees).....	12,000
Legal fees and expenses.....	140,000
Miscellaneous expenses.....	99,876

Total	\$ 500,000

</TABLE>

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

In 1986, Delaware enacted legislation which authorizes corporations to eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breach or alleged breach of directors' fiduciary "duty of care." Prior to this legislation, directors were accountable to corporations and their stockholders for monetary damages for conduct constituting gross negligence in the exercise of their duty of care. Numerous complaints alleging breach of directors' duty of care have been filed in connection with corporate mergers and acquisitions, and although the statute does not change directors' duty of care, it enables corporations to limit available relief to equitable remedies such as injunction or rescission. The legislation has no effect on directors' (1) duty of loyalty, (2) acts or omissions not in good faith or involving intentional misconduct or knowing violations of law, (3) illegal payment of dividends or (4) approval of any transaction from which a director derives an improper personal benefit. The validity and scope of the new statute has not been interpreted to any significant extent by Delaware courts. The statute has no effect on claims arising under the federal securities laws.

The Company's Certificate of Incorporation includes the provision authorized by the statute to eliminate the personal liability of its directors for monetary damages for breach or alleged breach of their duty of care. The Company's Bylaws provide that the Company shall indemnify its directors, officers, employees, and agents to the full extent permitted by the Delaware General Corporation Law, including in circumstances in which indemnification is otherwise discretionary under such law. In addition, with the approval of the Board of Directors and the stockholders, the Company has entered into separate indemnification agreements with its directors, officers and certain employees which require the Company, among other things, to indemnify them against certain liabilities which may arise by reason of their status or service (other than liabilities arising from willful misconduct of a culpable nature) and to obtain directors' and officers' insurance, if available on reasonable terms.

Section 145 of the Delaware General Corporation Law provides for the indemnification of officers, directors and other corporate agents in terms

sufficiently broad to indemnify such persons, under certain circumstances, for liabilities (including reimbursement of expenses incurred) arising under the Securities Act of 1933.

II-1

53

The Underwriting Agreement between the Company and the Underwriters will contain provisions regarding indemnification of directors and officers of the Company by the Underwriters.

ITEM 16. EXHIBITS.

The following exhibits are filed with this Registration Statement:

<TABLE>	
<CAPTION>	
NUMBER	EXHIBIT TITLE

<S>	<C>
1.1	Form of Underwriting Agreement.
3.1	Certificate of Incorporation, as amended and restated.
4.1	Rights Agreement, which is incorporated by reference to Exhibit 1 of Registrant's Form 8-A, filed on March 24, 1989.
5.1*	Legal opinion of Gray Cary Ware & Freidenrich, counsel to the Registrant.
24.1	Consent of Price Waterhouse, independent accountants (included on page II-4).
24.2*	Consent of Gray Cary Ware & Freidenrich (included in Exhibit 5.1 hereto).
25.1	Power of Attorney (included on page II-3).

</TABLE>

* To be filed by amendment.

ITEM 17. UNDERTAKINGS.

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933 (the "Act"), each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Act may be permitted to directors, officers, and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit, or proceeding) is asserted by such director, officer, or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 30A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THE REGISTRANT CERTIFIES THAT IT HAS REASONABLE GROUNDS TO BELIEVE THAT IT MEETS ALL OF THE REQUIREMENTS FOR FILING ON FORM S-3 AND HAS DULY CAUSED THIS REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF SAN JOSE, STATE OF CALIFORNIA, ON THE 5TH DAY OF JANUARY, 1994.

KLA INSTRUMENTS CORPORATION

By: KENNETH LEVY
Kenneth Levy, Chief Executive Officer

POWER OF ATTORNEY

Each of the officers and directors of KLA Instruments Corporation whose signature appears below hereby constitutes and appoints Kenneth Levy and Robert J. Boehkle, and each of them, their true and lawful attorneys and agents, with full power of substitution, each with power to act alone, to sign and execute on behalf of the undersigned any amendment or amendments to this Registration Statement on Form S-3 and to perform any acts necessary in order to file such amendments, and each of the undersigned does hereby ratify and confirm all that said attorneys and agents, or their or his substitutes, shall do or cause to be done by virtue hereof.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS REGISTRATION STATEMENT HAS BEEN SIGNED BELOW ON JANUARY 5, 1994 BY THE FOLLOWING PERSONS IN THE CAPACITIES INDICATED.

<TABLE>		<CAPTION>	
<C>	SIGNATURE	<S>	TITLE
	KENNETH LEVY		Chief Executive Officer and Chairman of the Board
	(Kenneth Levy)		(Principal Executive Officer)
	ROBERT J. BOEHLKE		Vice President, Finance and Administration, and Chief Financial Officer (Principal Accounting and Financial Officer)
	(Robert J. Boehlke)		
	ROBERT R. ANDERSON		Director and Vice Chairman of the Board
	(Robert R. Anderson)		
	KENNETH L. SCHROEDER		Director, President, and Chief Operating Officer
	(Kenneth L. Schroeder)		
	LEO J. CHAMBERLAIN		Director
	(Leo J. Chamberlain)		
	ROBERT E. LORENZINI		Director
	(Robert E. Lorenzini)		
	DR. YOSHIO NISHI		Director
	(Dr. Yoshio Nishi)		
	SAMUEL RUBINOVITZ		Director
	(Samuel Rubinovitz)		
	DAG TELLEFSEN		Director
	(Dag Tellefsen)		

</TABLE>

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the use in the Prospectus constituting part of this

Registration Statement on Form S-3 of our report dated July 28, 1993, relating to the consolidated financial statements of KLA Instruments Corporation, which appears in such Prospectus. We also consent to the application of such report to the Financial Statement Schedules for the three years ended June 30, 1993 listed under Item 14(a) of the KLA Instruments Corporation's Annual Report on Form 10-K for the year ended June 30, 1993 when such schedules are read in conjunction with the consolidated financial statements referred to in our report. The audits referred to in such report also included these Financial Statement Schedules. We also consent to the references to us under the headings "Experts" and "Selected Consolidated Financial Data" in such Prospectus. However, it should be noted that Price Waterhouse has not prepared or certified such "Selected Consolidated Financial Data."

PRICE WATERHOUSE
 San Jose, California
 January 6, 1994

II-4

56

INDEX TO EXHIBITS

<TABLE>
 <CAPTION>

EXHIBIT NUMBER	EXHIBITS	SEQUENTIALLY NUMBERED PAGE
<C>	<S>	<C>
1.1	Form of Underwriting Agreement.....	
3.1	Certificate of Incorporation, as amended and restated.....	
4.1	Rights Agreement, which is incorporated by reference to Exhibit 1 of Registrant's Form 8-A, filed on March 24, 1989.....	
5.1*	Legal opinion of Gray Cary Ware & Freidenrich, counsel to the Registrant....	
24.1	Consent of Price Waterhouse, independent accountants (included on page II-4).....	
24.2*	Consent of Gray Cary Ware & Freidenrich (included in Exhibit 5.1 hereto)....	
25.1	Power of Attorney (included on page II-3).....	

</TABLE>

* To be filed by amendment.

EXHIBIT 1.1

Draft Dated January 5, 1994

2,000,000 Shares

KLA INSTRUMENTS CORPORATION

Common Stock
\$.001 par value

UNDERWRITING AGREEMENT

January 5, 1994

KIDDER, PEABODY & CO. INCORPORATED
 MORGAN STANLEY & CO. INCORPORATED,
 As Representatives of the Several Underwriters,
 c/o Kidder, Peabody & Co. Incorporated
 10 Hanover Square
 New York, N.Y. 10005

Gentlemen:

KLA INSTRUMENTS CORPORATION, a Delaware corporation ("Company"), confirms its agreement with the several Underwriters listed in Schedule A hereto ("Underwriters") as follows:

1. DESCRIPTION OF SECURITIES. The Company proposes to issue and sell to the several Underwriters two million (2,000,000) shares of its Common Stock, \$.001 par value ("Common Stock"). Such 2,000,000 shares of Common Stock are hereinafter referred to as the "Securities".

2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company represents and warrants to, and agrees with, each Underwriter that:

(a) A registration statement (File No. 33-_____) with respect to the Securities, including a preliminary form of prospectus, has been carefully prepared by the Company in conformity with the requirements of the Securities Act of 1933, as amended ("Act"), and the rules and regulations ("Rules and Regulations") of the Securities and Exchange Commission ("Commission") thereunder and filed with the Commission and has become effective. Such registration statement may have been amended prior to the date of

1

2

this Agreement; any such amendment has also been prepared and filed in conformity with the Act and the Rules and Regulations, and any such amendment filed after the effective date of such registration statement has become effective. No stop order suspending the effectiveness of the registration statement has been issued, and, to the Company's knowledge, no proceeding for that purpose has been instituted or threatened by the Commission. A final form of prospectus has been or will be so prepared and will be filed pursuant to Rule 424(b) of the Rules and Regulations

on or before the second business day after the date hereof (or such earlier time as may be required by the Rules and Regulations); and the Rules and Regulations do not require the Company to, and, without your consent, the Company will not, file a post-effective amendment after the time of execution of this Agreement and prior to the filing of such final form of prospectus. Copies of such registration statement, any such amendments, each related preliminary prospectus ("Preliminary Prospectus") and all documents incorporated by reference therein that were filed with the Commission on or prior to the date of this Agreement (including one fully executed copy of the registration statement and of each amendment thereto for each of you and for counsel for the Underwriters) have been delivered to you. Such registration statement, as it may have heretofore been amended and including any information deemed by virtue of Rule 430A(b) of the Rules and Regulations to be part of such registration statement at the time it was declared effective, is referred to herein as the "Registration Statement", and such final form of prospectus, in the form in which it is first filed pursuant to Rule 424(b) of the Rules and Regulations is referred to herein as the "Prospectus". Any reference herein to the Registration Statement, the Prospectus, any amendment or supplement thereto or any Preliminary Prospectus shall be deemed to refer to and include the documents incorporated by reference therein, and any reference herein to the terms "amend", "amendment" or "supplement" with respect to the Registration Statement or Prospectus shall be deemed to refer to and include the filing after the execution hereof of any document with the Commission deemed to be incorporated by reference therein.

(b) Each part of the Registration Statement, when such part became or becomes effective, each Preliminary Prospectus, on the date of filing thereof with the Commission, and the Prospectus and any amendment or supplement thereto, on the date of filing thereof with the Commission and at the Closing Date (as hereinafter defined), conformed or will conform in all material respects with the requirements of the Act and the Rules and Regulations; each part of the registration statement, when such part became or becomes effective, did not or will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; the Prospectus and any amendment or supplement thereto, on the date of filing thereof with the Commission and at the Closing Date, did not or will not include an untrue statement of a material fact or

2

3

omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; except that the foregoing shall not apply to statements in or omissions from any such document in reliance upon, and in conformity with, written information relating to any Underwriter and furnished to the Company by you, or by any Underwriter through you, specifically for use in the preparation thereof.

(c) The documents incorporated by reference in the Registration Statement, the Prospectus, any amendment or supplement thereto or any Preliminary Prospectus, when they became or become effective under the Act or were or are filed with the Commission under the Securities Exchange Act of 1934, as amended ("Exchange Act"), as the case may be, conformed or will conform in all material respects with the requirements of the Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder. The Company and the transactions contemplated by this Agreement meet the requirements for using Form S-3 under the Act.

(d) The financial statements of the Company and its subsidiaries, together with related schedules and notes set forth in the

Registration Statement and Prospectus, fairly present the financial condition of the Company and its subsidiaries as of the dates indicated and the results of operations and changes in financial position for the periods therein specified in conformity with generally accepted accounting principles consistently applied throughout the periods involved (except as otherwise disclosed therein) and, except as disclosed in the Prospectus, the other financial information and financial and statistical data set forth in the Prospectus including all references to the amount of the Company's "backlog" are fairly presented and prepared on a basis consistent with such financial statements and the books and records of the Company.

(e) The Company and each of its subsidiaries has been duly incorporated and is an existing corporation in good standing under the laws of its jurisdiction of incorporation, has full power and authority (corporate and other) to conduct its business as described in the Registration Statement and Prospectus and is duly qualified to do business in each jurisdiction in which it owns or leases real property or in which the conduct of its business requires such qualification except where the failure to be so qualified, considering all such cases in the aggregate, does not involve a material risk to the business, properties, financial position or results of operations of the Company and its subsidiaries; and all of the outstanding shares of capital stock of each such subsidiary have been duly authorized and validly issued, are fully paid and non-assessable and (except as otherwise stated in the Registration Statement) are owned beneficially by the Company subject to no security interest, other encumbrance or adverse claim. All of the

3

4

Company's subsidiaries are listed in an exhibit to the Company's annual report on Form 10-K which is incorporated by reference into the Registration Statement.

(f) The outstanding shares of Common Stock of the Company and the Securities have been duly authorized and are, or when issued as contemplated hereby will be, validly issued, fully paid and non-assessable and conform, or when so issued will conform, to the description thereof in the Prospectus and are free of any preemptive rights, contractual rights to purchase or other similar rights created by the Company or, to the Company's knowledge, by any other person. The shareholders of the Company have no preemptive rights with respect to the Securities. The Company's capitalization and ownership of its capital stock as of December 31, 1993 is as set forth in the Registration Statement and Prospectus.

(g) Except as contemplated in the Prospectus, subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, neither the Company nor any of its subsidiaries has incurred any liabilities or obligations, direct or contingent, or entered into any transactions, not in the ordinary course of business, that are material to the Company and its subsidiaries, and there has not been any material change, on a consolidated basis, in the capital stock, short-term debt or long-term debt of the Company and its subsidiaries, or any material adverse change in the condition (financial or other), business, prospects, net worth or results of operations of the Company and its subsidiaries.

(h) Except as set forth in the Prospectus, there is not pending or, to the knowledge of the Company, threatened any action, suit or proceeding to which the Company or any of its subsidiaries is a party, or to which any of their respective properties is subject, before or by any court or governmental agency or body, that are required to be disclosed in the Registration Statement or the Prospectus but are not described as required or that might result in any material adverse

change in the condition (financial or other), business, prospects, net worth or results of operations of the Company and its subsidiaries, or might materially and adversely affect the properties or assets thereof.

(i) There are no contracts or documents of the Company or any of its subsidiaries that are required to be described in or filed as exhibits to the Registration Statement or the Prospectus or to any of the documents incorporated by reference therein by the Act or the Exchange Act or by the rules and regulations of the Commission thereunder that have not been so described or filed.

(j) The performance of this Agreement, the consummation of the transactions herein contemplated and the fulfillment of the terms herein, will not result in a breach or violation of any of the terms

4

5

and provisions of, or constitute a default under (i) any statute, (ii) any agreement or instrument to which the Company or any of its subsidiaries is a party or by which it is bound or to which any of the property of the Company or any of its subsidiaries is subject, which breach or violation would have a material adverse effect on the business or financial condition of the Company and its subsidiaries, taken as whole, (iii) the charter or by-laws of the Company or any of its subsidiaries, or (iv) any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its properties or any of its subsidiaries; no consent, approval, authorization or order of, or filing with, any court or governmental agency or body is required for the consummation of the transactions contemplated by this Agreement in connection with the issuance or sale of the Securities by the Company, except such as may be required under the Act or state securities laws; the consummation of the transactions contemplated by this Agreement will not result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of its subsidiaries pursuant to the terms of any agreement or instrument to which any of them is a party or by which any of the property or assets of any of them is bound which lien, charge or encumbrance would have a material adverse effect on the business or financial condition of the Company and its subsidiaries, taken as a whole; and the Company has full power and authority to authorize, issue and sell the Securities as contemplated by this Agreement free of any preemptive rights.

(k) Each of the Company and its subsidiaries holds, and has performed all of its obligations with respect to, all license, franchises, permits, consents and certificates in each jurisdiction or place where the conduct of its business requires such licenses, franchises, permits, consents, certificates or qualification and where failure to be so licensed would have a material adverse effect on the business or financial condition of the Company and its subsidiaries taken as a whole.

(l) Each of the Company and its subsidiaries is in compliance in all material respects with all laws, regulations, orders and decrees applicable to it the violation of which would have a material adverse effect on the business or financial condition of the Company and its subsidiaries taken as a whole.

(m) To its knowledge, the Company owns, or possesses adequate right to use, all patents, inventions, trademarks, service marks, tradenames, copyrights and proprietary rights necessary for the conduct of its business as described in the Prospectus. Except as disclosed in the Prospectus, the Company has not received any notice of conflict with the asserted proprietary rights of others which materially adversely affects the business of the Company and its subsidiaries, and

does not know of any basis therefor. There are no legal or governmental proceedings pending relating to patents, trademarks, service marks or proprietary information, to which the

5

6

Company or any subsidiary is a party or of which any property of the Company or any subsidiary is the subject and, to the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others.

(n) The Company and its subsidiaries hold good and marketable title in fee simple, except as otherwise stated in the Prospectus, to all of the real property referred to therein as being owned by them, free and clear of all liens and encumbrances, except liens and encumbrances referred to in the Prospectus (or reflected in the financial statements included therein) and liens and encumbrances which are not material in the aggregate and do not materially interfere with the conduct of the business of the Company and its subsidiaries.

(o) The Company and its subsidiaries have filed all tax returns required to be filed and are not in default in the payment of any taxes which were payable pursuant to said returns or any assessments with respect thereto, other than any which the Company or any such subsidiary is contesting in good faith and other than where any such failures or defaults, taken in the aggregate, would not have a material adverse effect on the business or financial condition of the Company and its subsidiaries taken as a whole.

(p) Neither the Company nor any of its subsidiaries is in violation of its charter or by-laws and no default exists (and no event has occurred which with notice or lapse of time, or both, would constitute a default) in the due performance of any obligation, agreement or condition contained in any material bond, debenture, note or any other evidence of indebtedness or in any material agreement, indenture or other instrument to which it is a party or by which it is bound which default would have a material adverse effect on the business or financial condition of the Company and its subsidiaries, taken as a whole.

(q) The accountants who have certified or shall certify the financial statements filed or to be filed with the Commission as parts of the Registration Statement and the Prospectus are independent public accountants as required by the Act.

(r) This Agreement has been duly authorized, executed and delivered by the Company and is a legal, valid and binding agreement of the Company, enforceable in accordance with its terms, except as rights to indemnity and contribution hereunder may be limited by applicable law and as enforcement hereof may be limited by bankruptcy, insolvency or other similar laws affecting creditors' rights generally, and subject to the applicability of general principles of equity.

6

7

(s) To the Company's knowledge, no labor disturbance by the employees of the Company and its subsidiaries exists or is imminent.

(t) No holders of Common Stock or other securities of the Company have registration rights with respect to such securities which

are triggered by this offering, except for registration rights which have been waived with respect to this offering.

(u) The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus.

(v) The Company has not distributed and, prior to the later to occur of (i) the Closing Date and (ii) completion of the distribution of the Securities, will not distribute any offering material in connection with the offering and sale of the Securities other than the Registration Statement, the Preliminary Prospectus, the Prospectus or other materials, if any, permitted by the Act.

(w) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) material transactions are executed in accordance with management's general or specific authorization; (ii) material transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to material assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for material assets is compared with existing material assets at reasonable intervals and appropriate action is taken with respect to any differences.

(x) To the Company's knowledge, neither the Company nor any of its subsidiaries nor any employee or agent of the Company or any of its subsidiaries has made any payment of funds of the Company or any subsidiary or received or retained any funds in violation of any law, rule or regulation, which payment, receipt or retention of funds is of a character required to be disclosed in the Prospectus.

(y) The Company has complied with all provisions of Florida Statutes Section 517.075, relating to issuers doing business with Cuba.

3. PURCHASE, SALE AND DELIVERY OF SECURITIES. On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Company agrees to issue and sell to each Underwriter, and each Underwriter agrees, severally and not jointly, to purchase from the Company, at a purchase price of \$_____ per share the amount of Securities set forth opposite the name of such Underwriter in Schedule A hereto.

7

8

The Securities will be delivered by the Company to you for the accounts of the Underwriters against payment of the purchase price therefor by certified or official bank check or checks in New York Clearing House (next day) funds payable to the order of the Company at the office of Kidder Peabody & Co. Incorporated, 555 California Street, San Francisco, California, at 7:00 A.M., San Francisco time, on the fifth business day after the date of this Agreement (or if the New York or American Stock Exchanges or commercial banks in The City of New York are not open on such day, the next day on which such exchanges and banks are open), or at such other time not later than eight full business days thereafter as you and the Company determine, such time being herein referred to as the "Closing Date". The Securities will be prepared in definitive form and in such authorized denominations and registered in such names as you may request upon at least two business days' prior notice to the Company and will be made available for checking and packaging at the office of _____, at least one business day prior to the Closing Date.

It is understood that you, acting individually and not in a representative capacity, may (but shall not be obligated to) make payment to the Company on behalf of any other Underwriter for the Securities to be purchased by such Underwriter. Any such payment by you shall not relieve any

such Underwriter of any of its obligations hereunder.

4. COVENANTS. The Company covenants and agrees that:

(a) The Company will cause the Prospectus to be filed as required by Section 2(a) hereof (but only if you have not reasonably objected thereto by notice to the Company after having been furnished a copy a reasonable time prior to filing) and will notify you promptly of such filing; it will notify you promptly of the time when any subsequent amendment to the Registration Statement has become effective or any supplement to the Prospectus has been filed and of any request by the Commission for any amendment or supplement to the Registration Statement or Prospectus or for additional information; it will prepare and file with the Commission, promptly upon your request, any amendments or supplements to the Registration Statement or Prospectus that, in the opinion of your legal counsel, may be necessary in connection with the distribution of the Securities by the Underwriter and will use its best efforts to cause such amendment to become effective as promptly as possible; it will file no amendment or supplement to the Registration Statement or Prospectus (other than any document required to be filed under the Exchange Act that upon filing is deemed to be incorporated by reference therein) to which you shall reasonably object by notice to the Company after having been furnished a copy a reasonable time prior to the filing; and it will furnish to you at or prior to the filing thereof a copy of any document that upon filing is deemed to be incorporated by reference in the Registration Statement or Prospectus.

8

9

(b) The Company will advise you, promptly after it shall receive notice or obtain knowledge thereof, of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement, of the suspension of the qualification of the Securities for offering or sale in any jurisdiction, or of the initiation or threatening of any proceeding for any such purpose; and it will promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal if such a stop order should be issued.

(c) Within the time during which a prospectus relating to the Securities is required to be delivered under the Act, the Company will comply as far as it is able with all requirements imposed upon it by the Act and by the Rules and Regulations, as from time to time in force, so far as necessary to permit the continuance of sales of or dealings in the Securities as contemplated by the provisions hereof and the Prospectus. If during such period any event occurs as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances then existing, not misleading, or if during such period it is necessary to amend or supplement the Registration Statement or Prospectus to comply with the Act, the Company will promptly notify you and will amend or supplement the Registration Statement or Prospectus (at the expense of the Company) so as to correct such statement or omission or effect such compliance.

(d) The Company will cooperate with you and your counsel and will use every reasonable effort to qualify the Securities for sale under the securities laws of such jurisdictions as you reasonably designate and to take any and all action in connection with the registration and qualification including, but not limited to, the filing of such consent to service of process or other documents as may be necessary in order to effect such registration or qualification and to continue such qualifications in effect so long as required for the distribution of the Securities, except that the Company shall not be required in connection therewith to qualify as a foreign corporation or

to execute a general consent to service of process in any jurisdiction.

(e) The Company will furnish, without charge, to the Underwriters copies of the Registration Statement, each form of the Preliminary Prospectus, the Prospectus (including all documents incorporated by reference therein) and all amendments and supplements to such documents, in each case as soon as available and in such quantities as you may from time to time reasonably request.

(f) The Company will make generally available to its security holders as soon as practicable, but in any event not later than 45 days after the end of the first quarter ending after one year

9

10

following the effective date of the Registration Statement, an earnings statement (which need not be audited) covering a 12-month period beginning after the effective date of the Registration Statement, that shall satisfy the provisions of Section 11(a) of the Act.

(g) During a period of five years from the date hereof, the Company agrees to furnish to you, as soon as available, a copy of each report and definitive proxy statement mailed to security holders or filed with the Commission under the Exchange Act.

(h) The Company consents to the use of any Preliminary Prospectus or the Prospectus (and of any supplements or amendments thereto) in accordance with the provisions of the Act and with the securities or Blue Sky Laws of the jurisdictions in which the Securities are being offered, prior to the effective date of the Registration Statement or for such period of time thereafter as the Prospectus is required by law to be delivered in connection herewith.

(i) The Company, whether or not the transactions contemplated hereunder are consummated or this Agreement is terminated, will pay all expenses incident to the performance of its obligations hereunder, will pay the expenses of the preparation, printing, duplication, delivery and filing of all documents relating to the offering, and will reimburse the Underwriters for any expenses (including filing fees and reasonable fees and disbursements of counsel) incurred by them in connection with the matters referred to in Section 4(d) hereof and the preparation of memoranda relating thereto and for any filing fee or other reasonable expenses in connection with any filings with the National Association of Securities Dealers, Inc. relating to the Securities. If the sale of the Securities provided for herein is not consummated by reason of any failure, refusal or inability on the part of the Company to perform any agreement on its part to be performed hereunder, or because any other condition of the Underwriters' obligations hereunder required to be fulfilled by the Company is not fulfilled, the Company will reimburse the Underwriters for all reasonable out-of-pocket disbursements (including reasonable fees and disbursements of counsel) incurred by the Underwriters in connection with their investigation, preparing to market and marketing the Securities or in contemplation of performing their obligations hereunder. The Company shall not in any event be liable to any of the Underwriters for loss of anticipated profits from the transactions covered by this Agreement.

(j) The Company will apply the net proceeds from the sale of the Securities as set forth in the Prospectus.

(k) Except for the Securities sold under this Agreement, the Company will not, directly or indirectly, offer, sell or otherwise

11

dispose of any Common Stock (other than Common Stock or other securities issued pursuant to employee benefit plans, employee stock purchase plans, qualified stock option plans or other employee compensation plans existing on the date hereof or pursuant to currently outstanding options, warrants or rights) or securities convertible into or exchangeable for, or any rights to purchase or acquire, Common Stock or establish a "put equivalent position" with respect to the Common Stock within the meaning of Rule 16a-1(h) of the Exchange Act prior to the expiration of 90 days from the date of this Agreement without your prior written consent; and the Company will, at or prior to the Closing Date, furnish you with a written agreement of each of Kenneth Levy, Robert R. Anderson, Kenneth L. Schroeder and Robert J. Boehlke that each of them will not, directly or indirectly, offer, sell or otherwise dispose of any Common Stock or securities convertible into or exchangeable for, or any rights to purchase or acquire, Common Stock or establish a "put equivalent position" with respect to the Common Stock within the meaning of Rule 16a-1(h) of the Exchange Act prior to the expiration of 90 days from the date of this Agreement without your prior written consent except for certain shares owned by the children of Kenneth Levy and Robert Anderson.

(1) Except as stated in this Agreement and in the Preliminary Prospectus and Prospectus, the Company has not taken, nor will it take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of the Securities.

5. CONDITIONS OF UNDERWRITERS' OBLIGATIONS. The obligations of the Underwriters to purchase and pay for the Securities as provided herein shall be subject to the accuracy, as of the date hereof and the Closing Date (as if made at the Closing Date), of the representations and warranties of the Company herein, to the performance by the Company of its obligations hereunder and to the following additional conditions:

(a) The Prospectus shall have been filed as required by Section 2(a) hereof; and no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceeding for that purpose shall have been instituted or, to the knowledge of the Company or any Underwriter, threatened by the Commission, and any request of the Commission for additional information (to be included in the Registration Statement or the Prospectus or otherwise) shall have been complied with to your reasonable satisfaction.

(b) The Registration Statement or Prospectus, or any amendment or supplement thereto, does not contain an untrue statement of fact that in your reasonable opinion is material, or omit to state a fact that in your reasonable opinion is material and is required to

11

12

be stated therein or is necessary to make the statements therein not misleading.

(c) Except as contemplated in the Prospectus, subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, there shall not have been any material change, on a consolidated basis, in the capital stock, short-term debt or long-term debt of the Company and its subsidiaries,

or any adverse material change, or any development involving a prospective adverse material change, in the condition (financial or other), property, assets, business, prospects, net worth or results of operations of the Company and its subsidiaries that, in your reasonable judgment, makes it impracticable or inadvisable to offer or deliver the Securities on the terms and in the manner contemplated in the Prospectus.

(d) You shall have received the opinion of Ware & Freidenrich, counsel for the Company, dated the Closing Date and satisfactory to the Underwriters and their counsel, to the effect that:

(i) The Company and each of its subsidiaries has been duly incorporated and is an existing corporation in good standing under the laws of its jurisdiction of incorporation, and has full power and authority (corporate and other) to conduct its business as described in the Registration Statement and Prospectus; and all of the outstanding shares of capital stock of each of the Company's subsidiaries have been duly authorized and validly issued, are fully paid and non-assessable and free and clear of preemptive rights, and (except as otherwise stated in the Registration Statement) are owned beneficially by the Company subject to no security interest, other encumbrance, adverse claim, contractual right to purchase or similar rights;

(ii) All of the outstanding shares of Common Stock of the Company (including the Securities) and all other equity securities of the Company have been duly authorized and validly issued, are fully paid and non-assessable and conform to the description thereof in the Prospectus; the shareholders of the Company have no preemptive rights with respect to the Securities, and, to counsel's knowledge, there are no contractual rights to purchase or other similar rights with respect to the Securities;

(iii) The Registration Statement has become effective under the Act on the date of this Agreement or at such later date and time as shall be consented to in writing by you; the Prospectus has been filed as required by Section 2(a) hereof; and to the best knowledge of such counsel no stop order suspending the effectiveness of the Registration Statement has

12

13

been issued and no proceeding for that purpose has been instituted or threatened by the Commission;

(iv) Each part of the registration statement, when such part became effective, and the Prospectus and any amendment or supplement thereto, on the date of filing thereof with the Commission and at the Closing Date, complied as to form in all material respects with the requirements of the Act and the Rules and Regulations; and the documents incorporated by reference in the Registration Statement or Prospectus or any amendment or supplement thereto, when they became effective under the Act or were filed with the Commission under the Exchange Act, as the case may be, complied as to form in all material respects with the requirements of the Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder; it being understood that such counsel need express no opinion as to the financial statements or other financial data included in any of the documents mentioned in this clause;

(v) The descriptions in the Registration Statement

and Prospectus of statutes, legal and governmental proceedings, contracts, agreements, securities and other documents, and statements of law or legal conclusions regarding claims against the Company or any of its subsidiaries, are accurate and fairly present the information, required to be shown; and such counsel does not know of any statutes or legal or governmental proceedings required to be described in the Prospectus that are not described as required, or of any contracts, agreements, securities or documents of a character required to be described in the Registration Statement or Prospectus (or required to be filed under the Exchange Act if upon such filing they would be incorporated by reference therein) or to be filed as exhibits to the Registration Statement that are not described and filed as required;

(vi) This Agreement has been duly authorized, executed and delivered by the Company and the execution, delivery and performance of this Agreement and the consummation of the transactions herein contemplated will not result in a breach or violation of any of the terms and provisions of, or constitute a default under, any statute, any agreement or instrument known to such counsel to which the Company is a party or by which it is bound or to which any of the property of the Company is subject, the Company's charter or by-laws, or any order, rule or regulation known to such counsel of any court or governmental agency or body having jurisdiction over the Company or any of its properties; and no consent, approval, authorization or order of, or filing with, any court or governmental agency or body is required for the consummation of the transactions contemplated by this Agreement in connection

13

14

with the issuance or sale of the Securities by the Company, except such as have been obtained under the Act and such as may be required under state securities laws in connection with the purchase and distribution of the Securities by the Underwriters;

(vii) To counsel's knowledge, neither the Company nor any of its subsidiaries is in violation of its charter or by-laws;

(viii) To counsel's knowledge, no holders of Common Stock or other securities of the Company have registration rights with respect to such securities which are triggered by this offering, except for registration rights which have been waived with respect to this offering; and

(ix) Neither the Company nor any subsidiary is an "investment company" or an "affiliate" or "interested person" of an "investment company," as such terms are defined in the 1940 Act.

In addition to the matters set forth above, the counsel rendering the foregoing opinion shall also include a statement to the effect that although they have not independently verified the accuracy or completeness of the statements contained in the Registration Statement or the Prospectus, based upon their participation in the preparation of the Registration Statement and the Prospectus and their review and discussion of the contents thereof, nothing has come to the attention of such counsel during the course of their representation of the Company that leads them to believe that the Registration Statement or the Prospectus (except as to the financial statements and schedules and other financial data contained or incorporated by

reference therein, as to which such counsel need not express any opinion or belief), at the time the Registration Statement became effective contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, or at the Closing Date or any later date on which Optional Shares (as defined in Section 13 below) are purchased, contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(e) You will have received the opinions of patent counsel for the Company, dated the Closing Date, to the effect that:

- (i) The statements in the Registration Statement under the caption "Business -- Patents and Other

14

15

Proprietary Rights" and in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 1993 under the caption "Description of Business -- Patents and Trademarks" were at the time of the filing of the Registration Statement and such Annual Report, to the best of such counsel's knowledge, accurate statements or summaries of the matters therein set forth;

(ii) To the best of each such counsel's knowledge, except as disclosed in the Prospectus and such counsel's opinion, there are no legal or governmental proceedings pending, relating to patents, trademarks, service marks or proprietary information, to which the Company or any subsidiary is a party or of which any property of the Company or any subsidiary is the subject, and to the best of such counsel's knowledge no such proceedings are threatened or contemplated by governmental authorities or threatened by others; and

(iii) They do not know of any material contracts or other documents, relating to patents, trademarks, service marks or proprietary information.

(f) You shall have received from Morrison & Foerster, counsel for the Underwriters, such opinion or opinions, dated the Closing Date, with respect to the incorporation of the Company, the validity of the Securities, the Registration Statement, the Prospectus and other related matters as you reasonably may request, and such counsel shall have received such papers and information as they request to enable them to pass upon such matters.

(g) At the time of execution of this Agreement and at the Closing Date, you shall have received a letter from Price Waterhouse, independent public accountants for the Company and its subsidiaries, dated the date of delivery thereof, to the effect set forth in Exhibit I hereto.

(h) You shall have received from the Company a certificate, signed by the Chairman of the Board, the President or a Vice President and by the principal financial or accounting officer of the Company, dated the Closing Date, to the effect that, to the best of their knowledge based upon reasonable investigation:

(i) The representations and warranties of the Company in this Agreement are true and correct, as if made at and as of the Closing Date, and the Company has complied with

all the agreements and satisfied all the conditions hereunder on its part to be performed or satisfied at or prior to the Closing Date;

15

16

(ii) No stop order suspending the effectiveness of the Registration Statement has been issued, and no proceeding for that purpose has been instituted or is threatened, by the Commission;

(iii) Subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, there have been no material adverse changes to the condition (financial or otherwise) business, prospects, net worth or results of operations of the Company and its subsidiaries; and

(iv) Since the effective date of the Registration Statement, there has occurred no event required to be set forth in an amendment or supplement to the Registration Statement or Prospectus that has not been so set forth, and there has been no document required to be filed under the Exchange Act and the rules and regulations of the Commission thereunder that upon such filing would be deemed to be incorporated by reference in the Prospectus that has not been so filed.

(i) The Company shall not have failed at or prior to the Closing Date to have performed or complied with any of the agreements contained herein and required to be performed or complied with by it at or prior to the Closing Date.

(j) You shall have been furnished evidence in usual written or telegraphic form from the appropriate state authorities, or other evidence satisfactory to you of the registrations and qualifications referred to in Section 4(d) hereof.

(k) The Company shall have furnished to you such further certificates and documents as you shall have reasonably requested.

(l) The National Market System shall have approved the Securities for inclusion, subject only to official notice of issuance.

All such opinions, certificates, letters and other documents will be in compliance with the provisions hereof only if they are satisfactory in form and substance to you. The Company will furnish you with such conformed copies of such opinions, certificates, letters and other documents as you shall reasonably request.

6. INDEMNIFICATION AND CONTRIBUTION.

(a) The Company will indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages,

16

17

liabilities (or actions in respect thereof) arise out of or are based

upon an untrue statement or alleged untrue statement of a material fact contained in any part of the registration statement when such part became effective, or in the Registration Statement, any Preliminary Prospectus, the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by it in connection with investigating or defending against such loss, claim, damage, liability or action as such expenses are incurred; provided, however, that (1) the Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company by you, or by any Underwriter through you, specifically for use in the preparation thereof and (2) the indemnity agreement contained in this Section 6(a) with respect to any Preliminary Prospectus shall not inure to the benefit of any Underwriter from whom the person asserting any such losses, claims, damages, liabilities or expenses purchased the Securities which are the subject thereof (or to the benefit of any person controlling such Underwriter) if at or prior to the written confirmation of the sale of such Securities a copy of the Prospectus (or the Prospectus as amended or supplemented) was not sent or delivered to such person (excluding the documents incorporated therein by reference) and the untrue statement or omission of a material fact contained in such Preliminary Prospectus was corrected in the Prospectus (or the Prospectus as amended or supplemented) unless the failure is the result of noncompliance by the Company with Section 4(e) hereof. The indemnity agreement of the Company contained in this Section 6(a) and the representations and warranties of the Company contained in Section 2 hereof shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any indemnified party and shall survive the delivery of and payment for the Securities.

(b) Each Underwriter will indemnify and hold harmless the Company against any losses, claims, damages or liabilities to which the Company may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any part of the registration statement when such part became effective, or in the Registration Statement, any Preliminary Prospectus, the Prospectus or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent,

17

18

but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made therein in reliance upon and in conformity with written information furnished to the Company by you, or by such Underwriter through you, specifically for use in the preparation thereof; and will reimburse the Company for any legal or other expenses reasonably incurred by the Company in connection with investigating or defending against any such loss, claim, damage, liability or action as such expenses are incurred.

(c) Promptly after receipt by an indemnified party under subsection (a) or (b) above of notice of the commencement of any action or claim in respect of which indemnity may be sought from the Company, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the indemnifying party in writing of the commencement thereof; but the

omission so to notify the indemnifying party shall not relieve it from any liability that it may have to any indemnified party otherwise than under such subsection. In case any such action shall be brought against any indemnified party, and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate in, and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party under such subsection for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation.

(d) If the indemnification provided for in this Section 6 is unavailable or insufficient to hold harmless an indemnified party under subsection (a) or (b) above, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages or liabilities referred to in subsection (a) or (b) above, (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and the Underwriters on the other in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net

proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this subsection (d) were to be determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in the first sentence of this subsection (d). The amount paid by an indemnified party as a result of the losses, claims, damages or liabilities referred to in the first sentence of this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by by such indemnified party in connection with investigating or defending against any action or claim that is the subject of this subsection (d). Notwithstanding the provisions of this subsection (d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such Underwriter has otherwise been required to pay, by reason of such undue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not

guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

(e) The obligations of the Company under this Section 6 shall be in addition to any liability that the Company may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Underwriter within the meaning of the Act; and the obligations of the Underwriters under this Section 6 shall be in addition to any liability that the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each director of the Company (including any person who, with his consent, is named in the Registration Statement as about to become a director of the Company), to each officer of the Company who has signed the Registration Statement and to each person, if any, who controls the Company within the meaning of the Act.

19

20

(f) Any losses, claims, damages, liabilities or expenses for which an indemnified party is entitled to indemnification or contribution under this Section 6 shall be paid by the indemnifying party to the indemnified party as such losses, claims, damages, liabilities or expenses are incurred.

(g) A successor of the Underwriters or the Company or its director or officers (or of any person controlling the Underwriters or the Company) shall be entitled to the benefits of the indemnity, contribution and reimbursement agreements contained in this Section 6.

(h) In addition to its other obligations under this Section 6, the Company agrees that, as an interim measure during the pendency of any claim, action, investigation, inquiry or other proceeding arising out of or based upon any statement or omission, or any alleged statement or omission, described in this Section 6, it will reimburse you on a quarterly basis for all reasonable legal or other expenses incurred in connection with investigating or defending any such claim, action, investigation, inquiry or other proceeding, notwithstanding the absence of a judicial determination as to the propriety and enforceability of the Company's obligation to reimburse you for such expenses and the possibility that such payments might later be held to have been improper by a court of competent jurisdiction. To the extent that any such interim reimbursement payment is so held to have been improper, you shall promptly return it to the Company together with interest, compounded daily, determined on the basis of the reference rate (or other commercial lending rate for borrowers of the highest credit standing) announced from time to time by Bank of America NT&SA, San Francisco, California (the "Prime Rate"). Any such interim reimbursement payments which are not made to you within 30 days of a request for reimbursement shall bear interest at the Prime Rate from the date of such request. This indemnity agreement shall be in addition to any liabilities which the Company may otherwise have.

It is agreed that any controversy arising out of the operation of the interim reimbursement arrangements set forth in this Section 6, including the amounts of any requested reimbursement payments and the method of determining such amounts, shall be settled by arbitration conducted under the provisions of the Constitution and Rules of the Board of Governors of the New York Stock Exchange, Inc. or pursuant to the code of Arbitration Procedure of the National Association of Securities Dealers, Inc. Any such arbitration must be commenced by service of a written demand for arbitration or a written notice of intention to arbitrate, therein electing the arbitration tribunal. In the event the party demanding arbitration does not make such designation of an arbitration tribunal in such demand or notice, then the party

responding to said demand or notice is authorized to do so. Such an arbitration would be limited to the operation of the interim

20

21

reimbursement provisions contained in this Section 6, and would not resolve the ultimate propriety or enforceability of the obligation to reimburse expenses which is created by the provisions of such Section 6.

(i) The parties to this Agreement hereby acknowledge that they are sophisticated business persons who were represented by counsel during the negotiations regarding the provisions hereof, including without limitation the provisions of this Section 6, and are fully informed regarding said provisions. They further acknowledge that the provisions of this Section 6 fairly allocate the risks in light of the ability of the parties to investigate the Company and its business in order to assure that adequate disclosure is made in the Registration Statement and Prospectus as required by the Act and the Exchange Act. The parties are advised that federal or state public policy, as interpreted by the courts in certain jurisdictions, may be contrary to certain of the provisions of this Section 6, and the parties hereto hereby expressly waive and relinquish any right or ability to assert such public policy as defense to a claim under this Section 6 and further agree not to attempt to assert any such defense.

7. REPRESENTATIONS AND AGREEMENTS TO SURVIVE DELIVERY.

All representations, warranties and agreements of the Company herein or in certificates delivered pursuant hereto, and the agreements of the Underwriters contained in Section 6 hereof, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of any Underwriter or any controlling persons, or the Company or any of its officers, directors or any controlling persons, and shall survive delivery of and payment for the Securities hereunder or termination of this Agreement.

8. SUBSTITUTION OF UNDERWRITERS.

(a) If any Underwriter or Underwriters shall fail to take up and pay for the amount of Securities agreed by such Underwriter or Underwriters to be purchased hereunder, upon tender of such Securities in accordance with the terms hereof, and the amount of Securities not purchased does not aggregate more than 10% of the total amount of Securities that the Underwriters are obligated to purchase hereunder at the Closing Date, the remaining Underwriters shall be obligated to take up and pay for (in proportion to their respective underwriting obligations hereunder as set forth in Schedule A hereto except as may otherwise be determined by you) the Securities that the withdrawing or defaulting Underwriter or Underwriters agreed but failed to purchase.

(b) If any Underwriter or Underwriters shall fail to take up and pay for the amount of Securities agreed by such Underwriter or Underwriters to be purchased hereunder, upon tender of such Securities in accordance with the terms hereof, and the amount of

21

22

Securities not purchased aggregates more than 10% of the total amount of Securities that the Underwriters are obligated to purchase hereunder at the Closing Date, and arrangements satisfactory to you and the Company for the purchase of such Securities by other persons are not made, within 36 hours thereafter, this Agreement shall terminate. In the

event of any such termination the Company shall not be under any liability to any Underwriter with respect to Securities not purchased by reason of such termination (except to the extent provided in Section 4(i) and Section 6 hereof) nor shall any Underwriter (other than an Underwriter who shall have failed, otherwise than for some reason permitted under this Agreement, to purchase the amount of Securities agreed by such Underwriter to be purchased hereunder) be under any liability to the Company with respect to such Securities (except to the extent provided in Section 6 hereof).

9. TERMINATION. You shall have the right by giving notice as hereinafter specified at any time at or prior to the Closing Date, to terminate this Agreement if (i) the Company shall have failed, refused or been unable, at or prior to the Closing Date, to perform any agreement on its part to be performed hereunder, (ii) any other condition of the Underwriters' obligations hereunder is not fulfilled, (iii) trading on the New York Stock Exchange, the American Stock Exchange or the National Association of Securities Dealers Automated Quotations System ("NASDAQ") shall have been wholly suspended or materially limited, (iv) minimum or maximum prices for trading shall have been fixed, or maximum ranges for prices for securities shall have been required, on the New York Stock Exchange, the American Stock Exchange or NASDAQ, by such Exchange or by order of the Commission or any other governmental authority having jurisdiction, (v) a banking moratorium shall have been declared by Federal or New York authorities, or (vi) an outbreak of major hostilities in which the United States is involved, a declaration of war by Congress, any other substantial national or international calamity or any other event or occurrence of a similar character shall have occurred since the execution of this Agreement that, in your reasonable judgment, makes it impractical or inadvisable to proceed with the completion of the sale of and payment for the Securities. Any such termination shall be without liability of any party to any other party with respect to Securities not purchased by reason of such termination except that the provisions of Section 4(i) and Section 6 hereof shall at all times be effective. If you elect to terminate this Agreement as provided in this Section, the Company shall be notified promptly by you by telephone, telex or telecopy, confirmed by letter.

10. NOTICES. All notices or communications hereunder shall be in writing and if sent to you shall be mailed, delivered, telexed or telecopied and confirmed to you, c/o Kidder, Peabody & Co. Incorporated, at 10 Hanover Square, New York, N.Y. 10005, or if sent to the Company, shall be mailed, delivered, telexed or telecopied and confirmed to the Company at 160 Rio Robles, San Jose, California 95134. Notice to any Underwriter pursuant to Section 6 hereof shall be mailed, delivered,

22

23

telexed or telecopied and confirmed to such Underwriter's address as it appears in such Underwriter's questionnaire or other notice furnished to the Company in writing for the purpose of communications hereunder. Any party to this Agreement may change such address for notices by sending to the parties to this Agreement written notice of a new address for such purpose.

11. PARTIES. This Agreement shall inure to the benefit of and be binding upon the Company and the Underwriters and their respective successors and the controlling persons, officers and directors referred to in Section 6 hereof, and no other person will have any right or obligation hereunder. Neither the term "successor" nor the term "successors and assigns" as used in this Agreement shall include a purchaser from any Underwriter of any of the Securities in his status as such purchaser.

In all dealings with the Company under this Agreement, you shall act on behalf of each of the Underwriters, and any action under this Agreement taken by you jointly or by Kidder, Peabody & Co. Incorporated will be binding upon all the Underwriters.

12. APPLICABLE LAW. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

13. OVER-ALLOTMENT OPTION.

(a) In addition to the shares of Common Stock being sold by the Company and described in Section 1 hereof (which are referred to herein as the "Firm Shares"), the Underwriters, at their option, shall have the right to purchase from the Company up to an aggregate of three hundred thousand (300,000) additional shares ("Optional Shares"). The first two paragraphs of Section 3 hereof shall be deemed to apply only to the purchase, sale and delivery of the Firm Shares. References in those two paragraphs and in Schedule A hereto to the "Securities" shall be deemed to be references to the "Firm Shares"; except as otherwise provided in this Section 13, other references in this Agreement to the "Securities" shall be deemed to include the Firm Shares and the Optional Shares.

(b) Upon written notice from you given to the Company not more than 30 days subsequent to the date of the initial public offering of the Securities, the Underwriters may purchase all or less than all of the Optional Shares at the purchase price per share to be paid for the Firm Shares. The Company agrees to issue and sell to each Underwriter, and each Underwriter agrees, severally and not jointly, to purchase from the Company, that Underwriter's proportionate share (based upon the respective underwriting obligations of the Underwriters hereunder as set forth in Schedule A hereto except as may be adjusted by you to eliminate fractions) of the number of Optional Shares specified in such notice. Such Optional Shares may be purchased by the Underwriters only for the

23

24

purpose of covering over-allotments made in connection with the sale of the Firm Shares. No Optional Shares shall be sold or delivered unless the Firm Shares previously have been, or simultaneously are, sold and delivered. The right to purchase the Optional Shares or any portion thereof may be surrendered and terminated at any time upon notice by you to the Company. The "Closing Date" as defined in Section 3 hereof, shall be deemed to be the "First Closing Date" and the time for the delivery of and payment for the Optional Shares, is herein referred to as the "Second Closing Date" (which may be the First Closing Date). The Second Closing Date shall be determined by you but shall be not later than 10 days after you give to the Company written notice of election to purchase Optional Shares. The preparation, registration, checking and delivery of, and payment for, the Optional Shares shall occur or be made in the same manner as provided in Section 3 hereof for the Firm Shares, except as you and the Company may otherwise agree.

(c) The conditions to the Underwriters' obligations set forth in Section 5 shall be deemed to be conditions to the Underwriters' obligations to purchase and pay for the Securities to be purchased on each of the First Closing Date and the Second Closing Date, as the case may be; references in that Section and in Sections 2, 8 and 9 hereof to the "Closing Date" shall be deemed to be references to the First Closing Date or the Second Closing Date, as the case may be, and references to the "Securities" in Section 5 hereof shall be deemed to be references to the Securities to be purchased at such Closing Date. A termination of this Agreement as to the Optional Shares after the First Closing Date will not terminate this Agreement as to the Firm Shares.

24

14. COUNTERPARTS. This Agreement may be signed in various counterparts which together constitute one and the same instrument. If signed in counterparts, this Agreement shall not become effective unless at least one counterpart hereof shall have been executed and delivered on behalf of each party hereto.

If the foregoing correctly sets forth the understanding between the Company and the Underwriters, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement between the Company and the Underwriters.

Very truly yours,

KLA INSTRUMENTS CORPORATION

By _____
Kenneth Levy
Chairman and Chief
Executive Officer

ACCEPTED as of the date first above written on behalf of ourselves and as Representatives of the other Underwriters named in Schedule A hereto.

KIDDER, PEABODY & CO. INCORPORATED
MORGAN STANLEY & CO. INCORPORATED,

By: KIDDER, PEABODY & CO. INCORPORATED

By _____
[Insert name and title]

SCHEDULE A

<TABLE>
<CAPTION>

Amount of
Securities
to be
Purchased

<S>
</TABLE>

<C>

<TABLE>
<CAPTION>

Underwriter

<S>
Kidder, Peabody & Co. Incorporated
Morgan Stanley & Co. Incorporated

<C>

Total

2,000,000

</TABLE>

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.

2. This Restated Certificate of Incorporation only restates and integrates and does not further amend the provisions of the Certificate of Incorporation of this corporation as heretofore amended or supplemented and there is no discrepancy between those provisions and the provisions of this Restated Certificate of Incorporation.

3. The text of the Certificate of Incorporation as amended or supplemented heretofore is hereby restated without further amendments or changes to read as herein set forth in full:

"FIRST: The name of the corporation (hereinafter called the "corporation") is KLA INSTRUMENTS 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 thirty-one million (31,000,000) shares, with the par value of each of such shares being one mil (\$0.001). All such shares shall be of one class designated Common Shares.

1

2

The Common Shares authorized by this Certificate of Incorporation shall be issued in series. The first series of Common Shares shall be designated "Common Stock" and shall consist of 30,000,000 shares. The second series of Common Shares and all other series of Common Shares (other than Common Stock), shall be designated as a group, "Junior Common Stock," and shall consist of 1,000,000 shares.

The Board of Directors is authorized, subject to limitations prescribed by law and the provisions of this Article FOURTH, to provide for the issuance of the shares of Junior Common 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 the qualifications, limitations or restrictions thereof.

The authority of the Board with respect to each series shall include, but not be limited to, determination of the following:

(a) The number of shares constituting that series and the distinctive

designation of that series.

(b) The dividend rate on the shares of that series, and the relative rights or priority, if any, of payment of dividends on shares on that series;

(c) Whether that series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

(d) Whether such series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provisions for adjustment of the conversion rate in such events as the Board of Directors shall determine;

(e) The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the corporation, and the relative rights of priority, if any, of payment of shares of that series; and

(f) Any other relative rights, preferences and limitations of that series.

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

<TABLE>	<CAPTION>
NAME	MAILING ADDRESS
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<S>	<C>
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 within 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.

2

3

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. The management of the business and the conduct of the affairs of the corporation shall be vested in its Board of Directors. The number of directors which shall constitute the whole Board of Directors shall be fixed by, or in the manner provided in, the By-laws. The phrase "whole Board" and the phrase "total number of directors" shall be deemed to have the same meaning, to wit, the total number of directors which the corporation would have if there were no vacancies. No election of directors need be by written ballot.

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; provided, however, that any provision for the classification of directors of the corporation for staggered terms pursuant to the provisions of subsection (d) of Section 141 of the General Corporation Law of the State of Delaware shall be set forth in an initial By-Law or in a By-Law adopted by the stockholders entitled to vote of the corporation unless provisions for such classification shall be set forth in this certificate of incorporation.

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.

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 inserted 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

3

4

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

(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 of 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 eighty percent (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 is required by law and any other provisions 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) or more than

five percent (5%) 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 (5%) 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

4

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transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

(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 but shall not include any other shares of Voting Stock which 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 and 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 by 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 ByLaws of the corporation) the affirmative vote of the holders of eighty percent (80%) or more of the shares of Voting Stock, voting together as a single class, shall be required to amend or repeal, or adopt any provisions inconsistent with, this Article Eleventh."

5. This Restated Certificate of Incorporation was duly adopted by the Board of Directors in accordance with Section 245 of the General Corporation Law of the State of Delaware.

5

6

IN WITNESS WHEREOF, said KLA Instruments Corporation has caused this certificate to be signed by Kenneth Levy, its President, and attested by Paul E. Kreutz, its Secretary, this 21 day of May, 1985.

KLA INSTRUMENTS CORPORATION

By:/s/ Kenneth Levy
President

ATTEST:

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
KLA INSTRUMENTS CORPORATION

KLA INSTRUMENTS CORPORATION, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: The amendment to the Corporation's Certificate of Incorporation set forth in the following resolutions approved by the Corporation's Board of Directors and stockholders was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware:

RESOLVED, that Article FOURTH of the Corporation's Certificate of Incorporation be amended and restated in its entirety to read as follows:

FOURTH: The aggregate number of shares of stock which the corporation shall have authority to issue shall be 76,000,000 shares, with the par value of each of such shares being \$0.001. These shares shall be divided into the following classes:

- (1) 75,000,000 shares shall be designated as Common Shares; and
- (2) 1,000,000 shall be designated as Preferred Stock.

The Common Shares authorized by this Certificate of Incorporation shall be issued in series. The first series of Common Shares shall be designated "Common Stock" and shall consist of 74,000,000 shares. The second series of Common Shares and all other series of Common Shares (other than Common Stock), shall be designated as a group, "Junior Common Stock," and shall consist of 1,000,000 shares.

The Board of Directors is authorized, subject to limitations prescribed by law and the provisions of the Article FOURTH, to provide for the issuance of the shares of Junior Common 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 such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualification, limitations or restrictions thereof.

The authority of the Board with respect to each series of Common Shares shall include, but not be limited to, determination of the following:

(a) The number of shares constituting that series and the distinctive designation of that series;

(b) The dividend rate of the shares of that series, and the relative rights of priority, if any, of payment of dividends on shares of that series;

(c) Whether such series shall have voting rights, in addition to the voting rights provided by law, and, if so, the terms of such voting rights;

(d) Whether such series shall have conversion privileges, and, if so, the terms and conditions of such conversion, including provision for adjustment of the conversion rate in such events as the Board of Directors shall determine;

(e) The rights of the shares of that series in the event of voluntary or involuntary liquidation, dissolution or winding up of the corporation and the relative rights of priority, if any, of payment of shares of that series, and

(f) Any other relative rights, preferences and limitations of that series.

1

8

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 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.

RESOLVED FURTHER, that Article EIGHTH of the Corporation's Certificate of Incorporation be amended by amending and restating paragraphs 1 and 2 thereof to read as follows:

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 six 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 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 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

9

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.

RESOLVED FURTHER, that Article EIGHTH of the Corporation's Certificate of Incorporation be further amended by adding the following new paragraph at the end thereof:

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.

IN WITNESS WHEREOF, KLA INSTRUMENTS CORPORATION has caused its corporate seal to be hereunto affixed and this certificate to be signed by Kenneth Levy, its President, and attested by Paul E. Kreutz, its Secretary, this 26th day of October, 1989.

CORPORATE SEAL

KLA INSTRUMENTS CORPORATION

By:/s/ Kenneth Levy
Kenneth Levy, President

ATTEST:

By:/s/ Paul E. Kreutz
Paul E. Kreutz, Secretary

3