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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: December 31, 2008

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 0-09992

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.)**

One Technology Drive
Milpitas, California
95035
(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 Exchange 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 ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of January 22, 2009, there were 169,852,874 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 Balance Sheets

(In thousands)	December 31, 2008 (unaudited)	June 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 656,330	$ 1,128,106
Marketable securities	531,607	409,130
Accounts receivable, net	332,353	492,488
Inventories, net	472,585	459,449
Deferred income taxes	318,684	328,588
Other current assets	205,091	218,003
Total current assets	2,516,650	3,035,764
Land, property and equipment, net	323,020	355,474
Marketable securities	34,463	42,147
Goodwill	337,572	601,882
Purchased intangibles, net	162,075	297,778
Other non-current assets	482,313	515,345
Total assets	$ 3,856,093	$ 4,848,390
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 103,817	$ 104,315
Deferred system profit	83,433	150,797
Unearned revenue	70,949	56,692
Other current liabilities	421,433	638,528
Total current liabilities	679,632	950,332
Non-current liabilities:		
Long-term debt	744,932	744,661
Income tax payable	55,934	63,634
Unearned revenue	9,225	31,745
Other non-current liabilities	79,239	76,288
Total liabilities	1,568,962	1,866,660
Commitments and contingencies (Note 13 and Note 14)		
Stockholders' equity:		
Common stock and capital in excess of par value	786,464	729,629
Retained earnings	1,532,417	2,204,417
Accumulated other comprehensive income (loss)	(31,750)	47,684
Total stockholders' equity	2,287,131	2,981,730
Total liabilities and stockholders' equity	$ 3,856,093	$ 4,848,390

See accompanying notes to condensed consolidated financial statements (unaudited).

KLA-TENCOR CORPORATION
Condensed Consolidated Statements of Operations
(Unaudited)

(In thousands except per share data)	Three months ended December 31, 2008	Three months ended December 31, 2007	Six months ended December 31, 2008	Six months ended December 31, 2007
Revenues:				
Product	$ 273,072	$513,449	$ 678,568	$ 1,091,881
Service	123,517	122,334	250,534	236,922
Total revenues	396,589	635,783	929,102	1,328,803
Costs and operating expenses:				
Costs of revenues	238,167	279,167	490,980	585,060
Engineering, research and development	95,266	97,513	209,627	196,857
Selling, general and administrative	133,954	159,453	252,444	269,958
Goodwill and purchased intangible assets impairment	434,833	6,163	446,744	6,163
Total costs and operating expenses	902,220	542,296	1,399,795	1,058,038
Income (loss) from operations	(505,631)	93,487	(470,693)	270,765
Interest income and other, net	1,381	13,856	19,431	31,715
Interest expense	13,853	587	27,726	972
Income (loss) before income taxes	(518,103)	106,756	(478,988)	301,508
Provision for (benefit from) income taxes	(83,849)	22,821	(64,023)	129,415
Net income (loss)	$(434,254)	$ 83,935	$ (414,965)	$ 172,093
Net income (loss) per share:				
Basic	$ (2.57)	$ 0.46	$ (2.43)	$ 0.93
Diluted	$ (2.57)	$ 0.45	$ (2.43)	$ 0.91
Cash dividend paid per share	$ 0.15	$ 0.15	$ 0.30	$ 0.30
Weighted average number of shares:				
Basic	169,022	181,241	170,552	184,516
Diluted	169,022	185,199	170,552	189,122

See accompanying notes to condensed consolidated financial statements (unaudited).

KLA-TENCOR CORPORATION
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	Six months ended December 31, 2008	2007
Cash flows from operating activities:		
Net income (loss)	$ (414,965)	$ 172,093
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	78,354	53,297
Goodwill, purchased intangible asset and long-lived asset impairment charges	449,191	6,163
Gain on sale of real estate assets	(3,365)	(9,042)
Non-cash stock-based compensation	56,685	51,335
Provision for doubtful accounts	24,097	—
Tax benefit (charge) from stock-based compensation	(3,912)	6,176
Excess tax benefit from stock-based compensation	(1,691)	(3,124)
Net loss (gain) on sale of marketable securities and other investments	513	(471)
Changes in assets and liabilities, net of assets acquired and liabilities assumed in business combinations:		
Decrease in accounts receivable, net	162,273	30,150
Decrease in inventories	13,583	57,479
Decrease (increase) in other assets	34,309	(16,491)
Increase (decrease) in accounts payable	(9,145)	21,777
Decrease in deferred system profit	(67,365)	(7,067)
Decrease in other liabilities	(272,805)	(31,282)
Net cash provided by operating activities	45,757	330,993
Cash flows from investing activities:		
Acquisition of business, net of cash received	(140,975)	(3,966)
Capital expenditures, net	(17,099)	(37,492)
Proceeds from sale of real estate assets	21,814	34,622
Purchase of available-for-sale securities	(519,153)	(583,799)
Proceeds from sale and maturity of available-for-sale securities	399,005	824,374
Purchase of trading securities	(28,145)	(37,897)
Proceeds from sale of trading securities	30,411	38,493
Net cash provided by (used in) investing activities	(254,142)	234,335
Cash flows from financing activities:		
Issuance of common stock	27,131	128,419
Tax withholding payment related to vested and released restricted stock units	(10,388)	—
Common stock repurchases	(226,515)	(809,771)
Payment of dividends to stockholders	(51,175)	(55,610)
Excess tax benefit from stock-based compensation	1,691	3,124
Net cash used in financing activities	(259,256)	(733,838)
Effect of exchange rate changes on cash and cash equivalents	(4,135)	(6,358)
Net decrease in cash and cash equivalents	(471,776)	(174,868)
Cash and cash equivalents at beginning of period	1,128,106	722,511
Cash and cash equivalents at end of period	$ 656,330	$ 547,643
Supplemental cash flow disclosures:		
Income taxes paid, net	$ 3,866	$ 137,407
Interest paid	$ 29,311	$ 1,343

See accompanying notes to condensed consolidated financial statements (unaudited).

KLA-TENCOR CORPORATION
Notes to Condensed Consolidated Financial Statements
(Unaudited)

NOTE 1 – BASIS OF PRESENTATION

Basis of Presentation. The condensed consolidated financial statements have been prepared by KLA-Tencor Corporation ("KLA-Tencor" or the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited interim financial statements reflect all adjustments (consisting only of normal, recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows for the periods indicated. These financial statements and notes, however, should be read in conjunction with Item 8, "Financial Statements and Supplementary Data" included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2008, filed with the SEC on August 7, 2008.

The condensed consolidated financial statements include the accounts of KLA-Tencor and its majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated. The Company has included the results of operations of acquired companies from the date of acquisition.

The results of operations for the three and six months ended December 31, 2008 are not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year ending June 30, 2009.

Certain reclassifications have been made to prior year financial statements to conform to the current year presentation. Starting in the first quarter of fiscal 2009, interest expense was presented as a separate line item in our condensed consolidated statements of operations (previously reported as a component of interest income and other, net). Cash flows from our trading securities were reclassified from operating to investing activities in our condensed consolidated statements of cash flows, and purchases and proceeds from sale of trading securities are presented separately (previously reported on a net basis) based on our analysis of the provisions of Statement of Financial Accounting Standards ("SFAS") No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* Starting in the second quarter of fiscal 2009, goodwill and intangibles impairment is now presented as a separate line item in our condensed consolidated statements of operations (previously reported as a component of the respective operating expenses). These reclassifications had no effect on our consolidated operating results or our change in cash and cash equivalents, as previously reported.

Management Estimates. The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Recent Accounting Pronouncements. On August 27, 2008, the SEC announced that they will issue for comment a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board. Under the proposed roadmap, the Company could be required in fiscal 2014 to prepare financial statements in accordance with IFRS, and the SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. The Company is currently assessing the impact that this potential change would have on its consolidated financial statements, and the Company will continue to monitor the development of the potential implementation of IFRS.

In October 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") SFAS No. 157-3,*Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active.* FSP SFAS No. 157-3 clarifies the application of SFAS No. 157, which the Company adopted as of July 1, 2008, in situations where the market is not active. The Company has considered the guidance provided by FSP SFAS No. 157-3 in its determination of estimated fair values as of December 31, 2008, and the impact was not material.

In December 2008, FASB issued FSP SFAS No. 132(R)-1,*Employers' Disclosures about Postretirement Benefit Plan Assets.* FSP SFAS No. 132(R)-1 amends SFAS No. 132(R) to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The FSP requires disclosures surrounding how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies. The disclosure requirement under this FSP is effective for the Company's fiscal year beginning July 1, 2010.

NOTE 2 – FAIR VALUE MEASUREMENTS

Effective July 1, 2008, the Company adopted the fair value measurement and disclosure provisions of SFAS No. 157,*Fair Value Measurements*, which establishes specific criteria for the fair value measurements of financial and nonfinancial assets and liabilities that are already subject to fair value measurements under current accounting rules. SFAS No. 157 also requires expanded

disclosures related to fair value measurements. In February 2008, the FASB approved FSP SFAS No. 157-2,*Effective Date of FASB Statement No. 157,*which allows companies to elect a one-year delay in applying SFAS No. 157 to certain fair value measurements, primarily related to nonfinancial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company elected the delayed adoption date for the portions of SFAS No. 157 impacted by FSP SFAS No. 157-2. The partial adoption of SFAS No. 157 was prospective and did not have a significant effect on the Company's Condensed Consolidated Financial Statements. The Company is currently evaluating the impact of applying the deferred portion of SFAS No. 157 to the nonrecurring fair value measurements of its nonfinancial assets and liabilities. In accordance with FSP SFAS No. 157-2, the fair value measurements for nonfinancial assets and liabilities will be adopted effective for fiscal years beginning after November 15, 2008.

Concurrently with the adoption of SFAS No. 157, the Company adopted SFAS No. 159,*Establishing the Fair Value Option for Financial Assets and Liabilities,*which permits entities to elect, at specified election dates, to measure eligible financial instruments at fair value. As of December 31, 2008, the Company did not elect the fair value option under SFAS No. 159 for any financial assets and liabilities that were not previously measured at fair value with the exception of the Put Option related to the auction rate securities repurchase agreement with UBS AG referenced in Note 4, "Marketable Securities".

Fair Value Hierarchy. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1	Valuations based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.
Level 2	Valuations based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable data for substantially the full term of the assets or liabilities.
Level 3	Valuations based on inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Most of the Company's financial instruments are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. The types of instruments valued based on quoted market prices in active markets include money market funds and U.S. Treasury securities. Such instruments are generally classified within Level 1 of the fair value hierarchy.

The types of instruments valued based on other observable inputs include U.S. agency securities, commercial paper, U.S. corporate bonds and municipal obligations. Such instruments are generally classified within Level 2 of the fair value hierarchy.

The principal market in which we execute our foreign currency contracts is the institutional market in an over-the-counter environment with a relatively high level of price transparency. The market participants usually are large commercial banks. Our foreign currency contracts' valuation inputs are based on quoted prices and quoted pricing intervals from public data sources and do not involve management judgment. These contracts are typically classified within Level 2 of the fair value hierarchy.

The types of instruments valued based on unobservable inputs include the auction rate securities held by the Company. Such instruments are generally classified within Level 3 of the fair value hierarchy. The Company estimated the fair value of these auction rate securities using a discounted cash flow model incorporating assumptions that market participants would use in their estimates of fair value. Some of these assumptions include estimates for interest rates, timing and amount of cash flows and expected holding periods of the auction rate securities.

Financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2008 were as follows:

(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Fixed income securities	$ 929,069	$ 598,506	$ 296,100	$ 34,463
Trading securities held in deferred compensation plan assets	111,147	111,147	—	—
Derivative assets	11,078	—	4,662	6,416
Total financial assets under SFAS No. 157	$1,051,294	$ 709,653	$ 300,762	$ 40,879
Derivative liabilities	$ 14,078	$ —	$ 14,078	$ —
Total financial liabilities under SFAS No. 157	$ 14,078	$ —	$ 14,078	$ —

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's Condensed Consolidated Balance Sheet as of December 31, 2008 as follows:

(in thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 363,001	$ 355,137	$ 7,864	$ —
Marketable securities	531,607	243,371	288,236	—
Marketable securities-long-term	34,463	—	—	34,463
Other current assets	11,078	—	4,662	6,416
Other assets	111,147	111,147	—	—
Total financial assets under SFAS No. 157	$1,051,296	$ 709,655	$ 300,762	$ 40,879
Other current liabilities	$ 14,078	$ —	$ 14,078	$ —
Total financial liabilities under SFAS No. 157	$ 14,078	$ —	$ 14,078	$ —

Changes in our Level 3 securities for the three months ended September 30, 2008 and December 31, 2008 were as follows:

	Level 3
Aggregate estimated fair value of Level 3 securities at June 30, 2008	$42,147
Total unrealized gains or (losses)	
Included in other comprehensive income	22
Settlements	(750)
Aggregate estimated fair value of Level 3 securities at September 30, 2008	$41,419
Total realized and unrealized gains or (losses)	
Unrealized loss included in income	(6,687)
Reversal of unrealized loss associated with transfer of securities to trading securities	1,281
Net purchases and settlements	4,866
Aggregate estimated fair value of Level 3 securities at December 31, 2008	$40,879

NOTE 3 – BALANCE SHEET COMPONENTS

(In thousands)	December 31, 2008	June 30, 2008
Accounts receivable, net		
Accounts receivable, gross	$ 368,707	$ 504,745
Allowance for doubtful accounts	(36,354)	(12,257)
	$ 332,353	$ 492,488
Inventories, net		
Customer service parts	$ 165,678	$ 169,557
Raw materials	121,640	120,364
Work-in-process	100,366	84,102
Finished goods and demonstration equipment	84,901	85,426
	$ 472,585	$ 459,449
Land, property and equipment, net		
Land	$ 53,261	$ 73,715
Buildings and improvements	142,440	146,130
Machinery and equipment	433,624	440,249
Office furniture and fixtures	36,416	35,449
Leasehold improvements	158,162	150,473
Construction in progress	1,907	4,946
	825,810	850,962
Less: accumulated depreciation and amortization	(502,790)	(495,488)
	$ 323,020	$ 355,474
Other non-current assets		
Long-term investments	$ 137,725	$ 173,680
Deferred tax assets – long-term	329,294	323,870
Other	15,294	17,795
	$ 482,313	$ 515,345
Other current liabilities		
Warranty and retrofit obligations	$ 32,311	$ 47,953
Compensation and benefits	197,013	283,366
Income taxes payable	31,845	24,675
Interest payable	8,769	8,625
Accrued litigation costs	11,036	71,552
Other accrued expenses	140,459	202,357
	$ 421,433	$ 638,528

NOTE 4 – MARKETABLE SECURITIES

(In thousands)	December 31, 2008	June 30, 2008
Cash equivalents and short-term marketable securities:		
U.S. Treasuries	$ 97,800	$ 19,934
U.S. Government agency securities	209,006	223,025
Municipal bonds	13,283	1,002
Corporate debt securities	194,631	153,533
Money market bank deposits and other	379,888	865,026
Sovereign/Multilateral obligations	—	28,420
	894,608	1,290,940
Less: Amounts included in cash equivalents	(363,001)	(881,810)
Total short-term marketable securities	$ 531,607	$ 409,130
Long-term marketable securities:		
Auction rate securities	$ 34,463	$ 42,147
Total long-term marketable securities	$ 34,463	$ 42,147

The Company's investment portfolio includes auction rate securities, which are investments with contractual maturities generally between 20 to 30 years. They are usually found in the form of municipal bonds, preferred stock, a pool of student loans, or collateralized debt obligations whose interest rates are reset. The reset typically occurs every seven to forty-nine days, through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par. The auction rate securities held by the Company are backed by student loans and are collateralized, insured and guaranteed by the United States Federal Department of Education. In addition, all auction rate securities held by the Company are rated by the major independent rating agencies as either AAA or Aaa. In February 2008, auctions failed for approximately $48.2 million in par value of municipal auction rate securities that the Company held because sell orders exceeded buy orders. These failures are not believed to be a credit issue, but rather caused by a lack of liquidity. The funds associated with these failed auctions may not be accessible until the issuer calls the security, a successful auction occurs, a buyer is found outside of the auction process, or the security matures. As a result, the Company has classified these securities with failed auctions as long-term assets in its condensed consolidated balance sheet. Prior to the three months ended December 31, 2008, a total of $5.6 million of the auction rate securities with a net book value of $5.4 million were called at par by the issuer; therefore no losses were recognized on these securities. During the three months ended December 31, 2008, an additional $1.6 million of the auction rate securities with a net book value of $1.3 million was called at par by the issuer; therefore no losses were recognized on these securities during the three months ended December 31, 2008. The fair value of the auction rate securities at December 31, 2008 was $34.5 million.

By letter dated August 8, 2008, the Company received notification from UBS AG ("UBS"), issued in connection with a settlement entered into between UBS and certain regulatory agencies, offering to repurchase all of the Company's auction rate security holdings at par value. The Company formally accepted the settlement offer and entered into a repurchase agreement ("Agreement") with UBS on November 11, 2008 ("Acceptance Date"). By accepting the Agreement, the Company (1) received the right ("Put Option") to sell its auction rate securities at par value to UBS between June 30, 2010 and July 2, 2012 and (2) gave UBS the right to purchase the auction rate securities from the Company any time after the Acceptance Date as long as the Company receives the par value.

The Company expects to sell the auction rate securities under the Put Option. However, if the Put Option is not exercised before July 2, 2012, it will expire and UBS will have no further rights or obligation to buy the auction rate securities.

UBS's obligations under the Put Option are not secured by its assets and do not require UBS to obtain any financing to support its performance obligations under the Put Option. UBS has disclaimed any assurance that it will have sufficient financial resources to satisfy its obligations under the Put Option.

The Agreement covers $41.2 million par value (fair value of $34.5 million) of the auction rate securities held by the Company as of December 31, 2008. The Company has accounted for the Put Option as a freestanding financial instrument and elected to record the value under the fair value option of SFAS No. 159. As a result, $6.4 million was recorded as a credit to interest income and other, net for the fair value of the Put Option. Simultaneously, the Company made an election pursuant to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, to transfer these auction rate securities from available-for-sale to trading securities. The transfer to trading securities reflects the Company's intent to exercise the Put Option during the period June 30, 2010 to July 2, 2012. Prior to entering into the Agreement, the Company's intent was to hold the auction rate securities until the market recovered. At the time of transfer, the unrealized loss on the auction rate securities was $1.3

million. Prior to the transfer, this unrealized loss was included in accumulated other comprehensive income (loss). Upon transfer of the auction rate securities to trading securities, the Company immediately recognized an unrealized loss of $1.3 million, included in interest income and other, net, for the amount of the unrealized loss not previously recognized in earnings. Subsequently, the Company recognized an additional decline in fair value of $5.4 million for a total unrealized loss of $6.7 million, included in interest income and other, net, in the condensed consolidated statements of operations for the three months ended December 31, 2008. The Company expects that the future changes in the fair value of the Put Option will be largely offset by the fair value movements in the auction rate securities. The Company estimated the fair value of the auction rate securities using a discounted cash flow model incorporating assumptions that market participants would use in their estimates of fair value. Some of these assumptions include estimates for interest rates, timing and amount of cash flows and expected holding periods of the auction rate securities. The Company estimated the fair value of the Put Option using the expected value that the Company will receive from UBS which was calculated as the difference between the anticipated recognized losses and par value of the auction rate securities as of the option exercise date. This value was discounted by using UBS's credit default swap rate to account for the credit considerations of the counterparty risk. The Company will reassess the fair values in future reporting periods based on several factors, including continued failure of auctions, failure of investments to be redeemed, deterioration of credit ratings of investments, market risk and other factors. Based on the Company's expected operating cash flows and other sources of cash, it does not believe that any reduction in liquidity of its auction rate securities will have a material impact on its overall ability to meet its liquidity needs.

NOTE 5 – BUSINESS COMBINATIONS

The Company accounts for business combinations using the purchase method of accounting. Consideration includes the cash paid and the value of options assumed, if any, less any cash acquired, and excludes contingent employee compensation payable in cash.

During the three months ended September 30, 2008, the Company completed its acquisition of the Microelectronic Inspection Equipment business unit ("MIE business unit") of Vistec Semiconductor Systems for net cash consideration of approximately $139.3 million. The acquired MIE business unit is a provider of mask registration measurement tools, scanning electron microscopy ("SEM") based tools for mask critical dimension measurement and macro defect inspection systems.

The following table represents preliminary purchase price allocation and summarizes the aggregate estimated fair values of the net assets acquired on the closing date of the acquisition of the MIE business unit:

(in thousands)	Preliminary Purchase Price Allocation
Cash	$ 14,219
Current assets	61,034
Intangibles:	
Existing technology	39,800
Patents	18,200
Trade name/Trademarks	4,800
Customer relationships	19,300
In-process R&D ("IPR&D")	8,600
Backlog	6,750
Other intangible assets	9,950
Noncurrent assets	2,749
Goodwill	39,399
Liabilities assumed	(71,299)
	$ 153,502
Cash consideration – paid	$ 153,078
Cash consideration – accrued(1)	$ 424

(1) The $0.4 million of accrued cash consideration represents payments to be made for funding of remaining estimated obligations under the stock purchase agreement. This amount is expected to be settled and paid in the three months ending March 31, 2009.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired. The $39.4 million of goodwill is assigned to the defect inspection reporting unit, which is not expected to be deductible for tax purposes. This acquisition provides the Company with a line of mask registration measurement tools to complement the Company's existing mask inspection products. In addition, through the acquisition the Company has acquired a provider of SEM-based tools for mask critical dimension measurement. Other technologies of the MIE business unit acquired by the Company in the transaction include macro defect inspection systems, overlay measurement systems for microelectromechanical systems ("MEMS") applications and software packages for defect classification and data analysis.

The results of operations of the acquired MIE business unit are included in the accompanying Condensed Consolidated Statement of Operations from the closing date of the acquisition on September 30, 2008. Pro forma earnings information has not been presented because the effect of the acquisition of the MIE business unit is not material.

The fair value of the purchased IPR&D and identified intangibles was determined using the income approach, which discounts expected future cash flows from projects to their net present value. Each project was analyzed to determine the technological innovations included; the utilization of core technology; the complexity, cost and time to complete development; any alternative future use or current technological feasibility; and the stage of completion. Future cash flows were estimated, taking into account the expected life cycles of the products and the underlying technology, relevant market sizes and industry trends. The Company determined a discount rate for each project based on the relative risks inherent in the project's development horizon, the estimated costs of development, and the level of technological change in the project and the industry, among other factors.

The Company expensed IPR&D of $8.6 million upon the completion of the acquisition of the MIE business unit in the three months ended September 30, 2008, in connection with acquired intellectual property for which technological feasibility has not been established and no future alternative uses exist.

During the three months ended December 31, 2007, the Company acquired a development stage company for $4.0 million. The acquisition was accounted for as a purchase of assets primarily consisting of IPR&D for which technological feasibility had not been established and no future alternative uses exist. Upon the completion of the acquisition the Company expensed IPR&D of $3.4 million. The fair value of the purchased IPR&D was determined using the income approach, which discounts expected future cash flows from projects to their net present value. Each project was analyzed to determine the technological innovations included; the utilization of core technology; the complexity, cost and time to complete development; any alternative future use or current technological feasibility; and the stage of completion. Future cash flows were estimated, taking into account the expected life cycles of the products and the underlying technology, relevant market sizes and industry trends. The Company determined a discount rate for each project based on the relative risks inherent in the project's development horizon, the estimated costs of development, and the level of technological change in the project and the industry, among other factors. The Company acquired intangible assets of $0.5 million, consisting of patents, valued using the income approach.

NOTE 6 – GOODWILL AND PURCHASED INTANGIBLE ASSETS

Goodwill

The following table presents goodwill balances and the movements during the six months ended December 31, 2008:

(In thousands)	Amount
As of June 30, 2008	$ 601,882
Acquisition	35,710
Adjustments	(23,434)
Impairment	(276,586)
As of December 31, 2008	$ 337,572

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. The carrying value of goodwill was allocated to KLA-Tencor's reporting units pursuant to SFAS No. 142, *Goodwill and Other Intangible Assets*. In accordance with SFAS No. 142, the Company completed its annual evaluation of the goodwill by reporting unit for the three months ended December 31, 2008. As a result of the global economic downturn, reductions to the Company's revenue, operating income, and cash flow forecasts, and a significant reduction in the Company's market capitalization, the Company determined that the goodwill related to its Metrology reporting unit was impaired. As a result, the Company recorded an impairment charge of $272.1 million, which represented the entire goodwill amount related to the Metrology reporting unit, during the three months ended December 31, 2008, which reduced the Company's goodwill carrying value to $337.6 million as of December 31, 2008. The Company's assessment of goodwill impairment indicated that the fair values of the Company's Defect Inspection, Service, and Other reporting units exceeded their estimated carrying values and therefore goodwill in those reporting units was not impaired.

Goodwill impairment testing is a two-step process. Step 1 involves comparing the fair value of the Company's reporting units to their carrying amount. If the fair value of the reporting unit is greater than its carrying amount, there is no impairment. If the reporting unit's carrying amount is greater than the fair value, the second step must be completed to measure the amount of impairment, if any. Step 2 calculates the implied fair value of goodwill by deducting the fair value of all tangible and intangible assets, excluding goodwill, of the reporting unit from the fair value of the reporting unit as determined in Step 1. The implied fair value of goodwill determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference. The result of the Company's analysis indicated that there would be no remaining implied value attributable to the Metrology reporting unit. Accordingly, the Company wrote off all $272.1 million of goodwill associated with its Metrology reporting unit during the three months ended December 31, 2008.

determined in this step is compared to the carrying value of goodwill. If the implied fair value of goodwill is less than the carrying value of goodwill, an impairment loss is recognized equal to the difference. The result of the Company's analysis indicated that there would be no remaining implied value attributable to the Metrology reporting unit. Accordingly, the Company wrote off all $272.1 million of goodwill associated with its Metrology reporting unit during the three months ended December 31, 2008.

Fair value was determined by using a weighted combination of two market-based approaches and an income approach, as this combination was deemed to be the most indicative of the Company's fair value in an orderly transaction between market participants and is consistent in principle with the methodology used for goodwill evaluation in the prior year. Under the market-based approaches, the Company utilized information regarding the Company as well as publicly available industry information to determine earnings multiples and sales multiples that are used to value the Company's reporting units. The Company assigned a higher weighting to the discounted cash flow due to the fact that current market conditions are depressed (as compared to the goodwill evaluation performed in fiscal year 2008, when the Company assigned equal weighting for each of the three approaches). Under the income approach, the Company determined fair value based on estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and operating margins, discount rates and future market conditions, among others.

Solely for purposes of establishing inputs for the fair value calculations described above related to goodwill impairment testing, the Company made the following assumptions. The Company assumed that the current economic downturn would continue through fiscal year 2010, followed by a recovery period in fiscal years 2011 and 2012, and long-term industry growth past fiscal year 2012. In addition, the Company applied gross margin assumptions consistent with the Company's historical trends at various revenue levels and used a 5% growth factor to calculate the terminal value of its reporting units, which is consistent with the rate used in the prior year. The Company used a 13% discount rate to calculate the terminal value of its reporting units, which is slightly lower than the 14% discount rate used in the prior year, primarily due to the fact that in April 2008 the Company issued $750 million of unsecured long-term debt due in 2018, which reduced its weighted average cost of capital. The sum of the fair values of the reporting units was reconciled to the Company's current market capitalization (based upon the Company's stock price) plus an estimated control premium.

Given the current economic environment and the uncertainties regarding the impact on the Company's business, there can be no assurance that the Company's estimates and assumptions regarding the duration of the ongoing economic downturn, or the period or strength of recovery, made for purposes of the Company's goodwill impairment testing during the three months ended December 31, 2008 will prove to be accurate predictions of the future. If the Company's assumptions regarding forecasted revenue or margin growth rates of certain reporting units are not achieved, the Company may be required to record additional goodwill impairment charges in future periods, whether in connection with the Company's next annual impairment testing in the second quarter of fiscal year 2010 or prior to that, if any such change constitutes a triggering event outside of the quarter from when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

Adjustments to goodwill during the six months ended December 31, 2008 resulted primarily from revisions to purchase price allocations as well as foreign currency translation adjustments related to ICOS Vision Systems Corporation NV and the MIE business unit.

Purchased Intangible Assets

The components of purchased intangible assets as of December 31, 2008 and June 30, 2008 were as follows:

(in thousands)		As of December 31, 2008			As of June 30, 2008		
Category	Range of Useful Lives	Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Existing technology	4-7 years	$ 125,957	$ 46,821	$ 79,136	$ 201,606	$ 55,813	$ 145,793
Patents	6-13 years	57,163	24,647	32,516	71,749	18,615	53,134
Trade name / Trademark	4-10 years	19,494	8,275	11,219	33,929	5,918	28,011
Customer relationships	6-7 years	53,919	18,704	35,215	80,600	12,707	67,893
Other	0-1 year	16,621	12,632	3,989	14,822	11,875	2,947
Total		$ 273,154	$ 111,079	$ 162,075	$ 402,706	$ 104,928	$ 297,778

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. During the fiscal year ended June 30, 2008, the Company identified a certain business unit as held for sale and based on the estimated selling price of that business unit, the Company determined that the carrying amount of certain related intangible assets,

primarily existing technology, patents and customer relationship, exceeded fair value by $6.5 million. As a result, an impairment charge of $6.5 million was recorded during the fiscal year ended June 30, 2008. During the three months ended September 30, 2008, based on the revised estimated selling price of that business unit, the Company determined that the carrying amount of certain related net assets further exceeded fair value by $11.9 million. As a result, an additional impairment charge of $11.9 million, of which $4.5 million relates to goodwill impairment and $7.4 million relates to intangible assets impairment, was recorded during the three months ended September 30, 2008. Of the $7.4 million of intangible assets impairment, $5.4 million was recorded to costs of revenues and $2.0 million to selling, general and administrative expense. There were no changes to the valuation of the business unit during the three months ended December 31, 2008. The Company is not able to predict when the business unit will be sold.

During the quarter ended December 31, 2008, the economic conditions that affect the Company's industry have deteriorated, which has led our customers to scale back their production operations and reduce their capital expenditures. Industry analysts expect demand for semiconductor capital equipment to continue to remain weak until macroeconomic conditions improve. In addition, the Company experienced a significant decline in its stock price, resulting in a significant reduction in the Company's market capitalization. Accordingly, the Company performed an assessment of its purchased intangible assets to test for recoverability in accordance with SFAS No. 144. The assessment of recoverability is based on management's estimates. Based on the assessment, undiscounted projected future operating cash flows for certain long-lived asset groups did not exceed the net book value, indicating that a permanent impairment had occurred. The fair value was determined using the income approach which is a present value technique used to measure the fair value of future cash flows produced by each asset group. The Company estimated the future cash flows over the weighted average of the remaining useful lives of its intangible assets, which range from 1 to 6 years, using a 13% discount rate. Based on the assessment, the Company recorded an intangible asset impairment charge of $162.8 million during the three months ended December 31, 2008, of which $73.1 million related to existing technology, $26.3 million to patents, $38.1 million to customer relationships, $16.6 million to trademarks and $8.7 million to other intangible assets.

For the three months ended December 31, 2008 and 2007, amortization expense for purchased intangible assets was $16.1 million and $8.5 million, respectively. For the six months ended December 31, 2008 and 2007, amortization expense for other intangible assets was $41.0 million and $16.9 million, respectively. Based on the intangible assets recorded as of December 31, 2008, and assuming no subsequent additions to, or impairment of the underlying assets, the remaining estimated amortization expense is expected to be as follows:

Fiscal year ending June 30:	Amortization (in thousands)
2009 (remaining 6 months)	$ 19,415
2010	32,251
2011	31,245
2012	28,392
2013	19,035
Thereafter	31,737
Total	$ 162,075

NOTE 7 – LONG-TERM DEBT

In April 2008, the Company issued $750 million aggregate principal amount of 6.90% senior, unsecured long-term debt due in 2018 with an effective interest rate of 7.00%. The discount on the debt amounted to $5.4 million and is being amortized over the life of the debt using the straight-line method as opposed to the interest method due to immateriality. Interest is payable semi-annually on November 1 and May 1. The debt indenture includes covenants that limit the Company's ability to grant liens on its facilities and to enter into sale and leaseback transactions, subject to significant allowances under which certain sale and leaseback transactions are not restricted. The Company was in compliance with all of its covenants as at December 31, 2008.

In certain circumstances involving a change of control followed by a downgrade of the rating of the Company's senior notes, the Company will be required to make an offer to repurchase the senior notes at a purchase price equal to 101% of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest. The Company's ability to repurchase the senior notes in such event may be limited by law, by the indenture associated with the senior notes, by the terms of other agreements to which the Company may be party at such time. If the Company fails to repurchase the senior notes as required by the indenture, it would constitute an event of default under the indenture governing the senior notes which, in turn, may also constitute an event of default under other obligations.

NOTE 8 – STOCK-BASED COMPENSATION

Equity Incentive Program

Under the Company's current equity incentive program, the Company issues equity awards under its 2004 Equity Incentive Plan (the "2004 Plan"), under which officers, employees, non-employee directors and consultants may be granted options to purchase shares of the Company's stock, restricted stock units and other types of equity awards.

Except for options granted to non-employee directors as part of their regular compensation package for service through the end of the first quarter of fiscal year 2008, the Company has granted only restricted stock units under its equity incentive program since August 1, 2006. For the preceding several years until June 30, 2006, stock options (except for the retroactively priced options which were granted primarily prior to the fiscal year ended June 30, 2002) were generally granted at the market price of the Company's common stock on the date of grant, with a vesting period of five years and an exercise period not to exceed seven years (ten years for options granted prior to July 1, 2005) from the date of issuance. Restricted stock units may be granted with varying criteria such as service-based or performance-based vesting. Substantially all of the Company's employees that meet established performance goals and qualify as key employees participate in its main equity incentive plan.

On October 18, 2004, the Company's stockholders approved the 2004 Equity Incentive Plan (the "2004 Plan") which provides for the grant of options to purchase shares of its common stock, stock appreciation rights, restricted stock units, performance shares, performance units and deferred stock units to its employees, consultants and members of its Board of Directors. The 2004 Plan permits the issuance of up to 21.0 million shares of common stock, of which 4.7 million shares were available for grant as of December 31, 2008. Any 2004 Plan awards of restricted stock units, performance shares, performance units or deferred stock units with a per share or unit purchase price lower than 100% of fair market value on the grant date are counted against the total number of shares issuable under the 2004 Plan as 1.8 shares for every one share subject thereto. Total options outstanding under all plans as of December 31, 2008 were 14.7 million shares with a weighted-average remaining contractual term of 3.9 years. During the six months ended December 31, 2008, approximately 0.3 million restricted stock units were granted to senior management with performance-based and service-based vesting criteria.

The following table summarizes the combined activity under the equity incentive plans for the indicated period:

(in thousands except for weighted-average exercise price)	Available For Grant	Options Outstanding	Weighted-Average Exercise Price
Balances at June 30, 2008	9,245	16,012	$ 42.43
Plan shares expired	(467)	—	—
Restricted stock units granted(1)	(3,958)	—	—
Restricted stock units canceled(1)	383	—	—
Restricted stock units traded for taxes	342	—	—
Options canceled/expired/forfeited	678	(678)	$ 43.97
Options exercised	—	(610)	$ 16.04
Balances at December 31, 2008	6,223	14,724	$ 43.46

(1) Any 2004 Plan awards of restricted stock units, performance shares, performance units or deferred stock units with a per share or unit purchase price lower than 100% of fair market value on the grant date are counted against the total number of shares issuable under the 2004 Plan as 1.8 shares for every one share subject thereto.

The Company accounts for its stock-based awards exchanged for employee services under the provisions of SFAS No. 123(R). Accordingly, the fair value of stock-based awards is measured at grant date and is recognized as expense over the employee's requisite service period. The fair value is determined using a Black-Scholes valuation model for stock options and for purchase rights under the Company's Employee Stock Purchase Plan and using the closing price of the Company's common stock on the grant date for restricted stock units.

The following table shows pre-tax stock-based compensation expense for the indicated periods:

	Three months ended December 31,		Six months ended December 31,	
(in thousands)	2008	2007	2008	2007
Stock-based compensation expense:				
Costs of revenues	$ 4,679	$ 4,700	$ 10,135	$ 10,953
Engineering, research and development	6,981	7,109	16,953	15,701
Selling, general and administrative	10,643	11,443	29,597	24,681
Total stock-based compensation	$ 22,303	$ 23,252	$ 56,685	$ 51,335

Stock Options

Except for options granted to non-employee directors as part of their regular compensation package for service through the end of the first quarter of fiscal year 2008, the Company has granted only restricted stock units under its equity incentive program since July 1, 2006. Therefore, no comparative information is presented in the table below for the three and six months ended December 31, 2008. The Company estimates the fair value of stock options using a Black-Scholes valuation model, consistent with the provisions of SFAS No. 123(R) and SEC Staff Accounting Bulleting ("SAB") No. 107. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach with the following weighted-average assumptions:

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Stock option plan:				
Expected stock price volatility	(*)	36%	(*)	34%
Risk free interest rate	(*)	4.0%	(*)	4.4%
Dividend yield	(*)	1.1%	(*)	1.0%
Expected life of options (in years)	(*)	4.7	(*)	4.7

(*) The Company did not issue any stock options during the three and six months ended December 31, 2008.

SFAS No. 123(R) requires the use of option pricing models that were not developed for use in valuing employee stock options. The Black-Scholes option-pricing model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The expected stock price volatility assumption was based on market-based implied volatility from traded options on the Company's stock.

The following table shows the grant-date fair value after estimated forfeitures, weighted-average grant date fair value per share, total intrinsic value of options exercised, total cash received from employees as a result of employee stock option exercises, and tax benefits realized in connection with these exercises of the stock options for the indicated periods:

(in thousands, except for weighted-average grant date fair value per share)	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Grant-date fair value after estimated forfeitures	$ —	$ 208	$ —	$ 1,947
Weighted-average grant date fair value per share	$ —	$ 17.49	$ —	$ 17.95
Total intrinsic value of options exercised	1,482	4,178	10,631	54,903
Total cash received from employees as a result of employee stock option exercises	3,618	10,494	9,585	107,055
Tax benefits realized by Company in connection with these exercises	798	1,455	4,014	18,950

As of December 31, 2008, 12.7 million options were exercisable with a weighted-average exercise price of $43.30 and weighted-average remaining contractual term of 3.8 years. The aggregate intrinsic value for the options exercisable as of December 31, 2008 was insignificant. As of December 31, 2008, the unrecognized stock-based compensation balance related to stock options was $29.9 million and will be recognized over an estimated weighted-average amortization period of 1.6 years.

The Company settles employee stock option exercises with newly issued common shares, except in certain tax jurisdictions where settling such exercises with treasury shares provides the Company or one of its subsidiaries with a tax benefit.

The following table shows stock-based compensation capitalized as inventory and deferred system profit as of December 31, 2008 and June 30, 2008:

(in thousands)	December 31, 2008	June 30, 2008
Inventory	$ 6,907	$6,526
Deferred system profit	$ —	$ 829

Restricted Stock Units

The following table shows the applicable number of restricted stock units and weighted-average grant date fair value for restricted stock units granted, vested and released, and forfeited during the six months ended December 31, 2008 and restricted stock units outstanding as of December 31, 2008 and June 30, 2008:

Restricted Stock Units	Shares (in thousands)	Weighted-Average Grant Date Fair Value
Outstanding restricted stock units as of June 30, 2008	5,075	$ 31.50
Granted	2,198	$ 14.66
Vested and released	(1,081)	$ 32.07
Forfeited	(212)	$ 28.69
Outstanding restricted stock units as of December 31, 2008	5,980	$ 25.20

Since the beginning of the fiscal year ended June 30, 2007, the restricted stock units granted by the Company generally vest in two equal installments on the second and fourth anniversaries of the date of grant. Prior to the fiscal year ended June 30, 2007, the restricted stock units granted by the Company generally vested in two equal installments over four or five years from the anniversary date of the grant. The value of the restricted stock units is based on the closing market price of the Company's common stock on the date of award. The restricted stock units have been awarded under the Company's 2004 Plan, and each unit will entitle the recipient to one share of common stock when the applicable vesting requirements for that unit are satisfied. However, for each share actually issued under the awarded units, the share reserve under the 2004 Plan will be reduced by 1.8 shares, as provided under the terms of the 2004 Plan.

As of December 31, 2008, the unrecognized stock-based compensation balance related to restricted stock units was $102.3 million and will be recognized over an estimated weighted-average amortization period of 2.8 years.

In connection with the vested and released restricted stock units, the Company realized tax benefits of $0.8 million and $12.5 million for the three and six months ended December 31, 2008, respectively.

Employee Stock Purchase Plan

KLA-Tencor's Employee Stock Purchase Plan ("ESPP") provides that eligible employees may contribute up to 10% of their eligible earnings toward the semi-annual purchase of KLA-Tencor's common stock. The ESPP is qualified under Section 423 of the Internal Revenue Code. The employee's purchase price is derived from a formula based on the fair market value of the common stock at the time of enrollment into the offering period versus the fair market value on the date of purchase. Offering periods are generally two years in length. During the quarter ended December 31, 2008, the Company's Board of Directors, as part of the Company's ongoing efforts to reduce operating expenses, approved amendments to the ESPP so as to, among other things, reduce each offering period under the ESPP (and therefore the length of the look-back period) from 24 months to 6 months. This change became effective January 1, 2009, such that each offering period beginning on or after such date will have a duration of six months, and the purchase price with respect to each such offering period will be 85% of the lesser of (i) the fair market value of the Company's common stock at the commencement of the six-month offering period or (ii) the fair market value of the Company's common stock on the purchase date.

The Company estimates the fair value of purchase rights under the ESPP using a Black-Scholes valuation model, consistent with the provisions of SFAS No. 123(R) and SEC SAB No. 107. The fair value of each purchase right under the ESPP is estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach with the following weighted-average assumptions:

	Three months ended December 31,		Six months ended December 31,	
	2008	2007	2008	2007
Stock purchase plan:				
Expected stock price volatility	41%	32%	41%	35%
Risk free interest rate	1.8%	4.9%	1.8%	5.1%
Dividend yield	1.4%	0.9%	1.4%	1.2%
Expected life of options (in years)	1.3	1.3	1.3	1.3

The ESPP shares are replenished annually on the first day of each fiscal year by virtue of an evergreen provision. The provision allows for share replenishment equal to the lesser of 2.0 million shares or the number of shares which KLA-Tencor estimates that it will be required to issue under the ESPP during the forthcoming fiscal year. In the first quarter of the fiscal year ending June 30, 2009, the Company estimated that it would need to issue up to 1.0 million shares under the ESPP during fiscal year 2009 and, in accordance with the evergreen provision of the ESPP, increased the number of shares reserved under the ESPP by 1.0 million shares. As of December 31, 2008, a total of 1.0 million shares were reserved and available for issuance under the ESPP.

In connection with the disqualifying dispositions of shares purchased under the ESPP, the Company realized tax benefits as the following:

(in thousands)	Three months ended December 31, 2008	Three months ended December 31, 2007	Six months ended December 31, 2008	Six months ended December 31, 2007
Tax benefits realized in connection with these exercises	$ 70	$ 325	$ 296	$ 889

IRC Section 409A Affected Options

Because virtually all holders of retroactively priced options that had been issued by the Company were not involved in or aware of the retroactive pricing, the Company took certain actions to deal with the adverse tax consequences that may have been incurred by the holders of retroactively priced options. The adverse tax consequences were that retroactively priced stock options vesting after December 31, 2004 ("409A Affected Options") subject the option holder to a penalty tax under IRC Section 409A (and, as applicable, similar penalty taxes under California and other state tax laws). One such action by the Company involved offering to amend the 409A Affected Options to increase the exercise price to the market price on the actual grant date or, if lower, the market price at the time of the amendment, in exchange for cash bonus payments to the option holders that were paid in January 2008 in an amount equal to the aggregate increase in exercise prices of the amended 409A Affected Options held by such option holders. The amended options would not be subject to taxation under IRC Section 409A. The Company amended certain options during the quarters ended December 31, 2006, March 31, 2007 and December 31, 2007, and paid cash bonuses in connection with such amendments during the quarter ended March 31, 2008. During the three and six months ended December 31, 2008, the Company recorded no charges related to the amendment of the 409A Affected Options or the payment of the related cash bonuses. During the three and six months ended December 31, 2007, the Company recorded $0.2 million related to the amendment of the 409A Affected Options or the payment of the related cash bonuses.

Executive Severance and Consulting Agreement

During August 2008, the Company announced that John H. Kispert, then the Company's President and Chief Operating Officer, would cease to be an employee of the Company effective January 1, 2009. In accordance with the terms of a Severance and Consulting Agreement entered into between the Company and Mr. Kispert dated August 28, 2008, Mr. Kispert is entitled to receive, in addition to certain cash payments and benefits, the following benefits related to his outstanding equity awards: (i) accelerated, pro-rated vesting of the unvested portion (as of the date that his employment with the Company terminates) of all of his outstanding restricted stock units, such that a percentage of the unvested portion of each such restricted stock unit grant, representing the portion of the entire service vesting period under such grant that will have been served by Mr. Kispert as of the date that he ceases to be an employee of the Company, will be accelerated; (ii) the acceleration of the delivery of all restricted stock units for which vesting is accelerated in accordance with the provisions of the Severance and Consulting Agreement; and (iii) the extension of the post-termination exercise period of each of Mr. Kispert's stock options so that each such option will remain exercisable for twelve months following the date Mr. Kispert ceases to be an employee of the Company, but in no event beyond the original term of the award. In connection with the stock-related benefits agreed to under such agreement, the Company recorded an additional non-cash, stock-based compensation charge of approximately $4.7 million during the three months ended September 30, 2008, which was included as a component of selling, general and administrative ("SG&A") expense.

NOTE 9 – STOCK REPURCHASE PROGRAM

Since July 1997, the Board of Directors has authorized the Company to systematically repurchase up to 62.8 million shares of its common stock under the repurchase program in the open market. This plan was put into place to reduce the dilution from KLA-Tencor's employee benefit and incentive plans such as the stock option and employee stock purchase plans, and to return excess cash to the Company's shareholders. Subject to market conditions, applicable legal requirements and other factors, the repurchases will be made from time to time in the open market in compliance with applicable securities laws, including the Securities Exchange Act of 1934 and the rules promulgated thereunder such as Rule 10b-18. In October 2008, the Company suspended its stock repurchase program. At December 31, 2008, 9.8 million shares were available for repurchase under the Company's repurchase program.

Share repurchases for the three and six months ended December 31, 2008 and 2007 were as follows:

(in thousands)	Three months ended December 31, 2008	Three months ended December 31, 2007	Six months ended December 31, 2008	Six months ended December 31, 2007
Number of shares of common stock repurchased	1,450	2,700	6,410	14,356
Total cost of repurchase	$ 38,657	$ 133,555	$ 218,698	$ 817,089

The $10.4 million which was accrued in other current liabilities related to unsettled repurchases at September 30, 2008 was paid during the three months ended December 31, 2008.

NOTE 10 – NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is calculated by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is calculated by using the weighted-average number of common shares outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the dilutive potential shares of common stock had been issued. The dilutive effect of outstanding options and restricted stock units is reflected in diluted earnings per share by application of the treasury stock method, which includes consideration of stock-based compensation required by SFAS No. 123(R), *Share-Based Payment* and SFAS No. 128, *Earnings Per Share*. The following table sets forth the computation of basic and diluted net income (loss) per share:

	Three months ended December 31,		Six months ended December 31,	
(In thousands, except per share amounts)	2008	2007	2008	2007
Numerator:				
Net income (loss)	$(434,254)	$ 83,935	$(414,965)	$ 172,093
Denominator:				
Weighted average shares outstanding, excluding unvested restricted stock units	169,022	181,241	170,552	184,516
Effect of dilutive options and restricted stock units	—	3,958	—	4,606
Denominator for diluted income (loss) per share	169,022	185,199	170,552	189,122
Basic net income (loss) per share	$ (2.57)	$ 0.46	$ (2.43)	$ 0.93
Diluted net income (loss) per share	$ (2.57)	$ 0.45	$ (2.43)	$ 0.91
Potentially dilutive securities(1)	20,704	6,904	20,704	2,600

(1) The potentially dilutive securities are excluded from the computation of diluted net income (loss) per share for the above periods because their effect would have been anti-dilutive.

The total amount of dividends paid during the three months ended December 31, 2008 and 2007 were $25.3 million and $27.2 million, respectively. The total amount of dividends paid during the six months ended December 31, 2008 and 2007 were $51.2 million and $55.6 million, respectively.

NOTE 11 – COMPREHENSIVE INCOME (LOSS)

The components of comprehensive income (loss), net of tax, are as follows:

	Three months ended December 31,		Six months ended December 31,	
(In thousands)	2008	2007	2008	2007
Net income (loss)	$(434,254)	$83,935	$(414,965)	$172,093
Other comprehensive income (loss):				
Currency translation adjustments	(17,934)	8,002	(81,557)	22,990
Loss on cash flow hedging instruments, net	(3,638)	(1,551)	(1,502)	(10,770)
Change in unrecognized losses and transition obligation related to pension and post retirement plans	59	40	229	54
Unrealized gains on investments (1)	5,926	2,188	3,397	4,839
Other comprehensive income (loss)	(15,587)	8,679	(79,433)	17,113
Total comprehensive income (loss)	$(449,841)	$92,614	$(494,398)	$189,206
	$ 3,586	$ 1,324	$ 2,055	$ 2,928

(1) Tax effect of unrealized gains on investments

NOTE 12 – INCOME TAXES

The Company recorded a tax benefit of $83.8 million and $64.0 million for the three months and six months ended December 31, 2008, which are effective tax rates of 16.2% and 13.4%, respectively. The tax benefit as a percentage of the loss for the six months ended December 31, 2008 is lower than the tax expense as a percentage of the income for the period ended June 30, 2008 primarily due to the goodwill impairment charge which is not deductible for tax purposes for the six months ended December 31, 2008, partially offset by the tax benefit related to the reinstatement of the federal research and development credit under the Emergency Economic Stabilization Act of 2008, which was signed into law on October 3, 2008.

In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. The Company is not under United States federal income tax examination at this time. The Company remains subject to federal income tax examination for all years after the fiscal year ended June 30, 2004. The Company is subject to state income tax examinations for all years after the fiscal year ended June 30, 2003. The Company is also subject to examinations in major foreign jurisdictions, including Japan, Israel and Singapore, for all years after the fiscal year ended June 30, 2003 and is currently under tax examinations in various other foreign tax jurisdictions. It is reasonably possible that certain examinations may be concluded in the next twelve months. Accordingly, the Company believes it is reasonably possible that its existing unrecognized tax benefits may be reduced and recognized by up to $7.7 million within the next twelve months as a result of the lapse of statutes of limitations, and the resolution of agreements with various foreign tax authorities.

NOTE 13 – LITIGATION AND OTHER LEGAL MATTERS

Government Inquiries and SEC Settlement Relating to Historical Stock Option Practices. On May 23, 2006, the Company received a subpoena from the United States Attorney's Office ("USAO") requesting information relating to the Company's past stock option grants and related accounting matters. Also on May 23, 2006, the Company received a letter from the SEC making an informal inquiry and request for information on the same subject matters. The Company learned on February 2, 2007 that the SEC had opened a formal investigation into these matters. The Company cooperated fully with the SEC investigation. On July 25, 2007, the Company announced that it had reached a settlement with the SEC by consenting to the entry of a permanent injunction against future violations of the reporting, books and records, and internal controls provisions of the federal securities laws. The settlement resolves completely the SEC investigation into the Company's historical stock option granting practices. KLA-Tencor was not charged by the SEC with fraud; nor was the Company required to pay any civil penalty, fine, or money damages as part of the settlement. On July 31, 2008, the USAO informed the Company that it had closed its investigation and had determined not to take any action against the Company. Both the SEC and USAO investigations with respect to the Company are now closed.

The Company has also responded to inquiries from the U.S. Department of Labor, which is conducting an examination of the Company's 401(k) Savings Plan prompted by the Company's stock option issues. The Company is cooperating fully with this examination and intends to continue to do so. The Internal Revenue Service conducted an audit covering calendar year 2006 related to the Company's historical stock option practices, which was concluded in July 2008 with a payment by the Company of $0.1 million. The Company cannot predict how long it will take to or how much more time and resources it will have to expend to resolve the remaining government inquiry, nor can it predict the outcome of that inquiry. Also, there can be no assurance that other inquiries, investigations or actions will not be started by other United States federal or state regulatory agencies or by foreign governmental agencies.

Shareholder Derivative Litigation Relating to Historical Stock Option Practices. Beginning on May 22, 2006, several persons and entities identifying themselves as shareholders of KLA-Tencor filed derivative actions purporting to assert claims on behalf of and in the name of the Company against various of the Company's current and former directors and officers relating to its accounting for stock options issued from 1994 to the present. The complaints in these actions allege that the individual defendants breached their fiduciary duties and other obligations to the Company and violated state and federal securities laws in connection with the Company's historical stock option granting process, its accounting for past stock options, and historical sales of stock by the individual defendants. Three substantially similar actions are pending, one in the U.S. District Court for the Northern District of California (the "Federal Derivative Action," which consists of three separate lawsuits consolidated in one action); one in the California Superior Court for Santa Clara County; and one in the Delaware Chancery Court.

The plaintiffs in the derivative actions have asserted claims for violations of Sections 10(b) (including Rule 10b-5 thereunder), 14(a), and 20(a) of the Securities Exchange Act of 1934, unjust enrichment, breach of fiduciary duty and aiding and abetting such breach, negligence, misappropriation of information, abuse of control, gross mismanagement, waste of corporate assets, breach of contract, constructive fraud, rescission, and violations of California Corporations Code section 25402, as well as a claim for an accounting of all stock option grants made to the named defendants. KLA-Tencor is named as a nominal defendant in these actions. On behalf of KLA-Tencor, the plaintiffs seek unspecified monetary and other relief against the named defendants. The plaintiffs are James Ziolkowski, Mark Ziering, Alaska Electrical Pension Fund, Jeffrey Rabin, and Benjamin Langford. The individual named defendants are current directors and officers Edward W. Barnholt, Robert T. Bond, Stephen P. Kaufman, and Richard P. Wallace; and former directors and officers H. Raymond Bingham, Robert J. Boehlke, Leo Chamberlain, Gary E. Dickerson, Richard J. Elkus, Jr.,

Dennis J. Fortino, Jeffrey L. Hall, John H. Kispert, Kenneth Levy, Michael E. Marks, Stuart J. Nichols, Arthur P. Schnitzer, Kenneth L. Schroeder, Jon D. Tompkins, and Lida Urbanek. Current director David C. Wang and former director Dean O. Morton were originally named as defendants in one of the derivative actions filed in the U.S. District Court for the Northern District of California, but were dropped as named defendants as of December 22, 2006 upon the filing of a consolidated complaint in that action.

The derivative actions are at an early procedural stage. The defendants are not yet required to respond to the complaints in any of the derivative actions. The Company's Board of Directors has appointed a Special Litigation Committee ("SLC") composed solely of independent directors to conduct an independent investigation of the claims asserted in the derivative actions and to determine the Company's position with respect to those claims. On March 25, 2008, the SLC filed a motion to terminate the Federal Derivative Action and to approve certain settlements with Gary E. Dickerson, Kenneth Levy, Kenneth Schroeder and Jon D. Tompkins related to the claims brought against them in connection with the derivative actions. The Court denied the motion to terminate and to approve the settlements on December 12, 2008. The SLC has filed an appeal of that decision to the United States Court of Appeals for the Ninth Circuit. The defendants have not yet responded to the complaint in the Federal Derivative Action and will not be required to do so until after plaintiff has had an opportunity to amend the complaint. The parties are expected to participate in a mediation of the derivative claims. No defendant is yet required to answer the complaints in the state court derivative actions in the California Superior Court for Santa Clara County and the Delaware Chancery Court, each of which was stayed pending a ruling on the SLC's motion to terminate the Federal Derivative Action. It is not known whether the stays on the state court derivative actions will continue.

The Company cannot predict whether these derivative actions are likely to result in any material recovery by or expense to KLA-Tencor.

Shareholder Class Action Litigation Relating to Historical Stock Option Practices. KLA-Tencor and various of its current and former directors and officers were named as defendants in a putative securities class action filed on June 29, 2006 in the U.S. District Court for the Northern District of California. Two similar actions were filed later in the same court, and all three cases were consolidated into a single action. On September 26, 2008, Judge Charles Breyer of the Northern District granted final approval of a settlement resolving all class claims and dismissing with prejudice all claims brought by the consolidated action. The class action had alleged material misrepresentations in the Company's SEC filings and public statements and brought claims under Section 10(b) and Rule 10b-5 thereunder, Section 14(a), Section 20(a), and Section 20A of the Securities Exchange Act of 1934 as a result of the Company's past stock option grants and related accounting and reporting. The settlement resolved all claims against all defendants, who were KLA-Tencor, Edward W. Barnholt, H. Raymond Bingham, Robert T. Bond, Gary E. Dickerson, Richard J. Elkus, Jr., Jeffrey L. Hall, Stephen P. Kaufman, John H. Kispert, Kenneth Levy, Michael E. Marks, Stuart J. Nichols, Kenneth L. Schroeder, Jon D. Tompkins, Lida Urbanek and Richard P. Wallace.

The Company made a payment of $65.0 million to the settlement class as a term of the court-approved settlement during the three months ended September 30, 2008, which provides a full release of KLA-Tencor and the other named defendants in connection with the allegation raised in the lawsuit. The Company had reached an agreement in principle to resolve the action prior to December 31, 2007, and therefore an amount of $65.0 million was accrued by a charge to selling, general and administrative expenses during the three months ended December 31, 2007.

As part of a derivative lawsuit filed in the Delaware Chancery Court on July 21, 2006, a plaintiff claiming to be a KLA-Tencor shareholder also asserted a separate putative class action claim against the Company and certain of its current and former directors and officers alleging that shareholders incurred damage due to purported dilution of KLA-Tencor common stock resulting from historical stock option granting practices. The Company's motion to dismiss this claim is under submission.

Another plaintiff, Chris Crimi, filed a putative class action complaint in the Superior Court of the State of California for the County of Santa Clara on September 4, 2007 against the Company and certain of its current and former directors and officers. The plaintiff seeks to represent a class consisting of persons who held KLA-Tencor common stock between September 20, 2002 and September 27, 2006, originally alleged causes of action for breach of fiduciary duty and rescission based on alleged misstatements and omissions in the Company's SEC filings concerning the Company's past stock option grants, and seeks unspecified damages based upon purported dilution of the Company's stock, injunctive relief, and rescission. The named defendants, in addition to the Company, are Edward W. Barnholt, H. Raymond Bingham, Robert T. Bond, Richard J. Elkus, Jr., Stephen P. Kaufman, Kenneth Levy, Michael E. Marks, Dean O. Morton, Kenneth L. Schroeder, Jon D. Tompkins, and Richard P. Wallace. The Company filed a demurrer to the complaint, which was sustained, and then removed the case to the U.S. District Court for the Northern District of California upon plaintiff's filing an amended complaint. The Company then filed a motion to dismiss the action in the Northern District of California, which was granted in part, with the remaining claims being remanded back to the California Superior Court on September 12, 2008. This litigation is at an early stage, and the individual defendants have not yet been required to respond to the complaint. The Company has filed a demurrer to plaintiff's Second Amended Complaint, which is scheduled to be heard on February 6, 2009, and intends to vigorously defend this litigation.

The Company cannot predict the outcome of the shareholder class action claims brought in the lawsuits filed in the Delaware Chancery Court and the California Superior Court, and it cannot estimate the likelihood or potential dollar amount of any adverse results. However, an unfavorable outcome in this litigation could have a material adverse impact upon the financial position, results of operations or cash flows for the period in which the outcome occurs and in future periods.

Indemnification Obligations. Subject to certain limitations, the Company is obligated to indemnify its current and former directors, officers and employees in connection with the investigation of the Company's historical stock option practices and the related litigation and ongoing government inquiry. These obligations arise under the terms of the Company's certificate of incorporation, its bylaws, applicable contracts, and Delaware and California law. The obligation to indemnify generally means that the Company is required to pay or reimburse the individuals' reasonable legal expenses and possibly damages and other liabilities incurred in connection with these matters. The Company is currently paying or reimbursing legal expenses being incurred in connection with these matters by a number of its current and former directors, officers and employees. It is also paying defense costs to two former officers and employees facing SEC civil actions to which the Company is not a party. Although the maximum potential amount of future payments KLA-Tencor could be required to make under these agreements is theoretically unlimited, the Company believes the fair value of this liability, to the extent estimable, is appropriately considered within the reserve it has established for currently pending legal proceedings.

Other Legal Matters. The Company is named from time to time as a party to lawsuits in the normal course of its business. Litigation, in general, and intellectual property and securities litigation in particular, can be expensive and disruptive to normal business operations. Moreover, the results of legal proceedings are difficult to predict, and the costs incurred in litigation can be substantial, regardless of outcome.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Factoring. KLA-Tencor has agreements with financial institutions to sell certain of its trade receivables and promissory notes from customers without recourse. KLA-Tencor does not believe it is at risk for any material losses as a result of these agreements. In addition, from time to time KLA-Tencor will discount without recourse Letters of Credit ("LCs") received from customers in payment for goods.

The following table shows total receivables sold under factoring agreements and proceeds from sales of LCs and related discounting fees paid for the three and six months ended December 31, 2008 and 2007:

	Three months ended		Six months ended	
(In thousands)	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Receivables sold under factoring agreements	$ 76,368	$ 84,879	$ 158,639	$ 155,413
Proceeds from sales of LCs	$ 2,280	$ 10,710	$ 10,666	$ 17,528
Discounting fees paid on sales of LCs (1)	$ 6	$ 56	$ 44	$ 77

(1) Discounting fees were equivalent to interest expense and were recorded in interest income and other, net.

Facilities. KLA-Tencor leases certain of its facilities under arrangements, which qualify for operating lease accounting treatment under SFAS No. 13,*Accounting for Leases*.

The following is a schedule of operating lease payments (in thousands):

Fiscal year ended June 30,	Amount
2009 (remaining 6 months)	$ 6,296
2010	10,462
2011	7,538
2012	3,794
2013	3,099
2014 and thereafter	8,535
Total minimum lease payments	$39,724

Rent expense was approximately $3.3 million and $3.0 million for the three months ended December 31, 2008 and 2007, respectively. Rent expense was approximately $6.0 million and $6.0 million for the six months ended December 31, 2008 and 2007, respectively.

Purchase Commitments. KLA-Tencor maintains certain open inventory purchase commitments with its suppliers to ensure a smooth and continuous supply for key components. KLA-Tencor's liability under these purchase commitments is generally restricted to a forecasted time-horizon as mutually agreed upon between the parties. This forecast time-horizon can vary among different suppliers. The Company's open inventory purchase commitments were approximately $83.4 million as of December 31, 2008 and are primarily due within the next 12 months. Actual expenditures will vary based upon the volume of the transactions and length of contractual service provided. In addition, the amounts paid under these arrangements may change in the event that the arrangements are renegotiated or canceled. Certain agreements provide for potential cancellation penalties.

Guarantees. KLA-Tencor provides standard warranty coverage on its systems for twelve months, providing labor and parts necessary to repair the systems during the warranty period. KLA-Tencor accounts for the estimated warranty cost as a charge to cost of revenues when system revenue is recognized. The estimated warranty cost is based on historical product performance and field expenses. Utilizing actual service records, KLA-Tencor calculates the average service hours and parts expense per system and applies the actual labor and overhead rates to determine the estimated warranty charge. KLA-Tencor updates these estimated charges periodically. The actual product performance and/or field expense profiles may differ, and in those cases KLA-Tencor adjusts its warranty accruals accordingly.

The following table provides the balances and changes in the product warranty accrual for the three and six months ended December 31, 2008 and 2007:

	Three months ended December 31,		Six months ended December 31,	
(In thousands)	2008	2007	2008	2007
Beginning balance	$33,917	$ 51,278	$ 38,700	$ 52,838
Accruals for warranties issued during the period	4,063	10,613	9,205	25,458
Changes in liability related to pre-existing warranties	(1,014)	(1,369)	1,401	(1,865)
Settlements made during the period	(9,936)	(13,694)	(22,277)	(29,603)
Ending balance	$27,029	$ 46,828	$ 27,029	$ 46,828

Subject to certain limitations, KLA-Tencor indemnifies its current and former officers and directors for certain events or occurrences. Although the maximum potential amount of future payments KLA-Tencor could be required to make under these agreements is theoretically unlimited, the Company believes the fair value of this liability, to the extent estimable, is appropriately considered within the reserve it has established for currently pending legal proceedings.

KLA-Tencor is a party to a variety of agreements pursuant to which it may be obligated to indemnify the other party with respect to certain matters. Typically, these obligations arise in connection with contracts and license agreements or the sale of assets, under which the Company customarily agrees to hold the other party harmless against losses arising from a breach of warranties, representations and covenants related to such matters as title to assets sold, validity of certain intellectual property rights, non-infringement of third-party rights, and certain income tax-related matters. In each of these circumstances, payment by the Company is typically subject to the other party making a claim to and cooperating with the Company pursuant to the procedures specified in the particular contract. This usually allows the Company to challenge the other party's claims or, in case of breach of intellectual property representations or covenants, to control the defense or settlement of any third-party claims brought against the other party. Further, the Company's obligations under these agreements may be limited in terms of amounts, activity (typically at the Company's option to replace or correct the products or terminate the agreement with a refund to the other party), and duration. In some instances, the Company may have recourse against third parties and/or insurance covering certain payments made by the Company.

It is not possible to predict the maximum potential amount of future payments under these or similar agreements due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in each particular agreement. Historically, payments made by the Company under these agreements have not had a material effect on its business, financial condition, results of operations or cash flows.

The Company maintains guarantee arrangements of $30.1 million in various locations to fund customs guarantees for VAT and letter of credit needs of its subsidiaries in Europe and Asia. Approximately $21.6 million was outstanding under these arrangements as of December 31, 2008.

NOTE 15 – RESTRUCTURING CHARGES

In November 2008, the Company announced a plan to reduce its global workforce by approximately 15% by June 30, 2009. This reduction is one of many cost-reduction actions that the Company is taking in an effort to lower its quarterly operating expense run rate by the end of fiscal year 2009 in response to the current demand environment. The program in the United States is accounted for in accordance with SFAS No. 112, *Employers' Accounting for Postemployment Benefits—an amendment of Financial Accounting Standards Board Statements No. 5 and 43,* whereas the programs in the international locations are accounted for in accordance with SFAS No. 5, *Accounting for Contingencies.* During the three months ended December 31, 2008, the Company recorded a $21.8

million net restructuring charge, of which $8.8 million was recorded to costs of revenues, $4.4 million to engineering, research and development expense and $8.6 million to selling, general and administrative expense. This charge represents the estimated minimum liability associated with expected termination benefits to be provided to employees after employment.

The following table shows the activity primarily related to severance and benefits expense for the three months ended December 31, 2008:

(in thousands)	Three months ended December 31, 2008
Balance as of September 30, 2008	$ 1,333
Restructuring costs	23,142
Adjustments	(1,333)
Cash payments	(4,435)
Balance as of December 31, 2008	$ 18,707

Substantially all of the restructuring charges related to the Company's workforce reduction announced in November 2008 are expected to be paid out during the fiscal year ending June 30, 2009.

NOTE 16 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

KLA-Tencor's foreign subsidiaries operate and sell KLA-Tencor's products in various global markets. As a result, KLA-Tencor is exposed to changes in foreign currency exchange rates. KLA-Tencor utilizes foreign currency forward exchange contracts and options to hedge against future movements in foreign exchange rates that affect certain existing and forecasted foreign currency denominated sales and purchase transactions. KLA-Tencor does not use derivative financial instruments for speculative or trading purposes.

The outstanding hedge contracts, with maximum maturity of 13 months, were as follows:

(In thousands)	As of December 31, 2008	As of June 30, 2008
Cash flow hedge contracts		
Purchase	$ 3,030	$ 7,413
Sell	(89,697)	(200,676)
Other foreign currency hedge contracts		
Purchase	129,146	1,278,395
Sell	(235,854)	(1,402,119)
Net	$ (193,375)	$ (316,987)

NOTE 17 – RELATED PARTY TRANSACTIONS

During the three and six months ended December 31, 2008 and 2007, the Company purchased from, or sold to, JDS Uniphase Corporation, Freescale Semiconductor, Inc., National Semiconductor Corp., STMicroelectronics, NV and Oracle Corporation, where one or more members of the Company's Board of Directors also serves as an executive officer or board member. For the three months ended December 31, 2008 and 2007, the Company's total revenues from transactions with these parties (for the portion of such period that they were considered related) were approximately $1 million and $9 million, respectively. In addition, for the three months ended December 31, 2008 and 2007, the Company's total purchases from transactions with these parties (for the portion of such period that they were considered related) were approximately $100,000 and $2 million, respectively. For the six months ended December 31, 2008 and 2007, the Company's total revenues from transactions with these parties (for the portion of such period that they were considered related) were approximately $4 million and $21 million, respectively. In addition, for the six months ended December 31, 2008 and 2007, the Company's total purchases from transactions with these parties (for the portion of such period that they were considered related) were approximately $1 million and $4 million, respectively. The Company had a receivable balance from these parties of approximately $1 million and $13 million at December 31, 2008 and June 30, 2008, respectively. Management believes that such transactions are at arms length and on similar terms as would have been obtained from unaffiliated third parties.

NOTE 18 – SEGMENT REPORTING AND GEOGRAPHIC INFORMATION

KLA-Tencor reports one reportable segment in accordance with the provisions of SFAS No. 131,*Disclosures about Segments of an Enterprise and Related Information.* Operating segments are defined as components of an enterprise about which separate financial information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. KLA-Tencor's chief operating decision maker is the Chief Executive Officer.

KLA-Tencor is engaged primarily in designing, manufacturing, and marketing process control and yield management solutions for the semiconductor and related nanoelectronics industries. All operating units have been aggregated due to their inter-dependencies, commonality of long-term economic characteristics, products and services, the production processes, class of customer and distribution processes. The Company's service products are an extension of the system product portfolio and provide customers with spare parts and fab management services (including system preventive maintenance and optimization services) to improve yield, increase production uptime and throughput, and lower the cost of ownership. Since KLA-Tencor operates in one segment, all financial segment information required by SFAS No. 131 can be found in the condensed consolidated financial statements.

KLA-Tencor's significant operations outside the United States include manufacturing facilities in Israel and Singapore, and sales, marketing and service offices in Western Europe, Japan and the Asia Pacific region. For geographical revenue reporting, revenues are attributed to the geographic location in which the customer is located. Long-lived assets consist primarily of net property and equipment and are attributed to the geographic region in which they are located.

The following is a summary of revenues by geographic region for the three and six months ended December 31, 2008 and 2007:

	Three months ended December 31,				Six months ended December 31,			
(Dollar amounts in thousands)	2008		2007		2008		2007	
Revenues:								
United States	$ 68,772	17%	$ 90,635	14%	$159,326	17%	$ 237,587	18%
Taiwan	36,621	9%	168,586	27%	122,139	13%	365,600	28%
Japan	117,891	30%	173,203	27%	287,798	31%	355,414	27%
Europe & Israel	53,661	14%	93,135	15%	97,087	11%	162,913	12%
Korea	44,750	11%	51,473	8%	132,611	14%	85,532	6%
Rest of Asia Pacific	74,894	19%	58,751	9%	130,141	14%	121,757	9%
Total	$396,589	100%	$635,783	100%	$929,102	100%	$1,328,803	100%

Long-lived assets by geographic region as of December 31, 2008 and June 30, 2008 were as follows:

(In thousands)	December 31, 2008	June 30, 2008
Long-lived assets:		
United States	$ 221,474	$ 253,186
Taiwan	1,256	1,701
Japan	6,492	5,473
Europe & Israel	33,333	36,432
Korea	4,121	6,012
Rest of Asia Pacific	71,638	70,465
Total	$ 338,314	$ 373,269

The following is a summary of revenues by major products for the three and six months ended December 31, 2008 and 2007 (as a percentage of total revenue):

	Three months ended December 31,				Six months ended December 31,			
(Dollar amounts in thousands)	2008		2007		2008		2007	
Revenues:								
Defect inspection	$198,899	50%	$378,636	60%	$500,596	54%	$ 784,625	59%
Metrology	64,823	16%	117,146	18%	150,632	16%	271,696	20%
Service	116,913	30%	120,288	19%	241,975	26%	232,623	18%
Other	15,954	4%	19,713	3%	35,899	4%	39,859	3%
Total	$396,589	100%	$635,783	100%	$929,102	100%	$1,328,803	100%

For the three months ended December 31, 2008, two customers accounted for greater than 10% of revenue. For the six months ended December 31, 2008, one customer accounted for greater than 10% of revenue. For the three and six months ended December 31, 2007, no customer accounted for greater than 10% of revenue. As of December 31, 2008, one customer accounted for greater than 10% of net accounts receivable, and as of June 30, 2008, no customer accounted for greater than 10% of net accounts receivable.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain 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. All statements other than statements of historical fact may be forward-looking statements. You can identify these and other forward-looking statements by the use of words such as "may," "will," "could," "would," "should," "expects," "plans," "anticipates," "relies," "believes," "estimates," "predicts," "intends," "potential," "continue," "thinks," "seeks," or the negative of such terms, or other comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Such forward-looking statements include, among others, forecasts of the future results of our operations; the percentage of spending that our customers allocate to process control; orders for our products and capital equipment generally; sales of semiconductors; the allocation of capital spending by our customers; growth of revenue in the semiconductor industry, the semiconductor capital equipment industry and our business; technological trends in the semiconductor industry; future developments or trends in the global capital and financial markets; the availability of the offer to repurchase our auction rate securities by the securities firm from which we purchased such securities; the future impact of the restatement of our historical financial statements, shareholder litigation and related matters arising from the discovery that we had retroactively priced stock options (primarily from July 1, 1997 to June 30, 2002) and had not accounted for them correctly; our future product offerings and product features; the success and market acceptance of new products; timing of shipment of backlog; the future of our product shipments and our product and service revenues; our future gross margins; our future selling, general and administrative expenses; international sales and operations; our ability to maintain or improve our existing competitive position; success of our product offerings; creation and funding of programs for research and development; attraction and retention of employees; results of our investment in leading edge technologies; the effects of hedging transactions; the effect of the sale of trade receivables and promissory notes from customers; our future income tax rate; dividends; the completion of any acquisitions of third parties, or the technology or assets thereof; benefits received from any acquisitions and development of acquired technologies; sufficiency of our existing cash balance, investments and cash generated from operations to meet our operating and working capital requirements; and the adoption of new accounting pronouncements.

Our actual results may differ significantly from those projected in the forward-looking statements in this report. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in Part II, Item 1A, "Risk Factors" in this report as well as in Item 1, "Business" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended June 30, 2008, filed with the Securities and Exchange Commission on August 7, 2008. You should carefully review these risks and also review the risks described in this document and the other documents we file from time to time with the Securities and Exchange Commission, including the Quarterly Reports on Form 10-Q that we will file during the remainder of the fiscal year ending June 30, 2009. You are cautioned not to place undue reliance on these forward-looking statements, and we expressly assume no obligation to update the forward-looking statements in this report after the date hereof.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

The preparation of our Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in applying our accounting policies that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. Note 1 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the fiscal year ended June 30, 2008 describes the significant accounting policies and methods used in preparation of the Consolidated Financial Statements. We based these estimates and assumptions on historical experience, and evaluate them on an on-going basis to ensure that they remain reasonable under current conditions. Actual results could differ from those estimates. We discuss the development and selection of the critical accounting estimates with the Audit Committee of our Board of Directors on a quarterly basis, and the Audit Committee has reviewed the Company's related disclosure in this Quarterly Report on Form 10-Q. The accounting policies that reflect our more significant estimates, judgments and assumptions and which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- Revenue Recognition
- Inventories
- Warranty
- Allowance for Doubtful Accounts
- Stock-Based Compensation
- Contingencies and Litigation
- Goodwill and Intangible Assets
- Income Taxes

System revenues recognized without a written acceptance from the customer were approximately 15%, 14% and 14% of total revenues for the three months ended December 31, 2008, September 30, 2008 and December 31, 2007, respectively. The percentage of system revenues recognized without a written acceptance from the customer has remained relatively flat from three months ended September 30, 2008 compared to three months ended December 31, 2008. Shipping charges billed to customers are included in system revenues, and the related shipping costs are included in costs of revenues.

With the exception of the below paragraph that discusses the valuation of goodwill and intangible assets and impact of Statement of Financial Accounting Standards ("SFAS") No. 157 on our critical accounting estimates and policies for fair value measurements, during the three months ended December 31, 2008 there were no significant changes in our critical accounting estimates and policies. Please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Part II, Item 7 of our Annual Report on Form 10-K for our fiscal year ended June 30, 2008 for a more complete discussion of our critical accounting policies and estimates.

Valuation of Goodwill and Intangible Assets

We assess goodwill for impairment annually as well as whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. We completed our annual evaluation of goodwill by reporting unit for the three months ended December 31, 2008, and concluded that the carrying value of our Metrology reporting unit exceeded its estimated fair value. Our impairment evaluation of goodwill is based on comparing the fair value of our reporting units to their carrying value. Fair value was determined by using a weighted combination of two market-based approaches and an income approach, as this combination was deemed to be the most indicative of our reporting unit fair values in an orderly transaction between market participants. Under the market-based approaches, we utilized information regarding us as well as publicly available industry information to determine earnings multiples and sales multiples that are used to value our reporting units. We assigned a higher weighting to the discounted cash flow due to the fact that current market conditions are depressed (as compared to the goodwill evaluation performed in fiscal year 2008, when we assigned equal weighting for each of the three approaches). Under the income approach, we determined the fair value based on estimated future cash flows of each reporting unit, discounted by an estimated weighted-average cost of capital, which reflects the overall level of inherent risk of a reporting unit and the rate of return an outside investor would expect to earn. Determining the fair value of a reporting unit is judgmental in nature and requires the use of significant estimates and assumptions, including revenue growth rates and operating margins, discount rates and future market conditions, among others. Unanticipated changes in revenue, gross margin, long-term growth factor or discount rate could result in a material impact on the estimated fair values of our reporting units.

Solely for purposes of establishing inputs for the fair value calculations described above related to goodwill impairment testing, we made the following assumptions. We assumed that the current economic downturn would continue through fiscal year 2010, followed by a recovery period in fiscal years 2011 and 2012, and long-term industry growth past fiscal year 2012. In addition, we applied gross margin assumptions consistent with our historical trends at various revenue levels and used a 5% growth factor to calculate the terminal value of our reporting units, which was consistent with the rate we used in the prior year. We also used a 13% discount rate to calculate the terminal value of our reporting units, which is slightly lower than the 14% discount rate we used in the prior year, primarily due to the fact that in April 2008 we issued $750 million of unsecured long-term debt due in 2018, which reduced our weighted average cost of capital. As a result of our recently completed annual goodwill impairment testing, we wrote off all $272.1 million of our goodwill associated with our Metrology reporting unit. If we were to decrease the long-term growth factor or increase the discount rate used in the calculation by 1%, there would be no change in the impairment amount for the Metrology or any other reporting units. If we were to increase the growth factor by 1%, the impairment amount for the Metrology reporting unit would be reduced by approximately $44 million. If we were to decrease the discount rate used in the calculation by 1%, the impairment amount for the Metrology reporting unit would be reduced by approximately $16 million. We believe that the assumptions and rates used in our annual impairment test under SFAS No. 142 are reasonable, but they are judgmental, and variations in any of the assumptions or rates could result in materially different calculations of impairment amounts. The sum of the fair values of the reporting units was reconciled to our current market capitalization (based upon our stock price) plus an estimated control premium.

Given the current economic environment and the uncertainties regarding the impact on our business, there can be no assurance that our estimates and assumptions regarding the duration of the ongoing economic downturn, or the period or strength of recovery, made for purposes of our goodwill impairment testing during the three months ended December 31, 2008 will prove to be accurate predictions of the future. If our assumptions regarding forecasted revenue or margin growth rates of certain reporting units are not achieved, we may be required to record additional goodwill impairment charges in future periods, whether in connection with our next annual impairment testing in the second quarter of fiscal year 2010 or prior to that, if any such change constitutes a triggering event outside of the quarter from when the annual goodwill impairment test is performed. It is not possible at this time to determine if any such future impairment charge would result or, if it does, whether such charge would be material.

During the quarter ended December 31, 2008, the economic conditions that affect our industry have deteriorated, which has led customers to scale back their production operations and reduce their capital expenditures. Industry analysts expect demand for semiconductor capital equipment to continue to remain weak until macroeconomic conditions improve. In addition, we experienced a

significant decline in our stock price, resulting in a significant reduction in our market capitalization. Accordingly, we performed an assessment of our purchased intangible assets to test for recoverability in accordance with SFAS No. 144. The assessment of recoverability is based on management's estimates. If undiscounted projected future operating cash flows do not exceed the net book value of the long-lived assets, a permanent impairment has occurred. We would record the difference between the net book value of the long-lived asset and the fair value of such asset as a charge against income in our condensed consolidated statements of operations, if such a difference arose. The fair value is determined using the income approach, which is a present value technique used to measure the fair value of future cash flows produced by each asset group. We estimated the future cash flows over the weighted average of the remaining useful lives of our intangible assets, which ranges from 1 to 6 years, using a 13% discount rate. Based on the assessment, we recorded an intangible asset impairment charge of $162.8 million during the three months ended December 31, 2008, of which $ 73.1 million related to existing technology, $26.3 million to patents, $38.1 million to customer relationships, $16.6 million to trademarks, and $8.7 million to other intangible assets.

Adoption of SFAS No. 157

We adopted SFAS No. 157 as of the beginning of fiscal year 2009. In February 2008, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") SFAS No. 157-2, which allows companies to elect a one-year delay in applying SFAS No. 157 to certain fair value measurements, primarily related to nonfinancial instruments. The Company elected the delayed adoption date for the portions of SFAS No. 157 impacted by FSP SFAS No. 157-2. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS No. 157 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS No. 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The adoption of this statement did not have a material impact on our consolidated results of operations and financial condition. See Note 2, "Fair Value Measurements," to the Condensed Consolidated Financial Statements.

We adopted SFAS No. 159, which permits entities to elect, at specified election dates, to measure eligible financial instruments at fair value. See Note 2, "Fair Value Measurements," to the Condensed Consolidated Financial Statements.

Recent Accounting Pronouncements. On August 27, 2008, the U.S. Securities and Exchange Commission ("SEC") announced that they will issue for comment a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board. Under the proposed roadmap, we could be required in fiscal 2014 to prepare financial statements in accordance with IFRS, and the SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. We are currently assessing the impact that this potential change would have on our consolidated financial statements, and we will continue to monitor the development of the potential implementation of IFRS.

In October 2008, the FASB issued FSP SFAS No. 157-3,*Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active.* FSP SFAS No. 157-3 clarifies the application of SFAS No. 157, which we adopted as of July 1, 2008, in situations where the market is not active. We have considered the guidance provided by FSP SFAS No. 157-3 in our determination of estimated fair values, and the impact was not material.

In December 2008, FASB issued FSP SFAS No. 132(R)-1,*Employers' Disclosures about Postretirement Benefit Plan Assets.* FSP SFAS No. 132(R)-1 amends SFAS No. 132(R) to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The FSP requires disclosures surrounding how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies. The disclosure requirement under this FSP is effective for our fiscal year beginning July 1, 2010.

EXECUTIVE SUMMARY

KLA-Tencor Corporation is the world's leading supplier of process control and yield management solutions for the semiconductor and related nanoelectronics industries. Within our primary area of focus, our comprehensive portfolio of products, services, software and expertise helps integrated circuit manufacturers manage yield throughout the entire wafer fabrication process – from research and development to final volume production.

Our products and services are used by virtually every major wafer, IC and photomask manufacturer in the world. Our revenues are driven largely by capital spending by our customers who operate in one or more of several key semiconductor markets, including the memory, foundry and logic markets. Our customers purchase our products to either ramp up production in response to the need to drive advances in process technologies or to satisfy demand from industries such as communication, data processing, consumer electronics, automotive and aerospace. We believe that our customers will continue to invest in advanced technologies and new materials to enable smaller design rules and higher density applications, as well as reduced cost, which in turn will drive increased adoption of process control to reduce defectivity.

During the second quarter of fiscal 2009, it became apparent that we were entering into a global economic downturn. Since that time, the economic conditions that affect our industry have deteriorated, which has led our customers to scale back their production operations and reduce their capital expenditures. We cannot predict the severity or duration of this economic downturn, but we expect that the recent deterioration in business conditions in our markets will result in continued depressed levels of new orders and revenues, as well as operating losses, in the near term. Our operating results will be adversely affected for as long as the current challenging market conditions persist.

The demand for our products is affected by the profitability of our customers, which is driven by capacity and market supply for their products. Industry analysts expect demand for semiconductor capital equipment to continue to remain weak until macroeconomic conditions improve. As described in more detail below, such continued weakness would affect our revenue levels and results of operations in future quarters. While semiconductor content in communication, data processing, consumer electronics, automotive and aerospace products continues to increase, the global economic weakness has adversely impacted our customers that operate in those industries. In addition, the demand for our products has been adversely affected by lower profitability of our customers, especially in the memory market (which had constituted an increased share of our revenues for the past several years), as well as the weak macroeconomic and credit environment and its overall impact on capital spending. Our revenues have declined sequentially over the past six quarters and reflect slowing demand for semiconductor equipment.

We have lowered our production volumes in response to anticipated near-term business levels in an effort to tailor our operations to expected demand levels. However, we expect that our reduced scale of operations will lead to increased inventory-related charges (as our manufacturing inventory requirements decline) and reduced manufacturing capacity utilization, which in each case will adversely impact our results of operations. In addition, we expect that recent declines in factory utilization by our customers will result in lower service revenue levels and additional inventory related-charges (due to the related decline in customer usage of our systems) for so long as such conditions persist. During the second quarter of fiscal 2009, we announced a global workforce reduction and other cost-reduction efforts aimed at lowering our operating expenses in response to the current demand environment, and we are evaluating further cost-reduction activities in the event that business conditions continue to deteriorate. These further activities, if implemented, will result in additional near-term charges. However, we believe that our cost-reduction efforts, combined with our strategy and our ability to innovate and execute, will enable us to strengthen our relative competitive position in the current difficult business environment, and will put us in position to take advantage of long-term growth opportunities.

As a supplier to the global semiconductor and semiconductor-related industries, we are subject to business cycles, the timing, length and volatility of which can be difficult to predict. The industries we serve have historically been cyclical due to sudden changes in demand and manufacturing capacity. We expect our customers' technology-related capital spending on process control (as differentiated from capacity-related capital spending) to increase over the long term, as technology spending is driven by the demand for more precise diagnostics capabilities to address multiple new defects as a result of further shrinking of device feature sizes, the transition to new materials, new devices and circuit architecture, new lithography challenges and fab process innovation. However, our ability to predict future capacity-related capital spending by our customers is more limited, as such spending is more closely connected to the unpredictable business cycles within their industries.

We had a consolidated net loss of $434.3 million in the second quarter of fiscal 2009. The results for the quarter ended December 31, 2008 reflect (1) a $434.8 million non-cash charge resulting from the impairment of our goodwill and purchased intangible assets, (2) the impact of lower product revenues as customers delay their equipment purchases and installations, (3) lower service revenues as customers idle under-utilized production equipment, (4) a $29.0 million charge related to inventory write-downs, driven by declines in our product build plans and service inventory usage, (5) decreased manufacturing capacity utilization as we reduce our production volume, (6) a $23.1 million restructuring charge related to our global workforce reduction and other cost-reduction activities implemented during the quarter, and (7) a $23.9 million increase in the allowance for doubtful accounts for potential losses relating to a heightened risk of non-payment of accounts receivable by customers facing financial difficulty.

The following table sets forth some of the key quarterly unaudited financial information which we use to manage our business.

	Three months ended		Fiscal year 2008			
(In thousands, except net income (loss) per share -diluted)	December 31, 2008	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007
Revenues	$ 396,589	$ 532,513	$ 590,694	$ 602,219	$ 635,783	$ 693,020
Income (loss) from operations	$ (505,631)	$ 34,938	$ 103,411	$ 125,200	$ 93,487	$ 177,278
Net income (loss)	$ (434,254)	$ 19,289	$ 76,010	$ 110,980	$ 83,935	$ 88,158
Cash flow from operations	$ (35,600)	$ 81,357	$ 188,374	$ 148,212	$ 125,208	$ 205,785
Net income (loss) per share - diluted	$ (2.57)	$ 0.11	$ 0.43	$ 0.61	$ 0.45	$ 0.46

RESULTS OF OPERATIONS

Revenues and Gross Margin

(Dollar amounts in thousands)	Three months ended December 31, 2008	September 30, 2008	December 31, 2007	Q2 FY09 vs. Q1 FY09		Q2 FY09 vs. Q2 FY08	
Revenues:							
Product	$ 273,072	$ 405,496	$ 513,449	$(132,424)	-33%	$(240,377)	-47%
Service	$ 123,517	$ 127,017	$ 122,334	$ (3,500)	-3%	$ 1,183	1%
Total revenues	$ 396,589	$ 532,513	$ 635,783	$(135,924)	-26%	$(239,194)	-38%
Costs of revenues	$ 238,167	$ 252,813	$ 279,167	$ (14,646)	-6%	$ (41,000)	-15%
Stock-based compensation expense included in costs of revenues	$ 4,679	$ 5,456	$ 4,700	$ (777)	-14%	$ (21)	0%
Gross margin percentage	40%	53%	56%				

(Dollar amounts in thousands)	Six months ended December 31, 2008	December 31, 2007	Q2 FY09 YTD vs. Q2 FY08 YTD	
Revenues:				
Product	$ 678,568	$1,091,881	$(413,313)	-38%
Service	250,534	236,922	13,612	6%
Total revenues	$ 929,102	$1,328,803	$(399,701)	-30%
Costs of revenues	$ 490,980	$ 585,060	$ (94,080)	-16%
Gross margin percentage	47%	56%		
Stock-based compensation expense included in costs of revenues	$ 10,135	$ 10,953	$ (818)	-7%

Product revenues

Product revenues decreased during the three months ended December 31, 2008 from the three months ended September 30, 2008 and December 31, 2007 as a result of continued reduction in capital spending by our customers due to ongoing weakness in the semiconductor industry and a deteriorating macroeconomic environment which has resulted in customers delaying their purchases and installations of our products. The continued decline in revenues reflects slowing worldwide demand for semiconductor equipment, as semiconductor companies reduce capital spending and conserve cash in response to their business environment, even as their need for more precise diagnostics capabilities increases with technological advances. Our product revenues continue to be adversely affected by various factors, such as global economic conditions resulting in lower profitability of our customers, as well as the weak macroeconomic and credit environment and its overall impact on capital spending, which are likely to result in product revenues in the near term that are lower than revenue levels in comparable periods during prior fiscal years.

For the three months ended December 31, 2008, two customers accounted for greater than 10% of total revenues. For the three and six months ended December 31, 2007, no customer accounted for greater than 10% of total revenues. As of December 31, 2008, one customer accounted for greater than 10% of net accounts receivable, and as of June 30, 2008, no customer accounted for greater than 10% of net accounts receivable.

Service revenues

Service revenues are generated from maintenance service contracts, as well as time and material billable service calls made to our customers after the expiration of the warranty period. Service revenue decreased slightly in the three months ended December 31, 2008 compared to September 30, 2008 as customers idled their under-utilized production equipment as a result of the ongoing weakness in the semiconductor industry and a deteriorating macroeconomic environment. The amount of service revenues generated is generally a function of the number of post-warranty systems installed at our customers' sites and the utilization of those systems.

Revenues by region

Revenues by region for the periods indicated were as follows:

(Dollar amounts in thousands)	Three months ended December 31, 2008		September 30, 2008		December 31, 2007	
United States	$ 68,772	17%	$ 90,554	17%	$ 90,635	14%
Taiwan	36,621	9%	85,518	16%	168,586	27%
Japan	117,891	30%	169,907	32%	173,203	27%
Europe & Israel	53,661	14%	43,427	8%	93,135	15%
Korea	44,750	11%	87,861	17%	51,473	8%
Rest of Asia Pacific	74,894	19%	55,246	10%	58,751	9%
Total	$ 396,589	100%	$ 532,513	100%	$ 635,783	100%

A significant portion of our revenues continues to be generated in Asia, where a substantial portion of the world's semiconductor manufacturing capacity is located, and we expect that will continue to be the case.

Gross margin

Our gross margin fluctuates with revenue levels and product mix, and is affected by variations in costs related to manufacturing and servicing our products. Our gross margin percentage was lower during the three months ended December 31, 2008 compared to the three months ended September 30, 2008 and December 31, 2007 primarily due to higher intangible assets amortization expense as a result of the acquisition of the MIE business unit at the end of the three months ended September 30, 2008, lower product and service revenues, decreased manufacturing capacity utilization, and excess inventory write-downs, driven by declines in our product build plans and service inventory usage, which are partially offset by lower bonus expense. Our near term gross margins will likely be adversely affected by lower levels of product revenues in comparison to the same periods in the prior fiscal year.

The following are costs that were recorded in the three months ended December 31, 2008 compared to the three months ended September 30, 2008:

- $29.0 million charge for excess inventory write-downs, compared to no such charges in the three months ended September 30, 2008,
- $15.7 million for amortization of intangibles, compared to $12.8 million in the three months ended September 30, 2008,
- $8.8 million for severance and benefits related to workforce reductions, compared to no such charges in the three months ended September 30, 2008, and
- ($0.9) million credit to bonus expense, compared to $5.5 million charge in the three months ended September 30, 2008.

The following are costs that were recorded in the three months ended December 31, 2008 compared to the three months ended December 31, 2007:

- $29.0 million charge for excess inventory write-downs, compared to $7.1 million in the three months ended December 31, 2007,
- $15.7 million for amortization of intangibles, compared to $6.3 million in the three months ended December 31, 2007,
- $8.8 million for severance and benefits related to workforce reductions, compared to $1.2 million in the three months ended December 31, 2007,
- $0.9 million recorded for inventory write-offs related to discontinued products, compared to a $3.1 million charge recorded in the three months ended December 31, 2007, and
- ($0.9) million credit to bonus expense, compared to $5.1 million charge in the three months ended December 31, 2007.

Our gross margin during the six months ended December 31, 2008 was lower compared to gross margin for the corresponding period of fiscal year 2008 due to higher intangible assets amortization expense as a result of the acquisition of ICOS and the MIE business unit, lower product and service revenues, decreased manufacturing capacity utilization, and excess inventory write-downs, driven by declines in our product build plans and service inventory usage, which are partially offset by lower bonus expense.

The following are costs that were recorded in the six months ended December 31, 2008 compared to the six months ended December 31, 2007:

- $29.0 million charge for excess inventory write-downs, compared to $7.9 million in the six months ended December 31, 2007,
- $28.5 million for amortization of intangibles, compared to $16.3 million in the six months ended December 31, 2007,

- $8.5 million for severance and benefits related to workforce reductions, compared to $2.0 million in the six months ended December 31, 2007,
- $0.9 million recorded for inventory write-offs related to discontinued products, compared to a $3.1 million charge recorded in the six months ended December 31, 2007, and
- $4.6 million of bonus expense, compared to $11.7 million in the six months ended December 31, 2007.

Backlog

Our backlog for system shipments and associated warranty totaled $451 million and $715 million as of December 31, 2008 and June 30, 2008, respectively, and includes sales orders where written customer requests have been received and the delivery is anticipated within the next 12 months. We make backlog adjustments for backlog obtained from acquired companies, cancellations, customer delivery date changes and currency adjustments. Orders for service contracts and unreleased products are excluded from backlog. All orders are subject to cancellation or delay by the customer, with limited or no penalties.

Due to possible customer changes in delivery schedules, delays or cancellation of orders and as some orders are received and shipped within the same quarter, our backlog at any particular date is not necessarily indicative of business volumes or actual sales for any succeeding periods. Our backlog is not subject to our normal accounting controls for information that is either reported in or derived from our basic financial statements. The concept of backlog is not defined in the accounting literature, making comparisons between periods and with other companies difficult and potentially misleading.

Engineering, Research and Development ("R&D")

	Three months ended						
(Dollar amounts in thousands)	December 31, 2008	September 30, 2008	December 31, 2007	Q2 FY09 vs. Q1 FY09		Q2 FY09 vs. Q2 FY08	
R&D expenses	$ 95,266	$ 114,361	$ 97,513	$(19,095)	-17%	$(2,247)	-2%
Stock-based compensation expense included in R&D expenses	$ 6,981	$ 9,972	$ 7,109	$ (2,991)	-30%	$ (128)	-2%
R&D expenses as a percentage of total revenues	24%	21%	15%				

	Six months ended			
(Dollar amounts in thousands)	December 31, 2008	December 31, 2007	Q2 FY09 vs. Q2 FY08	
R&D expenses	$ 209,627	$ 196,857	$12,770	6%
Stock-based compensation expense included in R&D expenses	$ 16,953	$ 15,701	$ 1,252	8%
R&D expenses as a percentage of total revenues	23%	15%		

R&D expenses during the three months ended December 31, 2008 decreased compared to the three months ended September 30, 2008 and December 31, 2007. The decrease is primarily attributable to lower in-process R&D ("IPR&D") charges, lower stock-based compensation expense, lower bonus expense and reduced R&D spending during the three months ended December 31, 2008, partially offset by additional R&D spending as a result of the recent acquisitions of ICOS and the MIE business unit and higher severance charges during such period related to the global workforce reduction that we announced in November 2008.

The following are expenses that were recorded in the three months ended December 31, 2008 compared to the three months ended September 30, 2008:

- $7.0 million for stock-based compensation expense, compared to $10.0 million during the three months ended September 30, 2008,
- $4.4 million for severance and benefits related to workforce reductions, compared to no such charges in the three months ended September 30, 2008,
- $1.6 million for amortization of intangibles, compared to $1.4 million during the three months ended September 30, 2008,
- No IPR&D charges related to a business acquisition, compared to $8.6 million in the three months ended September 30, 2008, and
- ($1.8) million credit to bonus expense, compared to $3.8 million charge in the three months ended September 30, 2008.

The following are expenses that were recorded in the three months ended December 31, 2008 compared to the three months ended December 31, 2007:

- $7.0 million for stock-based compensation expense, compared to $7.1 million during the three months ended December 31, 2007,
- $4.4 million for severance and benefits related to workforce reductions, compared to $0.4 million in the three months ended December 31, 2007,
- $1.6 million for amortization of intangibles, compared to $0.2 million during the three months ended December 31, 2007,
- No IPR&D charges related to a business acquisition, compared to $4.0 million in the three months ended December 31, 2007, and
- ($1.8) million credit to bonus expense, compared to $4.1 million charge in the three months ended December 31, 2007.

The increase in R&D expenses during the six months ended December 31, 2008 compared to the six months ended December 31, 2007 was primarily due to higher one-time charges recorded during the six months ended December 31, 2008 plus additional R&D spending as a result of the recent acquisitions of ICOS and the MIE business unit, which are offset by lower bonus expense.

The following are expenses that were recorded in the six months ended December 31, 2008 compared to the six months ended December 31, 2007:

- $17.0 million for stock-based compensation expense, compared to $15.7 million during the six months ended December 31, 2007,
- $8.6 million for IPR&D charges related to a business acquisition, compared to $4.0 million in the six months ended December 31, 2007,
- $4.1 million for severance and benefits related to workforce reductions, compared to $0.5 million in the six months ended December 31, 2007,
- $3.0 million for amortization of intangibles, compared to $0.4 million during the six months ended December 31, 2007, and
- $2.0 million of bonus expense, compared to $10.1 million in the six months ended December 31, 2007.

R&D expenses include the benefit of $7.0 million, $3.6 million and $4.0 million of external funding received during the three months ended December 31, 2008, September 30, 2008 and December 31, 2007, respectively, for certain strategic development programs from government grants.

Our future operating results will depend significantly on our ability to produce products and provide services that have a competitive advantage in our marketplace. To do this, we believe that we must continue to make substantial investments in our research and development. We remain committed to product development in new and emerging technologies as we address the yield challenges our customers face at future technology nodes.

Selling, General and Administrative ("SG&A")

	Three months ended						
(Dollar amounts in thousands)	December 31, 2008	September 30, 2008	December 31, 2007	Q2 FY09 vs. Q1 FY09		Q2 FY09 vs. Q2 FY08	
SG&A expenses	$ 133,954	$ 118,490	$ 159,453	$15,464	13%	$(25,499)	-16%
Stock-based compensation expense included in SG&A expenses	$ 10,643	$ 18,954	$ 11,443	$ (8,311)	-44%	$ (800)	-7%
SG&A expenses as a percentage of total revenues	34%	22%	25%				

(Dollar amounts in thousands)	Six months ended December 31, 2008	Six months ended December 31, 2007	Q2 FY09 vs. Q2 FY08	
SG&A expenses	$ 252,444	$ 269,958	$ (17,514)	-6%
Stock-based compensation expense included in SG&A expenses	$ 29,597	$ 24,681	$ 4,916	20%
SG&A expenses as a percentage of total revenues	27%	20%		

SG&A expenses during the three months ended December 31, 2008 increased compared to the three months ended September 30, 2008.

The following are expenses that were recorded in the three months ended December 31, 2008 compared to the three months ended September 30, 2008:

- $23.9 million for bad debt expense, compared to no such charges during the three months ended September 30, 2008,
- $10.6 million for stock-based compensation expense, compared to $14.3 million during the three months ended September 30, 2008,
- $9.2 million for expenses related to the shareholder class action litigation relating to the Company's historical stock option practices, compared to $3.8 million during the three months ended September 30, 2008,
- $8.6 million for severance and benefits related to workforce reductions, compared to $5.8 million during the three months ended September 30, 2008,
- $5.8 million for amortization of intangibles, compared to $5.5 million during the three months ended September 30, 2008,
- $2.0 million in net gains recorded on the sale of real estate assets, compared to $1.4 million recorded in the three months ended September 30, 2008, and
- $1.7 million for bonus expense, compared to $7.6 million in the three months ended September 30, 2008.

The SG&A expenses during the three months ended December 31, 2008 were lower compared to the three months ended December 31, 2007 primarily due to lower expenses related to the shareholder class action litigation relating to the Company's historical stock option practices and lower bonus expense, which are partially offset by higher intangible assets amortization expense as a result of our acquisitions of ICOS and the MIE business unit, severance charges related to workforce reductions, additional bad debt expense and lower gain on sale of real estate assets.

The following are expenses that were recorded in the three months ended December 31, 2008 compared to the three months ended December 31, 2007:

- $23.9 million for bad debt expense, compared to no such charges during the three months ended December 31, 2007,
- $9.2 million for expenses related to the shareholder class action litigation relating to the Company's historical stock option practices, compared to $67.0 million during the three months ended December 31, 2007,
- $10.6 million for stock-based compensation expense, compared to $11.4 million during the three months ended December 31, 2007,
- $8.6 million for severance and benefits related to workforce reductions, compared to $1.4 million during the three months ended December 31, 2007,
- $5.8 million for amortization of intangibles, compared to $2.1 million during the three months ended December 31, 2007,

- $2.0 million in net gains recorded on the sale of real estate assets, compared to $9.0 million recorded in the three months ended December 31, 2007, and
- $1.7 million for bonus expense, compared to $10.0 million in the three months ended December 31, 2007.

SG&A expenses during the six months ended December 31, 2008 were lower compared to the six months ended December 31, 2007 primarily due to lower expenses related to the shareholder class action litigation relating to the Company's historical stock option practices and lower bonus expense, which are partially offset by higher intangible assets amortization expense as a result of our acquisitions of ICOS and the MIE business unit, severance charges related to workforce reductions, severance charges of $6.3 million related to the severance and consulting agreement that we entered into with John H. Kispert recorded in the six months ended December 31, 2008, additional bad debt expense and lower gain on sale of real estate assets.

The following are expenses that were recorded in the six months ended December 31, 2008 compared to the six months ended December 31, 2007:

- $13.0 million for expenses related to the shareholder class action litigation relating to the Company's historical stock option practices, compared to $69.1 million during the six months ended December 31, 2007,
- $23.9 million for bad debt expense, compared to no such charges during the six months ended December 31, 2007,
- $11.3 million for amortization of intangibles, compared to $4.3 million during the six months ended December 31, 2007,
- $14.4 million for severance and benefits related to workforce reductions, compared to $2.8 million during the six months ended December 31, 2007,
- $3.4 million in net gains recorded on the sale of real estate assets, compared to $9.0 million recorded in the six months ended December 31, 2007, and
- $9.3 million of bonus expense, compared to $21.3 million in the six months ended December 31, 2007.

SG&A expenses during the three months ended December 31, 2008 includes $23.9 million of bad debt expense for potential losses relating to heightened risk of non-payment of accounts receivable by customers facing financial difficulty.

Impairment of Goodwill and Purchased Intangible Assets

For the three months ended December 31, 2008, we performed our annual evaluation of goodwill by reporting unit, and concluded that the carrying value of our Metrology reporting unit exceeded its estimated fair value. As a result of the global economic downturn, reductions to our revenue and operating forecasts and a significant reduction in our market capitalization, we determined that the goodwill related to our Metrology reporting unit was fully impaired. As a result, we recorded a goodwill impairment charge of $272.1 million during the three months ended December 31, 2008.

As a result of the aforementioned impairment indicators and in accordance with SFAS No. 144, we performed an analysis utilizing discounted future cash flows related to the long-lived and intangible assets to determine the fair value of each of our asset groups. Based on the assessment, we recorded an intangible asset impairment charge of $162.8 million related to existing technology, patents, customer relationships, and trademarks as well as an additional $2.0 million related to long-lived assets during the three months ended December 31, 2008.

Restructuring Charges

In November 2008, we announced a plan to reduce our global workforce by approximately 15% by June 30, 2009. This reduction is one of many cost-reduction actions that we are taking in an effort to lower our quarterly operating expense run rate by the end of fiscal year 2009 in response to the current demand environment. The program in the United States is accounted for in accordance with SFAS No. 112, *Employers' Accounting for Postemployment Benefits—an amendment of Financial Accounting Standards Board Statements No. 5 and 43,* whereas the programs in the international locations are accounted for in accordance with SFAS No. 5,*Accounting for Contingencies.* We expect to recognize estimated annual cost savings of $75 million as a result of the reduction in workforce. During the three months ended December 31, 2008, we recorded a $21.8 million net restructuring charge, of which $8.8 million was recorded to costs of revenues, $4.4 million to engineering, research and development expense and $8.6 million to selling, general and administrative expense. This charge represents the estimated minimum liability associated with expected termination benefits to be provided to employees after employment. We anticipate incurring additional severance costs and other related expenses in connection with the workforce reduction at least through the remainder of fiscal year 2009. In addition, we are currently in the process of evaluating additional restructuring activities which, if implemented, may result in additional restructuring charges.

The following table shows the activity primarily related to severance and benefits expense for the three months ended December 31, 2008:

(in thousands)	Three months ended December 31, 2008
Balance as of September 30, 2008	$ 1,333
Restructuring costs	23,142
Reversals	(1,333)
Cash payments	(4,435)
Balance as of December 31, 2008	$ 18,707

Substantially all of the restructuring charges related to our workforce reduction announced in November 2008 are expected to be paid out during the fiscal year ending June 30, 2009.

Interest Income and Other, Net and Interest Expense

(Dollar amounts in thousands)	Three months ended December 31, 2008	September 30, 2008	December 31, 2007
Interest income and other, net	$ 1,381	$ 18,050	$ 13,856
Interest expense	$ 13,853	$ 13,873	$ 587
Interest income and other, net as a percentage of total revenues	0%	3%	2%
Interest expense as a percentage of total revenues	4%	3%	0%

(Dollar amounts in thousands)	Six months ended December 31, 2008	December 31, 2007
Interest income and other, net	$ 19,431	$ 31,715
Interest expense	$ 27,726	$ 972
Interest income and other, net as a percentage of total revenues	2%	2%
Interest expense as a percentage of total revenues	3%	0%

Interest income and other, net is comprised primarily of interest income earned on our investment and cash portfolio, realized gains or losses on sales of marketable securities, as well as gains or losses recorded upon settlement of certain foreign currency contracts. The decrease in interest income and other, net during the three months ended December 31, 2008 compared to the three months ended September 30, 2008 was primarily due to a benefit of $8.5 million that was recorded in the three months ended September 30, 2008 upon expiration of a statute of limitations relating to an uncertainty in our position with respect to a foreign transaction-based tax. No such benefit was recorded during the three months ended December 31, 2008. The decrease in interest income and other, net is also attributable to a $3.5 million impairment of our venture investment portfolio as well as a $3.1 million decrease in interest income from investment and cash portfolio.

Interest expense remained flat in the three months ended December 31, 2008 compared to the three months ended September 30, 2008. The increase in interest expense in the three months ended December 31, 2008 compared to the three months ended December 31, 2007 were primarily due to additional interest expense as a result of the issuance of $750 million aggregate principal amount of senior notes in the fourth quarter of the fiscal year ended June 30, 2008.

Provision for Income Taxes

Our effective income tax rate was a tax benefit of 16.2% compared to a tax expense of 21.4% for the three months ended December 31, 2008 and December 31, 2007, respectively and a tax benefit of 13.4% compared to a tax expense of 42.9% for the six months ended December 31, 2008 and December 31, 2007, respectively.

The decrease in the ratio of tax expense over income of 21.4% for the three months ended December 31, 2007 compared to the ratio of tax benefit over loss of 16.2% for the three months ended December 31, 2008 was primarily related to the tax effect of the $272.1 million goodwill impairment charge that is non-deductible for tax purposes for the three months ended December 31, 2008.

The decrease in the ratio of tax expense over income of 42.9% for the six months ended December 31, 2007 compared to the ratio of tax benefit over loss of 13.4% for the six months ended December 31, 2008, is primarily due to the effect of the $46.6 million of incremental U.S. tax expense associated with the implementation of our global manufacturing strategy for the six months ended December 31, 2007 compared to the effect of the $272.1 million goodwill impairment charge that is non-deductible for tax purposes incurred during the six months ended December 31, 2008.

Our future effective income tax rate depends on various factors, such as tax legislation, the geographic composition of our pre-tax income, non tax-deductible expenses incurred in connection with acquisitions, amounts of tax-exempt interest income and research and development credits as a percentage of aggregate pre-tax income, and the effectiveness of our tax planning strategies.

In the normal course of business, we are subject to examination by taxing authorities throughout the world. We are not under United States federal income tax examination at this time. We remain subject to federal income tax examination for all years after the fiscal year ended June 30, 2004. We are subject to state income tax examinations for all years after the fiscal year ended June 30, 2003. We are also subject to examinations in major foreign jurisdictions, including Japan, Israel and Singapore, for all years after the fiscal year ended June 30, 2003 and are currently under tax examinations in various other foreign tax jurisdictions. It is reasonably possible that certain examinations may be concluded in the next twelve months. Accordingly, we believe it is reasonably possible that our existing unrecognized tax benefits may be reduced and recognized by up to $7.7 million within the next twelve months as a result of the lapse of statutes of limitations and the resolution of agreements with various foreign tax authorities.

LIQUIDITY AND CAPITAL RESOURCES

(Dollar amounts in thousands)	December 31, 2008	June 30, 2008
Cash and cash equivalents	$ 656,330	$ 1,128,106
Marketable securities	566,070	451,277
Total cash, cash equivalents and marketable securities	$ 1,222,400	$ 1,579,383
Percentage of total assets	32%	33%

	Six months ended	
(In thousands)	December 31, 2008	December 31, 2007
Cash provided by operating activities	$ 45,757	$ 330,993
Cash provided by (used in) investing activities	(254,142)	234,335
Cash used in financing activities	(259,256)	(733,838)
Effect of exchange rate changes on cash and cash equivalents	(4,135)	(6,358)
Net decrease in cash and cash equivalents	$ (471,776)	$ (174,868)

At December 31, 2008, our cash, cash equivalents and marketable securities totaled $1.2 billion, a decrease of $357.0 million from June 30, 2008. We generated $45.8 million in cash from operations and used $254.1 million in investing activities during the six months ended December 31, 2008. We used $259.3 million in cash for financing activities during the six months ended December 31, 2008. We used $218.7 million for the repurchase of common stock under our share repurchase program and an additional $141.0 million for the acquisition of the MIE business unit of Vistec Semiconductor Systems.

We have historically financed our operations through cash generated from operations. Cash provided by operating activities was $45.8 million and $331.0 million for the six months ended December 31, 2008 and 2007, respectively. Cash provided by operating activities during the six months ended December 31, 2008 was primarily the function of our net loss of $415.0 million, offset by non-cash depreciation and amortization of $78.4 million, goodwill, purchased intangible asset and long-lived asset impairment charges of $449.2 million, stock-based compensation of $56.7 million, provision for doubtful accounts of $23.9 million, and a decrease in accounts receivable of $162.5 million as collections exceeded shipments during the six months ended December 31, 2008, which in turn were offset by a decrease in deferred system profit of $67.4 million as a result of lower shipments compared to revenue, and a net decrease in other assets and liabilities of $234.1 million primarily due to the payment of $65.0 million to the settlement class as a term of the settlement of the shareholder class action litigation relating to our historical stock option practices, annual bonus payout, and aggregate interest payments of $25.7 million related to our $750 million in outstanding long-term debt in the six months ended December 31, 2008.

Cash provided by operating activities during the six months ended December 31, 2007 consisted primarily of net income of $172.1 million, increased by non-cash depreciation and amortization of $53.3 million, stock-based compensation of $51.3 million, a decrease in inventories of $57.5 million due to lower build plan as a result of lower bookings, a decrease in accounts receivable of $30.2 million as collections exceeded shipments during the six months ended December 31, 2007 and an increase in accounts payable of $21.8 million primarily as a result of timing of payments. These increases in operating cash flow were partially offset by changes in other assets and liabilities of $54.8 million primarily due to net cash outflow resulting from tax payments made and an accrual of $65.0 million for the then-proposed settlement of the shareholder class action lawsuit made in the six months ended December 31, 2007.

Investing activities typically consist of purchases and sales or maturities of marketable securities, purchases of capital assets to support long-term growth and acquisitions of technology or other companies to allow access to new markets or emerging technologies. Cash used in investing activities was $254.1 million during the six months ended December 31, 2008, while cash provided by investing activities was $234.3 million during the six months ended December 31, 2007.

Financing activities include dividend payments to our common stockholders and sales and repurchases of our common stock. We used $226.5 million and $809.8 million for the repurchases of our common stock during the six months ended December 31, 2008 and 2007, respectively.

During the three months ended December 31, 2008, we announced a plan to reduce our global workforce by approximately 15% by June 30, 2009. We expect to recognize estimated annual cost savings of $75 million as a result of the reduction in workforce. During the three months ended December 31, 2008, we recorded a $21.8 million net restructuring charge, of which $4.4 million was paid out during the three months ended December 31, 2008 and the remaining balance is expected to be paid out by June 30, 2009. We anticipate incurring additional severance costs and other related expense in connection with the workforce reduction at least through the remainder of fiscal year 2009.

During the third quarter of the fiscal year ended June 30, 2005, our Board of Directors approved the initiation of a quarterly cash dividend. During the three months ended December 31, 2008, our Board of Directors declared a dividend of $0.15 per share of our outstanding common stock, which was paid on December 1, 2008 to our stockholders of record as of November 24, 2008. During the same period in fiscal year 2008, our Board of Directors also declared and paid a quarterly cash dividend of $0.15 per share. The total amount of dividends paid during the three months ended December 31, 2008 and 2007 were $25.3 million and $27.2 million, respectively.

The following is a schedule summarizing our significant obligations to make future payments under contractual obligations as of December 31, 2008:

		Fiscal year ending June 30,						
(in thousands)	Total	2009(2)	2010	2011	2012	2013	Thereafter	Other(3)
Long-term debt obligations(1)	$ 750,000	$ —	$ —	$ —	$ —	$ —	$ 750,000	—
Interest expense associated with long-term debt obligations	483,000	25,875	51,750	51,750	51,750	51,750	250,125	—
Purchase commitments	83,399	65,191	17,373	835	—	—	—	—
Non-current income tax payable	55,934	—	—	—	—	—	—	55,934
Operating leases	39,724	6,296	10,462	7,538	3,794	3,099	8,535	—
Pension obligations	11,779	544	1,190	1,239	1,064	1,110	6,632	—
Total contractual cash obligations	$ 1,423,836	$ 97,906	$ 80,775	$ 61,362	$ 56,608	$ 55,959	$ 1,015,292	$ 55,934

(1) In April 2008, we issued $750 million aggregate principal amount of senior notes due in 2018.

(2) Remaining 6 months.

(3) Represents the non-current tax payable obligation under FIN 48. We are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes.

We have agreements with financial institutions to sell certain of our trade receivables and promissory notes from customers without recourse. In addition, from time to time we will discount, without recourse, Letters of Credit (“LCs”) received from customers in payment of goods.

The following table shows total receivables sold under factoring agreements and proceeds from sales of LCs and related discounting fees paid for the three and six months ended December 31, 2008 and 2007:

(In thousands)	Three months ended December 31, 2008	Three months ended December 31, 2007	Six months ended December 31, 2008	Six months ended December 31, 2007
Receivables sold under factoring agreements	$ 76,368	$ 84,879	$ 158,639	$ 155,413
Proceeds from sales of LCs	$ 2,280	$ 10,710	$ 10,666	$ 17,528
Discounting fees paid on sales of LCs (1)	$ 6	$ 56	$ 44	$ 77

(1) Discounting fees were equivalent to interest expense and were recorded in interest income and other, net.

We maintain guarantee arrangements of $30.1 million in various locations to fund customs guarantees for VAT and LC needs of our subsidiaries in Europe and Asia. Approximately $21.6 million was outstanding under these arrangements as of December 31, 2008.

We maintain certain open inventory purchase commitments with our suppliers to ensure a smooth and continuous supply chain for key components. Our liability under these purchase commitments is generally restricted to a forecasted time-horizon as mutually agreed upon between the parties. This forecast time-horizon can vary among different suppliers. Our open inventory purchase commitments were approximately $83.4 million as of December 31, 2008 and are primarily due within the next 12 months. Actual expenditures will vary based upon the volume of the transactions and length of contractual service provided. In addition, the amounts paid under these arrangements may change in the event that the arrangements are renegotiated or canceled. Certain agreements provide for potential cancellation penalties.

We provide standard warranty coverage on our systems for 40 hours per week for twelve months, providing labor and parts necessary to repair the systems during the warranty period. We account for the estimated warranty cost as a charge to cost of revenues when revenue is recognized. The estimated warranty cost is based on historical product performance and field expenses. The actual product performance and/or field expense profiles may differ, and in those cases we adjust our warranty accruals accordingly. The difference between the estimated and actual warranty costs tends to be larger for new product introductions as there is limited historical product performance to estimate warranty expense; more mature products with longer product performance histories tend to be more stable in our warranty charge estimates. Non-standard warranty coverage generally includes services incremental to the standard 40-hour per week coverage for twelve months. See Note 14, “Commitments and Contingencies,” to the Condensed Consolidated Financial Statements for a detailed description.

Working capital decreased to $1.8 billion as of December 31, 2008, compared to $2.1 billion as of June 30, 2008. In October 2008, we suspended the stock repurchases in order to maintain financial flexibility in light of the deteriorating global economic and market conditions. While there are no specific significant transactions or arrangements that are likely to materially affect liquidity, economic uncertainty and weak credit markets are driving our customers to delay their procurement as well as payment decisions which could adversely delay and affect our cash collections. As of December 31, 2008, our principal sources of liquidity consisted of $1.2 billion of cash, cash equivalents, and marketable securities. Cash balances are held throughout the world, including significant amounts held outside of the United States. The majority of the amounts held outside of the United States could be repatriated to the United States, but under current law, would be subject to U.S. federal income taxes, less applicable foreign tax credits. Our liquidity is affected by many factors, some of which are based on the normal ongoing operations of the business, and others of which relate to the uncertainties of global economies and the semiconductor and the semiconductor equipment industries. Although cash requirements will fluctuate based on the timing and extent of these factors, we believe that cash generated from operations, together with the liquidity provided by existing cash and cash equivalent balances, will be sufficient to satisfy our liquidity requirements for at least the next twelve months.

Our investment portfolio includes auction rate securities, which are investments with contractual maturities generally between 20 to 30 years. They are usually found in the form of municipal bonds, preferred stock, a pool of student loans, or collateralized debt obligations whose interest rates are reset. The reset typically occurs every seven to forty-nine days, through an auction process. At the end of each reset period, investors can sell or continue to hold the securities at par. The auction rate securities held by us are backed by student loans and are collateralized, insured and guaranteed by the United States Federal Department of Education. In addition, all auction rate securities held by us are rated by the major independent rating agencies as either AAA or Aaa. In February 2008, auctions failed for approximately $48.2 million in par value of municipal auction rate securities that we held because sell orders exceeded buy orders. These failures are not believed to be a credit issue, but rather caused by a lack of liquidity. The funds associated with these failed auctions may not be accessible until the issuer calls the security, a successful auction occurs, a buyer is found outside of the auction process, or the security matures. As a result, we have classified these securities with failed auctions as long-term assets in our condensed consolidated balance sheet. Prior to the three months ended December 31, 2008, a total of $5.6 million of the auction rate securities with a net book value of $5.4 million were called at par by the issuer; therefore no losses were recognized on these securities. During the three months ended December 31, 2008, an additional $1.6 million of the auction rate securities with a net book value of $1.3 million was called at par by the issuer; therefore no losses were recognized on these securities during the three months ended December 31, 2008. The fair value of our auction rate securities at December 31, 2008 was $34.5 million.

By letter dated August 8, 2008, we received notification from UBS AG ("UBS"), issued in connection with a settlement entered into between UBS and certain regulatory agencies, offering to repurchase all of our auction rate security holdings at par value. We formally accepted the settlement offer and entered into a repurchase agreement ("Agreement") with UBS on November 11, 2008 ("Acceptance Date"). By accepting the Agreement, we (1) received the right ("Put Option") to sell our auction rate securities at par value to UBS between June 30, 2010 and July 2, 2012 and (2) gave UBS the right to purchase the auction rate securities from us any time after the Acceptance Date as long as we receive the par value.

We expect to sell the auction rate securities under the Put Option. However, if the Put Option is not exercised before July 2, 2012, it will expire and UBS will have no further rights or obligation to buy the auction rate securities.

UBS's obligations under the Put Option are not secured by its assets and do not require UBS to obtain any financing to support its performance obligations under the Put Option. UBS has disclaimed any assurance that it will have sufficient financial resources to satisfy its obligations under the Put Option.

The Agreement covers $41.2 million par value (fair value of $34.5 million) of the auction rate securities held by us as of December 31, 2008. We have accounted for the Put Option as a freestanding financial instrument and elected to record the value under the fair value option of SFAS No. 159. As a result, $6.4 million was recorded as a credit to interest income and other, net for the fair value of the Put Option. Simultaneously, we made an election pursuant to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, to transfer these auction rate securities from available-for-sale to trading securities. The transfer to trading securities reflects our intent to exercise the Put Option during the period June 30, 2010 to July 2, 2012. Prior to entering into the Agreement, our intent was to hold the auction rate securities until the market recovered. At the time of transfer, the unrealized loss on the auction rate securities was $1.3 million. Prior to the transfer, this unrealized loss had been included in accumulated other comprehensive income (loss). Upon transfer of the auction rate securities to trading securities, we immediately recognized an unrealized loss of $1.3 million, included in interest income and other, net, for the amount of the unrealized loss not previously recognized in earnings. Subsequently, we recognized an additional decline in fair value of $5.4 million for a total unrealized loss of $6.7 million, included in interest income and other, net, in the condensed consolidated statements of operations for the three months ended December 31, 2008. We expect that the future changes in the fair value of the Put Option will be largely offset by the fair value movements in the auction rate securities. We estimated the fair value of the auction rate securities using a discounted cash flow model incorporating assumptions that market participants would use in their estimates of fair value. Some of these assumptions include estimates for interest rates, timing and amount of cash flows and expected holding periods of the auction rate securities. We estimated the fair value of the Put Option using the expected value that we will receive from UBS which was calculated as the difference between the anticipated recognized losses and par value of the auction rate securities as of the option exercise date. This value was discounted by using UBS's credit default swap rate to account for the credit considerations of the counterparty risk. We will reassess the fair value in future reporting periods based on several factors, including continued failure of auctions, failure of investments to be redeemed, deterioration of credit ratings of investments, market risk and other factors. Based on our expected operating cash flows and other sources of cash, we do not believe that any reduction in liquidity of our auction rate securities will have a material impact on our overall ability to meet our liquidity needs.

Our credit ratings and outlooks as of January 27, 2009 are summarized below.

Rating Agency	Rating	Outlook
Fitch	BBB	Negative
Moody's	Baa1	Stable
Standard & Poor's	BBB	Negative

Factors that can affect our credit ratings include changes in our operating performance, the economic environment, conditions in the semiconductor and semiconductor equipment industries, our financial position, and changes in our business strategy.

Off-Balance Sheet Arrangements

Under our foreign-currency risk management strategy, we utilize derivative instruments to protect our interests from unanticipated fluctuations in earnings and cash flows caused by volatility in currency exchange rates. This financial exposure is monitored and managed as an integral part of our overall risk management program which focuses on the unpredictability of financial markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on our operating results. We continue our policy of hedging our current and forecasted foreign currency exposures with hedging instruments having tenors of up to 18 months. The outstanding hedge contracts, with maximum maturity of 13 months, were as follows:

(In thousands)	As of December 31, 2008	As of June 30, 2008
Cash flow hedge contracts		
Purchase	$ 3,030	$ 7,413
Sell	(89,697)	(200,676)
Other foreign currency hedge contracts		
Purchase	129,146	1,278,395
Sell	(235,854)	(1,402,119)
Net	$ (193,375)	$ (316,987)

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in interest rates and foreign currency exchange rates. To mitigate these risks, we utilize derivative financial instruments, such as foreign currency hedges. We do not use derivative financial instruments for speculative or trading purposes. All of the potential changes noted below are based on sensitivity analyses performed on our financial position as of December 31, 2008. Actual results may differ materially.

As of December 31, 2008, we had an investment portfolio of fixed income securities of approximately $566.1 million, excluding those classified as cash and cash equivalents. These securities, as with all fixed income instruments, are subject to interest rate risk and will fall in value if market interest rates increase. If market interest rates were to increase immediately and uniformly by 10% from levels as of December 31, 2008, the fair value of the portfolio would have declined by $1.3 million.

As of December 31, 2008, we had net forward contracts to sell $193.4 million in foreign currency in order to hedge currency exposures (see Note 16, “Derivative Instruments and Hedging Activities,” to the Condensed Consolidated Financial Statements for a detailed description). If we had entered into these contracts on December 31, 2008, the U.S. dollar equivalent would have been $202.8 million. A 10% adverse move in all currency exchange rates affecting the contracts would decrease the fair value of the contracts by $32.9 million. However, if this occurred, the fair value of the underlying exposures hedged by the contracts would increase by a similar amount. Accordingly, we believe that the hedging of our foreign currency exposure should have no material impact on net loss or cash flows.

See Note 4, “Marketable Securities,” to the Condensed Consolidated Financial Statements in Part I, Item 1; Management’s Discussion and Analysis of Financial Condition and Results of Operations, *“Liquidity and Capital Resources,”* in Part I, Item 2; and Risk Factors in Part II, Item 1A of this Quarterly Report on Form 10-Q for a description of recent market events that may affect the value of the investments in our portfolio and the liquidity of certain auction rate securities that we held at December 31, 2008.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures and Related CEO and CFO Certifications

Evaluation of Disclosure Controls and Procedures

The Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in the Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (“Disclosure Controls”) as of the end of the period covered by this Quarterly Report on Form 10-Q (this “Report”) required by Exchange Act Rules 13a-15(b) or 15d-15b. The controls evaluation was conducted under the supervision and with the participation of the Company’s management, including the Company’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”). Based on this evaluation, the CEO and CFO have concluded that as of the end of the period covered by this Report the Company’s disclosure controls and procedures were effective at a reasonable assurance level.

Attached as exhibits to this Report are certifications of the CEO and CFO, which are required in accordance with Rule 13a-14 of the Exchange Act. This Controls and Procedures section includes the information concerning the controls evaluation referred to in the certifications, and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

Definition of Disclosure Controls

Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in the Company's reports filed under the Exchange Act, such as this Report, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. The Company's Disclosure Controls include components of its internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of its financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States. To the extent that components of the Company's internal control over financial reporting are included within its Disclosure Controls, they are included in the scope of the Company's annual controls evaluation.

Limitations on the Effectiveness of Controls

The Company's management, including the CEO and CFO, does not expect that the Company's disclosure controls or internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

There were no changes in the Company's internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth above under Note 13, "Litigation and Other Legal Matters," to the Condensed Consolidated Financial Statements in Item 1 of Part 1 is incorporated herein by reference.

ITEM 1A. RISK FACTORS

Risks Associated with Our Industry and Market Conditions

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. If we fail to respond to industry cycles, our business could be seriously harmed.

The timing, length and severity of the up-and-down cycles in the semiconductor equipment industry are difficult to predict. This cyclical nature of the industry in which we operate affects our ability to accurately predict future revenue, and in some cases, future expense levels. In the current environment, our ability to accurately predict our future operating results is particularly limited. During down cycles in our industry, the financial results of our customers may be negatively impacted, which could result not only in a decrease in, or cancellation or delay of, orders (which are generally subject to cancellation or delay by the customer with limited or no penalty) but also a weakening of their financial condition that could impair their ability to pay for our products or our ability to recognize revenue from certain customers. 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 periods of declining revenues, such as in the current environment, we must be in a position to adjust our cost and expense structure to prevailing market conditions and to continue to motivate and retain our key employees. If we fail to respond, or if our attempts to respond (such as the global workforce reduction and cost-reduction efforts that we announced in November 2008) fail to accomplish our intended results, then our business could be seriously harmed. Furthermore, any workforce reductions and cost-reduction actions that we adopt in response to down cycles may result in additional restructuring charges, disruptions in our operations and loss of key personnel. 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. Each of these factors could adversely impact our operating results and financial condition.

We are exposed to risks associated with the ongoing financial crisis and weakening global economy.

The recent severe tightening of the credit markets, turmoil in the financial markets and weakening global economy are contributing to slowdowns in the industries in which we operate, which slowdowns are expected to worsen if these economic conditions are prolonged or deteriorate further.

The markets for semiconductors, and therefore our business, are ultimately driven by the global demand for electronic devices by consumers and businesses. Economic uncertainty frequently leads to reduced consumer and business spending, which, in the current economic slowdown, has caused our customers to decrease, cancel or delay their equipment and service orders from us. In addition, the recent tightening of credit markets and concerns regarding the availability of credit have made it more difficult for our customers to raise capital, whether debt or equity, to finance their purchases of capital equipment, including the products we sell. Reduced demand, combined with delays in our customers' ability to obtain financing (or the unavailability of such financing), has adversely affected our product and service sales and revenues and therefore has harmed our business and operating results, and our operating results and financial condition may be further adversely impacted if the current economic conditions persist.

Furthermore, a continuing decline in the condition of the global financial markets could adversely impact the market values or liquidity of our investments. Our investment portfolio includes corporate and government securities, auction rate securities, money market funds and other types of debt and equity investments. Although we believe our portfolio continues to be comprised of sound investments due to the quality and (where applicable) credit ratings and government guarantees of the underlying investments, a further decline in the capital and financial markets would adversely impact the market values of our investments and their liquidity. If the market value of such investments were to decline, or if we were to have to sell some of our investments under illiquid market conditions, we may be required to recognize an impairment charge on such investments or a loss on such sales, either of which could have an adverse effect on our financial condition and operating results.

If we are unable to timely and appropriately adapt to changes resulting from the difficult macroeconomic environment, our business, financial condition or results of operations may be materially and adversely affected.

Our future performance depends, in part, upon our ability to continue to compete successfully worldwide.

Our industry includes large manufacturers with substantial resources to support customers 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 possess. We face competition from companies whose strategy is to provide a broad array of products and services, 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, including pricing such competitive tools significantly below our product offerings. In addition, we face competition from smaller emerging semiconductor equipment companies whose strategy is to provide a portion of the products and services that we offer, using innovative technology to sell products into specialized markets. Loss of competitive position could negatively affect our prices, customer orders, revenue, gross margins, and market share, any of which would negatively affect our operating results and financial condition.

We have recorded significant restructuring, inventory write-off and asset impairment charges in the past and may do so again in the future, which could have a material negative impact on our business.

During the three months ended December 31, 2008, we recorded material restructuring charges related to our global workforce reduction, large excess inventory write-offs, and material impairment charges related to our goodwill and purchased intangible assets. If the current challenging economic conditions persist, we may implement additional cost-reduction actions, which would require us to take additional, potentially material, restructuring charges related to, among other things, employee terminations or exit costs. We may also be required to write off additional inventory if our product build plans or usage of service inventory experience further declines, and such additional write-offs could constitute material charges. In addition, a further decline in our stock price or significant adverse change in market conditions could require us to take an additional material impairment charge related to our goodwill and purchased intangible assets. Goodwill represents the excess of costs over the net fair value of net assets acquired in a business combination. Goodwill is not amortized, but is instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets*. Purchased intangible assets with estimable useful lives are amortized over their respective estimated useful lives using the straight-line method, and are reviewed for impairment in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*. The valuation of goodwill and intangible assets require assumptions and estimates of many critical factors, including revenue and market growth, operating cash flows, market multiples, and discount rates. We recorded a material charge during the quarter ended December 31, 2008 related to the impairment of our goodwill and purchased intangible assets. A further decline in our stock price, or any other adverse change in market conditions, particularly if such change has the effect of changing one of the critical assumptions or estimates we used to calculate the amount of such impairment charge, could result in a change to the estimation of fair value that could result in an additional impairment charge. Any such additional material charges, whether related to restructuring or goodwill or purchased intangible asset impairment, may have a material negative impact on our operating results and related financial statements.

We are exposed to risks associated with a highly concentrated customer base.

Our customer base, particularly in the semiconductor industry, historically has been, and is becoming increasingly, highly concentrated. In this environment, orders from a relatively limited number of manufacturers have accounted for, and are expected to continue to account for, a substantial portion of our sales. In addition, the mix and type of customers, and sales to any single customer,

may vary significantly from quarter to quarter and from year to year. If customers do not place orders, or they delay or cancel orders, we may not be able to replace the business. Furthermore, because our products are configured to customer specifications, any changes, delays or cancellations of orders may result in significant, non-recoverable costs. Major customers may also seek, and on occasion receive, pricing, payment, intellectual property-related, or other commercial terms that are less favorable to us. Also, certain customers have undergone significant ownership changes, experienced management changes or have outsourced manufacturing activities, any of which may result in additional complexities in managing customer relationships and transactions. In the current challenging economic environment, we are exposed to additional risks related to the continued financial viability of certain of our customers. For instance, during the three months ended December 31, 2008, we increased our allowance for doubtful accounts by $23.9 million for potential losses relating to a heightened risk of non-payment of accounts receivable by customers facing financial difficulty. Customers with liquidity issues may be forced to discontinue operations or may be acquired by one of our customers, and in either case such event would have the effect of further consolidating our customer base. In addition, to the extent our customers experience liquidity issues, we may be required to incur additional bad debt expense with respect to receivables owed to us by those customers. These factors could have a material adverse effect on our business, financial condition and operating results.

A majority of our annual revenue is derived from outside the United States, and we expect that international revenue will continue to represent a substantial percentage of our revenue. A protracted economic slowdown in any of the countries in which we do business may adversely affect our business and results of operations.

A majority of our annual revenue is derived from outside the United States, and we expect that international revenue will continue to represent a substantial percentage of our revenue. Our international revenue and operations are affected by economic conditions specific to each country and region. Because of our significant dependence on international revenue, a decline in the economies of any of the countries or regions in which we do business could negatively affect our operating results. 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, legal or regulatory changes or terrorism in regions where we have operations, along with fluctuations in interest and currency exchange rates, could negatively affect 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.

Risks Related to Our Business

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.

Success in the semiconductor equipment industry depends, in part, on continual improvement of existing technologies and rapid innovation of new solutions. For example, the size of semiconductor devices continues to shrink and the industry is currently transitioning to the use of new materials and innovative fab processes. While we expect these trends will increase our customers' reliance on our diagnostic products, we cannot be sure that they will directly improve our business. 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 staffing of highly qualified employees. Our competitive advantage and future business success depend on our ability to accurately predict evolving industry standards, to develop and introduce new products that successfully address changing customer needs, to win market acceptance of these new products and to manufacture these new products in a timely and cost-effective manner.

In this environment, we must continue to make significant investments in research and development in order to enhance the performance, features and functionality of our products, to keep pace with competitive products and to satisfy customer demands. Substantial research and development costs typically are incurred before we confirm the technical feasibility and commercial viability of a new product, and not all development activities result in commercially viable products. There can be no assurance that revenue from future products or product enhancements will be sufficient to recover the development costs associated with such products or enhancements. In addition, we cannot be sure 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 seriously harmed if we are unable to sell our products at favorable prices or if the market in which we operate does not accept our products.

Our business would be harmed if we do not receive sufficient parts to meet our production requirements in a timely and cost-effective manner.

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 these 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 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. In addition, if certain of our key suppliers experience liquidity issues and are forced to discontinue operations, which is a heightened risk during the current economic downturn, that would affect their ability to deliver parts and could result in delays for our products. Our operating results and business may be adversely impacted if we are unable to obtain parts to meet our production requirements, or if we are only able to do so on unfavorable terms.

Disruption of our manufacturing facilities due to earthquake, flood, other natural catastrophic events or terrorism could result in cancellation of orders or loss of customers and could seriously harm our business.

We have significant manufacturing operations in the United States, with additional operations in Israel, Singapore, Belgium, Germany and China. Operations at our manufacturing facilities and our assembly subcontractors are subject to disruption for a variety of reasons, including work stoppages, acts of war, terrorism, fire, earthquake, energy shortages, flooding or other natural disasters. 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.

We outsource a number of services to third-party service providers, which decreases our control over the performance of these functions. Disruptions or delays at our third-party service providers could adversely impact our operations.

We outsource a number of services, including our transportation and logistics management of spare parts, to domestic and overseas third-party service providers. While outsourcing arrangements may lower our cost of operations, they also reduce our direct control over the services rendered. It is uncertain what effect such diminished control will have on the quality or quantity of products delivered or services rendered, or our ability to quickly respond to changing market conditions. Disruptions or delays at our third-party service providers due to events such as regional economic, business, environmental or political events, information technology system failures or military actions could adversely impact our operations and our ability to ship products, manage our product inventory or record and report financial and management information on a timely and accurate basis.

Our success is dependent in part on our technology and other proprietary rights. If we are unable to maintain our lead or protect our proprietary technology, we may lose valuable assets and market share.

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 and obtain patents relating to our business that are similar or superior to our technology or may design around the patents we own, adversely affecting our business.

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 secrets and other proprietary information through confidentiality and other agreements with our customers, suppliers, employees and consultants and through other security measures. 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. In any event, the extent to which we can protect our trade secrets through the use of confidentiality agreements is limited, and our success will depend to a significant extent on our ability to innovate ahead of our competitors.

We might be involved in intellectual property disputes or other intellectual property infringement claims that may be costly to resolve, prevent us from selling or using the challenged technology and seriously harm our operating results and financial condition.

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. Litigation tends to be expensive and requires significant management time and attention and could have a negative effect on our results of operations or business if we lose or have to settle a case on significantly adverse terms. Our customary practice is to evaluate such infringement assertions and to consider whether to seek licenses where appropriate. However, we cannot ensure that licenses can be obtained or, if obtained, will be on acceptable terms or that costly litigation or other administrative proceedings will not occur. The inability to obtain necessary licenses or other rights on reasonable terms, or the instigation of litigation or other administrative proceedings, could seriously harm our operating results and financial condition.

We depend on key personnel to manage our business effectively, and if we are unable to attract, retain and motivate our key employees, our sales and product development could be harmed.

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. If we are unable to retain key personnel, or if we are not able to attract, assimilate or retain additional highly qualified employees to meet our needs in the future, our business and operations could be harmed.

Acquisitions are an important element of our strategy but, because of the uncertainties involved, we may not find suitable acquisition candidates and we may not be able to successfully integrate and manage acquired businesses.

In addition to our efforts to develop new technologies from internal sources, part of our growth strategy is to pursue acquisitions and acquire new technologies from external sources. As part of this effort, we may make acquisitions of, or significant investments in, businesses with complementary products, services and/or technologies. There can be no assurance that we will find suitable acquisition candidates or that acquisitions we complete will be successful. In addition, we may use equity to finance future acquisitions, which would increase our number of shares outstanding and be dilutive to current shareholders.

If we are unable to successfully integrate and manage acquired businesses or if acquired businesses perform poorly, then our business and financial results may suffer. It is possible that the businesses we have acquired, as well as businesses that we may acquire in the future, may perform worse than expected or prove to be more difficult to integrate and manage than expected. In addition, we may lose key employees of the acquired companies. As a result, risks associated with acquisition transactions may give rise to a material adverse effect on our business and financial results for a number of reasons, including:

- we may have to devote unanticipated financial and management resources to acquired businesses;
- the combination of businesses may cause the loss of key personnel or an interruption of, or loss of momentum in, the activities of our company and/or the acquired business;
- we may not be able to realize expected operating efficiencies or product integration benefits from our acquisitions;
- we may experience challenges in entering into new market segments for which we have not previously manufactured and sold products;
- we may face difficulties in coordinating geographically separated organizations, systems and facilities;
- the customers, suppliers, employees and others with whom the companies we acquire have business dealings may have a potentially adverse reaction to the acquisition;
- we may have to write-off goodwill or other intangible assets; and
- we may incur unforeseen obligations or liabilities in connection with acquisitions.

Compliance with federal securities laws, rules and regulations, as well as NASDAQ requirements, is becoming increasingly complex, and the significant attention and expense we must devote to those areas may have an adverse impact on our business.

Federal securities laws, rules and regulations, as well as NASDAQ rules and regulations, require companies to maintain extensive corporate governance measures, impose comprehensive reporting and disclosure requirements, set strict independence and financial expertise standards for audit and other committee members and impose civil and criminal penalties for companies and their chief executive officers, chief financial officers and directors for securities law violations. These laws, rules and regulations have increased and will continue to increase the scope, complexity and cost of our corporate governance, reporting and disclosure practices, which could harm our results of operations and divert management's attention from business operations.

We are predominantly uninsured for losses and interruptions caused by terrorist acts and acts of war. If international political instability continues or increases, our business and results of operations could be harmed.

The threat of terrorism targeted at the regions of the world in which we do business increases the uncertainty in our markets. Any act of terrorism which affects the economy or the semiconductor industry could adversely affect our business. Increased international political instability, disruption in air transportation and further enhanced security measures as a result of terrorist attacks, and the continuing instability in the Middle East, may hinder our ability to do business and may increase our costs of operations. Such continuing instability could cause us to incur increased costs in transportation, make such transportation unreliable, increase our insurance costs, and cause international currency markets to fluctuate. This same instability could have the same effects on our suppliers and their ability to timely deliver their products. If this international political instability continues or increases, our business and results of operations could be harmed. We are predominantly uninsured for losses and interruptions caused by terrorist acts and acts of war.

We self insure certain risks including earthquake risk. If one or more of the uninsured events occurs, we could suffer major financial loss.

We purchase insurance to help mitigate the economic impact of certain insurable risks; however, certain other risks are uninsurable or are insurable only at significant cost or cannot be mitigated with insurance. An earthquake could significantly disrupt our manufacturing operations, most of which are conducted in California. It could also significantly delay our research and engineering effort on new products, most of which is also conducted in California. We take steps to minimize the damage that would be caused by an earthquake, but there is no certainty that our efforts will prove successful in the event of an earthquake. We self insure earthquake risks because we believe this is a prudent financial decision based on our large cash reserves and the high cost and limited coverage available in the earthquake insurance market. Certain other risks are also self insured either based on a similar cost benefit analysis, or based on the unavailability of insurance. If one or more of the uninsured events occurs, we could suffer major financial loss.

A change in accounting standards or practices or a change in existing taxation rules or practices (or changes in interpretations of such standards, practices or rules) can have a significant effect on our reported results and may even affect reporting of transactions completed before the change is effective.

New accounting pronouncements and taxation rules and varying interpretations of accounting pronouncements and taxation rules have occurred and may occur in the future. Changes to (or revised interpretations of) existing tax or accounting rules or the questioning of current or past practices may adversely affect our reported financial results or the way we conduct our business.

For example, the adoption of Statement of Financial Accounting Standards ("SFAS") No. 123(R),*Share-Based Payment* which required us to measure all employee stock-based compensation awards using a fair value method beginning in fiscal year 2006 and record such expense in our consolidated financial statements, has had a material impact on our consolidated financial statements, as reported under accounting principles generally accepted in the United States of America.

A change in the effective tax rate can have a significant adverse impact on our business.

A number of factors may harm our future effective tax rates such as the jurisdictions in which profits are determined to be earned and taxed, the resolution of issues arising from tax audits with various tax authorities, changes in the valuation of our deferred tax assets and liabilities, adjustments to estimated taxes upon finalization of various tax returns, increases in expenses not deductible for tax purposes, including write-offs of acquired in-process research and development and impairment of goodwill, changes in available tax credits, changes in share-based compensation expense, changes in tax laws or the interpretation of such tax laws and changes in generally accepted accounting principles and the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes. A change in the effective tax rate can adversely impact our results from operations**.**

We are exposed to various risks related to the regulatory environments where we perform our operations and conduct our business.

We are subject to various risks related to compliance with new, existing, different, inconsistent or even conflicting laws, rules and regulations enacted by legislative bodies and/or regulatory agencies in the countries in which we operate and with which we must comply, including environmental, safety, antitrust and export control regulations. For example, we are subject to environmental and safety regulations in connection with our global business operations, including regulations related to the development, manufacture and use of our products, recycling and disposal of materials used in our products or in producing our products, the operation of our facilities, and the use of our real property. Our failure or inability to comply with existing or future laws, rules or regulations, or changes to existing laws, rules or regulations, including changes that result in inconsistent or conflicting laws, rules or regulations, in the countries in which we operate could result in violations of contractual or regulatory obligations that may adversely affect our reported financial results or our ability to conduct our business.

We are exposed to foreign currency exchange rate fluctuations; although we hedge certain currency risks, we may still be adversely affected by changes in foreign currency exchange rates or declining economic conditions in these countries.

We have some exposure to fluctuations in foreign currency exchange rates, primarily the Euro and the Japanese Yen. We have international subsidiaries that operate and sell our products globally. We routinely hedge our exposures to certain foreign currencies with various financial institutions in an effort to minimize the impact of certain currency exchange rate fluctuations, but these hedges may be inadequate to protect us from currency exchange rate fluctuations. To the extent that these hedges are inadequate, or if there are significant currency exchange rate fluctuations in currencies for which we do not have hedges in place, our reported financial results or the way we conduct our business could be adversely affected. If a financial counter-party to our hedges experiences financial difficulties or is otherwise unable to honor the terms of the foreign currency hedge, we may experience material financial losses.

There are risks associated with our outstanding indebtedness.

As of December 31, 2008, we had $750 million aggregate principal amount of outstanding indebtedness represented by our senior notes that will mature in 2018, and we may incur additional indebtedness in the future. Our ability to pay interest and repay the principal for our indebtedness is dependent upon our ability to manage our business operations and the other risk factors discussed in this section. There can be no assurance that we will be able to manage any of these risks successfully. In addition, changes by any rating agency to our outlook or credit rating could negatively affect the value and liquidity of both our debt and equity securities.

In certain circumstances involving a change of control followed by a downgrade of the rating of our senior notes, we will be required to make an offer to repurchase the senior notes at a purchase price equal to 101% of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest. We cannot make any assurance that we will have sufficient financial resources at such time or will be able to arrange financing to pay the repurchase price of the senior notes. Our ability to repurchase the senior notes in such event may be limited by law, by the indenture associated with the senior notes, or by the terms of other agreements to which we may be party at such time. If we fail to repurchase the senior notes as required by the indenture, it would constitute an event of default under the indenture governing the senior notes which, in turn, may also constitute an event of default under other of our obligations.

We are exposed to fluctuations in the market values of our portfolio investments and in interest rates; impairment of our investments could harm our earnings.

Our investment portfolio consists of both corporate and government securities that have a maximum effective maturity of 10 years. The longer the duration of these securities, the more susceptible they are to changes in market interest rates and bond yields. As yields increase, those securities with a lower yield-at-cost show a mark-to-market unrealized loss. We have the ability to realize the full value of all these investments upon maturity. Unrealized losses are due to changes in interest rates and bond yields.

Auction rate securities backed by student loans which are collateralized, insured and guaranteed by the United States Federal Department of Education are also included in our investment portfolio. Due to the current illiquidity in the auction rate security market, the funds associated with these failed auctions may not be accessible until the issuer calls the security, a successful auction occurs, a buyer is found outside of the auction process, or the security matures. Although we believe our auction rate securities continue to represent sound investments due to the AAA/Aaa credit ratings of the underlying investments, we may be forced to sell some of our auction rate securities portfolio under illiquid market conditions, which could result in our recognizing a loss on such sales.

In August 2008, UBS AG entered into a settlement in principle with the SEC and various state regulatory agencies to restore liquidity to all clients holding auction rate securities. Per the settlement, UBS has agreed to offer certain clients the option to redeem all of their auction rate securities at par, no loss, from UBS between June 30, 2010 and June 30, 2012, and we formally accepted this offer and entered into a repurchase agreement with UBS on November 11, 2008. However, there is no assurance that UBS will have enough financial resources necessary to perform its obligations under the offer. If we elect to retain our auction rate securities in reliance upon that offer, with the intent of participating in the offer, but UBS is unable to satisfy its obligations under the offer at the applicable time, we may be required to sell the auction rate securities at that time at a significant loss, which could have an adverse impact upon our operating results and financial condition.

We rely upon certain critical information systems for our daily business operation. Our inability to use or access these information systems at critical points in time could unfavorably impact the timeliness and efficiency of our business operation.

Our global operations are linked by information systems, including telecommunications, the internet, our corporate intranet, network communications, email and various computer hardware and software applications. Despite our implementation of network security measures, our tools and servers are vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems and tools located at customer sites, or could be subject to system failures or malfunctions for other reasons. Any such event could have an adverse effect on our business, operating results and financial condition.

We may experience difficulties with our customer relationship management ("CRM") system, enterprise resource planning ("ERP") system or other IT systems. System failure or malfunctioning may result in a disruption of operations or the inability to process transactions, and this could adversely affect our financial results.

We may experience difficulties with our CRM system (recently implemented in fiscal year 2008) that could disrupt our ability to timely and accurately process and report key components of the results of our consolidated operations, our financial position and cash flows. System failure or malfunctioning could disrupt our ability to timely and accurately process and report key components of our results of operations, financial position and cash flows. Any disruptions or difficulties that may occur in connection with our ERP system or other systems could also adversely affect our ability to complete important business processes such as the evaluation of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. If we encounter unforeseen problems with regard to our CRM system, ERP system or other systems, our business could be adversely affected.

Risks Related to the Restatement of Our Prior Financial Results

Our efforts to correct past material weaknesses in our internal controls may not have been sufficient, and we may discover additional material weaknesses in our internal controls.

As previously disclosed, the Company has undergone an investigation of the Company's historical stock option practices by the Special Committee of the Company's Board of Directors (for more information regarding the Special Committee investigation and its findings, please refer to Item 3, "Legal Proceedings" in our Annual Report on Form 10-K for the fiscal year ended June 30, 2007, which was filed with the SEC on August 20, 2007 (the "2007 Form 10-K")). As a result of that Special Committee investigation and our management's internal review of our historical stock option practices and related matters, we identified past material weaknesses in our internal controls and procedures (see Item 9A, "Controls and Procedures" in the 2007 Form 10-K). A "material weakness" is a control deficiency, or combination of them, that results in more than a remote likelihood that a material misstatement in our financial statements will not be prevented or detected. We believe that we have remedied the past material weaknesses in our internal controls and procedures, but there can be no assurance that our corrections were sufficient or fully effective, or that we will not discover additional material weaknesses in our internal controls and procedures in the future.

The Special Committee investigation of our historical stock option practices and the resulting restatements have been time consuming and expensive, and have had a material adverse effect on us.

The Special Committee investigation and the resulting restatement activities have required us to expend significant management time and incur significant accounting, legal and other expenses. In addition, we have established a Special Litigation Committee to oversee the litigation matters that have arisen out of the investigation and the restatements, and we cannot predict what additional actions may be required by these Committees. The period of time that will be necessary to resolve these matters is uncertain, and these matters could require significant additional attention and resources.

We have been named as a party to a number of shareholder derivative and class action lawsuits relating to our historical stock option practices, and we may be named in additional lawsuits in the future. This litigation has been and continues to be time consuming and expensive and could result in the payment of significant judgments and settlements, which could have a material adverse effect on our financial condition and results of operations.

In connection with our historical stock option practices and resulting restatements, a number of derivative actions were filed against certain of our current and former directors and officers purporting to assert claims on the Company's behalf. In addition, a number of securities class action complaints were filed against us and certain of our current and former directors and officers seeking damages related to our historical stock option practices and the resulting investigation, inquiries and restatements. There may be additional lawsuits of this nature filed in the future. We cannot predict the outcome of these lawsuits, nor can we predict the amount of time and expense that will be required to resolve these lawsuits. If these lawsuits become time consuming and expensive, or if there are unfavorable outcomes in any of these cases, there could be a material adverse effect on our business, financial condition and results of operations.

Our insurance coverage will not cover our total liabilities and expenses in these lawsuits, in part because we have a significant deductible on certain aspects of the coverage. In addition, subject to certain limitations, we are obligated to indemnify our current and former directors, officers and employees in connection with the investigation of our historical stock option practices and the related litigation and ongoing government inquiry. We currently hold insurance policies for the benefit of our directors and officers, although our insurance coverage may not be sufficient in some or all of these matters. Furthermore, the insurers may seek to deny or limit coverage in some or all of these matters, in which case we may have to self-fund all or a substantial portion of our indemnification obligations.

We are subject to the risks of additional government actions, shareholder lawsuits and other legal proceedings related to our historical stock option practices, the resulting restatements, and the remedial measures we have taken.

It is possible that there may be additional governmental actions, shareholder lawsuits and other legal proceedings brought against us in connection with our historical stock option practices. In addition, we may be sued or taken to arbitration by former officers and employees in connection with their stock options, employment terminations and other matters. These proceedings may require us to expend significant management time and incur significant accounting, legal and other expenses, and may divert attention and resources from the operation of our business. These expenditures and diversions, as well as the adverse resolution of any specific lawsuit, could have a material adverse effect on our business, financial condition and results of operations.

Failure to maintain effective internal controls may cause us to delay filing our periodic reports with the SEC, affect our NASDAQ listing, and adversely affect our stock price.

The Securities and Exchange Commission, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring public companies to include a report of management on internal control over financial reporting in their annual reports on Form 10-K that contain an assessment by management of the effectiveness of the Company's internal control over financial reporting. In addition, our independent registered public accounting firm must report on the effectiveness of the Company's internal control over financial reporting. The Company has in prior periods identified certain material weaknesses in its internal control over financial reporting. However, we believe the Company remediated those past material weaknesses, and we have not identified any material weaknesses in our internal control over financial reporting for the fiscal year ended June 30, 2008. Although we review our internal control over financial reporting in order to ensure compliance with the Section 404 requirements, if our independent registered public accounting firm is not satisfied with our internal control over financial reporting or the level at which these controls are documented, designed, operated or reviewed, or if our independent registered public accounting firm interprets the requirements, rules and/or regulations differently from our interpretation, then they may issue a report that is qualified. This could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could negatively impact our stock price.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Following is a summary of stock repurchases for the three months ended December 31, 2008.[1]

Period	Total Number of Shares Purchased(4)	Average Price Paid per Share	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(3)
October 1, 2008 to October 31, 2008(2)	1,450,000	$ 26.66	9,831,000
November 1, 2008 to November 30, 2008	—	$ —	9,831,000
December 1, 2008 to December 31, 2008	—	$ —	9,831,000
Total	1,450,000	$ 26.66	

(1) In July 1997, the Board of Directors authorized KLA-Tencor to systematically repurchase up to 17.8 million shares of its common stock in the open market. This plan was put into place to reduce the dilution from KLA-Tencor's employee benefit and incentive plans such as the stock option and employee stock purchase plans, and to return excess cash to the Company's shareholders. The Board of Directors has authorized KLA-Tencor to repurchase additional shares of its common stock under the repurchase program in February 2005 (up to 10.0 million shares), February 2007 (up to 10.0 million shares), August 2007 (up to 10.0 million shares) and June 2008 (up to 15.0 million shares), in each case in addition to the originally authorized 17.8 million shares described in the first sentence of this footnote.

(2) All shares were purchased pursuant to the publicly announced repurchase programs described in footnote 1 above.

(3) The stock repurchase programs have no expiration date. Future repurchases of the Company's common stock under the Company's repurchase programs may be affected through various different repurchase transaction structures, including isolated open market transactions or systematic repurchase plans.

(4) In October 2008, the Company suspended the stock repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Stockholders was held on November 13, 2008 at the Company's principal executive offices in Milpitas, California. Of the 170,627,492 shares of the Company's common stock outstanding as of September 30, 2008 (the record date), 154,174,848 shares, or 90%, were present or represented by proxy at the meeting. Two proposals were considered at the meeting.

Proposal One. The stockholders elected the Company's three Class I nominees to its Board of Directors to each serve for a three-year term, each until his successor is duly elected. The table below presents the results of the election.

Name	For	Withheld
Robert M. Calderoni	151,860,836	2,314,012
John T. Dickson	146,637,392	7,537,456
Kevin J. Kennedy	151,783,148	2,391,700

The Company's Class II directors (Robert P. Akins, Robert T. Bond, Kiran M. Patel and David C. Wang) and Class III directors (Edward W. Barnholt, Stephen P. Kaufman and Richard P. Wallace) were not subject to reelection at the annual meeting, and their respective terms of office as members of the Board of Directors continued after the meeting.

Proposal Two. The stockholders ratified the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending June 30, 2009. This proposal received 153,470,809 votes for, 667,071 votes against and 36,968 abstentions.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

10.44	Form of Restricted Stock Unit Agreement for U.S. Employees (approved December 2008)*
10.45	Form of Restricted Stock Unit Agreement for French Participants (approved December 2008)*
10.46	Form of Restricted Stock Unit Agreement for Non-U.S. Employees (approved December 2008)*
10.47	Amended and Restated 1997 Employee Stock Purchase Plan (as amended December 2008)*
10.48	Executive Severance Plan (as amended and restated November 13, 2008)*
10.49	Executive Deferred Savings Plan (as amended and restated effective January 1, 2009)*
10.50	Rules of the KLA-Tencor Corporation 2004 Equity Incentive Plan for the Grant of Restricted Stock Units to Participants in France*
31.1	Certification of Chief Executive Officer Under Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer Under Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C Section 1350.

* Denotes a management contract, plan or arrangement

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)

January 29, 2009	/s/ RICHARD P. WALLACE
(Date)	Richard P. Wallace President and Chief Executive Officer (Principal Executive Officer)
January 29, 2009	/s/ MARK P. DENTINGER
(Date)	Mark P. Dentinger Executive Vice President and Chief Financial Officer (Principal Financial Officer)
January 29, 2009	/s/ VIRENDRA A. KIRLOSKAR
(Date)	Virendra A. Kirloskar Chief Accounting Officer (Principal Accounting Officer)

KLA-TENCOR CORPORATION
EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit Number	Filing Date
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* Denotes a management contract, plan or arrangement

Exhibit 10.44

KLA-Tencor Corporation

2004 EQUITY INCENTIVE PLAN

RESTRICTED STOCK UNIT AGREEMENT

FOR U.S. EMPLOYEES

1. Grant. The Company hereby grants to the Employee named in the Restricted Stock Unit Award Notification an award of Restricted Stock Units ("RSUs"), as set forth in the Restricted Stock Unit Award Notification and subject to the terms and conditions in this Agreement and the Company's 2004 Equity Incentive Plan (the "Plan"). Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Restricted Stock Unit Agreement.

2. Company's Obligation. Each RSU represents the right to receive one Share on the vesting date of that unit. Unless and until the RSUs vest, the Employee will have no right to receive Shares under such RSUs. Prior to actual distribution of Shares pursuant to any vested RSUs, such RSUs will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.

3. Vesting Schedule. The Employee will vest in the RSUs awarded by this Agreement according to the vesting schedule specified in the Restricted Stock Unit Award Notification. Accordingly, such vesting may be tied to the attainment of established performance goals and/or the completion of a specified period of Service Provider status.

4. Forfeiture upon Termination as Service Provider. Notwithstanding any contrary provision of this Agreement or the Restricted Stock Unit Award Notification, if the Employee terminates service as a Service Provider for any or no reason prior to vesting, the unvested RSUs awarded by this Agreement will thereupon be forfeited at no cost to the Company and without any payment (in cash or otherwise) due the Employee.

5. Payment after Vesting. Any RSUs that vest in accordance with paragraph 3 will be paid to the Employee (or in the event of the Employee's death, to his or her estate or designated beneficiaries) in Shares on the applicable vesting date or as soon as practicable thereafter, subject to the Company's collection of applicable withholding taxes pursuant to paragraph 8. For each RSU that vests, the Employee will receive one Share. In no event will any Shares be issued later than the later of (i) the close of the calendar year in which the Shares vest in accordance with the provisions of this Agreement or (ii) the fifteenth (15th) day of the third (3rd) calendar month following such vesting date.

6. Payments after Death. Any distribution or delivery to be made to the Employee under this Agreement will, if the Employee is then deceased, be made to the administrator or executor of the Employee's estate or the designated beneficiary or beneficiaries of the RSUs. Any such administrator, executor or beneficiary must furnish the Company with (a) written notice of his or her status as such and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer. The Employee may make a beneficiary designation with respect to the RSUs by filing the appropriate form with the Administrator or its designate.

7. Adjustment in Shares. Should any change be made to the Common Stock by reason of any stock split, stock dividend, spin-off transaction, extraordinary distribution (whether made in cash, securities or other property), recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Company's receipt of consideration, then equitable adjustments shall be made by the Administrator to the total number and/or class of securities issuable pursuant to this Award. Such adjustments shall be made in such manner as the Administrator deems appropriate in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

8. Withholding of Taxes. Regardless of any action the Company and/or the Subsidiary employing or retaining the Employee (the "Employer") take with respect to any or all income tax (including U.S. federal, state and local tax and/or non-U.S. tax), social insurance, payroll tax, payment on account or other tax-related items related to the Employee's participation in the Plan and legally applicable to the Employee or deemed by the Company or the Employer to be an appropriate charge to the Employee even if technically due by the Company or the Employer ("Tax-Related Items"), the Employee acknowledges that the ultimate liability for all Tax-Related Items is and remains the Employee's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Employee further acknowledges that the Company and/or the Employer (a) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant of the RSUs, the vesting of the RSUs, the delivery of Shares, the subsequent sale of any Shares acquired at vesting and the receipt of any dividends or dividend equivalents; and (b) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Employee's liability for Tax-Related Items or to achieve any particular tax result. Further, if the Employee becomes subject to tax in more than one jurisdiction between the date of grant and the date of any relevant taxable event, the Employee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to the relevant taxable event, the Company will withhold a portion of the vested RSUs that have an aggregate Fair Market Value sufficient to pay the Tax-Related Items. The number of Shares withheld pursuant to the prior sentence will be rounded up to the nearest whole Share, with no cash payment due the Employee for the value of any Share withheld in excess of the Tax-Related Items as a result of such rounding. If the date of the relevant taxable event (*e.g.,* the date upon which the RSUs vest, in whole or in part) occurs on a day on which the established stock exchange on which the Company's Common Stock is traded (including without limitation the NASDAQ Global Select Market or the NASDAQ Global Market) is not open for trading, the Fair Market Value for purposes of calculating the portion of the vested RSUs to be withheld pursuant to this paragraph 8 (*i.e.,* the deemed Fair Market Value of the Company's Common Stock on the date of such taxable event) shall be equal to the closing sales price for the Company's Common Stock as quoted on such stock exchange on the market trading day immediately prior to such taxable event. Alternatively, the Company, in its sole discretion, may require or otherwise permit the Employee to make alternate arrangements satisfactory to the Company for such Tax-Related Items. In addition, the Company and/or the Employer has the

right to satisfy any Tax-Related Items that the Company determines cannot be satisfied through the withholding of otherwise deliverable Shares by one or a combination of the following: (i) retaining without notice from salary or other amounts payable to the Employee, cash having a sufficient value to satisfy any Tax-Related Items; or (ii) arranging for the sale of Shares otherwise deliverable to the Employee (on the Employee's behalf and at the Employee's direction pursuant to this authorization).

To avoid negative accounting treatment, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. If the obligation for Tax-Related Items is satisfied by withholding a number of Shares as described herein, the Employee shall be deemed, for tax purposes, to have been issued the full number of Shares subject to the vested portion of the Award, notwithstanding that a number of Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Award. By accepting this RSU award, the Employee expressly consents to the withholding or sale of Shares and to any additional cash withholding as provided for in this paragraph 8. Notwithstanding any contrary provision of this Agreement, no Shares will be issued unless and until satisfactory arrangements (as determined by the Company) have been made by the Employee with respect to the payment of any Tax-Related Items.

9. Rights as Stockholder. Neither the Employee nor any person claiming under or through the Employee will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares are issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Employee or Employee's broker.

10. No Effect on Employment. To the full extent permitted under applicable law, the Employee's employment or other Service Provider status with the Company and its Subsidiaries is on an at-will basis only. Accordingly, the terms of the Employee's employment or other Service Provider status with the Company and its Subsidiaries will be determined from time to time by the Company or the Subsidiary employing or retaining the Employee (as the case may be), and the Company or the Subsidiary will have the right, which is hereby expressly reserved, to terminate or change the terms of the employment or service relationship of the Employee at any time for any reason whatsoever, with or without good cause or notice, in each case subject to compliance with applicable employment or other laws.

11. Address for Notices. Any notice to be given to the Company under the terms of this Agreement must be addressed to the Company at 160 Rio Robles, San Jose, California 95134, Attn: Stock Administration, or at such other address as the Company may hereafter designate in writing or electronically.

12. Grant is Not Transferable. Except to the limited extent provided in paragraph 6, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

13. Restrictions on Sale of Securities. Subject to the provisions of paragraph 15, the Company shall use its best efforts to assure that the Shares issued in payment of the vested RSUs are registered under the U.S. federal securities laws or qualify for any available exemption from such registration and are accordingly freely tradable. However, any sale of the Shares will be subject to any market blackout-period that may be imposed by the Company and must comply with the Company's insider trading policies, and any other applicable securities laws.

14. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

15. Additional Conditions to Issuance of Stock. If at any time the Company determines, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any U.S. state or federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to the Employee (or his or her estate or beneficiary), such issuance will not occur unless and until such listing, registration, qualification, consent or approval have been effected or obtained, free of any conditions not acceptable to the Company. The Company will make all reasonable efforts to meet the requirements of any such U.S. state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority. In no event, however, shall any Shares be issued in contravention of applicable U.S. federal and state securities laws or other regulatory requirements.

16. Plan Governs. This Agreement and the Restricted Stock Unit Award Notification are subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement or the Restricted Stock Unit Award Notification and one or more provisions of the Plan, the provisions of the Plan will govern.

17. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any RSUs have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon the Employee, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

18. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

19. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

20. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. The Employee expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements

other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to amend this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of the Employee, to comply with Section 409A of the Code or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code prior to the actual payment of Shares pursuant to this RSU award.

21. Amendment, Suspension or Termination of the Plan. By accepting this RSU award, the Employee expressly warrants that he or she has received a right to purchase stock under the Plan (provided the vesting conditions are satisfied), and has received, read and understood a description of the Plan. The Employee understands that the Plan is discretionary in nature and may be modified, suspended or terminated by the Company at any time.

22. Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to RSUs awarded under the Plan or future RSUs that may be awarded under the Plan by electronic means or request the Employee's consent to participate in the Plan by electronic means. By accepting this RSU award, the Employee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

23. Notice of Governing Law and Venue. This RSU award shall be governed by, and construed in accordance with, the laws of the State of California without regard to principles of conflict of laws.

For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by this RSU award or this Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this RSU award is made and/or to be performed.

24. Acknowledgement of Nature of Plan and Award. In accepting the Award, the Employee acknowledges that:

(a) the Plan is established voluntarily by the Company;

(b) the Award is voluntary and occasional and does not create any contractual or other right to receive future awards of RSUs, or benefits in lieu of RSUs, even if RSUs have been awarded repeatedly in the past;

(c) all decisions with respect to future awards, if any, will be at the sole discretion of the Company;

(d) the Employee's participation in the Plan is voluntary;

(e) the Award is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company or any Subsidiary, and which is outside the scope of the Employee's employment or Service Provider contract, if any;

(f) the Award is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculation of any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or any Subsidiary;

(g) the Award and the Shares subject to the Award are not intended to replace any pension rights or compensation;

(h) in the event that the Employee is not an Employee of the Company or any Subsidiary, the Award and his or her participation in the Plan will not be interpreted to form an employment contract or relationship with the Company or any Subsidiary;

(i) the future value of the underlying Shares is unknown and cannot be predicted with certainty;

(j) in consideration of the Award, no claim or entitlement to compensation or damages shall arise from termination of the Award or from any diminution in value of the RSUs or Shares acquired upon vesting of the RSUs resulting from termination of the Employee's employment or Service Provider status by the Company or any Subsidiary (for any reason whatsoever and whether or not in breach of local labor laws) and the Employee irrevocably releases the Company and any Subsidiary from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by accepting the Award, the Employee shall be deemed irrevocably to have waived his or her entitlement to pursue such claim;

(k) in the event of termination of his or her employment (whether or not in breach of local labor laws), the Employee's right to receive RSUs and vest in the RSUs under the Plan, if any, will terminate effective as of the date that he or she is no longer actively employed and will not be extended by any notice period mandated under local law (*e.g.*, active employment would not include a period of "garden leave" or similar period pursuant to local law); the Administrator shall have the exclusive discretion to determine when the Employee is no longer actively employed for purposes of the Award;

(l) the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Employee's participation in the Plan or his or her acquisition or sale of the underlying Shares; and

(m) the Employee is hereby advised to consult with his or her personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

Exhibit 10.45

KLA-Tencor Corporation

2004 EQUITY INCENTIVE PLAN

RESTRICTED STOCK UNIT AGREEMENT

FOR FRENCH PARTICIPANTS

1. Grant. The Company hereby grants to the Employee named in the Restricted Stock Unit Award Notification an award of Restricted Stock Units ("RSUs"), as set forth in the Restricted Stock Unit Award Notification and subject to the terms and conditions in this Agreement, the Company's 2004 Equity Incentive Plan (the "U.S. Plan") and the Rules of the Company's 2004 Equity Incentive Plan for the Grant of Restricted Stock Units to Participants in France (the "French Plan," together with the U.S. Plan, the "Plan"). Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Restricted Stock Unit Agreement (the "Agreement").

2. Company's Obligation. Each RSU represents the right to receive one Share on the Vesting Date of that unit. Unless and until the RSUs vest, the Employee will have no right to receive Shares under such RSUs. Prior to actual distribution of Shares pursuant to any vested RSUs, such RSUs will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.

3. Vesting Schedule. The Employee will vest in the RSUs awarded by this Agreement according to the vesting schedule specified in the Restricted Stock Unit Award Notification. Accordingly, such vesting may be tied to the attainment of established performance goals and/or the completion of a specified period of Service Provider status. In no event shall any RSUs become non-forfeitable prior to the second (2^{nd}) anniversary of the Grant Date, or such other date as is required to comply with the minimum vesting period under Section L. 225-197-1 of the French Commercial Code, as amended, or relevant sections of the French Tax Code and French Social Security Code, as amended, to benefit from the favorable tax and social security regime; provided, however, that this mandatory minimum vesting period shall not apply in the event the Employee terminates service as a Service Provider by reason of death or Disability (as defined in the French Plan).

4. Restriction on Sale of the Shares. The Employee will not be permitted to sell or transfer any Shares issued on a Vesting Date until the second anniversary of the applicable Vesting Date, or such other period as is required to comply with the minimum mandatory holding period applicable to shares underlying French-qualified RSUs under Section L. 225-197-7 of the French Commercial Code, as amended, or relevant sections of the French Tax Code and French Social Security Code, as amended, to benefit from the favorable tax and social security regime; provided, however, that this minimum holding period shall not apply in the event of the Employee's

termination of service as a Service Provider by reason of death or Disability (as defined in the French Plan). If the minimum holding period applicable to Shares underlying the French-qualified RSUs is not met, the RSUs may not receive favorable tax or social security treatment under French law. In this case, the Employee accepts and agrees that he or she will be responsible for paying personal income tax and his or her portion of social security contributions resulting from the vesting of the RSUs.

Furthermore, the Shares underlying French-qualified RSUs shall not be sold during certain Closed Periods[1], to the extent applicable under French law.

5. Forfeiture upon Termination as Service Provider. Notwithstanding any contrary provision of this Agreement or the Restricted Stock Unit Award Notification, if the Employee terminates service as a Service Provider for any or no reason (other than the Employee's death) prior to vesting, the unvested RSUs awarded by this Agreement will thereupon be forfeited at no cost to the Company and without any payment (in cash or otherwise) due the Employee. If the Employee terminates service as a Service Provider by reason of his or her death, the unvested RSUs awarded by this Agreement will be immediately vested and will be paid in accordance with paragraph 6 hereof.

6. Payment after Vesting. Any RSUs that vest in accordance with paragraph 3 will be paid to the Employee (or in the event of the Employee's death, to his or her legal heirs) in Shares on the applicable vesting date or as soon as practicable thereafter, subject to the Company's collection of applicable withholding taxes pursuant to paragraph 9. For each RSU that vests, the Employee will receive one Share. In no event will any Shares be issued later than the later of (i) the close of the calendar year in which the Shares vest in accordance with the provisions of this Agreement or (ii) the fifteenth (15th) day of the third (3rd) calendar month following such vesting date.

7. Payments after Death. In accordance with the provisions of Section 10 of the French Plan, any distribution or delivery to be made to the Employee under this Agreement will, if the Employee is then deceased, be made to the Employee's legal heirs upon their request within a six (6) month period measured from the date of the Employee's death. Any such transferee must furnish the Company with (a) written notice of his or her status as legal heir and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer. If the Employee's heirs do not request distribution or delivery of Shares underlying the RSUs within six (6) months of the Employee's death, as provided herein, the RSUs shall automatically expire.

[1] These Closed Periods are (i) ten (10) quotation days preceding and following the disclosure to the public of the consolidated financial statements or the annual statements of the Company; or (ii) the period as from the date the corporate management of the Company possess confidential information which could, if disclosed to the public, significantly impact the trading price of the Common Stock of the Company, until ten (10) quotation days after the day such information is disclosed to the public.

8. Adjustment in Shares. Should any change be made to the Common Stock by reason of any stock split, stock dividend, spin-off transaction, extraordinary distribution (whether made in cash, securities or other property), recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Company's receipt of consideration, then equitable adjustments shall be made by the Administrator to the total number and/or class of securities issuable pursuant to this Award. Such adjustments shall be made in such manner as the Administrator deems appropriate in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

9. Withholding of Taxes. Regardless of any action the Company and/or the Subsidiary employing or retaining the Employee (the "Employer") take with respect to any or all income tax (including U.S. federal, state and local tax and/or non-U.S. tax), social insurance, payroll tax, payment on account or other tax-related items related to the Employee's participation in the Plan and legally applicable to the Employee or deemed by the Company or the Employer to be an appropriate charge to the Employee even if technically due by the Company or the Employer ("Tax-Related Items"), the Employee acknowledges that the ultimate liability for all Tax-Related Items is and remains the Employee's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Employee further acknowledges that the Company and/or the Employer (a) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant of the RSUs, the vesting of the RSUs, the delivery of Shares, the subsequent sale of any Shares acquired at vesting and the receipt of any dividends or dividend equivalents; and (b) do not commit to continue to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Employee's liability for Tax-Related Items or to achieve any particular tax result. Further, if the Employee becomes subject to tax in more than one jurisdiction between the Grant Date and the date of any relevant taxable event, the Employee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to the relevant taxable event, the Company will withhold a portion of the vested RSUs that have an aggregate Fair Market Value sufficient to pay the Tax-Related Items. The number of Shares withheld pursuant to the prior sentence will be rounded up to the nearest whole Share, with no cash payment due the Employee for the value of any Share withheld in excess of the Tax-Related Items as a result of such rounding. If the date of the relevant taxable event (*e.g.,* the date upon which the RSUs vest, in whole or in part) occurs on a day on which the established stock exchange on which the Company's Common Stock is traded (including without limitation the NASDAQ Global Select Market or the NASDAQ Global Market) is not open for trading, the Fair Market Value for purposes of calculating the portion of the vested RSUs to be withheld pursuant to this paragraph 9 (*i.e.,* the deemed Fair Market Value of the Company's Common Stock on the date of such taxable event) shall be equal to the closing sales price for the Company's Common Stock as quoted on such stock exchange on the market trading day immediately prior to such taxable event. Alternatively, the Company, in its sole discretion, may require or otherwise permit the Employee to make alternate arrangements satisfactory to the Company for such Tax-Related Items. In addition, the Company and/or the Employer has the right to satisfy any Tax-Related Items that the Company determines cannot be satisfied through the withholding of otherwise deliverable Shares by one or a combination of the following: (i) retaining without notice from salary or other amounts payable to the Employee, cash having a sufficient value to satisfy any Tax-Related Items; or (ii) arranging for the sale of Shares otherwise deliverable to the Employee (on the Employee's behalf and at the Employee's direction pursuant to this authorization).

To avoid negative accounting treatment, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. If the obligation for Tax-Related Items is satisfied by withholding a number of Shares as described herein, the Employee shall be deemed, for tax purposes, to have been issued the full number of Shares subject to the vested portion of the Award, notwithstanding that a number of Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Award. By accepting this RSU award, the Employee expressly consents to the withholding or sale of Shares and to any additional cash withholding as provided for in this paragraph 9. Notwithstanding any contrary provision of this Agreement, no Shares will be issued unless and until satisfactory arrangements (as determined by the Company) have been made by the Employee with respect to the payment of any Tax-Related Items.

10. Rights as Stockholder. Neither the Employee nor any person claiming under or through the Employee will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares are issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Employee or Employee's broker.

11. No Effect on Employment. To the full extent permitted under applicable law, the Employee's employment or other Service Provider status with the Company and its Subsidiaries is on an at-will basis only. Accordingly, the terms of the Employee's employment or other Service Provider status with the Company and its Subsidiaries will be determined from time to time by the Company or the Subsidiary employing or retaining the Employee (as the case may be), and the Company or the Subsidiary will have the right, which is hereby expressly reserved, to terminate or change the terms of the employment or service relationship of the Employee at any time for any reason whatsoever, with or without good cause or notice, in each case subject to compliance with applicable employment or other laws.

12. Address for Notices. Any notice to be given to the Company under the terms of this Agreement must be addressed to the Company at 160 Rio Robles, San Jose, California 95134, Attn: Stock Administration, or at such other address as the Company may hereafter designate in writing or electronically.

13. Grant is Not Transferable. Except to the limited extent provided in paragraph 7, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

14. Restrictions on Sale of Securities. Subject to the provisions of paragraph 16, the Company shall use its best efforts to assure that the Shares issued in payment of the vested RSUs are registered under the U.S. federal securities laws or qualify for any available exemption from such registration and are accordingly freely tradable. However, any sale of the Shares will be subject to any market blackout-period that may be imposed by the Company and must comply with the Company's insider trading policies, and any other applicable securities laws.

15. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. Additional Conditions to Issuance of Stock. If at any time the Company determines, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any U.S. state or federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to the Employee (or his or her legal heirs), such issuance will not occur unless and until such listing, registration, qualification, consent or approval have been effected or obtained, free of any conditions not acceptable to the Company. The Company will make all reasonable efforts to meet the requirements of any such U.S. state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority. In no event, however, shall any Shares be issued in contravention of applicable U.S. federal and state securities laws or other regulatory requirements.

17. Plan Governs. This Agreement and the Restricted Stock Unit Award Notification are subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement or the Restricted Stock Unit Award Notification and one or more provisions of the Plan, the provisions of the Plan will govern.

18. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any RSUs have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon the Employee, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

19. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

20. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

21. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. The Employee expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to amend this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of the Employee, to comply with Section 409A of the Code or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code prior to the actual payment of Shares pursuant to this RSU award.

22. Amendment, Suspension or Termination of the Plan. By accepting this RSU award, the Employee expressly warrants that he or she has received a right to receive stock under the Plan (provided the vesting conditions are satisfied), and has received, read and understood a description of the Plan. The Employee understands that the Plan is discretionary in nature and may be modified, suspended or terminated by the Company at any time.

23. Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to RSUs awarded under the Plan or future RSUs that may be awarded under the Plan by electronic means or request the Employee's consent to participate in the Plan by electronic means. By accepting this RSU award, the Employee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

24. Notice of Governing Law and Venue. This RSU award shall be governed by, and construed in accordance with, the laws of the State of California without regard to principles of conflict of laws.

For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by this RSU award or this Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this RSU award is made and/or to be performed.

25. Acknowledgement of Nature of Plan and Award. In accepting the Award, the Employee acknowledges that:

(a) the Plan is established voluntarily by the Company;

(b) the Award is voluntary and occasional and does not create any contractual or other right to receive future awards of RSUs, or benefits in lieu of RSUs, even if RSUs have been awarded repeatedly in the past;

(c) all decisions with respect to future awards, if any, will be at the sole discretion of the Company;

(d) the Employee's participation in the Plan is voluntary;

(e) the Award is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company or any Subsidiary, and which is outside the scope of the Employee's employment or Service Provider contract, if any;

(f) the Award is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculation of any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or any Subsidiary;

(g) the Award and the Shares subject to the Award are not intended to replace any pension rights or compensation;

(h) in the event that the Employee is not an Employee of the Company or any Subsidiary, the Award and his or her participation in the Plan will not be interpreted to form an employment contract or relationship with the Company or any Subsidiary;

(i) the future value of the underlying Shares is unknown and cannot be predicted with certainty;

(j) in consideration of the Award, no claim or entitlement to compensation or damages shall arise from termination of the Award or from any diminution in value of the RSUs or Shares acquired upon vesting of the RSUs resulting from termination of the Employee's employment or Service Provider status by the Company or any Subsidiary (for any reason whatsoever and whether or not in breach of local labor laws) and the Employee irrevocably releases the Company and any Subsidiary from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by accepting the Award, the Employee shall be deemed irrevocably to have waived his or her entitlement to pursue such claim;

(k) in the event of termination of his or her employment (whether or not in breach of local labor laws), the Employee's right to receive RSUs and vest in the RSUs under the Plan, if any, will terminate effective as of the date that he or she is no longer actively employed and will not be extended by any notice period mandated under local law (*e.g.*, active employment would not include a period of "garden leave" or similar period pursuant to local law); the Administrator shall have the exclusive discretion to determine when the Employee is no longer actively employed for purposes of the Award;

(l) the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Employee's participation in the Plan or his or her acquisition or sale of the underlying Shares; and

(m) the Employee is hereby advised to consult with his or her personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

26. Disqualification of French-qualified RSUs. If the French-qualified RSUs are otherwise modified or adjusted in a manner in keeping with the terms of the U.S. Plan or as mandated as a matter of law and the modification or adjustment is contrary to the terms and conditions of the French Plan, the RSUs may no longer qualify as French-qualified RSUs. If the Awards no longer qualify as French-qualified RSUs, the Administrator may, provided it is authorized to do so under the Plan, determine to lift, shorten or terminate certain restrictions applicable to the vesting of the RSUs or the sale of the Shares which may have been imposed under the French Plan and this Agreement. If the Administrator, in its discretion, accelerates the vesting of the balance, or some lesser portion of the balance, of the RSU at any time, the French-qualified RSUs may be disqualified as provided in this paragraph 26.

27. ***Data Privacy. The Employee hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in this Agreement and any other RSU grant materials by and among, as applicable, the Employer, the Company and its Subsidiaries for the exclusive purpose of implementing, administering and managing the Employee's participation in the Plan.***

The Employee understands that the Company and the Employer may hold certain personal information about him or her, including, but not limited to the Employee's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all RSUs or any other entitlement to shares of stock awarded, canceled, vested, unvested or outstanding in the Employee's favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data").

The Employee understands that Data will be transferred to any third parties assisting the Company with the implementation, administration and management of the Plan. The Employee understands the recipients of the Data may be located in France, in the United States or elsewhere, and that the recipients' country may have different data privacy laws and protections than France. The Employee understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. The Employee authorizes the Company and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Employee's participation in the Plan. The Employee understands that Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. The Employee understands that he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing his or her local human resources representative.

The Employee understands, however, that refusing or withdrawing such consent may affect his or her ability to participate in the Plan. For more information on the consequences of his or her refusal to consent or withdrawal of consent, the Employee understands that he or she may contact his or her local human resources representative.

28. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Employee's participation in the Plan, on the RSUs and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Employee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing. Moreover, if the Employee relocates to another country, the special terms and conditions for such country will apply to the Employee, to the extent the Company determines that the application of such terms is necessary or advisable in order to comply with local law or facilitate the administration of the Plan.

29. Language. If the Employee has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control, unless otherwise prescribed by local law.

By accepting the Award, the Employee confirms having read and understood the documents relating to this grant (the Restricted Stock Unit Award Notification, the U.S. Plan as amended by the French Plan and this Agreement) which were provided to the Employee in the English language. The Employee accepts the terms of those documents accordingly.

En acceptant l'Attribution, le Salarié confirme avoir lu et compris les documents relatifs à cette attribution (le Formulaire d'Attribution, le Plan U.S. tel qu'amendé par le Plan pour la France et ce Contrat d'Attribution) qui ont été communiqués au Salarié en langue anglaise. Le Salarié en accepte les termes en connaissance de cause.

Exhibit 10.46

KLA-Tencor Corporation

2004 EQUITY INCENTIVE PLAN

RESTRICTED STOCK UNIT AGREEMENT

FOR NON-U.S. EMPLOYEES

1. Grant. The Company hereby grants to the Employee named in the Restricted Stock Unit Award Notification an award of Restricted Stock Units ("RSUs"), as set forth in the Restricted Stock Unit Award Notification and subject to the terms and conditions in this Agreement and the Company's 2004 Equity Incentive Plan (the "Plan"). Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Restricted Stock Unit Agreement (the "Agreement").

2. Company's Obligation. Each RSU represents the right to receive one Share on the vesting date of that unit. Unless and until the RSUs vest, the Employee will have no right to receive Shares under such RSUs. Prior to actual distribution of Shares pursuant to any vested RSUs, such RSUs will represent an unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.

3. Vesting Schedule. The Employee will vest in the RSUs awarded by this Agreement according to the vesting schedule specified in the Restricted Stock Unit Award Notification. Accordingly, such vesting may be tied to the attainment of established performance goals and/or the completion of a specified period of Service Provider status.

4. Forfeiture upon Termination as Service Provider. Notwithstanding any contrary provision of this Agreement or the Restricted Stock Unit Award Notification, if the Employee terminates service as a Service Provider for any or no reason prior to vesting, the unvested RSUs awarded by this Agreement will thereupon be forfeited at no cost to the Company and without any payment (in cash or otherwise) due the Employee.

5. Payment after Vesting. Any RSUs that vest in accordance with paragraph 3 will be paid to the Employee (or in the event of the Employee's death, to his or her estate) in Shares on the applicable vesting date or as soon as practicable thereafter, subject to the Company's collection of applicable withholding taxes pursuant to paragraph 8. For each RSU that vests, the Employee will receive one Share. In no event will any Shares be issued later than the later of (i) the close of the calendar year in which the Shares vest in accordance with the provisions of this Agreement or (ii) the fifteenth (15th) day of the third (3rd) calendar month following such vesting date.

6. Payments after Death. Any distribution or delivery to be made to the Employee under this Agreement will, if the Employee is then deceased, be made to the administrator or executor of the Employee's estate. Any such administrator or executor must furnish the Company with (a) written notice of his or her status as such and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

7. Adjustment in Shares. Should any change be made to the Common Stock by reason of any stock split, stock dividend, spin-off transaction, extraordinary distribution (whether made in cash, securities or other property), recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Company's receipt of consideration, then equitable adjustments shall be made by the Administrator to the total number and/or class of securities issuable pursuant to this Award. Such adjustments shall be made in such manner as the Administrator deems appropriate in order to reflect such change and thereby preclude a dilution or enlargement of benefits hereunder.

8. Withholding of Taxes. Regardless of any action the Company and/or the Subsidiary employing or retaining the Employee (the "Employer") take with respect to any or all income tax (including U.S. federal, state and local tax and/or non-U.S. tax), social insurance, payroll tax, payment on account or other tax-related items related to the Employee's participation in the Plan and legally applicable to the Employee or deemed by the Company or the Employer to be an appropriate charge to the Employee even if technically due by the Company or the Employer ("Tax-Related Items"), the Employee acknowledges that the ultimate liability for all Tax-Related Items is and remains the Employee's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Employee further acknowledges that the Company and/or the Employer (a) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Award, including the grant of the RSUs, the vesting of the RSUs, the delivery of Shares, the subsequent sale of any Shares acquired at vesting and the receipt of any dividends or dividend equivalents; and (b) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Award to reduce or eliminate the Employee's liability for Tax-Related Items or to achieve any particular tax result. Further, if the Employee becomes subject to tax in more than one jurisdiction between the date of grant and the date of any relevant taxable event, the Employee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to the relevant taxable event, the Company will withhold a portion of the vested RSUs that have an aggregate Fair Market Value sufficient to pay the Tax-Related Items. The number of Shares withheld pursuant to the prior sentence will be rounded up to the nearest whole Share, with no cash payment due the Employee for the value of any Share withheld in excess of the Tax-Related Items as a result of such rounding. If the date of the relevant taxable event (*e.g.,* the date upon which the RSUs vest, in whole or in part) occurs on a day on which the established stock exchange on which the Company's Common Stock is traded (including without limitation the NASDAQ Global Select Market or the NASDAQ Global Market) is not open for trading, the Fair Market Value for purposes of calculating the portion of the vested RSUs to be withheld pursuant to this paragraph 8 (*i.e.,* the deemed Fair Market Value of the Company's Common Stock on the date of such taxable event) shall be equal to the closing sales price for the

Company's Common Stock as quoted on such stock exchange on the market trading day immediately prior to such taxable event. Alternatively, the Company, in its sole discretion, may require or otherwise permit the Employee to make alternate arrangements satisfactory to the Company for such Tax-Related Items. In addition, the Company and/or the Employer has the right to satisfy any Tax-Related Items that the Company determines cannot be satisfied through the withholding of otherwise deliverable Shares by one or a combination of the following: (i) retaining without notice from salary or other amounts payable to the Employee, cash having a sufficient value to satisfy any Tax-Related Items; or (ii) arranging for the sale of Shares otherwise deliverable to the Employee (on the Employee's behalf and at the Employee's direction pursuant to this authorization).

To avoid negative accounting treatment, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. If the obligation for Tax-Related Items is satisfied by withholding a number of Shares as described herein, the Employee shall be deemed, for tax purposes, to have been issued the full number of Shares subject to the vested portion of the Award, notwithstanding that a number of Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the Award. By accepting this RSU award, the Employee expressly consents to the withholding or sale of Shares and to any additional cash withholding as provided for in this paragraph 8. Notwithstanding any contrary provision of this Agreement, no Shares will be issued unless and until satisfactory arrangements (as determined by the Company) have been made by the Employee with respect to the payment of any Tax-Related Items.

9. Rights as Stockholder. Neither the Employee nor any person claiming under or through the Employee will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares are issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Employee or Employee's broker.

10. No Effect on Employment. To the full extent permitted under applicable law, the Employee's employment or other Service Provider status with the Company and its Subsidiaries is on an at-will basis only. Accordingly, the terms of the Employee's employment or other Service Provider status with the Company and its Subsidiaries will be determined from time to time by the Company or the Subsidiary employing or retaining the Employee (as the case may be), and the Company or the Subsidiary will have the right, which is hereby expressly reserved, to terminate or change the terms of the employment or service relationship of the Employee at any time for any reason whatsoever, with or without good cause or notice, in each case subject to compliance with applicable employment or other laws.

11. Address for Notices. Any notice to be given to the Company under the terms of this Agreement must be addressed to the Company at 160 Rio Robles, San Jose, California 95134, Attn: Stock Administration, or at such other address as the Company may hereafter designate in writing or electronically.

12. Grant is Not Transferable. Except to the limited extent provided in paragraph 6, this grant and the rights and privileges conferred hereby will not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

13. Restrictions on Sale of Securities. Subject to the provisions of paragraph 15, the Company shall use its best efforts to assure that the Shares issued in payment of the vested RSUs are registered under the U.S. federal securities laws or qualify for any available exemption from such registration and are accordingly freely tradable. However, any sale of the Shares will be subject to any market blackout-period that may be imposed by the Company and must comply with the Company's insider trading policies, and any other applicable securities laws.

14. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

15. Additional Conditions to Issuance of Stock. If at any time the Company determines, in its discretion, that the listing, registration or qualification of the Shares upon any securities exchange or under any U.S. state or federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the issuance of Shares to the Employee (or his or her estate), such issuance will not occur unless and until such listing, registration, qualification, consent or approval have been effected or obtained, free of any conditions not acceptable to the Company. The Company will make all reasonable efforts to meet the requirements of any such U.S. state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority. In no event, however, shall any Shares be issued in contravention of applicable U.S. federal and state securities laws or other regulatory requirements.

16. Plan Governs. This Agreement and the Restricted Stock Unit Award Notification are subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement or the Restricted Stock Unit Award Notification and one or more provisions of the Plan, the provisions of the Plan will govern.

17. Administrator Authority. The Administrator will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any RSUs have vested). All actions taken and all interpretations and determinations made by the Administrator in good faith will be final and binding upon the Employee, the Company and all other interested persons. No member of the Administrator will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

18. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

19. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

20. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. The Employee expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to amend this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of the Employee, to comply with Section 409A of the Code or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code prior to the actual payment of Shares pursuant to this RSU award.

21. Amendment, Suspension or Termination of the Plan. By accepting this RSU award, the Employee expressly warrants that he or she has received a right to receive stock under the Plan (provided the vesting conditions are satisfied), and has received, read and understood a description of the Plan. The Employee understands that the Plan is discretionary in nature and may be modified, suspended or terminated by the Company at any time.

22. Electronic Delivery and Acceptance. The Company may, in its sole discretion, decide to deliver any documents related to RSUs awarded under the Plan or future RSUs that may be awarded under the Plan by electronic means or request the Employee's consent to participate in the Plan by electronic means. By accepting this RSU award, the Employee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

23. Notice of Governing Law and Venue. This RSU award shall be governed by, and construed in accordance with, the laws of the State of California without regard to principles of conflict of laws.

For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by this RSU award or this Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this RSU award is made and/or to be performed.

24. Acknowledgement of Nature of Plan and Award. In accepting the Award, the Employee acknowledges that:

(a) the Plan is established voluntarily by the Company;

(b) the Award is voluntary and occasional and does not create any contractual or other right to receive future awards of RSUs, or benefits in lieu of RSUs, even if RSUs have been awarded repeatedly in the past;

(c) all decisions with respect to future awards, if any, will be at the sole discretion of the Company;

(d) the Employee's participation in the Plan is voluntary;

(e) the Award is an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Company or any Subsidiary, and which is outside the scope of the Employee's employment or Service Provider contract, if any;

(f) the Award is not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculation of any severance, resignation, termination, redundancy, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company or any Subsidiary;

(g) the Award and the Shares subject to the Award are not intended to replace any pension rights or compensation;

(h) in the event that the Employee is not an Employee of the Company or any Subsidiary, the Award and his or her participation in the Plan will not be interpreted to form an employment contract or relationship with the Company or any Subsidiary;

(i) the future value of the underlying Shares is unknown and cannot be predicted with certainty;

(j) in consideration of the Award, no claim or entitlement to compensation or damages shall arise from termination of the Award or from any diminution in value of the RSUs or Shares acquired upon vesting of the RSUs resulting from termination of the Employee's employment or Service Provider status by the Company or any Subsidiary (for any reason whatsoever and whether or not in breach of local labor laws) and the Employee irrevocably releases the Company and any Subsidiary from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, then, by accepting the Award, the Employee shall be deemed irrevocably to have waived his or her entitlement to pursue such claim;

(k) in the event of termination of his or her employment (whether or not in breach of local labor laws), the Employee's right to receive RSUs and vest in the RSUs under the Plan, if any, will terminate effective as of the date that he or she is no longer actively employed and will not be extended by any notice period mandated under local law (*e.g.*, active employment would not include a period of "garden leave" or similar period pursuant to local law); the Administrator shall have the exclusive discretion to determine when the Employee is no longer actively employed for purposes of the Award;

(l) the Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the Employee's participation in the Plan or his or her acquisition or sale of the underlying Shares; and

(m) the Employee is hereby advised to consult with his or her personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

25. ***Data Privacy. The Employee hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in this Agreement and any other RSU grant materials by and among, as applicable, the Employer, the Company and its Subsidiaries for the exclusive purpose of implementing, administering and managing the Employee's participation in the Plan.***

The Employee understands that the Company and the Employer may hold certain personal information about him or her, including, but not limited to the Employee's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all RSUs or any other entitlement to shares of stock awarded, canceled, vested, unvested or outstanding in the Employee's favor, for the exclusive purpose of implementing, administering and managing the Plan ("Data").

The Employee understands that Data will be transferred to any third parties assisting the Company with the implementation, administration and management of the Plan. The Employee understands the recipients of the Data may be located in his or her country, in the United States or elsewhere, and that the recipients' country may have different data privacy laws and protections than his or her country. The Employee understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting his or her local human resources representative. The Employee authorizes the Company and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Employee's participation in the Plan. The Employee understands that Data will be held only as long as is necessary to implement, administer and manage his or her participation in the Plan. The Employee understands that he or she may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing his or her local human resources representative. The Employee understands, however, that refusing or withdrawing such consent may affect his or her ability to participate in the Plan. For more information on the consequences of his or her refusal to consent or withdrawal of consent, the Employee understands that he or she may contact his or her local human resources representative.

26. Language. If the Employee has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

27. Appendix. Notwithstanding any provision in this Agreement, the RSUs shall be subject to any special terms and conditions set forth in any appendix to this Agreement (the "Appendix") for the Employee's country of residence. Moreover, if the Employee relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to the Employee, to the extent the Company determines that the application of such terms is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

28. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the Employee's participation in the Plan, on the RSUs and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the Employee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

Exhibit 10.47

KLA-TENCOR CORPORATION

AMENDED AND RESTATED 1997 EMPLOYEE STOCK PURCHASE PLAN

(as amended and restated as of November 17, 1998
and as subsequently amended to date (December 11, 2008))

The following constitute the provisions of the 1997 Employee Stock Purchase Plan, as amended, (the "Plan") of KLA-Tencor Corporation (the "Company"). Certain definitions of terms used in the Plan are provided in Section 2 below.

1. PURPOSE

The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock of the Company through accumulated payroll deductions (or other methods, to the extent permitted by the Board pursuant to Section 6(a) below). It is the Company's intention that the Plan qualify as an "Employee Stock Purchase Plan" under Section 423 of the Code. The provisions of the Plan shall, accordingly, be construed so as to extend and limit participation in a manner consistent with the requirements of that section of the Code. The Plan will also be extended to Employees of foreign Subsidiaries subject to adjustments, in the sole discretion of the Board of Directors, to take into account the requirements of the local laws associated with the particular Subsidiary. These local requirements may not provide the same favorable tax consequences as are available to participants in the United States.

2. DEFINITIONS

(a) "BOARD" shall mean the Board of Directors of the Company.

(b) "CODE" shall mean the Internal Revenue Code of 1986, as amended.

(c) "COMMON STOCK" shall mean the Common Stock, $.001 par value, of the Company.

(d) "COMPANY" shall mean KLA-Tencor Corporation, a Delaware corporation.

(e) "COMPENSATION" Compensation shall mean all amounts includable as "wages" subject to tax under Section 3101(a) of the Code without applying the dollar limitation of Section 3121(a) of the Code. Accordingly, Compensation shall include, without limitation, salaries, commissions, bonuses and overtime. Compensation shall not include reimbursements of expenses, allowances, or any amount deemed received without the actual transfer of cash or any Company contributions or payments to any trust, fund, or plan to provide retirement, pension, profit sharing, health, welfare, death, insurance or similar benefits to or on behalf of such Participant or any other payments not specifically referenced above, except to the extent that the inclusion of any such item with respect to all Participants on a nondiscriminatory basis is specifically approved by the Board.

(f) “CONTINUOUS STATUS AS AN EMPLOYEE” shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of a leave of absence agreed to in writing by the Company, provided that such leave is for a period of not more than ninety (90) days or re-employment upon the expiration of such leave is guaranteed by contract or statute.

(g) “DESIGNATED SUBSIDIARIES” shall mean the Subsidiaries which have been designated by the Board from time to time in its sole discretion as eligible to participate in the Plan.

(h) “EMPLOYEE” shall mean any person, including an officer, who is customarily employed for at least 20 hours per week and more than five months in a calendar year by the Company or one of its Designated Subsidiaries.

(i) “ENROLLMENT DATE” shall mean the first day of each Offering Period.

(j) “EXERCISE DATE” shall mean June 30 of each year for each Offering Period that commences on January 1 and December 31 of each year for each Offering Period that commences on July 1.

(k) “OFFERING PERIOD” shall mean a period of six (6) months commencing on January 1 and July 1 of each year during which an option granted pursuant to the Plan may be exercised.

(l) “PLAN” shall mean this 1997 Employee Stock Purchase Plan.

(m) “SUBSIDIARY” shall mean a corporation, domestic or foreign, of which not less than fifty percent (50%) of the voting shares are held by the Company or a Subsidiary, whether or not such corporation now exists or is hereafter organized or acquired by the Company or a Subsidiary.

3. ELIGIBILITY

(a) Any Employee who shall be employed by the Company or one of its Designated Subsidiaries on a given Enrollment Date and who has been so employed for at least 30 consecutive days immediately prior to such date shall be eligible to participate in the Plan, subject to limitations imposed by Section 423(b) of the Code or other applicable local law. The Board, in its discretion, from time to time, may, prior to an Enrollment Date for all options to be granted on such Enrollment Date, determine (on a uniform and nondiscriminatory basis) the Employees who will or will not be eligible to participate in the Plan consistent with Section 423(b)(4) of the Code.

(b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan (i) if, immediately after the grant, such Employee (or any other person whose stock would be attributed to such Employee pursuant to Section 424(d) of the Code) would own stock and/or hold outstanding options to purchase stock possessing five percent or more of the total combined voting power or value of all classes of stock of the Company or of any Subsidiary, or (ii) which permits such Employee’s rights to purchase stock under all employee stock purchase plans of the Company and its Subsidiaries to accrue at a rate which exceeds US$25,000 of fair market value of such stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. OFFERING PERIODS

The Plan shall be implemented by consecutive Offering Periods with a new Offering Period commencing on January 1 and July 1 of each year, or as otherwise determined by the Board, until the Plan is terminated in accordance with Section 19 hereof. The Board shall have the power to change the duration of Offering Periods, not to exceed twenty-seven (27) months, with respect to future offerings without stockholder approval if such change is announced at least fifteen (15) days prior to the scheduled beginning of the first Offering Period to be affected.

5. PARTICIPATION

(a) An eligible Employee may become a participant in the Plan by completing a subscription agreement authorizing payroll deductions on the form provided by the Company and filing it with the Company's Plan administrator (or its designate) during the open enrollment period prior to the applicable Enrollment Date, unless a later time for filing the subscription agreement is set by the Board for all eligible Employees with respect to a given Offering Period.

(b) Payroll deductions for a participant shall commence on the first payroll date following the Enrollment Date and shall end on the last payroll date in the Offering Period to which such authorization is applicable, unless sooner terminated by the participant as provided in Section 10.

6. PAYROLL DEDUCTIONS

(a) At the time a participant files his subscription agreement, he shall elect to have payroll deductions made on each pay date during the Offering Period in an amount not exceeding ten percent (10%) of the Compensation which he receives on each pay date during the Offering Period, and the aggregate of such payroll deductions during the Offering Period shall not exceed ten percent (10%) of his aggregate Compensation during said Offering Period. If the Board determines that payroll deductions are not feasible in a particular country outside the United States, the Board may permit an eligible participant to participate in the Plan by an alternative means, such as by check; however, the rate of contributions may not exceed any whole number percentage (as determined by the Board) of the participant's aggregate Compensation up to ten percent (10%) (or such greater percentage, as specified by the Board) to apply to an Offering Period.

(b) All payroll deductions made by a participant shall be credited to his account under the Plan. A participant may not make any additional payments into such account, except as provided under Section 6(a).

(c) The deduction rate so authorized shall continue in effect for the entire Offering Period, unless the participant shall reduce such rate by filing the appropriate form with the Plan Administrator (or its designate). The reduced rate shall become effective as soon as practicable following the filing of such form.

(d) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b) herein, the Company may automatically decrease a participant's payroll deductions to zero percent (0%) at such time during any Offering Period which is scheduled to end during the current calendar year. Payroll deductions shall recommence at the rate provided in such participant's subscription agreement at the beginning of the first Offering Period which is scheduled to end in the following calendar year, unless terminated by the participant as provided in Section 10.

7. GRANT OF OPTION

(a) On the Enrollment Date of each Offering Period, each eligible Employee participating in such Offering Period shall be granted an option to purchase the applicable Exercise Date for the Offering Period (at the per share option price) up to a number of shares of the Company's Common Stock determined by dividing such Employee's payroll deductions accumulated during such Offering Period by eighty-five percent (85%) of the fair market value of a share of the Company's Common Stock on the Enrollment Date or on the Exercise Date, whichever is lower, provided that the number of shares subject to the option shall not exceed two hundred percent (200%) of the number of shares determined by dividing ten percent (10%) of the Employee's Compensation over the Offering Period by eighty-five percent (85%) of the fair market value of a share of the Company's Common Stock on the Enrollment Date, subject to the limitations set forth in Sections 3(b) and 12 hereof. Fair market value of a share of the Company's Common Stock shall be determined as provided in Section 7(b) herein.

(b) The option price per share of the shares offered in a given Offering Period shall be the lower of: (i) eighty-five percent (85%) of the fair market value of a share of the Common Stock of the Company on the Enrollment Date; or (ii) eighty-five percent (85%) of the fair market value of a share of the Common Stock of the Company on the applicable Exercise Date. The fair market value of the Company's Common Stock on a given date shall be determined by the Board in its discretion; provided, however, that where there is a public market for the Common Stock, the fair market value per share shall be the closing price of the Common Stock for such date, as reported by the Nasdaq National Market. If a closing price is not available for an Enrollment Date or an Exercise Date, the fair market value of a share of the Common Stock of the Company on such date shall be the fair market value of a share of the Common Stock of the Company on the last business day prior to such date.

8. EXERCISE OF OPTION

Unless a participant withdraws from the Plan as provided in Section 10, his option for the purchase of shares will be exercised automatically on each Exercise Date, and the maximum number of full shares subject to his option will be purchased for him at the applicable option price with the accumulated payroll deductions in his account. During his lifetime, a participant's option to purchase shares hereunder is exercisable only by him. Any amount remaining in the participant's account after an Exercise Date shall be refunded to the participant.

9. DELIVERY

As promptly as practicable after each Exercise Date, the Company shall arrange the delivery to each participant, as appropriate, of a certificate representing the shares (or electronic delivery of such shares) purchased upon exercise of his option.

10. WITHDRAWAL; TERMINATION OF EMPLOYMENT

(a) A participant may withdraw all but not less than all of the payroll deductions credited to his account under the Plan at any time by giving written notice to the Company. All of the participant's payroll deductions credited to his account will be paid to him as soon as practicable after receipt of his notice of withdrawal and his participation in the Plan will be automatically terminated, and no further payroll deductions for the purchase of shares will be made. Payroll deductions will not resume on behalf of a participant who has withdrawn from the Plan unless written notice is delivered to the Company within the open enrollment period preceding the commencement of an Offering Period directing the Company to resume payroll deductions.

(b) Upon termination of the participant's Continuous Status as an Employee prior to the Exercise Date of an Offering Period for any reason, including retirement or death, the payroll deductions credited to the participant's account will be returned to the participant or, in the case of death, to the person or persons entitled thereto under Section 14, and such participant's option will be automatically terminated.

(c) If an Employee fails to maintain Continuous Status as an Employee for at least 20 hours per week during an Offering Period in which the Employee is a participant, he will be deemed to have elected to withdraw from the Plan and the payroll deductions credited to his account will be returned to him and his option terminated.

(d) A participant's withdrawal from an Offering Period will not have any effect upon his eligibility to participate in a succeeding Offering Period or in any similar plan which may hereafter be adopted by the Company.

11. INTEREST

No interest shall accrue on the payroll deductions of a participant in the Plan.

12. STOCK

(a) Subject to adjustment as provided in Section 18, the maximum aggregate number of shares of the Company's Common Stock which shall be made available for sale under the Plan as of November 17, 1998 shall be 1,200,000, increased on the first day of each fiscal year of the Company beginning on and after July 1, 1999 by a number of shares of the Company's Common Stock equal to the lesser of (i) 2,000,000 shares, or (ii) the number of shares which the Company estimates (based on the previous 12-month period) it will be required to issue under the Plan during the forthcoming fiscal year. Subject to adjustment as provided in Section 18, shares issuable under the Plan shall consist of authorized but unissued or reacquired shares of the Company's Common Stock or any combination

thereof. If on a given Exercise Date the number of shares with respect to which options are to be exercised exceeds the number of shares then available, the Company shall make a pro rata allocation of the shares remaining available for option grant in as uniform a manner as shall be practicable and as it shall determine to be equitable. In such event, the Company shall give written notice of such reduction of the number of shares subject to the option to each Employee affected thereby and shall similarly reduce the rate of payroll deductions, if necessary.

(b) The participant will have no interest or voting right in shares covered by his option until such option has been exercised.

(c) Shares to be delivered to a participant under the Plan will be registered in the name of the participant or in the name of the participant and his or her spouse.

13. ADMINISTRATION

The Plan shall be administered by the Board of Directors of the Company or a committee appointed by the Board. The Board may delegate routine matters to management. The administration, interpretation or application of the Plan by the Board, its committee or their respective delegates shall be final, conclusive and binding upon all participants.

Members of the Board who are eligible Employees are permitted to participate in the Plan, provided that:

(a) Members of the Board who are eligible to participate in the Plan may not vote on any matter affecting the administration of the Plan or the grant of any option pursuant to the Plan.

(b) If a committee is established to administer the Plan, no member of the Board who is eligible to participate in the Plan may be a member of the committee.

14. DESIGNATION OF BENEFICIARY (FOR EMPLOYEES IN THE UNITED STATES ONLY)

The provisions of this Section 14 apply only to participants in the United States:

(a) A participant may file a written designation of a beneficiary who is to receive any shares and cash, if any, from the participant's account under the Plan in the event of such participant's death subsequent to the end of the Offering Period but prior to delivery to him of such shares and cash. In addition, a participant may file a written designation of a beneficiary who is to receive any cash from the participant's account under the Plan in the event of such participant's death prior to the exercise of the option.

(b) Such designation of beneficiary may be changed by the participant at any time by written notice. In the event of the death of a participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such participant's death, the Company shall deliver such shares and/or cash to the executor or administrator of the estate of the participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares and/or cash to the spouse or to any one or more dependents or relatives of the participant, or if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

15. TRANSFERABILITY

Neither payroll deductions credited to a participant's account nor any rights with regard to the exercise of an option or to receive shares under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution or as provided in Section 14 hereof) by the participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 10.

16. USE OF FUNDS

All payroll deductions received or held by the Company under the Plan may be used by the Company for any corporate purpose, and the Company shall not be obligated to segregate such payroll deductions (unless otherwise required by local law).

17. REPORTS

Individual accounts will be maintained for each participant in the Plan. Statements of account will be given to participating Employees semi-annually promptly following each Exercise Date, which statements will set forth the amounts of payroll deductions, the per share purchase price, the number of shares purchased and the refunds, if any.

18. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION

Subject to any required action by the stockholders of the Company, the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised (including the increase set forth in Section 12 hereof) and the number of shares of Common Stock which have been authorized for issuance under the Plan but have not yet been placed under option (collectively, the "Reserves"), as well as the price per share of Common Stock covered by each option under the Plan which has not yet been exercised, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split or the payment of a stock dividend (but only on the Common Stock) or any other increase or decrease in the number of shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issue by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to an option.

In the event of the proposed dissolution or liquidation of the Company, the Offering Period will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. In the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another entity, the Board, in its sole discretion, may provide that (i) each option under the Plan shall be assumed, (ii) an equivalent option shall be substituted by such successor entity or a parent or subsidiary of such successor entity, or in lieu of such assumption or substitution, that the participant shall have the right to exercise the option, including shares as to which the option would not otherwise be exercisable, or (iii) the Plan shall terminate and a shortened Offering Period will take place with a purchase occurring on a date determined by the Board or a participant's contributions returned.

The Board may, if it so determines in the exercise of its sole discretion, also make provision for adjusting the Reserves, as well as the price per share of Common Stock covered by each outstanding option, if the Company effects one or more reorganizations, recapitalizations, rights offerings or other increases or decreases of the shares of its outstanding Common Stock, and if the Company is being consolidated with or merged into any other corporation.

19. AMENDMENT OR TERMINATION

The Board may at any time terminate or amend the Plan. No such termination can affect options previously granted, nor may an amendment make any change in any option theretofore granted which adversely affects the rights of any participant, nor may an amendment be made without prior approval of the stockholders of the Company if such amendment is required by law or otherwise to be approved by the stockholders.

Amendments to the Code which impact the Plan shall be automatically implemented without further action by the Board unless such amendments require independent action by either the Board or the stockholders.

In the event the Board determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences to the Company, the Board may in any manner it determines, in its sole discretion, and, to the extent necessary or desirable, modify or amend the Plan to reduce or eliminate such accounting consequence including, but not limited to altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price. Such modifications or amendments shall not require stockholder approval or the consent of any Plan participants.

20. NOTICES

All notices or other communications by a participant to the Company under or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. STOCKHOLDER APPROVAL

Continuance of the Plan shall be subject to approval by the stockholders of the Company within 12 months before or after the date the Plan is adopted. If such stockholder approval is obtained at a duly held stockholders meeting, it may be obtained by the affirmative vote of the holders of a majority of the outstanding shares of the Company present or represented and entitled to vote thereon, which approval shall be:

(a) (i) solicited substantially in accordance with Section 14(a) of the Securities Exchange Act of 1934, as amended (the "Act") and the rules and regulations promulgated thereunder, or

(ii) solicited after the Company has furnished in writing to the holders entitled to vote substantially the same information concerning the Plan as that which would be required by the rules and regulations in effect under Section 14(a) of the Act at the time such information is furnished; and

(b) obtained at or prior to the first annual meeting of stockholders held subsequent to the first registration of Common Stock under Section 12 of the Act.

In the case of approval by written consent, it must be obtained by the unanimous written consent of all stockholders of the Company.

22. CONDITIONS UPON ISSUANCE OF SHARES

Shares shall not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto shall comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an option, the Company may require the person exercising such option to represent and warrant at the time of any such exercise that the shares are being purchased only for investment and without any present intention to sell or distribute such shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned applicable provisions of law.

23. RULES FOR FOREIGN JURISDICTIONS

Notwithstanding any provision to the contrary in this Plan, the Board may adopt rules or procedures relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures. Without limiting the generality of the foregoing, the Board is specifically authorized to adopt rules and procedures regarding the definition of Compensation, handling of payroll deductions, making of contributions to the Plan in forms other than payroll deductions, establishment of bank or trust accounts to hold payroll deductions, payment of interest, conversion of local currency, obligations to pay payroll tax, withholding procedures and delivery of shares which vary with local requirements.

Exhibit 10.48

KLA-TENCOR CORPORATION
EXECUTIVE SEVERANCE PLAN

AS AMENDED AND RESTATED NOVEMBER 13, 2008

1. Introduction

The KLA-Tencor Corporation Executive Severance Plan (the "Plan") is designed to (i) assure the Company that it will have the continued dedication and availability of, and objective advice and counsel from, the Participants and (ii) provide Participants with the compensation and benefits described in the Plan in the event of their termination of employment with the Company under the circumstances described in the Plan. This document constitutes the written instrument under which the Plan is maintained and supersedes any prior plan or practice of the Company that provides severance benefits to Participants.

The primary purposes of this November 13, 2008 amendment and restatement are to clarify certain benefits payable under the Plan and to bring the provisions of the Plan into documentary compliance with the applicable requirements of Section 409A of the Internal Revenue Code and the Treasury Regulations issued thereunder and thereby continue to facilitate the administration of the Plan in compliance with those requirements.

Participants shall be those Employees selected at the sole discretion of the Committee.

2. Definitions

For purposes of this Plan, the following terms shall have the meanings set forth below:

(a) "Acceleration Ratio" shall mean the ratio of (i) the number of months (with any fractional month rounded up to the next whole month) that elapse between the grant date of an outstanding equity award and the date of the Participant's Separation from Service hereunder to (ii) the number of months (with any fractional month rounded up to the next whole month) in the total vesting period in effect for such award.

(b) "Amended Plan Effective Date" shall mean November 13, 2008.

(c) "Average Annual Incentive" shall mean the average annual incentive cash compensation earned in the aggregate by the Participant under the Company's various incentive bonus plans for the last three completed fiscal years of the Company, including any portion earned but deferred; ***provided, however*** that if a Participant has not been in Employee status for the last three full fiscal years, the Average Annual Incentive shall mean the Participant's aggregate target bonus for the fiscal year in which he or she ceases Employee status.

(d) "Base Salary" shall mean the Participant's annual rate of base salary in effect as of the date of his or her cessation of Employee status, but prior to any reduction to such Base Salary that would qualify as a Good Reason termination event.

(e) "Board" means the Board of Directors of the Company.

(f) "Cause" shall mean (A) outside the Change of Control Period, the occurrence of any of the following events: (i) the Participant's conviction of, or plea of nolo contendre to, a felony; (ii) the Participant's gross misconduct; (iii) any material act of personal dishonesty taken by the Participant in connection with his or her responsibilities as an employee of the Company, or (iv) the Participant's willful and continued failure to perform the duties and responsibilities of his or her position after there has been delivered to the Participant a written demand for performance from the Board which describes the basis for the Board's belief that the Participant has not substantially performed his or her duties and provides the Participant with thirty (30) days to take corrective action, and (B) within the Change of Control Period, the occurrence of any of the following events: (i) the Participant's conviction of, or plea of nolo contendre to, a felony that the Board reasonably believes has had or will have a material detrimental effect on the Company's reputation or business; (ii) the Participant's willful gross misconduct with regard to the Company that is materially injurious to the Company; (iii) any act of personal dishonesty taken by the Participant in connection with his or her responsibilities as an employee of the Company with the intention or reasonable expectation that such action may result in substantial personal enrichment of the Participant or (iv) the Participant's willful and continued failure to perform the duties and responsibilities of his or her position after there has been delivered to the Participant a written demand for performance from the Board which describes the basis for the Board's belief that the Participant has not substantially performed his or her duties and provides the Participant with thirty (30) days to take corrective action.

(g) "Change of Control" shall mean the occurrence of any of the following events: (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended) becoming the "beneficial owner" (as defined in Rule 13d-3 under said Act), directly or indirectly, of securities of the Company representing 50% or more of the total voting power represented by the Company's then outstanding voting securities; (ii) the sale or disposition by the Company of all or substantially all of the Company's assets; (iii) the consummation of any merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the total voting power represented by the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or (iv) a change in the composition of the Board, as a result of which fewer than a majority of the Board members are Incumbent Directors. "Incumbent Directors" shall mean Board members who either (A) are members of the Board on the Amended Plan Effective Date or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of those Board members whose election or nomination was not in connection with any transactions described in subsections (i), (ii) or (iii) or in connection with an actual or threatened proxy contest relating to the election of directors of the Company.

(h) "Change of Control Period" shall mean the two (2) year period commencing upon the occurrence of a Change of Control.

(i) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(j) "Committee" shall mean the Board or such committee appointed by the Board to act as the committee for purposes of administering the Plan.

(k) "Company" shall mean KLA-Tencor Corporation, a Delaware corporation, and any successor entity.

(l) "Employee" shall mean an individual who is a full-time regular employee of one or more members of the Employer Group, subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance. An individual shall be deemed to continue in Employee status for so long as he or she continues as a full-time regular employee of at least one member of the Employer Group.

(m) **"**Employer Group" means (i) the Company and (ii) each of the other members of the controlled group that includes the Company, as determined in accordance with Sections 414(b) and (c) of the Code, except that in applying Sections 1563(1), (2) and (3) of the Code for purposes of determining the controlled group of corporations under Section 414(b), the phrase "at least 50 percent" shall be used instead of "at least 80 percent" each place the latter phrase appears in such sections and in applying Section 1.414(c)-2 of the Treasury Regulations for purposes of determining trades or businesses that are under common control for purposes of Section 414(c), the phrase "at least 50 percent" shall be used instead of "at least 80 percent" each place the latter phrase appears in Section 1.414(c)-2 of the Treasury Regulations.

(n) "Excise Tax" shall mean the excise tax imposed by Section 4999 of the Code.

(o) "Good Reason" shall mean (i) a material reduction of the Participant's duties, authority or responsibilities; (ii) a material change in the Participant's reporting requirements such that the Participant is required to report to a person whose duties, responsibilities and authority are materially less than those of the person to whom the Participant was reporting immediately prior to such change, (iii) a material reduction in the Participant's Base Salary, other than a reduction that applies to other executives generally; (iv) a material reduction in the aggregate level of the Participant's overall compensation, other than a reduction that applies to other executives generally; or (iv) a material relocation of the Participant's office, with a relocation of more than fifty (50) miles from its then present location to be deemed material, unless the relocated office is closer to the Participant's then principal residence; *provided however*, that in no event shall the Participant's Separation from Service be deemed to be for Good Reason unless (x) the Participant provides the Company with written notice specifying in detail the event or transaction constituting grounds for a Good Reason resignation and delivered to the Company within ninety (90) days after the occurrence of that event or transaction, (y) the Company fails to remedy the purported Good Reason event or transaction within a reasonable cure period of at least thirty (30) days following receipt of such notice and (z) the Participant resigns for such Good Reason within sixty (60) days after the Company's failure to take such timely curative action, but in no event more than one hundred eighty (180) days after the occurrence of the event or transaction identified in the clause (x) notice to the Company as the grounds for the Good Reason resignation.

(p) "Original Effective Date" shall mean January 1, 2006.

(q) "Participant" shall mean an Employee who meets the eligibility requirements of Section 3.

(r) "Plan" shall mean this KLA-Tencor Corporation Executive Severance Plan.

(s) "Plan Year" shall mean the Company's fiscal year.

(t) "Prorated Annual Incentive" shall mean the aggregate incentive bonus paid to the Participant under the Company's various incentive bonus plans for the Company's most recently completed fiscal year, including any portion earned but deferred, multiplied by a fraction, the numerator of which is the number of days in the Company's then current fiscal year through the date of the Participant's Separation from Service, and the denominator of which is equal to 365.

(u) "Separation from Service" means the Participant's cessation of Employee status by reason of his or her death, retirement or termination of employment. The Participant shall be deemed to have terminated employment for such purpose at such time as the level of his or her bona fide services to be performed as an Employee (or non-employee consultant) permanently decreases to a level that is not more than twenty percent (20%) of the average level of services he or she rendered as an Employee during the immediately preceding thirty-six (36) months (or such shorter period for which he or she may have rendered such service). Any such determination as to Separation from Service, however, shall be made in accordance with the applicable standards of the Treasury Regulations issued under Code Section 409A. In addition to the foregoing, a Separation from Service will not be deemed to have occurred while an Employee is on military leave, sick leave or other bona fide leave of absence if the period of such leave does not exceed six (6) months or any longer period for which such Employee's right to reemployment with one or more members of the Employer Group is provided either by statute or contract; ***provided, however,*** that in the event of an Employee's leave of absence due to any medically determinable physical or mental impairment that can be expected to result in death or to last for a continuous period of not less than six (6) months and that causes such individual to be unable to perform his or her duties as an Employee, no Separation from Service shall be deemed to occur during the first twenty-nine (29) months of such leave. If the period of leave exceeds six (6) months (or twenty-nine (29) months in the event of disability as indicated above) and the Employee's right to reemployment is not provided either by statute or contract, then such Employee will be deemed to have a Separation from Service on the first day immediately following the expiration of such six (6)-month or twenty-nine (29)-month period.

(v) "Severance Multiple" shall mean the Participant's Severance Period, expressed in years or fractions thereof (e.g., a Severance Period of two years results in a Severance Multiple of two). The Severance Multiple may be different for periods outside of the Change of Control Period and within the Change of Control Period.

(w) "Severance Payment" shall mean the payment of severance compensation as provided in Section 4 hereof.

(x) "Severance Period" shall mean the number of years (which may include fractional years) established by the Committee for an individual Participant. The Severance Period may be different for periods outside of the Change of Control Period and within the Change of Control Period.

(y) Specified Employee" means any individual who is, at any time during the twelve (12)-month period ending with the identification date specified below, a "key employee" (within the meaning of that term under Code Section 416(i)), as determined by the Committee in accordance with the applicable standards of Code Section 409A and the Treasury Regulations thereunder and applied on a consistent basis for all non-qualified deferred compensation plans of the Employer Group subject to Code Section 409A. The Specified Employees shall be identified by the Committee on December 31 each year and shall have that status for the twelve (12)-month period beginning on the April 1 subsequent to such determination by the Committee.

3. Eligibility

(a) Required Release. In order to qualify for severance benefits under Section 4(b), 4(c) or 4(d) of the Plan, the Participant must, within twenty-one (21) days (or forty-five (45) days to the extent any such longer period is required under applicable law) after the date of his or her Separation from Service, sign and deliver to the Company a general waiver and release (the "Required Release") in the form provided by (and in favor of) the Company, and such Required Release must become effective under applicable law following the expiration of any applicable revocation period under federal or state law.

(b) Participation in Plan. The Committee shall from time to time designate the Employees who are to participate in the Plan. The Committee may, with respect to one or more such designated Participants, limit their participation to certain Separations from Service during or related to the Change of Control Period as set forth in Sections 4(c) and 4(d) hereof and not allow them to participate with respect to certain Separations from Service outside of and unrelated to the Change of Control Period, as set forth in Section 4(b) hereof. A Participant shall cease to be a Participant upon cessation of Employee status (unless such Participant is then entitled to a Severance Payment under the Plan) or upon the expiration date of the Plan. However, a Participant who becomes entitled to a Severance Payment shall remain a Participant in the Plan until the full amount of his or her benefits under the Plan have been provided to such Participant, notwithstanding the prior expiration of the Plan. Upon receipt of all the Severance Payments, the Participant releases the Company from any and all further obligations under the Plan.

4. Severance Benefits

(a) Termination of Employment. Except as otherwise provided in this Section 4(a), upon the termination of the Participant's Employee status for any reason, the Participant shall be immediately entitled to any (i) unpaid Base Salary accrued through the effective date of such termination; (ii) unreimbursed business expenses required to be reimbursed to the Participant in accordance with the Company's business expense reimbursement policy, and (iii) pay for accrued but unused vacation that the Company is legally obligated to pay the Participant. Any amounts deferred by such Participant under one or more of the Company's non-qualified deferred compensation programs subject to Section 409A of the Code which remain unpaid on the termination date shall be paid at such time and in such manner as set forth in each applicable plan or agreement governing the payment of those deferred amounts, subject, however, to the deferred payment provisions of Section 6 below. Amounts deferred under any other deferred compensation plans or programs shall be paid to the Participant in accordance with the terms and

provisions of each such applicable plan or program. In addition, should the Participant incur a Separation from Service because his or her service as an Employee is terminated or reduced by the Company other than for Cause or by the Participant for Good Reason, then the Participant shall be entitled to the amounts and benefits specified below.

(b) Termination by the Company Without Cause or the Participant Terminates for Good Reason Outside of the Change of Control Period If the Participant incurs a Separation from Service because his or her service as an Employee is reduced or terminated by the Company without Cause or by the Participant for Good Reason, and such Separation from Service does not occur during the Change of Control Period, then, subject to Sections 3(a) and 5, the Participant shall receive: (i) an amount equal to the Participant's Severance Multiple multiplied by the Participant's Base Salary, payable in successive equal installments over the Severance Period in accordance with the Company's normal payroll policies for salaried employees, with the first such payment to begin on the first payday within the sixty (60)-day period following the date of such Separation from Service on which the Participant's Required Release is effective, but in no event shall such initial payment be made later than the last business day of such sixty (60)-day period on which the Release is so effective; (ii) the Participant's Prorated Annual Incentive, with such payment to be made in a lump sum at the same time as the first installment payment under clause (i) above; (iii) partial vesting acceleration with respect to the Participant's then outstanding unvested equity awards, with the amount of such accelerated vesting being equal to, for each such award, (A) the product of the number of shares originally granted under such award (as such number may be modified based upon the satisfaction of (or failure to satisfy) any performance criteria or other criteria applicable to such award) multiplied by the Acceleration Ratio, less (B) the number of shares under such award that have actually vested in accordance with the terms of such award (without giving effect to the acceleration terms hereunder) as of the date of the Participant's Separation from Service hereunder; and (iv) with respect to any of the Participant's then outstanding options or stock appreciation rights granted on or after the Original Effective Date ("New Options/SARs"), an extended post-termination exercise period for each such New Option/SAR equal to the earlier of (x) twelve (12) months from the date of the Participant's cessation of Employee status or (y) the expiration date of the maximum term (not to exceed ten years) of such New Option/SAR.

(c) Termination Without Cause or Resignation for Good Reason During the Change of Control Period. If the Participant incurs a Separation from Service because his or her service as an Employee is reduced or terminated by the Company without Cause or by the Participant for Good Reason, and such Separation from Service occurs within the Change of Control Period, then, subject to Sections 3(a) and 5, Participant shall receive: (i) a cash amount equal to the Participant's Severance Multiple multiplied by the sum of the Participant's Base Salary and Average Annual Incentive, payable in successive equal installments over the Severance Period in accordance with the Company's normal payroll policies for salaried employees, with the first such payment to begin on the first payday within the sixty (60)-day period following the date of his or her Separation from Service on which the Participant's Required Release is effective, but in no event shall such initial payment be made later than the last business day of such sixty (60)-day period on which the Release is so effective; (ii) the Participant's Prorated Annual Incentive, with such payment to be made in a lump sum at the same time as the first installment payment under clause (i) above; (iii) 100% accelerated vesting with respect to each of the Participant's then outstanding unvested equity awards; (iv) an extended post-termination exercise period

for each New Option/SAR equal to the earlier of (x) twelve (12) months from the date of the Participant's cessation of Employee status or (y) the expiration date of the maximum term (not to exceed ten years) of such New Option/SAR; and (v) a monthly payment of $2,000 for the duration of the Severance Period, with the payment for each such month to be made concurrently with the first payment made under clause (i) above for that month.

(d) Certain Terminations Prior to a Change of Control. If at any time during the period beginning with the execution of a definitive agreement to effect a Change of Control and ending with the earlier (x) the termination of that agreement without a Change of Control or (y) the effective date of the Change of Control contemplated by that agreement, the Participant incurs a Separation from Service because his or her service as an Employee is reduced or terminated by the Company without Cause or by the Participant for Good Reason, then each of his or her outstanding equity awards, whether vested or unvested, shall, notwithstanding anything to the contrary in the documents evidencing those awards, remain outstanding for a period of six (6) months following such Separation from Service (or, if earlier, until the expiration date of the maximum term (not to exceed ten years) of such award). Should the Change of Control contemplated by that agreement become effective during that six (6)-month period, then, subject to Sections 3(a) and 5, Participant shall thereupon become entitled to the following benefits: (i) the unvested portion of each of his or her outstanding equity awards shall vest immediately; (ii) each of his or her New Options/SARs shall have an extended post-termination exercise period equal to the earlier of (x) twelve (12) months from the date of his or her cessation of Employee status or (y) the expiration date of the maximum term (not to exceed ten years) of such New Option/SAR; (iii) a cash amount equal to the Participant's Severance Multiple multiplied by the sum of the Participant's Base Salary and Average Annual Incentive, payable in successive equal installments over the Severance Period in accordance with the Company's normal payroll policies for salaried employees, with the first such payment to begin on the first payday within the sixty (60)-day period following the date of his or her Separation from Service on which the Participant's Required Release is effective, but in no event shall such initial payment be made later than the last business day of such sixty (60)-day period on which the Release is so effective; (iv) the Participant's Prorated Annual Incentive, with such payment to be made in a lump sum at the same time as the first installment payment under clause (iii) above and (v) a monthly payment of $2,000 for the duration of the Severance Period, with the payment for each such month to be made concurrently with the first payment made under clause (iii) above for that month. The severance benefits payable under this Section 4(d) shall be in lieu of any severance benefits to which the Participant might otherwise be entitled under Section 4(c); accordingly, there shall be no duplication of benefits under Sections 4(c) and 4(d).

(e) Code Section 409A Status. The Participant's right to receive compensation continuation payments pursuant to clause (i) of Section 4(b), clauses (i) and (v) of Section 4(c) or clauses (iii) and (v) of Section 4(d)) shall in each instance be treated, for purposes of Code Section 409A, as a right to a series of separate payments. To the extent the Participant vests in any outstanding restricted stock unit award or other similar full value equity award in accordance with the provisions of Section 4(b), 4(c) or 4 (d), the underlying shares of the Company's common stock shall be issued on the date that award vests upon the satisfaction of the applicable requirements for such vesting (including the Release requirements under Section 3(a)) or as soon as administratively practicable thereafter, but in no event later than the fifteenth day of the third calendar month following such vesting date. The Participant's right to receive shares of the Company's common stock in one or more installments under such equity awards shall, for purposes of Code Section 409A, be treated as a right to receive a series of separate payments.

(f) Golden Parachute Excise Taxes.

(i) Parachute Payments of Less than 3x Base Amount Plus Fifty Thousand Dollars If the benefits provided to the Participant under this Plan or otherwise payable to him or her (a) constitute "parachute payments" within the meaning of Section 280G of the Code, (b) would be subject to the Excise Tax, and (c) the aggregate present value of those parachute payments, as determined in accordance with Section 280G of the Code and the Treasury Regulations thereunder, is less than the dollar amount obtained by first multiplying the Participant's "base amount" (within the meaning of Code Section 280G(b)(3)) by three (3) and then adding to such product fifty thousand dollars, then such benefits shall be reduced to the extent necessary (but only to that extent) so that no portion of such benefits will be subject to excise tax under Section 4999 of the Code. Such reduction shall be effected first by reducing the dollar amount of the Participant's cash severance payments under clause (i) of Section 4(b), clauses (i) and (v) of Section 4(c) or clauses (iii) and (v) of Section 4(d), as applicable, with such reduction to be applied pro-rata to each such payment without any change in the payment dates, then by reducing his or her lump sum Pro-rated Annual Incentive payment and finally by reducing the accelerated vesting of his or her outstanding equity awards. All calculations required under this Section 4(f)(i) shall be performed by an independent registered public accounting firm mutually agreeable to the Company and the Participant (the "Independent Auditors"). The initial calculations shall be completed within thirty (30) business days following the effective date of the Change of Control, and any additional calculations required in connection with the Participant's subsequent Separation from Service shall be completed within thirty (30) business days following the date of such Separation from Service.

(ii) Parachute Payments Equal to or Greater than 3x Base Amount Plus Fifty Thousand Dollars If the benefits provided to the Participant under this Plan or otherwise payable to him or her (a) constitute "parachute payments" within the meaning of Section 280G of the Code, (b) would be subject to the Excise Tax, and (c) the aggregate present value of those parachute payments, as determined in accordance with Section 280G of the Code and the Treasury Regulations thereunder, equals or exceeds the dollar amount obtained by first multiplying the Participant's "base amount" (within the meaning of Code Section 280G(b)(3)) by three (3) and then adding to such product fifty thousand dollars, then (A) those benefits shall be delivered in full to the Participant, and (B) the Participant shall also receive (1) a payment from the Company sufficient to pay such Excise Tax and (2) an additional payment from the Company sufficient to pay the federal and state income and employment taxes and additional Excise Taxes arising from the payments made to the Participant by the Company pursuant to this clause (B), with such combined payment herein designated the "Tax Gross-Up."

(iii) 280G Determinations. Within thirty (30) days after any Change of Control transaction in which one or more of the benefits paid or provided to the Participant constitute, in the opinion of the Independent Auditors, parachute payments under Code Section 280G which equal or exceed the dollar amount calculated under subparagraph (ii) of this Section 4(f), the Independent Auditors shall calculate the Excise Tax attributable to those payments and the resulting Tax Gross-Up to which the Participant is entitled with respect to such tax liability. Within thirty (30) days after the Participant's Separation from Service under Section 4(c) or 4(d), the Independent Auditors shall identify any additional parachute payments which such Participant is to receive pursuant to this Plan in connection with such Separation from Service and submit to the Company and the Participant the calculation of the Excise Tax attributable to those payments and the resulting Tax Gross-Up to which the

Participant is entitled with respect to such tax liability. In each such instance, the Company will pay the applicable Tax Gross-Up to the Participant (net of all applicable withholding taxes, including any taxes required to be withheld under Code Section 4999) within ten (10) business days following the later of (i) the delivery by the Independent Auditors of the calculation of the applicable Excise Tax and the resulting Tax Gross-Up, provided such calculations represent a reasonable interpretation of the applicable law and regulations or (ii) the date the related Excise Tax is remitted to the appropriate tax authorities. For purposes of making the calculations required by this Section 4(f), the Independent Auditors may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Company and the Participant shall furnish the Independent Auditors with such information and documents as the Independent Auditors may reasonably request in order to make the calculations required under this Section 4(f). The Company shall bear all costs the Independent Auditors may reasonably incur in connection with any calculations contemplated by this Section 4(f).

(iv) In the event that the Participant's actual Excise Tax liability is determined by a Final Determination (as defined below) to be greater than the Excise Tax liability taken into account for purposes of the Tax Gross-Up paid to the Participant pursuant to the preceding provisions of this Section 4(f), then within thirty (30) days following the Final Determination, the Participant shall submit to the Company a new Excise Tax calculation based upon that Final Determination. The Independent Auditors shall, within the next forty-five (45) days thereafter, calculate (in accordance with the same procedures applicable to the calculation of the initial Tax Gross-Up payment hereunder) the additional Tax Gross-Up payment to which the Participant is entitled on the basis of the Excise Tax liability resulting from that Final Determination and deliver those calculations to the Company and the Participant. The Company shall make such additional Tax Gross Up payment to the Participant within ten (10) business days following the later of (i) the delivery of the applicable calculations or (ii) the date the excess tax liability attributable to the Final Determination is remitted to the appropriate tax authorities.

(v) In the event that the Participant's actual Excise Tax liability is determined by a Final Determination to be less than the Excise Tax liability taken into account for purposes of the Tax Gross-Up paid to the Participant pursuant to the preceding provisions of this Section 4(f), then the Participant shall refund to the Company, promptly upon receipt, any federal or state tax refund attributable to the Excise Tax overpayment.

(vi) For purposes of this Section 4(f), a "Final Determination" means an audit adjustment by the Internal Revenue Service that is either (i) agreed to by both the Participant (or his or her estate) and the Company (such agreement by the Company to be not unreasonably withheld) or (ii) sustained by a court of competent jurisdiction in a decision with which the Participant and the Company concur (such concurrence by the Company to be not unreasonably withheld) or with respect to which the period within which an appeal may be filed has lapsed without a notice of appeal being filed.

(g) Additional Limitations on Tax Gross-Up. In order to assure that the Tax Gross-Up provisions of Section 4(f) comply with the applicable requirements of Code Section 409A, the following limitation shall be controlling, notwithstanding anything to the contrary in the preceding provisions of Section 4(f):

(i) To the extent the Tax Gross-Up (or any additional Tax Gross-Up hereunder) is attributable to any benefits under this Plan that are triggered by the Participant's Separation from Service, that portion of the Tax Gross-Up (or additional Tax Gross-Up) shall be subject to the delayed payment provisions of Section 6.

(ii) In no event shall any Tax Gross-Up to which the Participant becomes entitled pursuant to Section 4(f) be made later than the ***later*** of (i) the close of the calendar year in which the Excise Tax triggering the right to such payment is paid by or on behalf of the Participant or (ii) the fifteenth day of the third calendar month following the day of payment of such Excise Tax.

(iii) To the extent the Participant may become entitled to any reimbursement of expenses incurred by him or her at the direction of the Company in connection with any tax audit or litigation addressing the existence or amount of the Excise Tax, such reimbursement shall be paid to the Participant no later than the close of the calendar year in which the Excise Tax that is the subject of such audit or litigation is paid by or on behalf of the Participant or, if no Excise Tax is found to be due as a result of such audit or litigation, no later than the ***later*** of (i) the close of the calendar year in which the audit is completed or there is a final and nonappealable settlement or other resolution of the litigation or (ii) the fifteenth day of the third calendar month following the date the audit is completed or the date the litigation is so settled or resolved.

(h) Mitigation Required. Payments and benefits provided for under the Plan shall be reduced by any compensation or benefits earned by the Participant as a result of any earnings or benefits that the Participant may receive from any other source following his or her termination of employment. Moreover, payments and benefits provided for under the Plan shall be reduced by any payments or benefits received by Participant pursuant to any other plan, policy, agreement or arrangement with the Company.

5. Covenants Not to Compete and Not to Solicit.

(a) Remedies for Breach. The Company's obligations to provide Severance Payments as provided in Section 4 are expressly conditioned upon the Participant's covenants not to compete and not to solicit as provided herein. In the event the Participant breaches his or her obligations to the Company as provided herein, the Company's obligations to make Severance Payments to the Participant pursuant to Section 4 shall cease (subject to Section 5(b) below), without prejudice to any other remedies that may be available to the Company.

(b) Covenant Not to Compete. If a Participant is receiving Severance Payments pursuant to Section 4 hereof, then for the duration of the Severance Period, the Participant shall not directly engage in (whether as an employee, consultant, proprietor, partner, director or otherwise), or have any ownership interest in, or participate in the financing, operation, management or control of, any person, firm, corporation or business that engages or participates anywhere in the world in providing

goods and services similar to those provided by the Company upon the date of the Participant's termination of employment. Ownership of less than 3% of the outstanding voting stock of a publicly-held corporation or other entity shall not constitute a violation of this provision. In the event of a violation of this Section 5(b) by a Participant, all severance benefits payable to the Participant under this Plan shall cease, except that the Participant shall nonetheless be entitled to receive, as consideration for his or her delivery of an effective Required Release, the cash severance payments contemplated by Section 4(b)(i), 4(c)(i) or 4(d)(iii) (as applicable) for a period equal to the greater of (i) the period of time between the date of the Participant's Separation from Service and the date of violation of this Section 5(b) and (ii) the six (6) months following the date of the Participant's Separation from Service.

(c) Covenant Not to Solicit. If a Participant is receiving Severance Payments pursuant to Section 4 hereof, he or she shall not, at any time during the Severance Period, directly or indirectly solicit any individuals to leave the Company's employ for any reason or interfere in any other manner with the employment relationships at the time existing between the Company and its current or prospective employees.

(d) Representations. The covenants contained in this Section 5 shall be construed as a series of separate covenants, one for each county, city and state (or analogous entity) and country of the world. If, in any judicial proceeding, a court shall refuse to enforce any of the separate covenants, or any part thereof, then such unenforceable covenant, or such part thereof, shall be deemed eliminated from this Plan for the purpose of those proceedings to the extent necessary to permit the remaining separate covenants, or portions thereof, to be enforced.

(e) Reformation. In the event that the provisions of this Section 5 should ever be deemed to exceed the time or geographic limitations, or scope of this covenant, permitted by applicable law, then such provisions shall be reformed to the maximum time or geographic limitations, as the case may be, permitted by applicable laws.

6. Special Limitations on Benefit Payments. The following special provisions shall govern the commencement date of the payments and benefits to which a Participant may become entitled under the Plan:

(a) Notwithstanding any provision in this Plan to the contrary (other than Section 6(b) below), no payment or benefit under the Plan which constitutes an item of deferred compensation under Section 409A of the Code and becomes payable by reason of the Participant's Separation from Service will be made to such Participant prior to the ***earlier*** of (i) the first day following the six-month anniversary of the date of Separation of Service or (ii) the date of the Participant's death, if the Participant is deemed at the time of such Separation from Service to be a Specified Employee and such delayed commencement is otherwise required in order to avoid a prohibited distribution under Code Section 409A(a)(2). Upon the expiration of the applicable deferral period, all payments, benefits and reimbursements deferred pursuant to this Section 6(a) (whether they would have otherwise been payable in a single sum or in installments in the absence of such deferral) shall be paid or provided to the Participant in a lump sum on the first day of the seventh (7th) month after the date of his or her Separation from Service or, if earlier, the first day of the month immediately following the date the Company receives proof of his or her death. Any remaining payments or benefits due under the Plan will be paid in accordance with the normal payment dates specified herein.

(b) Notwithstanding Section 6(a) above, the following provisions shall also be applicable to a Participant who is a Specified Employee at the time of his or her Separation of Service:

(i) Any payments or benefits under the Plan which become due and payable to such Participant during the period beginning with the date of his or her Separation from Service and ending on March 15 of the following calendar year shall not be subject to the six (6)-month holdback under Subsection 6.A and shall accordingly be paid as and when they become due and payable under the Plan.

(ii) The remaining portion of the payments and benefits to which the Participant becomes entitled under the Plan, to the extent they do not in the aggregate exceed the dollar limit described below and are otherwise scheduled to be paid no later than the last day of the second calendar year following the calendar year in which the Participant's Separation from Service occurs, shall not be subject to any deferred commencement date under Section 6(a) and shall be paid to the Participant as they become due and payable under the Plan. For purposes of this subparagraph (ii), the applicable dollar limitation will be equal to two times the ***lesser*** of (i) the Participant's annualized compensation (based on his or her annual rate of pay for the calendar year preceding the calendar year of his or her Separation from Service, adjusted to reflect any increase during that calendar year which was expected to continue indefinitely had such Separation from Service not occurred) or (ii) the compensation limit under Section 401(a)(17) of the Code as in effect in the year of such Separation from Service. To the extent the portion of the severance payments and benefits to which the Participant would otherwise be entitled under the Plan during the deferral period under Section 6(a) exceeds the foregoing dollar limitation and the amount payable pursuant to subparagraph (i) above, such excess shall be paid in a lump sum upon the expiration of that deferral period, in accordance with the payment delay provisions of Section 6(a), and the remaining severance payments and benefits (if any) shall be paid in accordance with the normal payment dates specified for them herein.

7. Employment Status; Withholding

(a) Employment Status. This Plan does not constitute a contract of employment or impose on the Participant or the Company any obligation to retain the Participant as an Employee, to change the status of the Participant's employment, or to change the Company's policies regarding termination of employment. The Participant's employment is and shall continue to be at-will, as defined under applicable law. If the Participant's employment with the Company or a successor entity terminates for any reason, the Participant shall not be entitled to any payments, benefits, damages, awards or compensation other than as provided by this Plan or available in accordance with the Company's established employee plans and practices or other agreements with the Company at the time of termination.

(b) Taxation of Plan Payments. All amounts paid pursuant to this Plan shall be subject to all applicable payroll and withholding taxes.

8. Arbitration. Any dispute or controversy that shall arise out of the terms and conditions of the Plan and that cannot be resolved within thirty (30) days of the dispute or controversy through good-faith negotiation or non-binding mediation between the Participant and the Company, shall be subject to binding arbitration in Santa Clara, California before the American Arbitration Association under its National Rules for the Resolution of Employment Disputes, supplemented by the California Rules of Civil Procedure. The Company and the Participant shall each bear their own respective costs and attorneys' fees incurred in connection with the arbitration; and the Company shall pay the arbitrator's fees, unless law applicable at the time of the arbitration hearing requires otherwise. The arbitrator shall issue a written decision that sets forth the essential findings of fact and conclusions of law on which the award is based. The arbitrator's decision shall be final and binding to the fullest extent permitted by law and enforceable by any court having jurisdiction thereof.

9. Successors to Company and Participants.

(a) Company's Successors. Any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall assume the obligations under this Plan and agree expressly to perform the obligations under this Plan by executing a written agreement. For all purposes under this Plan, the term "Company" shall include any successor to the Company's business and/or assets which executes and delivers the assumption agreement described in this subsection or which becomes bound by the terms of this Plan by operation of law.

(b) Participant's Successors. All rights of the Participant hereunder shall inure to the benefit of, and be enforceable by, the Participant's personal or legal representatives, executors, administrators, successors, heirs, devisees and legatees.

10. Duration, Amendment and Termination

(a) Duration. The initial term of this Plan shall be three (3) years from the Original Effective Date. At the end of the initial three (3) year term and any subsequent annual terms, the Plan shall be automatically extended for a one (1) year period unless terminated by the Committee prior to the end of such term, provided that any such termination shall be effective only with respect to future Plan Years. Participants shall be given notice of a Plan termination within sixty (60) days of the Committee's decision. A termination of this Plan pursuant to the preceding sentence shall be effective for all purposes, except that such termination shall not affect the right of a Participant whose Separation from Service occurred prior to the termination date of the Plan to receive any Severance Payment to which such Participant is then entitled under the terms of the Plan.

(b) Change of Control. In the event of a Change of Control during the term of the Plan, the term of the Plan shall automatically be the Change of Control Period.

(c) Amendment. The Committee shall have the discretionary authority to amend the Plan at any time, except that no such amendment shall affect the right of a Participant whose Separation from Service occurred prior to the amendment date of the Plan to receive any Severance Payment to which such Participant is then entitled under the terms of the Plan without the written consent of the Participant.

(d) No Impermissible Acceleration or Deferral. Any action by the Committee to terminate the Plan or amend the Plan in accordance with the foregoing provisions of this Section 10 shall be effected in a manner so as not to result in any impermissible acceleration or deferral of benefits under Code Section 409A or the Treasury Regulations thereunder.

11. Plan Administration

(a) Plan Administrator. The Plan shall be administered by the Committee and the Committee shall be responsible for the general administration and interpretation of the Plan and for carrying out its provisions. The Committee shall have such powers as may be necessary to discharge its duties hereunder.

(b) Procedures. The Committee may adopt such rules, regulations and bylaws and shall have the discretionary authority to make such decisions as it deems necessary or desirable for the proper administration of the Plan. Any rule or decision by the Committee shall be conclusive and binding upon all Participants.

12. Miscellaneous Provisions.

(a) Notices and all other communications contemplated by this Plan shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Participant, mailed notices shall be addressed to him or her at the home address which he or she most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to the Company's Vice President, Human Resources, 1 Technology Drive, Milpitas, CA 95035.

(b) The invalidity or unenforceability of any provision of this Plan shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(c) The rights of any person to payments or benefits under this Plan shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this subsection shall be void. However, payments and benefits under the Plan may be reduced or offset by any amount a Participant may owe the Company, to the extent permitted by applicable law.

(d) Company may assign its rights under this Plan to an affiliate, and an affiliate may assign its rights under this Plan to another affiliate of the Company or to the Company; provided, however, that no assignment shall be made if the net worth of the assignee is less than the net worth of the Company at the time of assignment; provided, further, that the Company shall guarantee all benefits payable hereunder. In the case of any such assignment, the term "Company" when used in this Plan shall mean the corporation that actually employs the Participant.

(e) To the extent there is any ambiguity as to whether any provision of this Plan would otherwise contravene one or more requirements or limitations of Code Section 409A, such provision shall be interpreted and applied in a manner that does not result in a violation of the applicable requirements or limitations of Code Section 409A and the Treasury Regulations thereunder.

IN WITNESS WHEREOF, KLA-Tencor Corporation has caused this amended and restated Plan to be executed by a duly authorized officer effective as of November 13, 2008

KLA-TENCOR CORPORATION

By: /s/ BRIAN M. MARTIN
Name: Brian M. Martin
Title: Senior Vice President and General Counsel
Dated: December 19, 2008

Exhibit 10.49

KLA-TENCOR

EXECUTIVE DEFERRED SAVINGS PLAN

AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 2009

KLA-TENCOR EXECUTIVE DEFERRED SAVINGS PLAN
AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 2009

This KLA-Tencor Executive Deferred Savings Plan was originally adopted effective October 1, 1997 to amend, restate and consolidate in their entirety the KLA Instruments Corporation Supplemental Executive Benefit Plan and the Tencor Instruments Amended and Restated Deferral Plan. The Plan is hereby amended and restated, effective January 1, 2009, to conform the provisions of the Plan to the applicable requirements of Section 409A of the Internal Revenue Code and the Treasury Regulations issued thereunder and thereby bring the Plan into documentary compliance with those requirements. The Plan as so amended and restated shall continue to function solely as a so-called "top hat" plan of deferred compensation subject to the provisions of the Employee Retirement Income Security Act of 1974 (as amended from time to time) applicable to such a plan.

ARTICLE I
DEFINITIONS

Whenever used herein, the masculine pronoun shall be deemed to include the feminine, and the singular to include the plural, unless the context clearly indicates otherwise, and the following definitions shall govern the Plan:

1.1 **"Account"** shall mean the following accounts maintained for each Participant on the books and records of the Participating Employer to which there shall be credited the items of compensation deferred by such Participant under the Plan:

(a) The **Pre-2005 Deferred Account** to which there shall be credited the following items of compensation which were deferred and vested under the Plan as of December 31, 2004: the Participant's Deferral Amounts pursuant to Article III, any Company Contributions and any Prior Plan Company Contributions. Such account shall be subject to adjustment from time to time to reflect the Credited Investment Return (Loss) determined under Article IV, any distributions made to Participant and any charges which may be imposed on such account pursuant to the terms of the Plan.

(b) The **2005-2007 Deferred Account** to which there shall be credited the following items of compensation which were deferred under the Plan after December 31, 2004 but prior to January 1, 2008 or which were deferred under the Plan prior to January 1, 2005 but were not vested as of December 31, 2004: the Participant's Deferral Amounts pursuant to Article III and any Company Contributions. Such account shall be subject to adjustment from time to time to reflect the Credited Investment Return (Loss) determined under Article IV, any distributions made to Participant and any charges which may be imposed on such account pursuant to the terms of the Plan.

(c) The **Post-2007 Plan Year Account** which will be divided into a series of Deferral Election Subaccounts, one for each post-2007 Plan Year in which the Participant defers one or more of the following items of compensation earned for services rendered the

Participating Companies after December 31, 2007: the Participant's Salary and Commission Deferral Amounts pursuant to Article III, any Bonuses attributable to Performance Periods commencing after December 31, 2007 and any Company Contributions.

Each Account or Subaccount shall be subject to adjustment from time to time to reflect the Credited Investment Return (Loss) determined for that Account or Subaccount pursuant to Article IV, any distributions made to the Participant from that Account or Subaccount and any charges which may be imposed on such Account or Subaccount pursuant to the terms of the Plan.

1.2 **"Affiliated Company"** shall mean (i) the Company and (ii) each member of the group of commonly controlled corporations or other businesses that include the Company, as determined in accordance with Sections 414(b) and (c) of the Code and the Treasury Regulations thereunder.

1.3 **"Beneficiary"** means any of the persons, trusts or other entities which a Participant shall, in his or her most recent written form of beneficiary designation filed with the Company, have designated as a beneficiary to receive benefits which may become payable hereunder following Participant's death, as provided under Articles V and VIII.

1.4 **"Board of Directors"** or **"Board"** means the Company's Board of Directors.

1.5 **"Bonus"** means the annual, semi-annual or quarterly bonus which the Participant may earn based on the attainment of performance objectives established for a designated Performance Period or the continuation in Employee status through the completion of a specified Retention Period.

1.6 **"Code"** means the Internal Revenue Code of 1986, as amended from time to time.

1.7 **"Committee"** means an independent committee of two or more individuals appointed by the Board to administer this Plan, including the selection of Participants, the administration of the Deferral Election process and the designation of the available investment funds, and to take such other actions as may be specified herein.

1.8 **"Company"** means KLA-Tencor Corporation, a Delaware corporation, and any successor or assignee corporation, whether by way of merger, acquisition or other reorganization.

1.9 **"Company Contribution"** means a contribution made on behalf of a Participant by the Company pursuant to Section 3.7 hereof.

1.10 **"Credited Investment Return (Loss)"** means the notional investment return credited to the Participant's Accounts or Deferral Election Subaccounts pursuant to Article IV.

1.11 **"Deferral Amount"** means the Salary and/or Commission Deferral Amount and the Bonus Deferral Amount which the Participant elects to contribute for Supplemental Executive Benefits pursuant to the Plan. For Participants who are non-employee Board members, the Deferral Amount means the retainer and meeting fees earned for service as a Board member or a member of one or more Board committees.

1.12 **"Deferral Election"** means the irrevocable election filed by the Participant under Article III pursuant to which a portion of his or her Salary, Commissions and Bonus for each Plan Year is to be deferred under the Plan.

1.13 **"Early Termination"** means, with respect to any pre-2005 Account, the Participant's termination of Employee status other than pursuant to a Normal Termination.

1.14 **"Effective Date"** means, for this Amendment and Restatement, January 1, 2009.

1.15 "**Eligible Employee**" means any Employee who is either a highly compensated employee of his or her Participating Employer or part of its management personnel, as determined pursuant to guidelines established from time to time by the Committee. In no event shall any of the following individuals be deemed to be Eligible Employees:

(i) an Employee who is not on the United States payroll of a Participating Employer,

(ii) any individual classified as an independent contractor or consultant or as a temporary employee, or

(iii) any individual who has ceased Employee status or otherwise incurred a Separation from Service.

1.16 **"Employee"** means any person in the employ of one or more members of the Employer Group, subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance. An individual shall be deemed to continue in Employee status for so long as he or she continues in the employee of at least one member of the Employer Group.

1.17 **"Employer Group"** means (i) the Company and (ii) each of the other members of the controlled group that includes the Company, as determined in accordance with Sections 414(b) and (c) of the Code, except that in applying Sections 1563(1), (2) and (3) of the Code for purposes of determining the controlled group of corporations under Section 414(b), the phrase "at least 50 percent" shall be used instead of "at least 80 percent" each place the latter phrase appears in such sections and in applying Section 1.414(c)-2 of the Treasury Regulations for purposes of determining trades or businesses that are under common control for purposes of Section 414(c), the phrase "at least 50 percent" shall be used instead of "at least 80 percent" each place the latter phrase appears in Section 1.4.14(c)-2 of the Treasury Regulations.

1.18 **"Extended Deferral Election"** shall mean a Participant's election, made in accordance with the terms and conditions of Section 8.1 of the Plan, to defer the distribution of any of his or her Post-2004 Accounts or Deferral Election Subaccounts for an additional period of at least five (5) years measured from the date or event on which that particular Account or Subaccount would otherwise first become due and payable under the Plan in the absence of such election.

1.19 **"Hardship"** means a severe financial hardship to the Participant resulting from:

(a) a sudden or unexpected illness or accident of the Participant, his or her spouse or any dependent (as determined in accordance with Section 152 of the Code), or

(b) a casualty loss involving the Participant's property or other similar extraordinary and unforeseeable event beyond the control of the Participant.

A severe financial hardship shall not constitute a Hardship under the Plan to the extent that it is, or may be, relieved by:

(i) reimbursement or compensation, by insurance or otherwise;

(ii) cancellation of the Participant's Deferral Election under the Plan; or

(iii) liquidation of the Participant's assets to the extent that the liquidation of such assets would not itself cause severe financial hardship.

A Hardship under the Plan shall in no event include:

(i) sending a child to college; or

(ii) purchasing a home

1.20 **"KLA"** means KLA Instruments Corporation or any of its subsidiaries.

1.21 **"Normal Termination"** means, with respect to any pre-2005 Account, the Participant's termination of Employee status on or after (i) the attainment of age fifty five (55) and the completion of at least five (5) Years of Service or (ii) the completion of at least fifteen (15) Years of Service and means, with respect to any other Account or Subaccount, the Participant's Separation from Service on or after the attainment of age fifty five (55) and the completion of at least five (5) Years of Service.

1.22 **"Old KLA Plan"** shall mean the KLA Instruments Corporation Supplemental Executive Benefit Plan, as in effect on September 30, 1997.

1.23 **"Outside Director"** means any member of the Board of Directors who is not an Employee.

1.24 **"Participant"** means (i) an Eligible Employee selected for participation in the Plan in accordance with the provisions of Section 2.1 or (ii) any Outside Director electing to participate in the Plan.

1.25 **"Participating Employer"** means, with respect to each Participant, the Affiliated Company employing that individual which has adopted the Plan as a deferred compensation program for one or more of its Employees. The Participating Employers for the 2007 Plan Year are set forth in attached Schedule I. Any additional Affiliated Companies which may from time to time become Participating Employers shall be listed in revised Schedule I.

1.26 **"Performance Period"** means, with respect to any annual, semi-annual or quarterly Bonus that is tied to the attainment of performance objectives, the period over which those performance objectives are to be measured for purposes of determining the amount of such Bonus (if any) to be earned by the Participant for service during that period. Accordingly, the Performance Period may be coincident with the Company's fiscal year or with one or more semi-annual or quarterly periods within such fiscal year.

1.27 **"Plan"** means this KLA-Tencor Executive Deferred Savings Plan, as it may be amended from time to time.

1.28 **"Plan Year"** means, effective January 1, 2005, the 12-month period coincidental with each calendar year.

1.29 **"Prior Plans"** means the KLA Instruments Corporation Supplemental Executive Benefit Plan and the Tencor Instruments Amended and Restated Deferral Plan.

1.30 **"Prior Plan Company Contribution"** means the amount, if any, which the Company contributed on behalf of Participants for Supplemental Executive Benefits under the Prior Plans. Any Prior Plan Company Contributions that were credited to Participant Accounts as of October 1, 1997 and had not already been forfeited as of such date became 100% vested on that date.

1.31 **"Prior Policy"** means the life insurance policy on the life of a Participant maintained pursuant to a Prior Plan.

1.32 **"Retention Period"** means, with respect to any annual, semi-annual or quarterly Bonus that is tied to continuation in Employee status, the period of service in such capacity that must be completed in order to earn that Bonus. The Retention Period may be coincident with the Plan Year or with one or more semi-annual or quarterly periods within such Plan Year.

1.33 **"Separation from Service"** means the Participant's cessation of Employee status by reason of his or her death, retirement or termination of employment. The Participant shall be deemed to have terminated employment for such purpose at such time as the level of his or her bona fide services to be performed as an Employee (or non-employee consultant) permanently decreases to a level that is not more than twenty percent (20%) of the average level of services he or she rendered as an Employee during the immediately preceding thirty-six (36) months (or such shorter period for which he or she may have rendered such service). Any such determination as to Separation from Service, however, shall be made in accordance with the

applicable standards of the Treasury Regulations issued under Code Section 409A. In addition to the foregoing, a Separation from Service will not be deemed to have occurred while an Employee is on military leave, sick leave or other bona fide leave of absence if the period of such leave does not exceed six (6) months or any longer period for which such Employee's right to reemployment with one or more members of the Employer Group is provided either by statute or contract; ***provided, however,*** that in the event of an Employee's leave of absence due to any medically determinable physical or mental impairment that can be expected to result in death or to last for a continuous period of not less than six (6) months and that causes such individual to be unable to perform his or her duties as an Employee, no Separation from Service shall be deemed to occur during the first twenty-nine (29) months of such leave. If the period of leave exceeds six (6) months (or twenty-nine (29) months in the event of disability as indicated above) and the Employee's right to reemployment is not provided either by statute or contract, then such Employee will be deemed to have a Separation from Service on the first day immediately following the expiration of such six (6)-month or twenty-nine (29)-month period.

1.34 **"Specified Employee"** means any individual who is, at any time during the twelve (12)-month period ending with the identification date specified below, a "key employee" (within the meaning of that term under Code Section 416(i)), as determined by the Committee in accordance with the applicable standards of Code Section 409A and the Treasury Regulations thereunder and applied on a consistent basis for all non-qualified deferred compensation plans of the Employer Group subject to Code Section 409A. The Specified Employees shall be identified by the Committee on December 31 of each Plan Year and shall have that status for the twelve (12)-month period beginning on the April 1 subsequent to such determination by the Committee.

1.35 **"Supplemental Executive Benefits"** means the benefits payable to the Participant and/or his or her Beneficiary under this Plan.

1.36 **"Tencor"** means Tencor Instruments or any of its subsidiaries.

1.37 **"Trust"** means the legal entity created by the Trust Agreement.

1.38 **"Trust Agreement"** means that trust agreement entered into between the Company and Wells Fargo Bank.

1.39 **"Trustee"** means the original Trustee(s) named in the Trust Agreement and any duly appointed successor or successors thereto.

1.40 **"Year of Service"** means each twelve (12) consecutive month period of Employee service measured from the date on which the Participant initially became a Company, KLA or Tencor employee, and successive anniversaries thereof, during which the Participant continues in Employee status, including leaves of absence approved by the Company or other member of the Employer Group. Should the Participant cease Employee status and then return to such status, the following break in service provisions shall be in effect:

(i) The period of Employee service following such break shall be measured from the date of the Participant's return and shall be aggregated with the period of Employee service he or she rendered prior to the break to determine his or her total Years of Service.

(ii) The Participant shall not receive any Year of Service credit for the period of the break in service if the break is of a duration of twelve (12) months or more.

ARTICLE II
ELIGIBILITY

2.1 **Eligible Persons**. The Committee shall have absolute discretion in selecting the Eligible Employees who are to participate in the Plan for each Plan Year. An Eligible Employee selected for participation for any Plan Year must, in order to participate in the Plan for that year, file his or her Deferral Election on or before the last day of the immediately preceding Plan Year. However, an Eligible Employee who is first selected for participation in the Plan after the start of a Plan Year and who has not otherwise been eligible for participation in any other non-qualified elective account balance plan subject to Code Section 409A and maintained by one or more Affiliated Companies will have until the thirtieth (30th) day following the date he or she is so selected in which to file his or her Deferral Election for that Plan Year. Individuals who are selected for participation in the Plan shall be promptly notified by the Company of their eligibility to participate in the Plan. Outside Directors shall automatically be eligible to participate in the Plan and must make their Deferral Elections in accordance with the same requirements set forth above for Employee Participants. Notwithstanding the foregoing, Participants receiving benefits pursuant to the Corporate Officers Severance Plan or the Management Severance Plan are not eligible to participate in the Plan and are deemed to have ceased Employee status for Plan purposes.

2.2 **Continuation of Participation**. Every Eligible Employee who becomes a Participant may continue to file Deferral Elections under the Plan for one or more subsequent Plan Years until the ***earliest*** of (i) his or her exclusion from the Plan upon written notice from the Committee, (ii) his or her cessation of Eligible Employee status or (iii) the termination of the Plan. The Committee shall have complete discretion to exclude one or more Eligible Employees from Participant status for one or more Plan Years as the Committee deems appropriate. However, no such exclusion authorized by the Committee shall become effective until the first day of the first Plan Year coincident with or next following the date of the Committee's determination to exclude the individual from such participation. If any Eligible Employee is excluded from Participant status for one or more Plan Years, then such individual shall not be entitled to defer any part of his or her Salary, Bonus or Commissions for those Plan Years.

2.3 **Resumption of Participation Following Separation from Service.** If a Participant ceases to be an Eligible Employee or an Outside Director due to a Separation from Service and thereafter returns to service with the Company or any other Participation Company, such individual will again become a Participant as of the first day the first Plan Year coincident with or next following the date on which he or she resumes Eligible Employee or Outside Director status, provided such individual files a timely a Deferral Election under Article III with respect to that Plan Year. However, a Participant who returns to Eligible Employee or Outside Director status after a Separation from Service of more than twenty-four (24) months during which he or she was not eligible to defer any compensation under this Plan or any other non-qualified elective account balance plan subject to Code Section 409A and maintained by one or more Affiliated Companies shall, upon resumption of such service, be permitted to make a Deferral Election under Article III in accordance with the requirements applicable to a

newly-selected Participant. Notwithstanding the foregoing provisions of this Section 2.3, no returning Eligible Employee shall be eligible to participate in the Plan if the Committee determines to exclude such individual from participation on or before his or her resumption of service.

2.4 **Cessation or Resumption of Participation Following a Change in Status**. If any Participant continues in the service of the Employer Group but ceases to be an Eligible Employee or Outside Director, the individual will continue to be a Participant until the entire amount of his or her Accounts distributed. However, the individual will not be entitled to make any Deferral Elections with respect to compensation earned for the period that he or she is not an Eligible Employee or Outside Director. In the event that the individual subsequently resumes Eligible Employee or Outside Director status, he or she will again become a Participant as of the first day the first Plan Year coincident with or next following the date of his or her resumption of Eligible Employee or Outside Director status, provided such individual files a timely a Deferral Election under Article III with respect to that Plan Year. However, an Eligible Employee shall not be eligible to participate in the Plan upon his or her resumption of Eligible Employee status if the Committee determines to exclude such individual from participation on or before such resumption of Eligible Employee status.

ARTICLE III
SALARY, COMMISSION AND BONUS REDUCTION CONTRIBUTIONS; COMPANY CONTRIBUTIONS

3.1 **Salary and Commission Deferrals**.

(a) Each Employee Participant shall have the right to file a Deferral Election to defer a portion of the salary and/or commissions earned by such Participant for service as an Employee during the Plan Year for which the Deferral Election is made. Each Deferral Election must be made by a written or electronic notice filed with the Committee or its designate in which the Participant shall indicate the percentage (up to one hundred percent) of the salary and/or commissions to be deferred. The notice must be filed on or before the last day of the calendar year immediately preceding the start of the Plan Year for which the salary and/or commissions subject to that election are to be earned. However, an Eligible Employee who is first selected for participation in the Plan after the start of a Plan Year and who has not otherwise been eligible for participation in any other non-qualified elective account balance plan subject to Code Section 409A and maintained by one or more Affiliated Companies must file his or her initial Deferral Election no later than thirty (30) days after the date he or she is so selected. Such Deferral Election shall only be effective for salary and/or commissions attributable to Employee service for the period commencing with the first day of the first calendar month next following the filing of such Deferral Election and ending with the close of such Plan Year.

(b) For purposes of determining the compensation which may be deferred pursuant to a Deferral Election under Section 3.1(a), the following provisions shall be in effect:

(i) Salary shall mean the Participant’s base salary, and commissions shall mean the Participant’s sales commissions.

(ii) For any Deferral Election made with respect to commissions, the commissions will be deemed to be earned as a result of the Participant's service in the Plan Year in which the customer payments relating to the sales generating those particular commissions are made to the Participating Employer. Accordingly, such commissions shall only be deferred under the Plan to the extent the Participant has a Deferral Election covering commissions for that Plan Year.

(iii) For purposes of any Deferral Election made by an Outside Director, salary shall mean the compensation payable to the Outside Director for service as a member of the Board and any Board committee and/or for attendance at meetings of the Board or any Board committee on which such Outside Director serves.

(c) The salary and commissions deferred for each Plan Year shall be designated the "Salary and Commission Deferral Amount" for that Plan Year. The Salary and Commission Deferral Amount shall not be paid to the Participant, but shall be withheld from the Participant's salary and/or commissions, and an amount equal to the Salary and Commission Deferral Amount shall be credited to the Participant's Deferral Election Subaccount for the Plan Year within ten business days following the date on which such deferred amount would otherwise have been paid to the Participant in the absence of the Deferral Election. The same procedure shall be utilized for crediting any fees which an Outside Director elects to defer under the Plan, except that the deferred fees shall be credited to his or her Deferral Election Subaccount within thirty business days following the date on which those deferred fees would otherwise have been paid to the Outside Director in the absence of the Deferral Election.

(d) The Deferral Election for a particular Plan Year shall become irrevocable as of the first day of that Plan Year (or any later day the Deferral Election for such Plan Year may be filed under Section 3.1(a) by a newly-eligible Participant), and no subsequent changes may be made to that Deferral Election once it becomes irrevocable.

3.2 **Bonus Deferrals**.

(a) The Committee shall determine the Bonuses eligible for deferral under the Plan. Each Employee Participant shall have the right to file a separate Deferral Election to defer a portion of each eligible Bonus earned by such Participant for any Performance Period or Retention Period commencing in the Plan Year for which the Deferral Election is made. Each Deferral Election must be made by a written or electronic notice filed with the Committee or its designate in which the Participant shall indicate the percentage (up to one hundred percent) of the Bonus to be deferred. The notice must be filed on or before the last day of the Plan Year immediately preceding the Plan Year in which the Performance Period or Retention Period for the Bonus subject to that election is to commence. However, the following special rules shall be in effect for any Deferral Elections with respect to such Bonuses:

(i) The Committee may allow a Deferral Election with respect to a Bonus which is based on a Performance Period of twelve (12) month or more and which qualifies as performance-based compensation in accordance with the standards and requirements set forth in Section 1.409A-1(e) of the Treasury Regulations to be made by a Participant after the start of the Performance Period to which that Bonus pertains but not later than by a designated date that is at least six (6) months prior to the end of that Performance Period; ***provided, however,*** that such Participant otherwise satisfies the applicable service requirements of Section 1.409A-2(a)(8) of the Treasury Regulations,. Accordingly, for a Performance Period coincidental with the Company's July 1 to June 30 fiscal year, the Committee may, in accordance with the foregoing, allow a Deferral Election with respect to any performance-based Bonus earned over that period to be made not later than December 31 of the calendar year immediately preceding the calendar year in which that Performance Period will end.

(ii) An Eligible Employee who is first selected for participation in the Plan after the start of a Plan Year and who has not otherwise been eligible for participation in any other non-qualified elective account balance plan subject to Code Section 409A and maintained by one or more Affiliated Companies must, with respect to any Bonus to be covered by his or her initial Deferral Election, file that election no later than thirty (30) days after the date he or she is so selected. Such Deferral Election shall only be effective for the portion of such Bonus determined by multiplying the dollar amount of such Bonus by a fraction, the numerator of which is the number of days remaining in the Performance or Retention Period applicable to that Bonus following the close of the calendar month in which the Participant's Deferral Election as to such Bonus is filed and the denominator of which is the total number of days in that Performance or Retention Period; ***provided, however,*** that in the event any such Bonus qualifies as performance-based compensation, then the provisions of subparagraph (i) shall also be applicable in determining the amount of such Bonus that may be deferred.

(b) The amount of the Bonus or Bonuses deferred for each Plan Year shall be designated the "Bonus Deferral Amount" for that Plan Year. The Bonus Deferral Amount shall not be paid to the Participant, but shall be withheld from the Participant's Bonus or Bonuses subject to the Deferral Election, and an amount equal to the Bonus Deferral Amount shall be credited to the Participant's Deferral Election Subaccount within ten business day following the date on which such deferred amount would otherwise have been paid to the Participant in the absence of the Deferral Election.

(c) The Deferral Election shall become irrevocable as of the first day of the Plan Year to which that election relates (or any later day the Deferral Election for such Bonus may be filed pursuant to the special provisions of Section 3.2(a)), and no subsequent changes may be made to that Deferral Election once it becomes irrevocable.

3.3 **Requirements for Deferral Elections**. The following requirements shall be in effect for each Deferral Election filed by a Participant for a Plan Year beginning after December 31, 2007 or a Fiscal Year beginning after June 30, 2007:

(a) The percentage of compensation which a Participant may elect to defer each Plan Year or Fiscal Year pursuant to his or her Deferral Election must comply with the following guidelines:

(i) To the extent the Participant's salary or commissions are the subject of the Deferral Election, the amount to be deferred pursuant to such election may be any multiple of one percent (1%) of the portion of such salary and commissions eligible for deferral for such Plan Year, but not less than five percent (5%) of such compensation.

(ii) To the extent the Participant's Bonus is the subject of the Deferral Election, the amount to be deferred pursuant to such election must be a multiple of five percent (5%), up to one hundred percent (100%) of the portion of such bonus eligible for deferral for such Plan Year or Fiscal Year.

(b) The Participant must also specify in the Deferral Election the date or event for the commencement of the distribution of the Deferral Election Subaccount attributable to that election. The following commencement dates or events shall be permissible:

- a date within the first sixty (60) days of any calendar year which is at least two (2) calendar years after the calendar year to which such Deferral Election relates,
- the Participant's Separation from Service, or
- the ***earlier*** of (i) a date within the first sixty (60) of any calendar year which is at least two (2) calendar years after the calendar year to which the Deferral Election relates or (ii) the Participant's Separation from Service.

(c) The Participant shall also specify in the Deferral Election the manner in which the Deferral Election Subaccount attributable to that election shall be distributed. The following methods of distribution shall be permissible for a distribution tied to a specified date:

- lump sum payment, or
- substantially equal quarterly installments (subject to periodic adjustment for Credited Investment Returns (Losses)) over a five (5)-year term.

The following methods of distribution shall be permissible for a distribution tied to a Separation from Service:

- lump sum payment,
- substantially equal quarterly installments (subject to periodic adjustment for Credited Investment Returns (Losses)) over a five (5)-year term, or
- substantially equal quarterly installments (subject to periodic adjustment for Credited Investment Returns (Losses)) over a ten (10)-year term, ***provided, however,*** that any election of such a ten (10)-year payment stream shall only be effective if the Participant's Separation from Service is due to a Normal Termination; otherwise, such election shall automatically revert to a five (5)-year term.

For purposes of Section 8.1, an installment distribution shall be treated as a single aggregate payment, and not as a series of individual installment payments.

3.4 **Limitations on Deferrals**. In applying the Participant's Deferral Election to the salary, commissions or bonuses subject to that election, the percentage of such compensation to be deferred shall be determined based upon the Participant's gross compensation. Any payroll deductions to be made from the Participant's compensation for purposes of the Company's Employee Stock Purchase Plan ("ESPP") shall be calculated on the basis of the Executive's gross compensation prior to reduction for his or her Deferral Elections under the Plan. However, prior to the start of the Plan Year for which the Deferral Election is to be in effect, the amount of Participant's compensation available for deferral hereunder shall be calculated by reducing Participant's gross compensation by (a) the amount necessary to satisfy all federal, state and local income, employment and other payroll taxes (including FICA taxes) required to be withheld with respect to such items of compensation, (b) amounts deducted with respect to the Participant's elections regarding employee health and welfare benefits and (c) the amount of payroll deductions elected by the Participant in connection with the Company's ESPP (such reduced amount, the "Available Deferral Amount"). If those reductions would result in gross compensation less than the dollar amount of compensation requested to be deferred pursuant to Participant's Deferral Election for that Plan Year, then the actual dollar amount of compensation to be deferred pursuant to such Participant's Deferral Election shall be reduced, effective with the start of that Plan Year, to be equal to the Available Deferral Amount. In no event, however, may the Participant change the rate of payroll deduction in effect for him or her under the ESPP for a particular Plan Year at any time after the start of that Plan Year, if such change would otherwise affect the amount of compensation to be deferred under this Plan pursuant to his or her Deferral Election in effect for that Plan Year. Any changes to the Participant's elections regarding health and welfare benefits to be made after the start of the Plan Year for which his or her Deferral Election is in effect shall be effected in accordance with the requirements of Sections 1.409A-2(a)(10) and 1.409A-3(j)(6) of the Treasury Regulations. Any salary deferral elections made by the Participant under the Company's 401(k) Plan shall be calculated on the basis of the Executive's compensation after reduction for his or her Deferral Elections under the Plan.

3.5 **Deferral Election Subaccounts**. A separate Deferral Election Subaccount shall be established for each Plan Year for which the Participant defers a portion of his or her eligible compensation under the Plan. The Participant shall at all times be fully vested in the balance credited to each of his or her Deferral Election Subaccounts.

3.6 **Subsequent Distribution**. Each of the Participant's Deferral Election Subaccounts shall be distributed in accordance with the provisions of Articles VII and VIII of the Plan.

3.7 **Company Contributions**. The Company may, in its sole discretion, make a Company Contribution to an Account or Subaccount on behalf of a Participant, subject to such vesting and distribution conditions and limitations as the Company, in its sole discretion, shall impose at the time such contribution is made.

ARTICLE IV
CREDITED INVESTMENT RETURN (LOSS) ON DEFERRAL ACCOUNTS

4.1 **Accounts**. One or more Accounts and Subaccounts shall be established and maintained for each Participant in accordance with the provisions of Section 1.1. Each Account or Subaccount shall be charged with any distributions made therefrom pursuant to the Plan, any charges imposed thereon pursuant to the terms of the Plan and, with respect to the Pre-2005 Account, the cash surrender value of any Prior Policy distributed pursuant to Appendix I hereof. In addition, any Pre-2005 Account established for a Participant was credited, as of October 1, 1997, with the ending balance (if any) accrued by that Participant under the Prior Plans.

4.2 **Credited Investment Return (Loss)**.

(a) Each of the Participant's Accounts and Subaccounts shall be credited monthly with the Credited Investment Return (Loss) attributable to the balance credited to that Account or Subaccount. The Credited Investment Return (Loss) is the amount which the balance credited to the Account or Subaccount would have earned if that balance had in fact been invested in the Deemed Investment Options in accordance with the Participant's Investment Elections.

(b) The Committee shall, from time to time, designate the Deemed Investment Options. The Committee shall specify the particular funds which shall constitute the Deemed Investment Options and may, in its sole discretion, change or add to the Deemed Investment Options; ***provided, however***, that the Committee shall notify the Participants of any such change prior to the effective date thereof.

4.3 **Deemed Investment Options**. Each Participant may select among the Deemed Investment Options and specify the manner in which his or her Accounts and Subaccounts shall be deemed to be invested (the "Investment Election") for purposes of determining the Credited Investment Return on those Accounts and Subaccounts. The Committee shall establish and communicate the rules, procedures and deadlines for making and changing such Investment Elections. Each Participant may continue to make such Investment Election for so long as he or she has an outstanding balance credited to an Account or Subaccount, whether or not such Participant is in Employee status or active Participant status at the time.

ARTICLE V
DISTRIBUTION OF PRE-2005 DEFERRED ACCOUNT

The provisions of this Article V shall apply solely to the Participant's Pre-2005 Deferred Account for so long as that account remains exempt from the requirements of Code Section 409A by reason of the applicable effective date of those requirements.

5.1 **Distribution of Benefits upon Normal Termination**. The following provisions shall govern the distribution to be made with respect to a Participant who ceases Employee status through a Normal Termination:

(a) Unless the Participant otherwise elects pursuant to Section 5.1(b), the amount credited to his or her Pre-2005 Deferred Account (reduced by the cash surrender value of any Prior Policy distributed pursuant to Appendix I hereof) shall be paid in sixty (60) substantially equal quarterly installments (subject to ongoing Credited Investment Returns (Losses)), with the first installment to be paid as soon as practicable following the first day of first calendar quarter following such Normal Termination.

(b) If the Participant has filed an appropriate distribution election with the Committee at least one (1) year prior to his or her Normal Termination, then the amount of his or her Pre-2005 Deferred Account shall be distributed in one of the following methods as the Participant may specify in that election:

(i) a single lump sum payment;

(ii) twenty (20) substantially equal (subject to ongoing Credited Investment Returns (Losses)) quarterly installments, or

(iii) forty (40) substantially equal (subject to ongoing Credited Investment Returns (Losses)) quarterly installments.

The applicable distribution shall commence as soon as practicable following the first day of the first calendar quarter following such Normal Termination.

5.2 **Distribution of Benefits upon Early Termination**. The following provisions shall govern the distribution to be made with respect to a Participant who ceases Employee status through an Early Termination:

(a) Unless the Participant otherwise elects a different form of distribution in accordance the requirements and limitations of Section 5.2(b) or 5.2(c), the amount credited to his or her Pre-2005 Deferred Account (reduced by the cash surrender value of any Prior Policy distributed pursuant to Appendix I) shall be distributed to the Participant in a single lump sum payment within a reasonable amount of time after such Early Termination event.

(b) If the Participant with an Early Termination has more than five (5) Years of Service, then he or she may file a distribution election at least one (1) year prior to the date of such Early Termination to have the amount credited to his or her Pre-2005 Deferred Account (as adjusted pursuant to Section 5.2(a)), to the extent vested, distributed in twenty (20) substantially equal quarterly installments (subject to ongoing Credited Investment Returns (Losses)). The elected distribution shall commence as soon as reasonably practicable following the Early Termination Event. Such election, however, shall not be effective if the date of the Participant's Early Termination occurs within one (1) year after the filing date of that election.

(c) If the Participant with an Early Termination has at least ten (10) Years of Service, then he or she may file a distribution election at least one (1) year prior to the date of such Early Termination to have the amount credited to his or her Pre-2005 Deferred Account (as adjusted pursuant to Section 5.2(a)), to the extent vested, distributed in either twenty (20) or forty (40) substantially equal quarterly installments (subject to ongoing Credited Investment Returns (Losses)). The elected distribution shall commence as soon as reasonably practicable following the Early Termination Event. Such election, however, shall not be effective if the date of the Participant's Early Termination occurs within one (1) year after the filing date of that election.

5.3 **Election of Form of Benefit Payment**. The Participant may file a distribution election permitted under Section 5.1 or 5.2, above with the Committee or its designate at any time which is more than one (1) year prior to the applicable Normal Termination or Early Termination date and may revoke or change such election at any time or times which is more than one (1) year prior to the then applicable Normal Termination or Early Termination date. Any distribution election which is filed within one (1) year of the applicable Normal Termination or Early Termination date shall be void and without effect, and the most recently effective distribution election shall control instead.

5.4 **Payment to Beneficiary**. In the event the Participant dies after installment payments have begun but before all of the installments are paid, the undistributed installments shall be paid to his or her Beneficiary as they become due.

5.5 **Early Withdrawals**.

(a) Notwithstanding any other provision of this Plan, the Participant may, upon thirty (30) days prior written notice, withdraw up to ninety-two percent (92%) of the balance credited to his or her Pre-2005 Deferred Account determined at the time of such withdrawal. Upon such withdrawal, eight percent (8%) of the amount requested from the Participant's Pre-2005 Deferred Account shall be forfeited, and the Participant shall have no further right thereto. The Participant shall be prohibited from making any compensation deferrals pursuant to this Plan for the Plan Year immediately following the Plan Year in which such withdrawal occurs and for a subsequent period of months equal to the number of months (rounded to the next whole month) that elapse between the date on which such withdrawal is effected and the last day of the Plan Year in which that withdrawal occurs. The Participant may only make a maximum of two (2) early withdrawals pursuant to this Section 5.5(a).

(b) Notwithstanding any other provision of this Plan, the Participant may request to withdraw any or all of the balance credited to his or her Pre-2005 Deferred Account in the event of a Hardship. The Committee shall, in its sole discretion, determine whether or not to approve such a withdrawal request. The Participant shall be required to demonstrate to the Committee's satisfaction that the financial burden imposed by the Hardship cannot reasonably be satisfied out of his or her other financial resources. Withdrawals pursuant to a Hardship request shall only be permitted, if at all, to the extent reasonably required to satisfy the Participant's need.

(c) Notwithstanding any other provision of this Plan, Executive may schedule an in-service distribution of any portion of the balance credited to his or her Pre-2005 Deferred Account by submitting a distribution election form (or by scheduling an in-service distribution in his or her initial enrollment election) to the Committee at least two (2) years prior to the desired distribution date. Such distribution shall be paid in a lump-sum; provided, however, that if (i) the Participant elects such form of distribution on the distribution election or initial enrollment form and (ii) the distribution commences after five (5) or more years of service with the Company, the distribution shall be made in twenty (20) equal quarterly installments, payable on the first day of each calendar quarter. Any Credited Investment Return (Loss) with respect to the portion of the Participant's Pre-2005 Deferred Account scheduled for an in-service installment distribution that is to be credited on and after the date of the initial in-service distribution shall be

credited to the remaining portion of the Participant's Pre-2005 Deferred Account. The Participant may postpone a scheduled in-service distribution date by submitting a new distribution election form to the Committee at least one (1) year prior to the otherwise scheduled in-service distribution date. Any in-service distribution election form which is filed within one (1) year of the scheduled in-service distribution date shall be void and without effect. Once an in-service installment distribution commences, such distribution shall continue over the applicable installment period, whether or not the Participant continues in Employee status. However, if the Participant has an Early Termination or a Normal Termination prior to the first scheduled in-service distribution, then his or her in-service distribution election shall become void and without effect, and the distribution provisions relating to such Participant's Early or Normal Termination, as applicable, shall control the distribution of the Participant's Pre-2005 Deferred Account.

5.6 **Automatic Lump-Sum Distribution for Accounts below $25.000** Notwithstanding any other provisions of this Plan or the provisions of a Participant's distribution election with respect to his or her Pre-2005 Deferred Account, in the event such Participant has less than twenty-five thousand dollars ($25,000) credited to his or her Pre-2005 Deferred Account as of the date of his or her cessation of Employee status, then 100% of that Account shall be distributed to him or her in a single lump-sum payment within a reasonable amount of time following the date of such cessation of Employee status.

5.7 **Valuation**. The amount to be distributed from the Participant's Pre-2005 Deferred Account shall be determined on the basis of the balance credited to that Account as of the most recent practicable valuation date (as determined by the Committee or its designate) preceding the date of the actual distribution. For a Participant who has elected an installment distribution from his or her Pre-2005 Account (or any portion thereof), such distribution shall be effected through a series of substantially equal payments (as adjusted for Credited Investment Returns (Losses)), and the amount of each such installment shall accordingly be determined by dividing the balance credited to that Account (or applicable portion) as of the most recent practicable valuation date (as determined by the Committee) preceding the date of the actual distribution of that installment by the number of installments (including the current installment) remaining in the applicable distribution period.

5.8 **Tax Withholding**. Each payment made from the Participant's Pre-2005 Deferred Account shall be subject to the Participating Employer's collection of all applicable federal, state and local income and employment/payroll taxes, and each payment shall be net of such applicable withholding taxes.

5.9 **Outside Directors**. As applied to an Outside Director, for all purposes under the Plan, the terms "service," "employed" and "employment" shall mean the time during which the Outside Director serves on the Board of Directors, and the terms "retirement" and "termination" shall mean the time at which the Outside Director ceases to serve on the Board of Directors.

ARTICLE VI
DISTRIBUTION OF 2005-2007 DEFERRED ACCOUNT

The provisions of this Article VI shall apply solely to the Participant's 2005-2007 Deferred Account.

6.1 **Special Distribution Election**. Each Participant may, prior to December 31, 2007, make a new payment election under this Article VI with respect to the commencement date and form of payment to be in effect for his or her 2005-2007 Deferred Account (the "Special Distribution Election"). Any such Special Distribution Election made by the Participant shall constitute a new payment election under Q&A 19(c) of Notice 2005-1, as modified by the Preamble to the proposed Treasury Regulations under Code Section 409A and Notice 2006-79. However, any Special Distribution Election submitted during the 2007 calendar year can only apply to amounts not otherwise payable in that calendar year, and the election may not cause any amount to be paid in the 2007 calendar year that would not otherwise be payable in that year.

6.2 **Commencement Date**. In the Special Distribution Election, the Participant must specify the date or event for the commencement of the distribution of his or her 2005-2007 Deferred Account. The following commencement dates or events shall be permissible:

- a date within the first sixty (60) days of any calendar year after the 2008 calendar year,
- the Participant's Separation from Service, or
- the ***earlier*** of (i) a date within the first sixty (60) days of any post-2008 calendar year or (ii) the Participant's Separation from Service.

6.3 **Method of Distribution**. The Participant must specify in the Special Distribution Election the method by which his or her 2005-2007 Deferred Account shall be distributed. The following methods of distribution shall be permissible for a distribution tied to a specified date:

- lump sum payment, or
- substantially equal quarterly installments (subject to periodic adjustment for Credited Investment Returns (Losses)) over a five (5)-year term.

The following methods of distribution shall be permissible for a distribution tied to a Separation from Service:

- lump sum payment,
- substantially equal quarterly installments (subject to periodic adjustment for Credited Investment Returns (Losses)) over a five (5)-year term, or
- substantially equal quarterly installments (subject to periodic adjustment for Credited Investment Returns (Losses)) over a ten (10)-year term, or

- substantially equal quarterly installments (subject to periodic adjustment for Credited Investment Returns (Losses)) over a fifteen (15)-year term; ***provided, however,*** that any election of such a fifteen (15)-year payment stream shall only be effective if the Participant's Separation from Service due to a Normal Termination; otherwise, such election shall automatically revert to a ten (10)-year term.

For purposes of Section 8.1, an installment distribution shall be treated as a single aggregate payment, and not as a series of individual installment payments.

6.4 **Continuing Elections**. Should the Participant not file a Special Distribution Election on a timely basis in accordance with Section 6.1, then each of the separate distribution elections he or she initially made with respect to the compensation deferred under the Plan for each of the 2005, 2006 and 2007 Plan Years shall continue in full force and effect and may not be subsequently changed except in accordance with the requirements of Section 7.3 or 8.1.

6.5 **Tax Withholding**. Each payment made from the Participant's 2005-2007 Deferred Account shall be subject to the Participating Employer's collection of all applicable federal, state and local income and employment/payroll taxes, and each payment shall be net of such applicable withholding taxes.

ARTICLE VII
DISTRIBUTION OF POST 2007 DEFERRAL ELECTION SUBACCOUNTS

The provisions of this Article VII shall apply to each of the Participant's Deferral Election Subaccounts attributable to a Plan Year beginning after December 31, 2007 or a Fiscal Year beginning after June 30, 2007.

7.1 **Normal Distribution**. The Participant's Deferral Election Subaccount for a particular Plan Year or Fiscal Year shall become due and payable in accordance with the commencement date and method of distribution designated by the Participant in his or her Deferral Election for that Plan Year or Fiscal Year. Such distribution shall begin on the designated commencement date or event as soon as administratively practicable thereafter, but in no event later than the ***later*** of (i) the close of the calendar year in which the designated commencement date or event occurs or (ii) the fifteenth (15th) day of the third (3rd) calendar month following the occurrence of such commencement date or event.

7.2 **Tax Withholding**. Each payment made from a Deferral Election Subaccount shall be subject to the Participating Employer's collection of all applicable federal, state and local income and employment/payroll taxes, and each payment shall be net of such applicable withholding taxes.

7.3 **Special Distribution Election**. Notwithstanding the provisions of Sections 3.3, 6.1 and 7.1 of the Plan, each Participant may, prior to December 31, 2008, make a new payment election under this Article VII with respect to the commencement date and form of payment to be in effect for his or her 2005-2007 Deferred Account and/or his or her Deferral Election Subaccount for the 2008 Plan Year (the "2008 Special Distribution Election"). Any such 2008 Special Distribution Election made by the Participant shall constitute a new payment election under Q&A 19(c) of Notice 2005-1, as modified by the Preamble to the proposed Treasury

Regulations under Code Section 409A and Notice 2006-79, and shall not be treated as an Extended Deferral Election for purposes of Section 8.1 of the Plan. However, the 2008 Special Distribution Election can only apply to amounts not otherwise payable in that calendar year, and the election may not cause any amount to be paid in the 2008 calendar year that would not otherwise be payable in that year. The 2008 Special Deferral Election must be made on or before December 31, 2008 in order to be effective.

ARTICLE VIII
PROVISIONS APPLICABLE TO 2005-2007 ACCOUNTS AND POST-2007 DEFERRAL ELECTION SUBACCOUNTS

The provisions of this Article VIII shall apply to the Participant's 2005-2007 Account and each of his or her Deferral Election Subaccounts attributable to a Plan Year beginning after December 31, 2007. Each such Account or Subaccount shall, for purposes of this Article VIII, be designated a Post-2004 Account.

8.1 **Extended Deferral Election**. A Participant may make an Extended Deferral Election with respect to any Post 2004 Account maintained for him or her under the Plan, provided the Participant remains at the time of such election a highly compensated Employee or member of the management group of a Participating Employer (as determined pursuant to guidelines established by the Committee). The Extended Deferral Election must be made by filing an appropriate election form with the Committee at least twelve (12) months prior to the date the Post-2004 Account subject to such election is scheduled to become payable pursuant to the applicable provisions of Article VI or Article VII, and the Extended Deferral Election for that Account shall in no event become effective or otherwise have any force or applicability until the expiration of the twelve (12)-month period measured from the date such election is filed with the Committee. The Extended Deferral Election must specify a commencement date in a Plan Year which is at least five (5) Plan Years later than the Plan Year in which the distribution of that Post-2004 Account would have otherwise been made or commenced in the absence of the Extended Deferral Election. As part of the Extended Deferral Election, the Participant may also elect a different method of distribution, provided the selected method complies with one of the forms of distribution permissible for that Account in accordance with the provisions of the Plan. Once the Extended Deferral Election becomes effective in accordance with the foregoing provisions of this Paragraph 8.1, such election shall remain in effect, whether or not the Participant continues in Employee status; ***provided, however,*** that in the event of the Participant's death, the provisions of Paragraph 8.4 shall apply. Notwithstanding anything to the contrary in the foregoing provisions of this Section 8.1, neither the Special Distribution Election under Section 6.1 nor the 2008 Special Distribution Election under Section 7.3 shall be deemed to be an Extended Deferral Election or otherwise be subject to the requirements of this Section 8.1

8.2 **Distribution Commencement Date**. The distribution of any Post-2004 Account shall be made or commence on the distribution date or event applicable to that Account or as soon thereafter as administratively practicable, but in no event later than the later of (i) the end of the calendar year in which that distribution date or event occurs or (ii) the fifteenth (15th) day of the third (3rd) calendar month following such distribution date or event.

8.3 **Hardship Withdrawal**. If a Participant incurs a Hardship and does not have any other resources available, whether through reimbursement or compensation (by insurance or otherwise), liquidation of existing assets (to the extent such liquidation would not itself result in financial hardship) or cancellation of his or her existing Deferral Election(s) under the Plan, to satisfy such financial emergency, then the Participant may apply to the Committee Administrator for an immediate distribution from one or more of his or her Post-2004 Accounts in an amount necessary to satisfy such Hardship and the tax liability attributable to such distribution. The Committee shall have complete discretion to accept or reject the request and shall in no event authorize a distribution in an amount in excess of that reasonably required to meet such Hardship and the tax liability attributable to that distribution.

8.4 **Death Before Full Distribution**. If the Participant dies before the entire aggregate balance of his or her Post-2004 Accounts is distributed, then the unpaid balance shall be paid in a lump sum to his or her designated Beneficiary under the Plan. Such payment shall be made as soon as administratively practical following the Participant's death, but in no event later than the ***later*** of (i) the end of the calendar year in which the Participant's death occurs or (ii) the fifteenth (15th) day of the third (3rd) calendar month following the date of the Participant's death. Should the Participant die without a valid Beneficiary designation in effect or after the death of his or her designated Beneficiary, then any amounts due him or her from his or her Post-2004 Accounts shall be paid to his or her estate.

8.5 **Valuation**. The amount to be distributed from any Post-2004 Account shall be determined on the basis of the balance credited to that Account as of the most recent practicable valuation date (as determined by the Committee or its designate) preceding the date of the actual distribution. For a Participant who has elected an installment distribution for any Post-2004 Account, such distribution shall be effected through a series of substantially equal payments (as adjusted for Credited Investment Returns (Losses)), and the amount of each such installment shall accordingly be determined by dividing the balance credited to that Account as of the most recent practicable valuation date (as determined by the Committee) preceding the date of the actual distribution of that installment by the number of installments (including the current installment) remaining in the applicable distribution period.

8.6 **Small Account Balances**.

(a) If the aggregate balance of the Participant's Post-2004 Accounts is not greater than the applicable dollar amount in effect under Code Section 402(g)(1)(B) at the time of the Participant's Separation from Service and the Participant is not otherwise at that time participating in any other non-qualified elective account balance plan subject to Code Section 409A and maintained by one or more Affiliated Companies, then that balance shall be distributed to the Participant in a lump sum distribution as soon as administratively practical following such Separation from Service, whether or not the Participant elected that form of distribution or distribution event, but in no event later than the ***later*** of (i) the end of the calendar year in which such Separation from Service occurs or (ii) the fifteenth (15th) day of the third (3rd) calendar month following the date of such Separation from Service.

(b) If the Participant is receiving one or more installment distributions from his or her Post-2004 Accounts following his or her Separation from Service and the aggregate present value of all the remaining unpaid installments is at any time during the installment period less than Fifty Thousand Dollars ($50,000), then those remaining installments shall be paid in a lump sum within thirty (30) days thereafter.

8.7 **Mandatory Deferral of Distribution**. Notwithstanding any provision to the contrary in this Article VIII or any other article in the Plan, no distribution which becomes due and payable from any of the Participant's Post-2004 Accounts by reason of his or her Separation from Service shall be made to such Participant prior to the ***earlier*** of (i) the first day of the seventh (7th) month following the date of such Separation from Service or (ii) the date of his or her death, if the Participant is deemed at the time of such Separation from Service to be a Specified Employee ***and*** such delayed commencement is otherwise required in order to avoid a prohibited distribution under Code Section 409A(a)(2). Upon the expiration of such deferral period, all payments deferred pursuant to this Section 8.7 (whether they would have otherwise been payable in a single sum or in installments in the absence of such deferral) shall be paid in a lump sum to the Participant, and any remaining payments due under the Plan shall be paid in accordance with the normal payment dates specified for them herein. During such deferral period, the Participant's Account shall continue to be subject to the investment return provisions of Article IV.

ARTICLE IX
BENEFICIARIES

9.1 **Designation of Beneficiary**. Executive shall have the right to designate on such form as may be prescribed by the Committee a Beneficiary to receive any Supplemental Executive Benefits due to the Participant's deferrals of compensation under the Plan which remains unpaid at the time of his or her death. The Participant shall have the right at any time to revoke such designation and to substitute another such Beneficiary.

9.2 **No Designated Beneficiary**. If, upon the Participant's death, there is no valid designation of Beneficiary, the Beneficiary shall be the Participant's estate.

ARTICLE X
OBLIGATION TO PAY SUPPLEMENTAL EXECUTIVE BENEFITS

10.1 **Benefits Paid From Trust**. All benefits payable to the Participant hereunder shall be paid by the Trustee, to the extent of the assets held in the Trust by the Trustee, and by the Company to the extent the assets in the Trust are insufficient to pay the Participant the Supplemental Executive Benefits to which he or she is entitled under this Plan.

10.2 **Trustee Investment Discretion**. The Deemed Investment Options shall be for the sole purpose of determining the Credited Investment Return (Loss), and neither the Trustee nor the Company shall have any obligation to invest the Participant's Deferral Amounts in the Deemed Investment Options or in any other investment.

10.3 **No Secured Interest**. Except as otherwise provided by the Trust Agreement, the assets of the Trust shall be subject to the claims of creditors of the Company, and no Participant or Beneficiary shall have any legal or equitable interest in such assets or policies or any other asset of the Company. The Participant shall be a general unsecured creditor of the Company with respect to the promises of the Company made herein, except as otherwise expressly provided by the Trust Agreement.

ARTICLE XI
ADMINISTRATION

11.1 **Administration of the Plan.** The Plan shall be administered by the Committee. The Committee shall have full power and discretionary authority to administer, construe and interpret the Plan, to establish procedures for administering the Plan, to prescribe forms, and take any and all necessary or desirable actions in connection with the Plan. The Committee's interpretation and construction of the Plan shall be conclusive and binding on all persons having an interest in the Plan, including (without limitation) all decisions relating to an individual's eligibility for participation in the Plan, his or her entitlement to benefits hereunder and the amount of any such benefit entitlement. The Committee may appoint a Committee or any other agent and delegate to them such powers and duties in connection with the administration of the Plan as the Committee may from time to time prescribe.

11.2 **Indemnification**. The Committee and each of its members shall be indemnified by the Company against any and all liabilities incurred by reason of any action taken in good faith pursuant to the provisions of the Plan.

ARTICLE XII
MISCELLANEOUS

12.1 **No Employment Right**. Neither the action of the Company or the Participating Employer in establishing or maintaining the Plan, nor any action taken under the Plan by the Committee, nor any provision of the Plan itself shall be construed so as to grant any person the right to remain in the employ of the Participating Employer or any other Affiliated Company for any period of specific duration, and the Participant may be discharged at any time, with or without cause.

12.2 **Amendment/Termination**.

(a) The Committee may at any time amend the provisions of the Plan to any extent and in any manner the Committee may deem advisable, and such amendment shall become effective at the time of such Committee action. Without limiting the generality of the foregoing, the Committee may amend the Plan to impose such restrictions upon (i) the timing, filing and effectiveness of Deferral Elections or Extended Deferral Elections and (ii) the distribution provisions of the Plan which the Committee deems appropriate or advisable in order to avoid the current income taxation of amounts deferred under the Plan which might otherwise occur as a result of changes to the tax laws and regulations governing deferred compensation arrangements such as the Plan. The Committee may also at any time terminate the Plan in whole or in part. Except for (i) such modifications, limitations or restrictions as may otherwise be

required to avoid current income taxation or other adverse tax consequences to Participants as a result of changes to the tax laws and regulations applicable to the Plan or (ii) as otherwise provided in Sections 12.2 (b), (c) and (d) below with respect to the distribution of Participant Accounts, no such plan amendment or plan termination authorized by the Committee shall adversely affect the benefits of Participants accrued to date under the Plan or otherwise reduce the then outstanding balances credited to their Accounts or Deferral Election Subaccounts or otherwise adversely affect the distribution provisions in effect for those Accounts or Subaccounts, and all amounts deferred prior to the date of any such plan amendment or termination shall, subject to the foregoing exception, continue to become due and payable in accordance with the distribution provisions of the Plan as in effect immediately prior to such amendment or termination.

(b) Except as otherwise provided in Sections 12.2(c) and (d) below, in the event of a termination of the Plan, the Participant Accounts may, in the Company's discretion, be distributed within the period beginning twelve (12) months after the date the Plan is terminated and ending twenty-four (24) months after the date of such plan termination, or pursuant to Articles VI, VII and VIII of the Plan, if earlier. If the Plan is terminated and Accounts are distributed, the Company and the other Participating Employers shall also terminate and liquidate all other non-qualified elective account balance deferred compensation plans maintained by them and shall not adopt a new non-qualified elective account balance deferred compensation plan for at least three (3) years after the date the Plan is terminated.

(c) The Company and the other Participating Employers may terminate the Plan thirty (30) days prior to or within twelve (12) months following a Change of Control and distribute, within the twelve (12)-month period following the termination of the Plan, the Accounts of the Participants affected by such Change in Control If the Plan is terminated and Accounts are distributed, the Company and the other Participating Employers shall also terminate all other non-qualified elective account balance deferred compensation plans sponsored by them in which such Participants participate, and all of the benefits accrued under those terminated plans by such Participants shall be distributed to them within twelve (12) months following the termination of such plans.

(d) The Company may terminate the Plan upon a corporate dissolution of the Company that is taxed under Section 331 of the Code or with the approval of a bankruptcy court pursuant to 11 U.S.C. Section 503(b)(1)(A), provided that the Participant Accounts are distributed and included in the gross income of the Participants by the later of (i) the Plan Year in which the Plan terminates or (ii) the first Plan Year in which payment of the Accounts is administratively practicable.

(e) Notwithstanding the foregoing provisions of this Section 12.2 or any other provision in this Plan to the contrary, should the Plan be terminated, then all benefits attributable to the Participant's Pre-2005 Deferred Account shall be paid pursuant to the provisions of Section 5.2 as if such Participant had voluntarily ceased Employee status on the date of such Plan termination.

(f) All amounts remaining in the Trust after all benefits have been paid in connection with the termination of the Plan shall revert to the Company.

12.3 **Applicable Law**. The Plan is intended to constitute an unfunded deferred compensation arrangement for a select group of management and other highly compensated persons, and all rights hereunder shall be construed, administered and governed in all respects in accordance with the provisions of the Employee Retirement Income Security Act of 1974 (as amended from time to time) applicable to such an arrangement and, to the extent not pre-empted thereby, by the laws of the State of California without resort to its conflict-of-laws provisions. If any provision of this Plan shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions of the Plan shall continue in full force and effect.

12.4 **Satisfaction of Claims**. Any payment made to a Participant or his or her legal representative or beneficiary in accordance with the terms of this Plan shall to the extent thereof be in full satisfaction of all claims with respect to that payment which such person may have against the Plan, the Committee (or its designate), the Company, the Participating Employer and all other Affiliated Companies, any of whom may require the Participant or his or her legal representative or Beneficiary, as a condition precedent to such payment, to execute a receipt and release in such form as shall be determined by the Committee.

12.5 **Alienation of Benefits**. No person entitled to any benefits under the Plan shall have the right to alienate, pledge, hypothecate or otherwise encumber his or her interest in such benefits, and those benefits shall not, to the maximum extent permissible by law, be subject to claim of his or her creditors or liable to attachment, execution or other process of law. Notwithstanding the foregoing, any benefits otherwise due and payable to the Participant shall instead be distributed to one or more third parties (including, without limitation, the Participant's former spouse) to the extent such distribution is required by a domestic relations order or other order or directive of a court with jurisdiction over the Participant and his or her benefits hereunder, and the Participant shall cease to have any right, interest or entitlement to any benefits to be distributed pursuant to such order or directive.

12.6 **Expenses**. The Accounts and Subaccounts of each Participant shall be charged with its allocable share of all other costs and expenses incurred in the operation and administration of the Plan, except to the extent one or more Participating Employers elect in their sole discretion to pay all or a portion of those costs and expenses.

12.7 **Successors and Assigns**. The obligation of each Participating Employer to make the payments required hereunder shall be binding upon the successors and assigns of that Participating Employer, whether by merger, consolidation, acquisition or other reorganization. Except for such modifications, limitations or restrictions as may otherwise be required to avoid current income taxation or other adverse tax consequences to Participants as a result of changes to the tax laws and regulations applicable to the Plan, no amendment or termination of the Plan by any such successor or assign shall adversely affect or otherwise impair the rights of Participants to receive benefit payments hereunder, to the extent attributable to amounts deferred prior to the date of such amendment or termination, in accordance with the applicable distribution provisions of the Plan as in effect immediately prior to such amendment or termination.

12.8 **Reimbursement of Costs.** If the Company, the Participant, any Beneficiary or a successor in interest to any of the foregoing brings legal action to enforce any of the provisions of this Plan, the prevailing party in such legal action shall be entitled to reimbursed by the other party for the prevailing party's costs of such legal action, including (without limitation) reasonable fees of attorneys, accountants and similar advisors and expert witnesses.

12.9 **Arbitration.** Any dispute or claim relating to or arising from the Plan that cannot be resolved within thirty (30) days of the dispute or controversy through good-faith negotiation or non-binding mediation between the Participant and the Company shall be subject to binding arbitration in Santa Clara, California before the American Arbitration Association under its National Rules for the Resolution of Employment Disputes, supplemented by the California Rules of Civil Procedure. The Company and the Participant shall each bear their own respective costs and attorneys' fees incurred in connection with the arbitration; and the Company shall pay the arbitrator's fees, unless law applicable at the time of the arbitration hearing requires otherwise. The arbitrator shall issue a written decision that sets forth the essential findings of fact and conclusions of law on which the award is based. The arbitrator's decision shall be final and binding to the fullest extent permitted by law and enforceable by any court having jurisdiction thereof.

12.10 **Entire Agreement.** This Plan and any applicable deferral election and beneficiary forms constitute the entire understanding and agreement with respect to the Plan, and there are no agreements, understandings, restrictions, representations or warranties among the Participant, the Company and the Participating Employers other than those as set forth or provided for therein.

ARTICLE XIII
BENEFIT CLAIMS

13.1 **Claims Procedure**. No application is required for the payment of benefits under the Plan. However, if any Participant (or beneficiary) believes he or she is entitled to a benefit from the Plan which differs from the benefit determined by the Committee, then such individual may file a written claim for benefits with the Committee. Each claim shall be acted upon and approved or disapproved within ninety (90) days following receipt by the Committee.

13.2 **Denial of Benefits**. In the event any claim for benefits is denied, in whole or in part, the Committee shall notify the claimant in writing of such denial and of his or her right to a review by the Committee and shall set forth, in a manner calculated to be understood by the claimant, specific reasons for such denial, specific references to pertinent provisions of the Plan on which the denial is based, a description of any additional material or information necessary to perfect the claim, an explanation of why such material or information is necessary, and an explanation of the review procedure.

13.3 **Review**.

(a) Any person whose claim for benefits is denied in whole or in part may appeal to the Committee for a full and fair review of the decision by submitting to the Committee, within ninety (90) days after receiving written notice from the Committee of such denial, a written statement:

(i) requesting a review by the Committee of his or her claim for benefits;

(ii) setting forth all of the grounds upon which the request for review is based and any facts in support thereof; and

(iii) setting forth any issues or comments which the claimant deems pertinent to his or her claim.

(b) The Committee shall act upon each such appeal within sixty (60) days after receipt of the claimant's request for review by the Committee, unless special circumstances require an extension of time for processing. If such an extension is required, written notice of the extension shall be furnished to the claimant within the initial sixty (60)-day period, and a decision shall be rendered as soon as possible, but not later than one hundred twenty (120) days after receipt of the initial request for review. The Committee shall make a full and fair review of each such appeal and any written materials submitted by the claimant or the Participating Employer in connection therewith and may require the Participating Employer or the claimant to submit such additional facts, documents or other evidence as the Committee may, in its sole discretion, deem necessary or advisable in making such a review. On the basis of its review, the Committee shall make an independent determination of the claimant's eligibility for benefits under the Plan. The decision of the Committee on any benefit claim shall be final and conclusive upon all persons.

13.4 **Denial of Appeal.** Should the Committee deny an appeal in whole or in part, the Committee shall give written notice of such decision to the claimant, setting forth in a manner calculated to be understood by the claimant the specific reasons for such denial and specific reference to the pertinent Plan provisions on which the decision was based.

IN WITNESS WHEREOF, the Company has caused this amended and restated Plan to be executed by a duly authorized officer effective as of the Effective Date.

KLA-TENCOR CORPORATION

By: /s/ BRIAN M. MARTIN
Name: Brian M. Martin
Title: Senior Vice President and General Counsel

Dated: December 19, 2008

APPENDIX I

GRANDFATHERED PROVISIONS FOR CERTAIN PRIOR PLAN PARTICIPANTS

ARTICLE I
OLD KLA PLAN LIFE INSURANCE POLICY ELECTIONS

1.1 Rights to Prior Policy. A Participant who timely made a "Prior Policy Election" (as such term was defined in the Old KLA Plan) in accordance with the terms and conditions of the Old KLA Plan (a "Prior Policy Executive") shall continue to have the life insurance premiums for the "Prior Policy" (as such term was defined in the Old KLA Plan) paid by the Company, subject to termination or distribution of the Prior Policy pursuant to the provisions of this Article I of Appendix I, and

(a) The Prior Policy Executive may designate in writing to the Company, on such forms as the Committee shall specify, the beneficiary to receive death benefits payable under the Prior Policy; provided, however, that the maximum amount of death benefits under the-Prior Policy which may be paid to the Prior Policy Executive's beneficiary is the amount of death benefit specified on the September 30, 1994 Participant Statement of benefits for the Prior Policy Executive (the "Prior Policy Death Benefit"), and

(b) The Prior Policy Executive may elect to have the Prior Policy distributed to him in kind in accordance with Section 1.4 below.

1.2 Payment of Premiums. All Prior Policy Executives must pay to the Company, on an after-tax basis, their Prior Policy Premium. The Prior Policy Premium shall be equal to the one-year term insurance rates for the Prior Policy Death Benefit as set forth in the PS-58 Rate Table contained in Rev. Rul. 55-747. In the event a Prior Policy Executive fails to pay the Prior Policy Premium to the Company by the last day of the relevant Plan Year, all rights of the Prior Policy Executive and his beneficiary to the Prior Policy shall terminate.

1.3 Payment of Death Benefit. If the Prior Policy Executive dies prior to his Benefit Distribution Commencement Date, his or her Prior Policy Death Benefit shall be paid to the Prior Policy Executive's properly designated beneficiary in accordance with the terms and conditions of the Prior Policy. The payment of the Prior Policy Death Benefit shall be in addition to any other Plan benefits which may be payable upon the Executive's death. Any proceeds payable under the Prior Policy in excess of the Prior Policy Death Benefit shall be paid to the Trustee and shall be used to help defray the Company's expenses for administering the Plan.

1.4 Distribution of Prior Policy. If (i) a Prior Policy Executive's Supplemental Executive Benefits become payable upon a Normal Termination or an Early Termination pursuant to Plan Sections 5.1 or 5.2, or if the Plan terminates, and (ii) the value of his or her Deferral Account on the date of the Early Termination Event, Termination Event or termination of the Plan, as the case may be (the "In Kind Event Date"), equals or exceeds the cash surrender value of the Prior Policy as determined by the Committee, in its discretion, as of the In Kind Event Date (the "Cash Surrender Value"), then the Prior Policy Executive's election, by means of a writing to the Company prior to the In Kind Event Date, to have the Trust distribute the Prior Policy to him or her, in kind, shall become effective,

(a) If the Prior Policy Executive's election becomes effective, the Prior Policy shall be distributed within a reasonable time after the In Kind Event Date and Executive's Deferral Account shall be reduced by the Cash Surrender Value;

(b) Upon the distribution of the Prior Policy, the Company shall have no further responsibility for the payment of any premiums related to the Prior Policy on or after the date on which the Prior Policy is distributed to the Executive. If the Executive does not elect to have the Prior Policy distributed, or if such election is made and does not become effective, then the Executive and his beneficiary shall have no further rights with respect to the Prior Policy after the In Kind Event Date; and

(c) Prior to the in kind distribution of a Prior Policy to Executive, or at any time thereafter as requested by the Company, Executive agrees to authorize withholding from any other amounts payable to Executive pursuant to the Plan, and shall otherwise make adequate provision for, any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company, if any, which arise in connection with the in kind distribution of the Prior Policy, and the Company shall not be required to distribute the Prior Policy unless and until the Executive has made adequate provision for such withholding obligations, with such adequacy to be determined by the Committee in its sole discretion.

ARTICLE II
OLD KLA PLAN PRE-DISTRIBUTION DEATH BENEFITS

2.1 Pre-Distribution Death Benefits. If, prior to October 31, 1997 a Participant had elected a Pre-Distribution Death Benefit pursuant to and in accordance with the terms and conditions of the Old KLA Plan (a "Pre-Distribution Death Benefit Executive"), then such election shall remain in effect with respect to the Pre-Distribution Death Benefit Executive's Deferral Account under the Plan; provided, however, that the Credited Investment Return (Loss) determined under Plan Section 4.2 shall be decreased (increased) by one percent (1%) per annum for the period during which such Pre-Distribution Death Benefit Election remains in effect.

2.2 Revocation of Pre-Distribution Death Benefit. Each Pre-Distribution Death Benefit Executive may elect to revoke a Pre-Distribution Death Benefit by means of a writing to the Company that is acceptable to the Committee, in its sole discretion_ Upon the effectiveness of such revocation, the Pre-Distribution Death Benefit Executive's Credited Investment Return (Loss) relating to his or her Deferral Account shall thereafter cease to be decreased (increased) by one percent (1%); provided, however, that such revocation shall not affect any decreases or increases to the Credited Investment Return that were made prior to the effective date of such revocation. Once a written revocation has been submitted to the Company, it may not thereafter be revoked or modified in any manner.

2.3 Automatic Termination of Pre-Distribution Death Benefit. Any Pre-Distribution Death Benefit Election shall automatically terminate upon the Pre-Distribution Death Benefit Executive's Benefit Distribution Commencement Date: Upon the Benefit Distribution Commencement Date, the Pre-Distribution Death Benefit Executive's Credited Investment Return (Loss) relating to his or her Deferral Account shall thereafter cease to be decreased (increased) by one percent (1%); provided, however, that such revocation shall not affect any decreases or increases to the Credited Investment Return that were made prior to the Benefit Distribution Commencement Date.

2.4 Amount Payable Upon Death. Upon the Pre-Distribution Death Benefit Executive's death prior to his or her Benefit Distribution Commencement Date:

(a) if the Pre-Distribution Death Benefit Executive has a currently effective election to receive the Pre-Distribution Death Benefit, then instead of receiving the value of his or her Deferral Account, his or her designated beneficiary shall be entitled to a Pre-Distribution Death Benefit equal to the greater of (i) or (ii) below:

(i) his or her Deferral Amounts which were made within 12 months from the date he or she commenced participation in the Plan and were credited to his or her Deferral Account prior to the date of his or her death, multiplied by 10; or

(ii) the value of his or her Deferral Account determined as of the date of such the Pre-Distribution Death Benefit Executive's death multiplied by:

(A) 2.0, if Executive is less than 56 years of age on the date of death; or

(B) 1.5, if Executive is age 56 years or older on the date of death.

(b) If Executive does not have an election to receive a Pre-Distribution Death Benefit in effect on the date of his or her death, then the deceased Executive's death benefit shall be an amount equal to the amount credited to his or her Deferral Account, determined as of the date of death.

(c) Any benefit payable upon Executive's death under this Section 2 of Appendix I shall be paid to Executive's Beneficiary in a single lump sum payment on the first day of the month following the end of the quarter in which the Executive's death occurred.

(d) The death benefit payable under this Section 2 of Appendix I shall be independent of any Prior Policy Death Benefit which may be paid pursuant to Section 1 of Appendix I to the Beneficiary of a Prior Policy Executive.

ARTICLE III
PRIOR PLAN DISTRIBUTIONS IN PAYOUT STATUS

3.1 Prior Plan Participants in Payout Status. Participants in the Old Plans who are in payout status and are no longer eligible to make compensation deferrals into the Plan shall have their Deferral Accounts paid out and credited consistently with the terms and conditions of the Old Plans and such Participants' elections thereunder as in effect immediately prior to the Effective Date.

ARTICLE IV
PRIOR PLAN DISTRIBUTION ELECTIONS

4.1 Prior Plan Distribution Elections. Distribution elections made by Prior Plan participants prior to the Effective Date shall remain in full force and effect unless changed consistently with the provisions of the Plan.

SCHEDULE I

LIST OF PARTICIPATING EMPLOYERS AS OF OCTOBER 1, 2008

KLA-Tencor Corporation

KLA-Tencor Technologies Corporation

VLSI Standards, Inc.

ADE Technologies, Inc.

Rules of the KLA-Tencor Corporation
2004 Equity Incentive Plan
For the Grant of Restricted Stock Units
To Participants in France

1. Introduction

The Board of Directors (the "Board") of KLA-Tencor Corporation (the "Company") has established the KLA-Tencor Corporation 2004 Equity Incentive Plan, As Amended and Restated (the "U.S. Plan") for the benefit of certain eligible individuals, including employees of the Company and its Subsidiaries, including its Subsidiary(ies) in France (each a "French Subsidiary"), of which the Company holds directly or indirectly at least 10% of the share capital.

Section 4 of the U.S. Plan authorizes the Board or any Committees appointed by it to administer the U.S. Plan (the "Administrator") to do all things necessary or desirable in connection with the administration of the U.S. Plan. Specifically, Section 4(b)(viii) of the U.S. Plan authorizes the Administrator to establish sub-plans to the extent deemed necessary or desirable for the purpose of qualifying for preferred tax treatment under foreign tax laws. The Administrator has determined that it is desirable to establish a sub-plan for the purpose of permitting restricted stock units granted to employees of a French Subsidiary to qualify for favorable tax and social security treatment in France. The Administrator, therefore, intends with this document to establish a sub-plan of the U.S. Plan for the purpose of granting restricted stock units which qualify for the favorable tax and social security treatment in France applicable to shares granted for no consideration under Sections L. 225-197-1 to L. 225-197-5 of the French Commercial Code, as amended, to qualifying employees of a French Subsidiary who are residents in France for French tax purposes and/or subject to the French social security regime (the "French Participants").

The terms of the U.S. Plan applicable to restricted stock units, as set out in Appendix 1 hereto, shall, subject to the modifications in these Rules of the KLA-Tencor Corporation 2004 Equity Incentive Plan for the Grant of Restricted Stock Units To Participants in France (the "French Plan"), constitute the terms applicable to the grant of French-qualified Restricted Stock Units to French Participants.

Under the French Plan, qualifying French Participants selected at the Administrator's discretion will be granted Restricted Stock Units only as defined in Section 2 hereunder.

2. Definitions

Capitalized terms not otherwise defined herein shall have the same meanings as set forth in the U.S. Plan. The terms set out below will have the following meaning:

(a) The term "Closed Period" shall mean a closed period as set forth in Section L.225-197-1 of the French Commercial Code, as amended, which is as follows:

(i) ten (10) quotation days preceding and following the disclosure to the public of the consolidated financial statements or the annual statements of the Company; or

(ii) any period during which the corporate management of the Company (*i.e.* those involved in the governance of the Company, such as the Board, a Committee, supervisory directorate, etc.) possess confidential information which could, if disclosed to the public, significantly impact the trading price of the Common Stock, until ten (10) quotation days after the day such information is disclosed to the public.

If, after adoption of the French Plan, the French Commercial Code is amended to modify the definition and/or applicability of the Closed Periods to French-qualified Restricted Stock Units, such amendments shall become applicable to any French-qualified Restricted Stock Units granted under this French Plan, to the extent permitted or required under French law.

(b) The term "Disability" shall mean disability as determined in categories 2 and 3 under Section L. 341-4 of the French Social Security Code, as amended, and subject to the fulfillment of related conditions.

(c) The term "Grant Date" shall be the date on which the Administrator both (i) designates the French Participants, and (ii) specifies the main terms and conditions of the French-qualified Restricted Stock Units, such as the number of Shares subject to the French-qualified Restricted Stock Units.

(d) The term "Vesting Date" shall mean the date on which the Shares of the Company underlying the French-qualified Restricted Stock Units become non-forfeitable and are issued to the French Participants, provided, however, that the Administrator may provide in the applicable Award Agreement that the Shares will be issued only at a date occurring after the Vesting Date.

3. Eligibility

(a) Subject to Section 3(c) below, any individual who, on the Grant Date of the French-qualified Restricted Stock Unit and to the extent required under French law, is employed under the terms and conditions of an employment contract ("*contrat de travail*") by a French Subsidiary or who is a corporate officer of a French Subsidiary (subject to Section 3(b) below) shall be eligible to receive, at the discretion of the Administrator, French-qualified Restricted Stock Units under this French Plan, provided he or she also satisfies the eligibility conditions of Section 5 of the U.S. Plan.

(b) French-qualified Restricted Stock Units may not be issued to a corporate officer of a French Subsidiary, other than the managing corporate officers (*Président du Conseil d'Administration, Directeur Général, Directeur Général Délégué, Membre du Directoire, Gérant de Sociétés par actions*), unless the corporate officer is employed under the terms and conditions of an employment contract ("*contrat de travail*") by a French Subsidiary, as defined by French law.

(c) French-qualified Restricted Stock Units may not be issued under the French Plan to French Participants owning more than ten percent (10%) of the Company's share capital or to individuals other than employees and corporate executives of a French Subsidiary, as set forth in this Section 3.

4. Non-Transferability

Notwithstanding any provision in the U.S. Plan and except in the case of death, French-qualified Restricted Stock Units may not be transferred to any third party. The Shares underlying the French-qualified Restricted Stock Units may not be issued to any third party and shall be issued only to the French Participant during his or her lifetime, subject to Section 10 below.

5. Disqualification of French-qualified Restricted Stock Units

In the event changes are made to the terms and conditions of the French-qualified Restricted Stock Units due to any requirements under Applicable Laws, or by decision of the Company's stockholders, the Board or the Administrator, the Restricted Stock Units may no longer qualify as French-qualified Restricted Stock Units. The Company does not undertake nor is it required to maintain the French-qualified status of the Restricted Stock Units, and by accepting any Award under this French Plan, the French Participants understand, acknowledge and agree that it will be their responsibility to bear any additional taxes or social security contributions that may be payable as a result of the disqualification of the French-qualified Restricted Stock Units.

If the Restricted Stock Units no longer qualify as French-qualified Restricted Stock Units, the Administrator may, in its sole discretion, determine to lift, shorten or terminate certain restrictions applicable to the vesting of the Restricted Stock Units or the sale of the Shares underlying the Restricted Stock Units, which have been imposed under this French Plan or in the applicable Award Agreement delivered to the French Participant, in order to achieve the favorable tax and social security treatment applicable to French-qualified Restricted Stock Units.

6. Employment Rights

The adoption of this French Plan shall not confer upon the French Participants, or any employees of the French Subsidiary, any employment rights and shall not be construed as a part of any employment contracts that the French Subsidiary has with its employees.

7. Amendments

Subject to the terms of the U.S. Plan, the Administrator reserves the right to amend or terminate this French Plan at any time in accordance with applicable French law.

8. Conditions of French-Qualified Restricted Stock Units

(a) Vesting of French-qualified Restricted Stock Units

The first Vesting Date of the Restricted Stock Units (or, if later, the date on which the Shares underlying the French-qualified Restricted Stock Units are issued to a French Participant) shall not occur prior to the second anniversary of the Grant Date, or such other period as is required for the vesting period applicable to French-qualified Restricted Stock Units under Section L. 225-197-1 of the French Commercial Code, the relevant sections of the French Tax Code or of the French Social Security Code, as amended.

(b) Holding of Shares

The sale or transfer of Shares issued pursuant to the French-qualified Restricted Stock Units may not occur prior to the relevant anniversary of the respective Vesting Date specified by the Administrator and in no case prior to the expiration of a two-year period as calculated from the respective Vesting Date (or, if later, the date on which the Shares underlying the French-qualified Restricted Stock Units are issued to a French Participant), or such other period as is required to comply with the minimum holding period applicable to French-qualified Restricted Stock Units under Section L. 225-197-1 of the French Commercial Code, or the relevant Sections of the French Tax Code or the French Social Security Code, as amended, to benefit from the favorable tax and social security regime, even if the French Participant is no longer an employee or corporate officer of a French Subsidiary.

In addition, the Shares may not be sold or transferred during a Closed Period, so long as and to the extent those Closed Periods are applicable to Shares underlying French-qualified Restricted Stock Units.

(c) Corporate Officer Restriction

To the extent applicable to French-qualified Restricted Stock Units granted by the Company, a specific holding period shall be imposed and described in the applicable Award Agreement for the Shares subject to the French-qualified Restricted Stock Units held by any French Participant who qualifies as a managing director under French law ("*mandataires sociaux*"), as defined in Section 3(b) above.

(d) French Participant's Account

The Shares underlying the French-qualified Restricted Stock Units shall be recorded in an account in the name of the French Participant and must be held with the Company or a broker or in such manner as the Company may determine in order to ensure compliance with Applicable Laws, including any required holding periods applicable to French-qualified Restricted Stock Units.

(e) Dividends - Dividend Equivalents

(f) To the extent required under French law applicable to French-qualified Restricted Stock Units, the French Participant shall not receive any dividends or receive or accrue any dividend equivalents during the vesting period.

9. Adjustments and Change in Control

Adjustments of the French-qualified Restricted Stock Units issued hereunder shall be made to preclude the dilution or enlargement of benefits under the French-qualified Restricted Stock Units in the event of a transaction by the Company as listed under Section L. 225-181 of the French Commercial Code, as amended, and in case of a repurchase of Shares by the Company at a price higher than the stock quotation price in the open market, and according to the provisions of Section L. 228-99 of the French Commercial Code, as amended, as well as according to specific decrees. Nevertheless, the Administrator, at its discretion, may determine to make adjustments in the case of a transaction for which adjustments are not authorized under French law, in which case the Restricted Stock Units may no longer qualify as French-qualified Restricted Stock Units.

In the event of an adjustment upon a Change in Control as set forth in Section 18 of the U.S. Plan, adjustments to the terms and conditions of the French-qualified Restricted Stock Units or underlying Shares may be made only in accordance with the U.S. Plan and pursuant to applicable French legal and tax rules. Nevertheless, the Administrator, at its discretion, may determine to make adjustments in the case of a transaction for which adjustments are not authorized under French law, in which case the Restricted Stock Units may no longer qualify as French-qualified Restricted Stock Units.

10. Death and Disability

In the event of the death of a French Participant, the French-qualified Restricted Stock Units held by the French Participant at the time of death shall become immediately transferable to the French Participant's heirs. The Company shall issue the underlying Shares to the French Participant's heirs, at their request, provided the heirs contact the Company within six (6) months following the death of the French Participant (or such other period as may be required by French law). If the French Participant's heirs do not request the issuance of the Shares underlying the French-qualified Restricted Stock Units within six (6) months following the French Participant's death (or such other period as may be required by French law), the French-qualified Restricted Stock Units will be forfeited.

If a French Participant's employment with the Company or any of its Subsidiaries terminates or if he/she ceases to be employed by the Company or a Subsidiary, in either case by reason of his or her death or Disability (as defined in this French Plan), the French Participant's heirs or the French Participant, as applicable, shall not be subject to the restrictions on the transfer of Shares set forth in Section 8(b) of this French Plan.

11. Interpretation

It is intended that Restricted Stock Units granted under this French Plan shall qualify for the favorable tax and social security treatment applicable to Restricted Stock Units granted for no consideration under Sections L. 225-197-1 to L. 225-197-5 of the French Commercial Code, as amended, and in accordance with the relevant provisions set forth by French tax and social security laws, but the Company does not undertake to maintain this status. The terms of this French Plan shall be interpreted accordingly and in accordance with the relevant provisions set forth by French tax and social security laws and relevant guidelines published by French tax and social security administrations and subject to the fulfillment of legal, tax and reporting obligations.

In the event of any conflict between the provisions of this French Plan and the U.S. Plan, the provisions of this French Plan shall control for any grants of Restricted Stock Units made thereunder to French Participants.

12. Adoption

The French Plan, in its entirety, was adopted by the Administrator on November 13, 2008.

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) As Adopted
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Richard P. Wallace, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of KLA-Tencor Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 29, 2009
(Date)

/s/ RICHARD P. WALLACE
Richard P. Wallace
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) As Adopted
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Mark P. Dentinger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of KLA-Tencor Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

January 29, 2009
(Date)

/s/ MARK P. DENTINGER
Mark P. Dentinger
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard P. Wallace, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of KLA-Tencor Corporation on Form 10-Q for the fiscal quarter ended December 31, 2008 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of KLA-Tencor Corporation.

January 29, 2009
Dated

By: /s/ RICHARD P. WALLACE
Name: Richard P. Wallace
Title: President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Mark P. Dentinger, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of KLA-Tencor Corporation on Form 10-Q for the fiscal quarter ended December 31, 2008 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of KLA-Tencor Corporation.

January 29, 2009
Dated

By: /s/ MARK P. DENTINGER
Name: Mark P. Dentinger
Title: Executive Vice President and Chief Financial Officer