

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 1999

OR

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

For the transition period from _____ to _____

Commission File Number 0-9992

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

DELAWARE

04-2564110

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER
IDENTIFICATION NO.)

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

(408) 875-3000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Act of 1934 during
the preceding 12 months (or for such shorter period that the registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days.

Yes No

As of November 1, 1999 there were 89,948,961 shares of the registrant's
Common Stock, \$0.001 par value, outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

KLA-TENCOR CORPORATION
CONDENSED CONSOLIDATED UNAUDITED BALANCE SHEETS
(In thousands)

<TABLE>
<CAPTION>

	June 30, 1999	September 30, 1999
	-----	-----
	<C>	<C>
<S>		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 271,488	\$ 316,869
Short-term investments	59,574	83,046
Accounts receivable, net	280,070	332,280
Inventories	195,679	206,404
Other current assets	135,530	145,748
	-----	-----
Total current assets	942,341	1,084,347
Land, property and equipment, net	168,335	168,548
Marketable securities	424,121	353,631
Other assets	50,103	54,576
	-----	-----
Total assets	\$1,584,900	\$1,661,102
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 14,567	\$ 16,440
Accounts payable	35,249	29,101
Other current liabilities	302,501	327,525
	-----	-----
Total current liabilities	352,317	373,066
Stockholders' equity:		
Common stock and capital in excess of par value	504,352	521,649
Retained earnings	723,048	762,550
Accumulated other comprehensive income	5,183	3,837
	-----	-----
Total stockholders' equity	1,232,583	1,288,036
	-----	-----
Total liabilities and stockholders' equity	\$1,584,900	\$1,661,102
	=====	=====

</TABLE>

See accompanying notes to unaudited condensed consolidated financial statements.

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KLA-TENCOR CORPORATION
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

<TABLE>

<CAPTION>

	Three months ended	
	September 30,	
	1998	1999
<S>	<C>	<C>
Revenues	\$ 205,230	\$ 272,989
Costs and operating expenses:		
Costs of goods sold	112,655	136,117
Engineering, research and development	42,926	46,718
Selling, general and administrative	52,573	53,414
Non-recurring acquisition, restructuring and other charges	--	(6,000)
Total costs and operating expenses	208,154	230,249
Income (loss) from operations	(2,924)	42,740
Interest income and other, net	17,063	12,706
Income before income taxes	14,139	55,446
Provision for income taxes	3,959	15,944
Net income	\$ 10,180	\$ 39,502
Earnings per share:		
Basic	\$ 0.12	\$ 0.44
Diluted	\$ 0.11	\$ 0.42
Weighted average number of shares:		
Basic	87,342	88,996
Diluted	89,257	93,967

</TABLE>

See accompanying notes to unaudited condensed consolidated financial statements.

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KLA-TENCOR CORPORATION
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOW
(In thousands)

<TABLE>

<CAPTION>

	Three Months Ended	
	September 30,	
	1998	1999
<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 10,180	\$ 39,502
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,643	12,921
Restructuring charges	--	(6,000)
Net gain on sale of marketable securities	(5,119)	(3,911)
Changes in assets and liabilities:		
Accounts receivable, net	49,433	(36,335)
Inventories	1,848	(7,998)
Other assets	152	(11,630)
Accounts payable	(15,499)	(6,724)
Other current liabilities	(3,485)	26,200
Net cash provided by operating activities	49,153	6,025
Cash flows from investing activities:		
Purchases of property and equipment	(9,675)	(11,841)
Net (purchases) sales of available for sale securities	(16,254)	47,355
Net cash (used in) provided by investing activities	(25,929)	35,514

Cash flows from financing activities:		
Issuance of common stock, net	1,977	19,355
Stock repurchases	(2,554)	(2,161)
Net payments under debt obligations	(1,918)	(830)
	-----	-----
Net cash provided by (used in) financing activities	(2,495)	16,364
	-----	-----
Effect of exchange rate changes on cash and cash equivalents	(4,872)	(12,522)
	-----	-----
Net increase in cash and cash equivalents	15,857	45,381
	-----	-----
Cash and cash equivalents at beginning of period	215,970	271,488
	-----	-----
Cash and cash equivalents at end of period	\$ 231,827	\$ 316,869
	-----	-----
Supplemental cash flow disclosures:		
Income taxes paid (refunded)	\$ 3,763	\$ (1,956)
	=====	=====
Interest paid	\$ 378	\$ 84
	=====	=====

</TABLE>

See accompanying notes to unaudited condensed consolidated financial statements.

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KLA-TENCOR CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

NOTE 1. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments (consisting only of normal recurring accruals) necessary for their fair presentation in accordance with generally accepted accounting principles. Preparing financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual amounts could differ materially from those amounts. The results for the three month period ended September 30, 1999 are not necessarily indicative of results to be expected for the entire year. This financial information should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 1999.

Certain items previously reported in specific financial statement captions have been reclassified to conform with the presentation of the three month period ended September 30, 1999.

NOTE 2. Inventories (in thousands):

<TABLE>

<CAPTION>

	June 30, 1999	September 30, 1999
	-----	-----
<S>	<C>	<C>
Customer service parts	\$ 41,276	\$ 44,802
Raw materials	45,906	50,836
Work-in-process	52,913	60,516
Demonstration equipment	37,469	37,070
Finished goods	18,115	13,180
	-----	-----
	\$195,679	\$206,404
	=====	=====

</TABLE>

NOTE 3. The Company has adopted a plan to repurchase shares of its Common Stock on the open market for the purpose of partially offsetting dilution created by employee stock options and stock purchase plans. During the three month period ended September 30, 1999, the Company repurchased 32,000 shares of its Common Stock at a cost of \$2.2 million.

NOTE 4. As of July 1, 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income" which establishes the requirements for reporting and presentation of comprehensive income and its components. SFAS No. 130 establishes new rules for the reporting and display of comprehensive income and its components, however, it has no effect on the Company's net income or total stockholders' equity. For the three month periods ended September 30, 1998 and 1999, the components of comprehensive income, net of tax, are as follows:

<TABLE>
<CAPTION>

	Three months ended September 30,	
	1998	1999
<S>	<C>	<C>
Net income	\$ 10,180	\$ 39,502
Currency translation adjustments	1,182	2,228
Change in unrealized gain (loss) on investments, net	(982)	(3,574)
Other comprehensive income (loss)	200	(1,346)
Total comprehensive income	\$ 10,380	\$ 38,156

</TABLE>

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NOTE 5. Basic net income per share, is calculated using the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed in the same manner and also gives effect to all dilutive common equivalent shares outstanding during the period. Dilutive common equivalent shares consist of stock options. During the three month period ended September 30, 1998, options to purchase approximately 1,058,000 shares at prices ranging from \$26.88 to \$69.88 were not included in the computation of diluted EPS because the exercise price was greater than the average market price of common shares. During the three month period ended September 30, 1999, options to purchase 2,500 shares at a price of \$69.88 were not included in the computation of diluted EPS because the exercise price was greater than the average market price of common shares. The reconciling difference between the computation of basic and diluted earnings per share for the three month periods ended September 30, 1998 and 1999, is the inclusion of the dilutive effect of stock options issued to employees under employee stock option plans.

NOTE 6. In November 1998, the Company entered into a restructuring plan associated with the downturn in the semiconductor industry. The total pre-tax restructuring charge was \$35 million. The plan includes consolidation of facilities, a write-down of assets associated with affected programs and reductions in the Company's global workforce. The Company expects to continue to utilize the restructuring reserves during the remainder of fiscal 2000 as the program is completed.

During the three month period ended September 30, 1999, the Company determined that \$6 million of the restructuring reserve established during November 1998 would not be utilized because of a change in management's plans for utilization of certain facilities resulting from an increase in demand for the Company's products. Accordingly, the restructuring reserve reversal was included in the determination of income from operations for the three month period ended September 30, 1999.

Restructuring and related charges for the period from November 1998 until September 30, 1999 were as follows (in thousands):

<TABLE>
<CAPTION>

	Facilities	Inventory	Severance and Benefits	Other	Total
<S>	<C>	<C>	<C>	<C>	<C>
Restructuring provision 35,000	\$ 12,491	\$ 9,721	\$ 8,126	\$ 4,662	\$
Write-down of assets (11,932)	(2,035)	(6,729)	--	(3,168)	
Cash expenditures (6,138)	(2,109)	(409)	(2,620)	(1,000)	
---	-----	-----	-----	-----	-----
Balance at June 30, 1999 16,930	\$ 8,347	\$ 2,583	\$ 5,506	\$ 494	\$
Cash expenditure (271)	(219)		(52)	--	
Restructuring reserve reversal (6,000)	(5,721)	(279)	--	--	
---	-----	-----	-----	-----	-----
Balance at Sept 30, 1999 10,659	\$ 2,407	\$ 2,304	\$ 5,454	\$ 494	\$
	=====	=====	=====	=====	

</TABLE>

NOTE 7. In June 1999, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 137 (SFAS No. 137), "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." SFAS No. 137 amends Statement of Financial Accounting Standards No. 133 (SFAS No. 133), "Accounting for Derivative Instruments and Hedging Activities," to defer its effective date to all fiscal quarters of all fiscal years beginning after June 15, 2000. SFAS No.

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133 establishes accounting and reporting standards for derivative instruments including standalone instruments, such as forward currency exchange contracts and interest rate swaps or embedded derivatives and requires that these instruments be marked-to-market on an ongoing basis. These market value adjustments are to be included either in the income statement or stockholders' equity, depending on the nature of the transaction. The Company is required to adopt SFAS No. 133 in the first quarter of its fiscal year ending June 30, 2001. The effect of SFAS No. 133 is not expected to be material to the Company's financial statements.

NOTE 8. A discussion regarding certain pending legal proceedings is included in Footnote 9 of the Financial Statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 1999. The information provided therein remains unchanged. Although the outcome of these claims cannot be predicted with certainty, management does not believe that any of these legal matters will have a material adverse effect on the Company's financial condition. Were an unfavorable ruling to occur, there exists the possibility of a material impact on the net income of the period in which the ruling occurs.

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

This Current Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of factors, risks and uncertainties, including the risk factors set forth in this discussion and in the Company's Annual Report on Form 10-K for the year ended June 30, 1999. Generally, the words "anticipate", "expect", "intend", "believe" and similar expressions identify forward looking statements. The information included in this Quarterly Report is as of the filing date with the Securities and Exchange Commission and future events or circumstances could differ significantly from the forward looking statements included here.

RESULTS OF OPERATIONS

Revenues were \$273 million for the three month period ended September 30, 1999, compared to \$205 million for the same period of the prior fiscal year, representing an increase of 33%. The increase in revenues is primarily attributable to increased capital spending by major semiconductor manufacturers. Our Wafer Inspection products were the largest beneficiary of the increased capital spending by major semiconductor manufacturers.

Gross margins were 50% for the three month period ended September 30, 1999, compared to 45% of revenues for the same period in the prior fiscal year. Gross margins increased primarily due to increased capacity utilization resulting from higher unit volume as well as faster growth of higher margin product revenue compared to lower margin service revenue.

Engineering, research and development (R&D) expenses were \$47 million for the three month period ended September 30, 1999 compared to \$43 million for the same period in the prior fiscal year. As a percentage of revenues, R&D expenses decreased to 17% for the three month period ended September 30, 1999 compared to 21% for the same period in the prior fiscal year. Our investment in R&D represents a continued commitment to product development in new and emerging market segments and enhancements to existing products for 0.18 micron, copper development and 300mm wafers.

Selling, general and administrative expenses were \$53 million for the three month period ended September 30, 1999 as well as for the same period in the prior fiscal year. Selling, general and administrative expenses remained flat in spite of the increase in revenue as a result of the restructuring and cost reduction plans, including reductions in headcount and consolidation of facilities, which we adopted during the three month period ended December 31, 1998.

During the three month period ended September 30, 1999, we determined that \$6 million of the restructuring reserve established during November 1998 would not be utilized because of a change in management's plans for utilization of certain

facilities resulting from an increase in demand for our products. Accordingly, the restructuring reserve reversal was included in the determination of income from operations for the three month period ended September 30, 1999.

Interest income and other, net, decreased to \$13 million for the three months ended September 30, 1999, compared to \$17 million in the same period in the prior fiscal year. The decrease is due to lower returns on our investment portfolio and a smaller gain on sale of marketable securities.

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Our effective tax rate for the three months ended September 30, 1999 was 28% on pretax income excluding nonrecurring income created by the reversal of our prior fiscal year restructuring reserves. This rate is consistent with the rate applied to recurring income during the prior fiscal year. The tax rate on the nonrecurring income was 35%, which is consistent with the tax rate applied when the restructuring reserve and related charge were recorded during the three month period ended December 31, 1998. The overall tax rate was 28.8% for the three month period ended September 30, 1999. We anticipate a tax rate of approximately 28% for the balance of the fiscal year ending June 30, 2000.

LIQUIDITY AND CAPITAL RESOURCES

During the three month period ended September 30, 1999, cash, cash equivalents, short-term investments and marketable securities balances decreased to \$754 million from \$755 million. Net cash provided by operations for the three month period ended September 30, 1999, was \$6 million, compared to \$49 million of net cash from operations for the same period of the prior fiscal year. This change primarily resulted from increased net income before non-cash charges and an increase in other liabilities offset by an increase in accounts receivable and inventory. Capital expenditures of \$12 million were for manufacturing and engineering equipment and leasehold improvements necessary for our operations. The amounts of common stock issued through our employee stock purchase program and stock option exercises during the three month period ended September 30, 1999 was \$19 million.

Working capital increased to \$711 million as of September 30, 1999 compared to \$590 million at June 30, 1999 primarily due to a shift of our investment portfolio from marketable securities into short term investments and cash equivalents. We believe that existing liquid capital resources and funds generated from operations combined with the ability, if necessary, to borrow funds will be adequate to meet our operating and capital requirements and obligations through the foreseeable future. However, we can give no assurances that we will continue to generate sufficient funds from operations or that we will be able to borrow funds on reasonable terms in the future, if necessary.

RISK FACTORS

Fluctuations in Operating Results and Stock Price

Our operating results have varied widely in the past and our future operating results will continue to be subject to quarterly variations based upon a wide variety of factors including those listed in this section and throughout this Quarterly Report. In addition, future operating results may not follow any past trends. The factors we believe make our results more likely to fluctuate and difficult to predict include:

- the cyclical nature of the semiconductor industry;
- the reduction in the price and profitability of our products;
- our timing of new product introductions;
- our ability to develop and implement new technologies;
- the change in customers' schedules for fulfillment of orders;
- the cancellation of contracts by major customers; and
- our ability to manage our manufacturing requirements.

Operating results also could be affected by sudden changes in customer requirements, currency exchange rate fluctuations and other economic conditions affecting customer demand and the cost of operations in one or more of the global markets in which we do business. As a result of

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these or other factors, we could fail to achieve our expectations as to future revenues, gross profit and income from operations. Our failure to meet the performance expectations set and published by external sources could result in a sudden and significant drop in the price of our stock, particularly on a short-term basis, and could negatively impact the value of any investment in our stock.

Year 2000 Issue

The Year 2000 computer issue presents risks for us as it does for other companies. The Year 2000 problem arises from the use of a two-digit field to identify years in computer programs, and the assumption of a single century, the

1900s. Any program so created may read, or attempt to read, "00" as the year 1900. There are two other related issues which could also lead to incorrect calculations or failure: some systems' programming assigns special meaning to certain dates and the year 2000 is a leap year. Accordingly, some computer hardware and software, including programs embedded within machinery and parts, will need to be modified prior to the year 2000 in order to remain functional. We use a significant number of computer software programs and operating systems in our internal operations, including applications used in our financial, product development, order management and manufacturing systems, as well as in the products we manufacture and sell. Additionally, we are dependent upon our critical suppliers, contract manufacturers, other vendors, and customers to determine if their operations, products, services and payments they provide are Year 2000 ready.

The inability of computer software programs to accurately recognize, interpret and process date codes designating the year 2000 and beyond could cause errors or operating problems that would disrupt business operations. If this occurred in our internal systems it could adversely affect our ability to process orders, forecast production requirements or issue invoices. A significant failure of our computer integrated manufacturing systems that monitor and control factory equipment, would disrupt manufacturing operations and cause a delay in the completion and shipping of products. Similarly, if our critical suppliers' or customers' systems or products fail because of a Year 2000 malfunction, their disruption could negatively impact our operating results. Finally, if our own products malfunctioned as a result of a failure in date recognition, we could experience increased warranty claims and litigation which could harm our business.

To avoid these kinds of disruptions, KLA-Tencor commenced a broad-ranging Year 2000 readiness program during fiscal 1997. The Year 2000 program was established to ensure that all of our company-wide systems, components, infrastructure, critical suppliers and products will operate in such a manner that business is uninterrupted into and beyond the year 2000. The goals of the Year 2000 readiness program were to:

- - Establish and maintain up-to-date communication with users;
- - Determine systems/items that need to be addressed for Year 2000 readiness;
- - Test the above systems;
- - Correct Year 2000 problems as necessary;
- - Maintain sustained support;
- - Develop a contingency/recovery plan for unanticipated Year 2000 issues.

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We are on schedule to meet each of these goals in our three main areas of focus. The three focus areas of our Year 2000 readiness program are: internal information and operating systems; our supply chain; and external product readiness.

The first focus area is our internal information and operating systems. The project team for information and operating systems is composed of managers and individual contributors from our computer information systems group and other functional areas including finance and human resources, augmented by representatives from each operational division. We also have project managers responsible for readiness in functional areas such as treasury, facilities, security, engineering, manufacturing, and service. This internal Year 2000 readiness program includes three major activities:

- - Inventory collection and categorization, which includes identification of all our systems and items that need to be addressed for year 2000 readiness and creation of a master list categorized by critical need;
- - Assessment, in which each functional group evaluates the readiness of systems inventoried; including as necessary, researching vendor documentation, direct vendor contact, code search, and/or execution of a detailed test plan; and
- - Remediation or correction of the problems found, which include vendor provided application patches, correction of bugs as necessary and needed upgrades of software and hardware.

As of September 30, 1999, we have completed a majority of the activities of this project, and we continue to address any remaining issues to ensure that accurate information will be available prior to January 1, 2000.

The second area of emphasis in our Year 2000 readiness program is to ensure our supply chain is prepared. Product divisions identified over 400 key suppliers that needed to be evaluated. Questionnaires were sent to each of these suppliers, whose responses were reviewed and classified. On-site audits were performed at critical suppliers where readiness issues could be of serious consequence to our operations. In addition, over 100 more suppliers are being systematically reviewed by telephone to confirm that their preparations will be completed as required. As of September 30, 1999 we were able to classify all our key suppliers as low risk with respect to Year 2000 readiness, and we continue to monitor the addition of new suppliers to assure readiness is maintained.

However, the readiness of third parties overall varies widely. Because our readiness is dependent on timely Year 2000 readiness of third parties, there can be no assurances that our efforts alone will resolve all Year 2000 issues applicable to our internal processes or our products.

The final area of focus for our Year 2000 readiness program is our external products. KLA-Tencor has over 18,000 installed tools at our customers' sites. We know that Year 2000 readiness is a major issue for our customers, who face important logistical issues in assuring their continued operations. Our field service engineers have audited the majority of our tools for their configuration to determine what needs to be done to bring our products, including older out-of-

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warranty products, to a state of readiness for the Year 2000. Readiness, upgrade requirements or "never ready" status has been reviewed through a series of system audits and an implementation plan put in place as required for each of our products. The framework of this project is similar to that established for our internal systems. This program has covered several key areas including date inspections, operating system investigations, runtime tests, software inspections and third party software component inventory. As of September 30, 1999, we have met the majority of the goals of this project, and we continue to address the remaining issues to ensure accurate information will be available prior to January 1, 2000.

The costs of our Year 2000 readiness program are primarily associated with the use of existing internal resources and incremental external spending. We estimate we have incurred approximately \$8 million of incremental external spending directly associated with this program through September 30, 1999. We anticipate we will incur future incremental external spending to complete our readiness program of approximately \$1 million. However, the actual future incremental spending may prove to be higher. Also, this estimate does not include the costs that could be incurred if one or more of our significant third party service providers fails to achieve Year 2000 readiness. We have not separately identified the costs incurred for our Year 2000 readiness program that are the result of use of internal resources and therefore, these costs are not included in the above estimates.

Based on currently available information, we do not believe that the Year 2000 issues related to internal systems or products sold by us to customers, as discussed above, will have a material impact on our financial condition or overall trends in results of operations. While we have undertaken a Year 2000 readiness program and have performed extensive testing of our internal systems and the products we manufacture, we are uncertain to what extent we may be affected by such matters. A significant disruption of our financial management and control systems or a lengthy interruption in our manufacturing operations caused by a Year 2000 readiness program related issue could result in a material adverse impact on our operating results and financial condition. A supplier's failure to ensure Year 2000 capability or our customer's concerns about Year 2000 readiness of our product could seriously harm our business.

We believe that Year 2000 readiness will be achieved prior to January 1, 2000. However, due to the substantial nature of work and the extent of testing that must take place, there can be no assurance that we will not experience delays or material costs associated with the program, which could be potentially detrimental to our operations. Furthermore, we cannot assure that such programs will successfully detect and correct all potential year 2000 associated problems in advance. To date, costs of bringing our products and systems to a state of compliance with the year 2000 have not been material and we do not anticipate future costs will have a material impact on our financial statements.

Semiconductor Equipment Industry Volatility

The semiconductor equipment industry is highly cyclical. The purchasing decisions of our customers are highly dependent on the economies of both the local markets in which they are located and the semiconductor industry worldwide. The timing, length and severity of the up-and-down cycles in the semiconductor equipment industry are difficult to predict. This

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cyclical nature of our marketplace impacts our ability to accurately budget our expense levels, which are based in part on our projections of future revenues. When cyclical fluctuations result in lower than expected revenue levels, operating results may be adversely affected and cost reduction measures may be necessary in order for us to remain competitive and financially sound. During a down cycle, we must be in a position to adjust our cost and expense structure to the prevailing market condition and to continue to motivate and retain our key employees. In addition, during periods of rapid growth, we must be able to increase manufacturing capacity and personnel to meet customer demand. We can provide no assurance that these objectives can be met in a timely manner in

response to industry cycles. If we fail to respond to industry cycles, our business could be adversely impacted.

During the most recent down cycle, the semiconductor industry experienced excess production capacity that caused semiconductor manufacturers to decrease capital spending. We generally do not have long-term volume production contracts with our customers and we do not control the timing or volume of orders placed by our customers. Whether and to what extent our customers place orders for any specific products and the mix and quantities of products included in those orders are factors beyond our control. Insufficient orders will result in under-utilization of our manufacturing facilities and infrastructure and will negatively impact our operating results and financial condition.

Technological Change and Customer Requirements

Success in the semiconductor equipment industry depends, in part, on continual improvement of existing technologies and rapid innovation of new solutions. For example, the semiconductor industry continues to shrink the size of semiconductor devices and recently has begun to commercialize the process of copper-based interconnects. These and other evolving customer needs require us to respond with continued development programs and to cut back or discontinue older programs which may no longer have industry-wide support. Technical innovations are inherently complex and require long development cycles and appropriate professional staffing. Our competitive advantage and future business success depend on our ability to accurately predict evolving industry standards, develop and introduce new products which successfully address changing customer needs, win market acceptance of these new products and manufacture these new products in a timely and cost-effective manner. If we do not develop and introduce new products and technologies in a timely manner in response to changing market conditions or customer requirements, our business could be seriously harmed.

In this environment, we must continue to make significant investments in research and development in order to enhance the performance and functionality of our products, to keep pace with competitive products and to satisfy customer demands for improved performance, features and functionality. There can be no assurance that revenues from future products or product enhancements will be sufficient to recover the development costs associated with such products or enhancements or that we will be able to secure the financial resources necessary to fund future development. Substantial research and development costs typically are incurred before we confirm the technical feasibility and commercial viability of a product, and not all development activities result in commercially viable products. In addition, we cannot ensure that these products or enhancements will receive market acceptance or that we will be able to sell these

products at prices that are favorable to us. Our business will be adversely impacted if we are unable to sell our products at favorable prices or if our products are not accepted by the market in which we operate.

Competition

Our industry includes large manufacturers with substantial resources to support customers worldwide. Our future performance depends, in part, upon our ability to continue to compete successfully worldwide. Some of our competitors are diversified companies with greater financial resources and more extensive research, engineering, manufacturing, marketing and customer service and support capabilities than we can provide. We face competition from companies whose strategy is to provide a broad array of products, some of which compete with the products and services that we offer. These competitors may bundle their products in a manner that may discourage customers from purchasing our products. In addition, we face competition from smaller emerging semiconductor equipment companies whose strategy is to provide a portion of the products and services which we offer, using innovative technology to sell products into specialized markets. Loss of competitive position could negatively impact our prices, customer orders, revenues, gross margins, and market share, any of which would negatively impact our operating results and financial condition. Our failure to compete successfully with these other companies would seriously harm our business.

International Trade and Economic Conditions

Ours is an increasingly global market. A significant percentage of our revenues are derived from outside the United States and we expect that international revenues will continue to represent a substantial percentage of our revenues. Our international revenues and operations are affected by economic conditions specific to each country and region. Although economies in the Asia Pacific region have stabilized to some degree, compared to early-to-mid fiscal 1999, and certain countries such as Taiwan have relatively healthy economies, we remain cautious about general macroeconomic developments in the Asia Pacific region, particularly Japan. Japan's economy is important to the overall financial health of the region. If the economies in the Asia Pacific region stagnate or deteriorate, the economies of other regions could also be impaired. Because of our significant dependence on international revenues, our operating results

could be negatively impacted by a continued or additional decline in the economies of any of the countries or regions in which we do business.

Managing global operations and sites located throughout the world presents challenges associated with, among other things, cultural diversity and organizational alignment. Moreover, each region in the global semiconductor equipment market exhibits unique characteristics that can cause capital equipment investment patterns to vary significantly from period to period. Periodic local or international economic downturns, trade balance issues, political instability and fluctuations in interest and currency exchange rates could negatively impact our business and results of operations. Although we attempt to manage near term currency risks through the use of hedging instruments, there can be no assurance that such efforts will be adequate.

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Intellectual Property Obsolescence and Infringement

Our success is dependent in part on our technology and other proprietary rights. We own various United States and international patents and have additional pending patent applications relating to some of our products and technologies. The process of seeking patent protection is lengthy and expensive, and we cannot be certain that pending or future applications will actually result in issued patents, or that, issued patents will be of sufficient scope or strength to provide meaningful protection or commercial advantage to us. Other companies and individuals, including our larger competitors, may develop technologies that are similar or superior to our technology or design around the patents we own.

We also maintain trademarks on certain of our products and services and claim copyright protection for certain proprietary software and documentation. However, we can give no assurance that our trademarks and copyrights will be upheld or successfully deter infringement by third parties.

While patent, copyright and trademark protection for our intellectual property is important, we believe our future success in highly dynamic markets is most dependent upon the technical competence and creative skills of our personnel. We attempt to protect our trade secret and other proprietary information through agreements with our customers, suppliers, employees and consultants and through other security measures. We also rely on trade secret protection for our technology, in part through confidentiality agreements with our employees, consultants and third parties. We also maintain exclusive and non-exclusive licenses with third parties for strategic technology used in certain products. However, these employees, consultants and third parties may breach these agreements, and we may not have adequate remedies for wrongdoing. In addition, the laws of certain territories in which we develop, manufacture or sell our products may not protect our intellectual property rights to the same extent as do the laws of the United States.

As is typical in the semiconductor equipment industry, from time to time we have received communications from other parties asserting the existence of patent rights, copyrights, trademark rights or other intellectual property rights which they believe cover certain of our products, processes, technologies or information. Our customary practice is to evaluate such assertions and consider whether to seek licenses where appropriate. Based on industry practice and prior experience, we believe that licenses or other rights, if necessary, will be available on commercially reasonable terms for existing or future claims. Nevertheless, we cannot ensure that licenses can be obtained, or if obtained will be on acceptable terms or that litigation or other administrative proceedings will not occur. The inability to obtain necessary licenses or other rights on reasonable terms could seriously harm our operating results and financial condition.

Key Suppliers

We use a wide range of materials in the production of our products including custom electronic and mechanical components, and we use numerous suppliers to supply materials. We generally do not have guaranteed supply arrangements with our suppliers. Because of the variability and uniqueness of customers orders, we do not maintain an extensive inventory of materials for manufacturing. We seek to minimize the risk of production and service interruptions and/or shortages of key parts by selecting and qualifying alternative suppliers for key parts, monitoring

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the financial stability of key suppliers, and maintaining appropriate inventories of key parts. Although we make reasonable efforts to ensure that parts are available from multiple suppliers, key parts may be available only from a single supplier or a limited group of suppliers. There can be no assurance that our business will not be harmed if we do not receive sufficient parts to meet our production requirements in a timely and cost-effective manner.

Operations at our primary manufacturing facilities and our assembly subcontractors are subject to disruption for a variety of reasons, including work stoppages, fire, earthquake, flooding or other natural disasters, as well as Year 2000 related problems. Such disruption could cause delays in shipments of products to our customers. We cannot ensure that alternate production capacity would be available if a major disruption were to occur, or that if it were available, it could be obtained on favorable terms. Such a disruption could result in cancellation of orders or loss of customers and could seriously harm our business.

Key Employees

Our employees are vital to our success, and our key management, engineering and other employees are difficult to replace. We generally do not have employment contracts with our key employees. Further, we do not maintain key person life insurance on any of our employees. The expansion of high technology companies worldwide has increased demand and competition for qualified personnel. We may not be able to attract, assimilate or retain qualified employees in the future. These factors could seriously harm our business.

Acquisitions

We seek to develop new technologies from both internal and external sources. As part of this effort, we may make acquisitions of, or significant investments in, businesses with complementary products, services and/or technologies. Acquisitions involve numerous risks, including management issues and costs in connection with integration of the operations, technologies, and products of the acquired companies, possible write-downs of impaired assets, and the potential loss of key employees of the acquired companies. The inability to effectively manage these risks could seriously harm our business.

Litigation

We have in the past been involved in litigation relating to the infringement by us of other parties' patents and intellectual property rights. This type of litigation tends to be expensive and requires significant management time and attention. In addition, if we lose in this type of litigation, a court could require us to pay substantial damages and/or royalties, prohibiting us from using essential technologies. For these and other reasons, this type of litigation could have a material adverse effect on our business, financial condition and results of operations. Also, although we may seek to obtain a license under a third party's intellectual property rights in order to bring an end to certain claims or actions asserted against us, we may not be able to obtain such a license on reasonable terms or at all.

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Euro Conversion

A new European currency was implemented commencing in January 1999 to replace the separate currencies of eleven western European countries. This requires changes in our operations as we modify systems and commercial arrangements to deal with the new currency. Modifications are necessary in operations such as payroll, benefits and pension systems, contracts with suppliers and customers, and internal financial reporting systems. During the three-year transition period in which transactions may also be made in the old currencies, we must maintain dual currency processes for our operations. We have identified the issues created by this problem and the cost of this effort is not expected to have a material effect on our business or results of operations. We cannot be assured, however, that all problems will be foreseen and corrected or that no material disruption of our business will occur.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risk exposures as set forth in its Annual Report on Form 10-K for the year ended June 30, 1998 have not changed significantly.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

A discussion regarding certain pending legal proceedings is included in Footnote 9 of the Financial Statements included in the Company's Annual Report on Form 10-K for the year ended June 30, 1999. The information provided therein remains unchanged. Although the outcome of these claims cannot be predicted with certainty, management does not believe that any of these legal matters will have a material adverse effect on the Company's financial condition. Were an unfavorable ruling to occur, there exists the possibility of a material impact on the net income of the period in which the ruling occurs.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

27.1 Financial Data Schedule.
3.2 By-Laws as amended on October 4, 1999.

(b) 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KLA-TENCOR CORPORATION
(Registrant)

November 12, 1999

/s/ ROBERT J. BOEHLKE

(Date)

Robert J. Boehlke
Executive Vice President
and Chief Financial Officer

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EXHIBIT INDEX

<TABLE>
<CAPTION>

Exhibit #	Description
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<S>	<C>
3.2	By-Laws as amended on October 4, 1999.
27.1	Financial Data Schedule

</TABLE>

KLA-TENCOR CORPORATION
A DELAWARE CORPORATION

BY-LAWS

ORIGINALLY ADOPTED: JUNE 12, 1989
AS AMENDED: NOVEMBER 17, 1998

Bylaws - November 17, 1998

KLA-TENCOR CORPORATION,
A DELAWARE CORPORATION

BY-LAWS

ORIGINALLY ADOPTED: JUNE 12, 1989
AS AMENDED: NOVEMBER 17, 1998

ARTICLE I
STOCKHOLDERS

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

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

Section 3. Notice of Meetings. Written notice of the place, date, and time of all meetings of the stockholders shall be given, not less than ten (10) nor more than sixty to each stockholder entitled to vote at such meeting, except as otherwise provided herein or required by law (meaning, here and hereinafter, as required from time to time by the Delaware General Corporation Law or the Certificate of Incorporation of the Corporation). When a meeting is adjourned to another place, date or time, written notice need not be given of the adjourned meeting if the place, date and time thereof are announced at the meeting at which the adjournment is taken; provided, however, that if the date of any adjourned meeting is more than thirty (30) days after the date for which the meeting was originally noticed, or if a new record date is fixed for the adjourned meeting, written notice of the place, date, and time of the adjourned meeting shall be given in conformity herewith. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

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

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

If a notice of any adjourned special meeting of stockholders is sent to all stockholders entitled to vote thereat, stating that it will be held with those present

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constituting a quorum, then, provided that those present hold more than 33-1/3%

of the shares entitled to vote, those present at such adjourned meeting shall constitute a quorum, and all matters shall be determined by a majority of the votes cast at such meeting.

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

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

The Chairman shall also conduct the meeting in an orderly manner, rule on the precedence of, and procedure on, motions and other procedural matters, and exercise discretion with respect to such procedural matters with fairness and good faith toward all those entitled to take part. The Chairman may impose reasonable limits on the amount of time taken up at the meeting on discussion in general or on remarks by any one stockholder. Should any person in attendance become unruly or obstruct the meeting proceedings, the Chairman shall have the power to have such person removed from participation. Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at any meeting except in accordance with the procedures set forth in this Section 6, Section 7 below and Section 11 of Article II below. The Chairman of any meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 6, Section 7 below and Section 11 of Article II below, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Section 7. Notice of Stockholder Business. At an annual or special meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before a meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the

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* As amended April 30, 1997.

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direction of the Board of Directors, (b) properly brought before the meeting by or at the direction of the Board of Directors, (c) if at an annual meeting, properly brought before the meeting by a stockholder, or (d) if at a special meeting, if, and only if, the notice of a special meeting provides for business to be brought before the meeting by stockholders, properly brought before the meeting by a stockholder.

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

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

Notwithstanding anything in these By-Laws to the contrary, no business

shall be conducted at an annual or special meeting except in accordance with the procedures set forth in this Section 7. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of this Section 7, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

Section 8. Proxies and Voting. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by a written or electronic proxy, filed in accordance with the procedure established for meeting or taking of action in writing, but no such proxy shall be noted or acted upon after three (3) years from its date, unless the proxy provides for a longer period. Any copy, facsimile telecommunications or other reliable reproduction of the writing or transmission created pursuant to this Section 8 may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission. An electronic

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proxy (which may be transmitted via telephone, e-mail, the Internet or such other electronic means as the Board of Directors may determine from time to time) shall be deemed executed if the Company receives an appropriate electronic transmission from the stockholder or the stockholder's attorney-in-fact along with a pass code or other identifier which reasonably establishes the stockholder or the stockholder's attorney-in-fact as the sender of such transmission. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212(c) of the General Corporation Law of Delaware.

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

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

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

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

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

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

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

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

ARTICLE II
BOARD OF DIRECTORS

** Section 1. Number and Term of Office. The number of directors shall be eleven (11)*** and, thereafter, shall be fixed from time to time exclusively by the Board of Directors pursuant to a resolution adopted by a majority of the total number of authorized directors (whether or not there exists any vacancies in previously authorized directorships at the time any such resolution is presented to the Board for adoption). The directors shall be divided into three classes, as nearly equal in number as reasonably possible, with the term of office of the first class to expire at the 1990 annual meeting of stockholders, the term of office of the second class to expire at the 1991 annual meeting of stockholders and the term of office of the third class to expire at the 1992 annual meeting of stockholders. At each annual meeting of stockholders following such initial classification and election, directors shall be elected to succeed those directors whose term expire for a term of office to expire at the third succeeding annual meeting of stockholders after their election. All directors shall hold office until the expiration of the term for which elected and until their successors are elected, except in the case of the death, resignation or removal of any director.

Section 2. Vacancies and Newly Created Directorships. Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification or other cause (other than removal from office by a vote of stockholders) may be filled only by a majority vote of the directors then in office, though less than a quorum, and directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

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

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** As amended April 30, 1997.

*** As amended November 17, 1998

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purpose, by the vote of the holders of a majority of the shares entitled to vote at such special meeting. Directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires.

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

Section 5. Special Meetings. Special meetings of the Board of Directors may be called by one-third of the directors then in office (rounded up to the nearest whole number), the Chairman of the Board or by the chief executive officer and shall be held at such place, on such date, and at such time as they or he shall fix. Notice of the place, date, and time of each such special meeting shall be given each director by whom it is not waived by mailing written notice not fewer than five (5) days before the meeting or by telecopying or delivering by overnight courier service the same not fewer than twenty-four (24) hours before the meeting. Unless otherwise indicated in the notice thereof, any and all business may be transacted at a special meeting.

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

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

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

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

(1) To declare dividends from time to time in accordance with law;

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(2) To purchase or otherwise acquire any property, rights or privileges on such terms as it shall determine;

(3) To authorize the creation, making and issuance, in such form as it may determine, of written obligations of every kind, negotiable or non-negotiable, secured or unsecured, and to do all things necessary in connection therewith;

(4) To remove any officer of the Corporation with or without cause, and from time to time to devolve the powers and duties of any officer upon any other person for the time being;

(5) To confer upon any officer of the Corporation the power to appoint, remove and suspend subordinate officers, employees and agents;

(6) To adopt from time to time such stock, option, stock purchase, bonus or other compensation plans for directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine;

(7) To adopt from time to time such insurance, retirement, and other benefit plans for directors, officers, employees and agents of the Corporation and its subsidiaries as it may determine; and

(8) To adopt from time to time regulations, not inconsistent with these ByLaws, for the management of the Corporation's business and affairs.

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

Section 11. Nomination of Director Candidates. Subject to the rights of holders of any class or series of Preferred Stock then outstanding, nominations for the election of directors may be made by the Board of Directors or any nominating or proxy committee appointed by the Board of Directors or by any stockholder entitled to vote in the election of Directors generally who complies with the notice and procedural requirements of this Section 11. All nominees for election to the Board shall satisfy the qualification requirements for membership on the Board of Directors of the Corporation established by any nominating committee designated by the Board, which requirements shall be designed to evaluate, without limitation, the following:

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

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

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

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

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

In the event that a person is validly designated as a nominee in accordance with this Section 11 and shall thereafter become unable or unwilling to stand for election to the Board of Directors, the Board of Directors or the stockholder who proposed such nominee as the case may be, may designate a substitute nominee; provided, however, that (i) in the case of the persons nominated by a stockholder, such a substitution may only be made if

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a written notice to the Secretary setting forth such information regarding such substitute nominee as would have been required to be delivered to the Secretary pursuant to this Section 11 had such substitute nominee been initially proposed as a nominee is received by the Corporation at its principal executive offices not less than thirty (30) days before the date of the election at which the initial nominee was nominated to stand or (ii) in the case of persons nominated by the Board of Directors the substitute nominee must be designated not less than thirty (30) days before the date of the election at which the initial nominee was nominated to stand.

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

ARTICLE III COMMITTEES

Section 1. Committees of the Board of Directors. The Board of Directors, by a resolution passed by a vote of a majority of the whole Board, may from time to time designate committees of the Board, with such lawfully delegable powers and duties as it thereby confers, to serve at the pleasure of the Board and shall, for those committees and any others provided for herein, elect a director or directors to serve as the member or members, designating, if it desires, other directors as alternate members who may replace any absent or disqualified member at any meeting of the committee. Any committee so designated may exercise the power and authority of the Board of Directors to declare a dividend, to authorize the issuance of stock or to adopt a certificate of ownership and merger pursuant to Section 253 of the Delaware General Corporation

Law if the resolution which designates the committee or a supplemental resolution of the Board of Directors shall so provide. In the absence or disqualification of any member of any committee and any alternate member in his place, the member or members of the committee present at the meeting and not disqualified from voting, whether or not he or they constitute a quorum, may by unanimous vote appoint another member of the Board of Directors to act at the meeting in the place of the absent or disqualified member.

Section 2. Conduct of Business. Each committee may determine the procedural rules for meeting and conducting its business and shall act in accordance therewith, except as otherwise provided herein or required by law. Adequate provision shall be made for notice to members of all meetings; one-third of the authorized members shall constitute a quorum unless the committee shall consist of one or two members, in which event one member shall constitute a quorum; and all matters shall be determined by a majority vote of the members present. Action may be taken by any committee without a meeting if all members thereof consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of such committee.

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ARTICLE IV
OFFICERS

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

**** Section 2. Chairman of the Board. The Chairman of the Board, if such an officer be elected, shall, if present, preside at meetings of the Board of Directors and exercise and perform such other powers and duties as may from time to time be assigned to him by the Board of Directors or as may be prescribed by these By-Laws. If there is no Chief Executive Officer, then the Chairman of the Board shall also be the Chief Executive Officer of the Corporation and shall have the powers and duties prescribed in Article IV, Section 3 of these By-Laws.

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

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

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

Section 6. Chief Financial Officer. The Chief Financial Officer shall have the responsibility for maintaining the financial records of the Corporation and shall have custody of all monies and securities of the Corporation. He shall make or cause to be made such disbursements of the funds of the Corporation as are authorized and shall

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**** As amended April 30, 1997.

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render from time to time an account of all such transactions and of the financial condition of the Corporation. The Chief Financial Officer shall also perform such other duties as the Board of Directors may from time to time prescribe.

Section 7. Secretary. The Secretary shall issue all authorized notices for, and shall keep, or cause to be kept, minutes of all meetings of the stockholders, the Board of Directors, and all committees of the Board of Directors. The Secretary shall keep, or cause to be kept at the principal executive office or at the office of the Corporation's transfer agent or registrar, a record of the Corporation's stockholders, giving the names and addresses of all stockholders and the number and class of shares held by each. The Secretary shall have charge of the seal and the corporate books of the Corporation and shall perform such other duties as the Board of Directors may from time to time prescribe.

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

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

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

ARTICLE V
STOCK

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

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***** As amended April 30, 1997.
***** As amended April 30, 1997.

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

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

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

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

ARTICLE VI
NOTICES

Section 1. Notices. Except as otherwise specifically provided herein or required by law, all notices required to be given to any stockholder, director, officer, employee or agent shall be in writing and may in every instance be effectively given by hand delivery to the recipient thereof, by depositing such

notice in the mails, postage paid, or by sending such notice by prepaid telegram, mailgram or commercial courier service. Any such notice shall be addressed to such stockholder, director, officer, employee or agent at his or her last known address as the same appears on the books of the Corporation. The time when such notice shall be deemed to given shall be the time such notice is received by such stockholder, director, officer, employee or agent, or by any person accepting such notice on behalf of such person, if hand delivered, or the time such notice is dispatched, if delivered through the mails or by telegram, mailgram or courier.

Section 2. Waivers. A written waiver of any notice, signed by a stockholder, director, officer, employee or agent, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to the notice required to be given to such stockholder, director, officer, employee or agent. Neither the business nor the purpose of

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any meeting need be specified in such a waiver. Attendance of a person at a meeting shall constitute a waiver of notice for such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

ARTICLE VII MISCELLANEOUS

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

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

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

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

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

ARTICLE VIII INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 1. Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative ("proceeding"), by reason of the fact that he or a person of whom he is the legal representative, is or was a director, officer or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer or employee of another corporation, or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer or employee

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or in any other capacity while serving as a director, officer or employee, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by Delaware Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said Law permitted the Corporation to provide prior to such amendment) against all expenses, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties, amounts paid or to be paid in settlement and amounts

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

Section 2. Right of Claimant to Bring Suit. If a claim under Section 1 of this Article VIII is not paid in full by the Corporation within twenty (20) days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if such suit is not frivolous or brought in bad faith, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any, has been tendered to this Corporation) that the claimant has not met the standards of conduct which make it permissible under the Delaware General Corporation Law for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the

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claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct.

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

Section 4. Indemnification Contracts. The Board of Directors is authorized to enter into a contract with any director, officer, employee or agent of the Corporation, or any person serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, including employee benefit plans, providing for indemnification rights equivalent to or, if the Board of Directors so determines, greater than, those provided for in this Article VIII.

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

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

Section 7. Savings Clause. If this Article VIII or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director, officer, employee

and agent of the Corporation as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the Corporation, to the full extent permitted by an applicable portion of this Article VIII that shall not have been invalidated and to the full extent permitted by applicable law.

ARTICLE IX
AMENDMENTS

The Board of Directors is expressly empowered to adopt, amend or repeal By-Laws of the Corporation. Any adoption, amendment or repeal of By-Laws of the Corporation by the Board of Directors shall require the approval of a majority of the total number of authorized directors (whether or not there exist any vacancies in previously authorized directorships at the time any resolution providing for adoption, amendment or repeal is

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presented to the Board). The stockholders shall also have power to adopt, amend or repeal the By-Laws of the Corporation. In the event of any such adoption, amendment or repeal of these By-Laws by Stockholders, in addition to any vote of the holders or any class or series of stock of this Corporation required by law or by these By-Laws, the affirmative vote of the holders of at least a majority of the voting power of all of the then-outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required.

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

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