

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM S-8  
REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933  
-----

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

DELAWARE

04-2564110

-----  
(STATE OF INCORPORATION)

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

160 RIO ROBLES, SAN JOSE, CALIFORNIA  
95134  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

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TENCOR INSTRUMENTS SECOND AMENDED AND RESTATED 1984 STOCK OPTION PLAN  
TENCOR INSTRUMENTS AMENDED AND RESTATED 1993 EQUITY INCENTIVE PLAN  
TENCOR INSTRUMENTS 1993 NONEMPLOYEE DIRECTORS STOCK OPTION PLAN  
TENCOR INSTRUMENTS 1993 EMPLOYEE STOCK PURCHASE PLAN  
TENCOR INSTRUMENTS 1993 FOREIGN SUBSIDIARY EMPLOYEE STOCK PURCHASE PLAN  
1983 EMPLOYEE INCENTIVE STOCK OPTION PLAN OF PROMETRIX CORPORATION  
1993 EMPLOYEE INCENTIVE STOCK OPTION PLAN OF PROMETRIX CORPORATION

(FULL TITLE OF THE PLAN)

LISA C. BERRY, ESQ.  
VICE PRESIDENT AND GENERAL COUNSEL  
160 RIO ROBLES, SAN JOSE, CALIFORNIA 95134, (408) 434-4200  
(NAME, ADDRESS, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF AGENT FOR SERVICE)

-----  
Copy to:

JUDITH M. O'BRIEN, ESQ.  
WILSON SONSINI GOODRICH & ROSATI  
PROFESSIONAL CORPORATION  
650 PAGE MILL ROAD, PALO ALTO, CA, 94304-1050  
(415) 493-9300

CALCULATION OF REGISTRATION FEE

<TABLE>  
<CAPTION>

Title of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, \$0.001 par value	3,133,335	\$45.875 (1)	\$143,741,743.13	\$43,558.10

(1) Estimated in accordance with Rule 457(c) under the Securities Act solely for the purpose of calculating the registration fee, based on the average of the high and low price of the Registrant's stock as reported in the Nasdaq National Market on May 1, 1997.

KLA-TENCOR CORPORATION  
REGISTRATION STATEMENT ON FORM S-8

PART II

INFORMATION REQUIRED IN REGISTRATION STATEMENT

ITEM 3. INCORPORATION OF DOCUMENTS BY REFERENCE.

There are hereby incorporated by reference in this Registration Statement the following documents and information heretofore filed by KLA-Tencor Corporation (the "Company" or "Registrant") with the Securities and Exchange Commission:

- (a) The Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1996 (File No. 000-09992) pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").
- (b) (1) The Registrant's quarterly report on Form 10-Q for the quarter ended September 30, 1996 (File No. 000-09992) filed pursuant to Section 13 of the Exchange Act.  
(2) The Registrant's quarterly report on Form 10-Q for the quarter ended December 31, 1996 (File No. 000-09992) filed pursuant to Section 13 of the Exchange Act.
- (3) The Registrant's Current Report on Form 8-K dated January 14, 1997 (File No. 000-09992) filed pursuant to Section 13 of the Exchange Act.
- (4) The Registrant's Current Report on Form 8-K dated April 15, 1997 (File No. 000-09992) filed pursuant to Section 13 of the Exchange Act.
- (c) The description of the Registrant's Common Stock as set forth in the Registration Statement filed by the Registrant on Form 8-A on March 29, 1989 (File No. 000-09992) pursuant to Section 12(g) of the Exchange Act and any amendments or reports thereto filed with the Securities and Exchange Commission for the purpose of updating such description including Amendment No. 1 to Form 8-A filed September 25, 1995 and Amendment No. 2 to Form 8-A filed September 24, 1996.

All documents filed by the Company pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act on or after the date of this Registration Statement and prior to the filing of a post-effective amendment which indicates that all securities offered have been sold or which deregisters all securities then remaining unsold shall be deemed to be incorporated by reference in this Registration Statement and to be part hereof from the date of filing of such documents.

ITEM 4. DESCRIPTION OF SECURITIES.

Not applicable.

ITEM 5. INTERESTS OF NAMED EXPERTS AND COUNSEL.

Not applicable.

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 145(a) of the Delaware General Corporation Law (the "DGCL") provides in relevant part that "[a] corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful." With respect to derivative actions, Section 145(b) of the DGCL provides in relevant part that "[a] corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor . . . [by reason of his service in one of the capacities specified in the preceding sentence] against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed

to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper."

The Company's Amended and Restated Certificate of Incorporation provides that to the fullest extent permitted by the DGCL, no director of the Company shall be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director. The Amended and Restated Certificate of Incorporation also provides that no amendment or repeal of such provision shall apply to or have any effect on the right to indemnification permitted thereunder with respect to claims arising from acts or omissions occurring in whole or in part before the effective date of such amendment or repeal whether asserted before or after such amendment or repeal.

The Company's By-Laws provide that the Company shall indemnify to the full extent permitted by the DGCL each of its directors, officers, employees and other agents against expenses actually and reasonably incurred in connection with any proceeding arising by reason of the fact that such person is or was an agent of the Company.

The Company has entered into indemnification agreements with its directors and executive officers and intends to enter into indemnification agreements with any new directors and executive officers in the future.

ITEM 7. EXEMPTION FROM REGISTRATION CLAIMED.

Not applicable

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ITEM 8. EXHIBITS.

<TABLE>  
<CAPTION>

Exhibit Number	Description
<S>	<C>
4.1	Amended and Restated Certificate of Incorporation of the Registrant
4.2	By-Laws of the Registrant, as amended
4.3+	Amended and Restated Rights Agreement dated as of August 30, 1995 between the Registrant and The First National Bank of Boston, as Rights Agent
5.1	Opinion of counsel as to legality of securities being registered
10.1	Tencor Instruments Second Amended and Restated 1984 Stock Option Plan
10.2	Tencor Instruments Amended and Restated 1993 Equity Incentive Plan
10.3	Tencor Instruments 1993 Nonemployee Directors Stock Option Plan
10.4	Tencor Instruments 1993 Employee Stock Purchase Plan
10.5	Tencor Instruments 1993 Foreign Subsidiary Employee Stock Purchase Plan
10.6	1983 Employee Incentive Stock Option Plan of Prometrix Corporation
10.7	1993 Employee Incentive Stock Option Plan of Prometrix Corporation
23.1	Consent of counsel (contained in Exhibit 5.1)
23.2	Consent of Independent Accountants
24.1	Power of Attorney (see page II-7)
+	Incorporated by reference to the Registrant's report, filed September 24, 1996, on Form 8-A/A Amendment No. 1 to the Registration Statement on Form 8-A (File No. 000-09992).

</TABLE>

ITEM 9. UNDERTAKINGS.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

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

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

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

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(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act of 1933 and will be governed by the final adjudication of such issue.

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SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, AS AMENDED, THE REGISTRANT CERTIFIES THAT IT HAS REASONABLE GROUNDS TO BELIEVE THAT IT MEETS ALL OF THE REQUIREMENTS FOR FILING ON FORM S-8 AND HAS DULY CAUSED THIS REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE CITY OF SAN JOSE, STATE OF CALIFORNIA, ON THIS 5TH DAY OF MAY, 1997.

KLA-TENCOR CORPORATION

By: /s/ KENNETH LEVY

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KENNETH LEVY  
CHAIRMAN OF THE BOARD

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POWER OF ATTORNEY

KNOW ALL THESE PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Kenneth Levy and Lisa C. Berry and each of them, jointly and severally, as his true and lawful attorneys-in-fact and agents, each with full power of substitution for him and in his name, place and stead in any and all capacities, to sign any and all amendments to this Registration Statement, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each said attorney-in-fact and agent or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, AS AMENDED, THIS REGISTRATION STATEMENT HAS BEEN SIGNED BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED:

<TABLE>

<CAPTION>

SIGNATURE -----	CAPACITY -----	DATE ----
<S> /s/ KENNETH LEVY ----- (Kenneth Levy)	<C> Chairman of the Board	<C> May 5, 1997
/s/ JON D. TOMPKINS ----- (Jon D. Tompkins)	Chief Executive Officer and Director	May 5, 1997
/s/ KENNETH L. SCHROEDER ----- (Kenneth L. Schroeder)	President and Director	May 5, 1997
/s/ ROBERT J. BOEHLKE ----- (Robert J. Boehlke)	Chief Financial Officer	May 5, 1997
/s/ JAMES W. BAGLEY ----- (James W. Bagley)	Director	May 5, 1997
/s/ EDWARD W. BARNHOLT ----- (Edward W. Barnholt)	Director	May 5, 1997
/s/ LEO J. CHAMBERLAIN ----- (Leo J. Chamberlain)	Director	May 5, 1997
/s/ RICHARD J. ELKUS, JR. ----- (Richard J. Elkus, Jr.)	Director	May 5, 1997
/s/ DEAN O. MORTON ----- (Dean O. Morton)	Director	May 5, 1997
/s/ YOSHIO NISHI, PH.D. ----- (Yoshio Nishi, Ph.D.)	Director	May 5, 1997
/s/ SAMUEL RUBINOVITZ ----- (Samuel Rubinovitz)	Director	May 5, 1997
/s/ DAG TELLEFSEN ----- (Dag Tellefsen)	Director	May 5, 1997
/s/ LIDA URBANEK ----- (Lida Urbaneck)	Director	May 5, 1997

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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EXHIBITS

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Registration Statement on Form S-8

KLA-TENCOR CORPORATION

May 8, 1997

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INDEX TO EXHIBITS

<TABLE>  
<CAPTION>

Exhibit Number

Description

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</TABLE>

## AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

OF

## KLA INSTRUMENTS CORPORATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) 250,000,000 shares shall be designated as Common Stock; and

(2) 1,000,000 shares shall be designated as Preferred Stock.

The Board of Directors is authorized, subject to any limitations prescribed by law, to provide for the issuance of shares of Preferred Stock in series, and by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences, and rights of the shares of each such series and any qualifications, limitations or restrictions thereof. The number of authorized shares of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the then outstanding shares of Common Stock, without a vote of the holders of the Preferred Stock, or of any series thereof, unless a vote of any such holders is required pursuant to the certificate or certificates establishing the series of Preferred Stock.

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

<TABLE>  
<CAPTION>

Name	Mailing Address
<S>	<C>
R.G. Dickerson	229 South State Street Dover, Delaware

</TABLE>

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SIXTH: The corporation is to have perpetual existence.

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

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

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

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

(c) The directors shall be divided into three classes, as nearly equal in number as reasonably possible, with the term of office of the first class to expire at the 1990 annual meeting of stockholders, the term of office of the second class to expire at the 1991 annual meeting of stockholders and the term of office of the third class to expire at the 1992 annual meeting of stockholders. At each annual meeting of stockholders following such initial classification and election, directors shall be elected to succeed those directors whose terms expires for a term of office to expire at the third succeeding annual meeting of stockholders after their election. All directors



shall hold office until the expiration of the term for which elected, and until their respective successors are elected, except in the case of the death, resignation, or removal of any director.

(d) Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification or other cause (other than removal from

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

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

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

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

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

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

TENTH: From time to time any of the provisions of this certificate of incorporation may be amended, altered or repealed, and other provisions authorized by the laws of the State of Delaware at the time in force may be added

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or inspected in the manner and at the time prescribed by said laws, and all

rights at any time conferred upon the stockholders of the corporation by this certificate of incorporation are granted subject to the provisions of this Article TENTH.

ELEVENTH:

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

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

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

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

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

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

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

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

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

3. For the purposes of this Article ELEVENTH:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

improper personal benefit.

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

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

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

KLA INSTRUMENTS CORPORATION

By: /s/ KENNETH LEVY

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Kenneth Levy  
Chief Executive Officer

ATTEST:

By: /s/ LARRY W. SONSINI

-----  
Larry W. Sonsini  
Secretary

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KLA-TENCOR CORPORATION  
A DELAWARE CORPORATION

BY-LAWS

ORIGINALLY ADOPTED: JUNE 12, 1989  
AS AMENDED: APRIL 30, 1997

KLA-TENCOR CORPORATION,  
A DELAWARE CORPORATION  
BY-LAWS  
ORIGINALLY ADOPTED: JUNE 12, 1989  
AS AMENDED: APRIL 30, 1997

ARTICLE 1.

STOCKHOLDERS

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

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

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

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originally noticed, or if a new record date is fixed for the adjourned meeting, written notice of the place, date, and time of the adjourned meeting shall be given in conformity herewith. At any adjourned meeting, any business may be transacted which might have been transacted at the original meeting.

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

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

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

\* Section 5 Conduct of the Stockholders' Meeting. At every meeting of the stockholders, the Chairman of the Board of the Corporation, or in his absence the Chief Executive Officer of the Corporation, or in his absence the

President of the Corporation, or in his absence the Vice President designated by the Chairman of the Board or the Chief Executive Officer, or in the absence of such designation any Vice President, or in the absence of the Chairman of the Board, Chief Executive Officer, President or any Vice President a chairman chosen by the majority of the voting shares represented in person or by proxy, shall act as chairman of the meeting. The Secretary of the Corporation or a person designated by the chairman shall act as Secretary of the meeting. Unless otherwise approved

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\* As amended April 30, 1997.

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by the chairman, attendance at the Stockholders' Meeting shall be restricted to stockholders of record, persons authorized in accordance with Section 8 of these By-Laws to act by proxy, and officers of the Corporation.

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

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

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

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meeting, if, and only if, the notice of a special meeting provides for business to be brought before the meeting by stockholders, properly brought before the meeting by a stockholder.

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

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

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

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

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

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

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

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

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

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Section 10 Elimination of Written Consent. Any action required or permitted to be taken by the stockholders of the corporation must be effected at a duly called annual or special meeting of stockholders of the corporation and may not be effected by any consent in writing by such stockholders.

## ARTICLE 2.

### BOARD OF DIRECTORS

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

Section 2 Vacancies and Newly Created Directorships. Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification or other cause (other than removal from office by a vote of stockholders) may be filled only by a majority vote of

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\* As amended April 30, 1997.

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the directors then in office, though less than a quorum, and directors so chosen shall hold office for a term expiring at the annual meeting of stockholders at which the term of office of the class to which they have been elected expires. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

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

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

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

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

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

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

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

Section 9 Powers. The Board of Directors may, except as otherwise



required by, law, exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, including, without limiting the generality of the foregoing, the unqualified power:

- i. To declare dividends from time to time in accordance with law;
- ii. To purchase or otherwise acquire any property, rights or privileges on such terms as it shall determine;

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

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

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

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

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

viii. To adopt from time to time regulations, not inconsistent with these By-Laws, for the management of the Corporation's business and affairs.

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

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

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Directors of the Corporation established by any nominating committee designated by the Board, which requirements shall be designed to evaluate, without limitation, the following:

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

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

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

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

by the Corporation under the requirements of the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder.

Each such notice by a stockholder shall set forth: (a) the name and address, as they appear on the Corporation's stock register, of the stockholder who intends to make the nomination; (b) a representation that the stockholder is a holder of record of stock of the Corporation entitled to vote for the election of Directors on the date of such notice and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;

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(c) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder; (d) the name, age, business and residence address and principal occupation of each person the stockholder proposes to nominate for election as a director; (e) such other information regarding the stockholder and each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission, whether or not proxies are in fact solicited for the election of such person; and (f) the signed consent of each nominee to serve as a director of the Corporation if so elected. The Corporation or any nominating committee designated by the Board of Directors may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation or such committee to determine the qualification of such nominee for election as a director of the Corporation.

In the event that a person is validly designated as a nominee in accordance with this Section 11 and shall thereafter become unable or unwilling to stand for election to the Board of Directors, the Board of Directors or the stockholder who proposed such nominee as the case may be, may designate a substitute nominee; provided, however, that (i) in the case of the persons nominated by a stockholder, such a substitution may only be made if a written notice to the Secretary setting forth such information regarding such substitute nominee as would have been required to be delivered to the Secretary pursuant to this Section 11 had such substitute nominee been initially proposed as a nominee is received by the Corporation at its principal executive offices not less than thirty (30) days before the date of the election at which the initial nominee was nominated to stand or (ii) in the case of persons nominated by the Board of Directors the substitute nominee must be designated not less than thirty (30) days before the date of the election at which the initial nominee was nominated to stand.

If the chairman of the meeting for the election of Directors determines that a nomination of any candidate for election as a Director at such meeting was not made in accordance with the applicable provisions of this Section 11,

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such nomination shall be void; provided, however, that nothing in this Section 11 shall be deemed to limit any voting rights upon the occurrence of dividend arrearages, provided to holders of Preferred Stock pursuant to the Preferred Stock designation for any series of Preferred Stock.

### ARTICLE 3.

#### COMMITTEES

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

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

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constitute a quorum unless the committee shall consist of one or two members, in which event one member shall constitute a quorum; and all matters shall be determined by a majority vote of the members present. Action may be taken by any committee without a meeting if all members thereof consent thereto in writing, and the writing or writings are filed with the minutes of the proceedings of such committee.

#### ARTICLE 4.

##### OFFICERS

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

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

\* Section 3 Chief Executive Officer. Subject to such supervisory powers, if any, as may be given by the Board of Directors to the Chairman of the Board, if there be such an officer, the Chief Executive Officer of the

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\* As amended April 30, 1997.

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

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

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

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

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

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

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

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

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

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\* As amended April 30, 1997.

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ARTICLE 5.

STOCK

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

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

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

Section 4 Lost, Stolen or Destroyed Certificates. In the event of the loss, theft or destruction of any certificate of stock, another may be issued in its place pursuant to such regulations as the Board of Directors may

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\* As amended April 30, 1997.

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establish concerning proof of such loss, theft or destruction and concerning the giving of a satisfactory bond or bonds of indemnity.

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

#### ARTICLE 6.

##### NOTICES

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

Section 2 Waivers. A written waiver of any notice, signed by a stockholder, director, officer, employee or agent, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to the notice required to be given to such stockholder, director, officer, employee or agent. Neither the business nor the purpose of any meeting need be specified in such a waiver. Attendance of a person at a meeting shall constitute a waiver of notice for such meeting, except when the person attends a meeting for the express purpose of objecting,

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at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

#### ARTICLE 7.

##### MISCELLANEOUS

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

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

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

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

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

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#### ARTICLE 8.

##### INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 1 Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative ("proceeding"), by reason of the fact that he or a person of whom he is the

legal representative, is or was a director, officer or employee of the Corporation or is or was serving at the request of the Corporation as a director, officer or employee of another corporation, or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer or employee or in any other capacity while serving as a director, officer or employee, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by Delaware Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said Law permitted the Corporation to provide prior to such amendment) against all expenses, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties, amounts paid or to be paid in settlement and amounts expended in seeking indemnification granted to such person under applicable law, this by-law or any agreement with the Corporation) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer or employee and shall inure to the benefit of his or her heirs, executors and administrators; provided however, that, except as provided in Section 2 of this Article VIII, the Corporation shall indemnify any such person seeking indemnity in connection with an action, suit or proceeding (or part thereof) initiated by such person only if such action, suit or proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. Such right shall be a contract right and shall include the right to be paid by the Corporation expenses incurred in defending any such proceeding in advance of its final disposition; provided,

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however, that, if the Delaware General Corporation Law then so requires, the payment of such expenses incurred by a director or officer of the Corporation in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of such proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it should be determined ultimately that such director or officer is not entitled to be indemnified under this Section 1 or otherwise.

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

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

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

Article VIII.

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

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

Section 7 Savings Clause. If this Article VIII or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director, officer, employee and agent of the Corporation as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative

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or investigative, including an action by or in the right of the Corporation, to the full extent permitted by an applicable portion of this Article VIII that shall not have been invalidated and to the full extent permitted by applicable law.

ARTICLE 9.

AMENDMENTS

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

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[LETTERHEAD]

May 7, 1997

KLA-Tencor Corporation  
160 Rio Robles  
San Jose, CA 95134

RE: REGISTRATION STATEMENT ON FORM S-8

Ladies and Gentlemen:

We have examined the Registration Statement on Form S-8 to be filed by you with the Securities and Exchange Commission on May 7, 1997 (the "Registration Statement") in connection with the registration under the Securities Act of 1933, as amended, of an aggregate of 3,133,335 shares of your Common Stock, par value \$0.001 per share (the "Shares") to be issued pursuant to the Tencor Instruments Second Amended and Restated 1984 Stock Option Plan, Tencor Instruments Amended and Restated 1993 Equity Incentive Plan, Tencor Instruments 1993 Nonemployee Directors Stock Option Plan, Tencor Instruments 1993 Employee Stock Purchase Plan, Tencor Instruments 1993 Foreign Subsidiary Employee Stock Purchase Plan, 1983 Employee Incentive Stock Option Plan of Prometrix Corporation and 1993 Employee Incentive Stock Option Plan of Prometrix Corporation (collectively, the "Plans"). As your counsel in connection with this transaction, we have examined the proceedings taken and are familiar with the proceedings proposed to be taken by you in connection with the issuance and sale of the Shares pursuant to the Plans.

It is our opinion that, when issued and sold in the manner described in the Plans and pursuant to the agreements which accompany each grant under the Plans, the Shares will be legally and validly issued, fully-paid and non-assessable.

We consent to the use of this opinion as an exhibit to the Registration Statement, and further consent to the use of our name wherever appearing in the Registration Statement and any amendments thereto.

Very truly yours,

WILSON SONSINI GOODRICH & ROSATI

/s/ WILSON SONSINI GOODRICH & ROSATI



AMENDED  
THROUGH  
11/16/92TENCOR INSTRUMENTS  
SECOND AMENDED AND RESTATED  
1984 STOCK OPTION PLAN

## 1. PURPOSES OF THE PLAN

The purposes of this Second Amended and Restated 1984 Stock Option Plan (the "Plan") of Tencor Instruments (the "Company") are to:

(a) encourage selected officers, directors, and consultants to improve operations and increase profits of the Company;

(b) encourage selected officers to accept or continue employment with the Company or its Affiliates; and

(c) increase the interest of selected officers, directors, and consultants in the Company's welfare through participation in the growth in value of the Company's no par value common stock of the Company (the "Common Stock").

Options granted under this Plan ("Options") may be "incentive stock options" ("ISOs") intended to satisfy the requirements of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or "nonqualified options" ("NQOs").

## 2. ELIGIBLE PERSONS

Every person who at the date of grant of an Option is a key employee of the Company or of any Affiliate (as defined below) (including employees who are also officers or directors of the Company or of any Affiliate) is eligible to receive NQOs or ISOs under this Plan. The term "Affiliate" as used in the Plan means a parent or subsidiary corporation as defined in the applicable provisions (currently Sections 424(e) and (f), respectively) of the Code. Every person who is a director of or consultant to the Company or any Affiliate at the date of grant of an Option is eligible to receive NQOs under this Plan.

## 3. STOCK SUBJECT TO THIS PLAN

Subject to the provisions of Section 6.1.1 of the Plan, the maximum aggregate number of shares of stock which may be granted pursuant to this Plan is 1,550,352(1) shares of Common Stock. The shares covered by the portion of any grant under the Plan which expires unexercised shall become available again for grants under the Plan.

## 4. ADMINISTRATION

4.1 Option Committee. This Plan shall be administered by the Board of Directors of the Company (the "Board") or by a committee of at least two Board members to which administration of the plan is delegated (in either case, the "Option Committee"). No member of this Option Committee shall be liable for any decision, action or omission respecting the Plan, any options or any option shares.

4.2 Disinterested Administration. From and after such time as the Company registers a class of equity securities under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), this Plan shall be administered in accordance with the disinterested administration requirements of Rule 16b-3 promulgated by the Securities and Exchange Commission ("Rule 16b-3"), or any successor rule thereto.

4.3 Authority of the Option Committee. Subject to the other provisions of this Plan, the Option Committee shall have the authority, in its discretion: (i) to grant Options; (ii) to determine the fair market value of the Common Stock subject to Options; (iii) to determine the exercise price of Options granted; (iv) to determine the persons to whom, and the time or times at which, Options shall be granted, and the number of shares subject to each Option; (v) to interpret this Plan; (vi) to prescribe, amend and rescind rules and regulations relating to this Plan; (vii) to determine the terms and provisions of each Option granted (which need not be identical), including but not limited to, the time or times at which Options shall be exercisable; (viii) with the consent of the optionee, to modify or amend any Option; (ix) to defer (with the consent of the optionee) or accelerate the exercise date or vesting of any Option; (x) to authorize any person to execute on behalf of the Company any

instrument evidencing the grant of an Option; and (xi) to make all other determinations deemed necessary or advisable for the administration of this Plan. The Option

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(1) The number of shares initially authorized to be issued under the Plan was 77,856. On 7 May 1984, the Company effected a "three-for-one" stock split which, pursuant to Section 11 of the Plan (as it appeared prior to this Amendment and Restatement), automatically increased the number of shares under the Plan to 233,568. On 2 May 1986, the Company's shareholders approved an amendment adopted by the Board of Directors on 27 March 1986 increasing the number of shares by 300,000. On 4 May 1990, the Company's shareholders approved an amendment adopted by the Board of Directors on 13 March 1990 increasing the number of shares by 500,000. On 26 March 1992, the Company effected a "three-for-two stock split which, pursuant to Section 6.1.1 of the Plan, automatically increased the number of shares under the Plan to 1,550,352.

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Committee may delegate nondiscretionary administrative duties to such employees of the Company as it deems proper.

4.4 Determinations Final. All questions of interpretation, implementation, and application of this Plan shall be determined by the Option Committee. Such determinations shall be final and binding on all persons.

#### 5. GRANTING OF OPTIONS; OPTION AGREEMENT

5.1 Ten-Year Term. No Options shall be granted under this Plan after ten years from the date of adoption of this Plan by the Board.

5.2 Option Agreement. Each Option shall be evidenced by a written stock option agreement, in form satisfactory to the Company, executed by the Company and the person to whom such Option is granted; provided, however, that the failure by the Company, the optionee, or both to execute such an agreement shall not invalidate the granting of any Option granted after February 10, 1992.

5.3 Designation as ISO or NQO. The agreement shall specify whether each Option it evidences is a NQO or an ISO.

(i) Notwithstanding designation of any Option granted after February 10, 1992 as an ISO or a NQO, if the aggregate fair market value of the shares under Options designated as ISOs would become exercisable for the first time by any Optionee at a rate in excess of \$100,000 in any calendar year (under all plans of the Company), then unless otherwise provided in the stock option agreement or by the Option Committee, such Options shall be NQOs to the extent of the excess above \$100,000. For purposes of this Section 5.3, Options shall be taken into account in the order in which they were granted, and the fair market value of the shares shall be determined as of the time the Option with respect to such shares is granted.

(ii) Options granted after 1986 and on or before February 10, 1992 are subject to the provisions of Section 6.1.3(b).

5.4 Grant to Prospective Employees. The Option Committee may approve the grant of Options under this Plan to persons who are expected to become employees of the Company, but are not employees at the date of approval. In such cases, the Option shall be deemed granted, without further approval, on the date the optionee is first treated as an employee for payroll purposes.

#### 6. TERMS AND CONDITIONS OF OPTIONS

Each Option granted under this Plan shall be designated as a NQO or an ISO. Each Option shall be subject to the terms and conditions set forth in Section 6.1. NQOs shall be also

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subject to the terms and conditions set forth in Section 6.2, but not those set forth in Section 6.3. ISOs shall also be subject to the terms and conditions set forth in Section 6.3, but not those set forth in Section 6.2.

6.1 Terms and Conditions to Which All Options Are Subject. All Options granted under this Plan shall be subject to the following terms and conditions:

6.1.1 Changes in Capital Structure. The existence of outstanding Options shall not affect the Company's right to effect adjustments, recapitalizations, reorganizations or other changes in its or any of other corporation's capital structure or business, any merger or consolidation, any

issuance of bonds, debentures, preferred or prior preference stock ahead of or affecting Common Stock, the dissolution or liquidation of the Company's or any other corporation's assets or business or any other corporate act whether similar to the events described above or otherwise. Subject to Section 6.1.2, if the stock of the Company is changed by reason of a stock split, reverse stock split, stock dividend, recapitalization, or other event, or converted into or exchanged for other securities as a result of a merger, consolidation, reorganization, or other event, appropriate adjustments shall be made in (a) the number and class of shares of stock subject to this Plan and each Option outstanding under this Plan, and (b) the exercise price of each outstanding Option; provided, however, that the Company shall not be required to issue fractional shares as a result of any such adjustments. Each such adjustment shall be subject to approval by the Option Committee in its sole discretion, and may be made without regard to any resulting tax consequences to the optionee.

6.1.2 Corporate Transactions. In connection with (i) any merger, consolidation, acquisition, separation, or reorganization under which more than 50 percent of the shares of the Company outstanding immediately before such event are converted into cash or into another security, (ii) any dissolution or liquidation of the Company or any partial liquidation involving 50 percent or more of the assets of the Company, (iii) any sale of more than 50 percent of the Company's assets, or (iv) any like occurrence in which the Company is involved, the Option Committee may, in its absolute discretion, do one or more of the following upon 10 days' prior written notice to optionees: (a) accelerate any vesting schedule to which an Option is subject (subject to the limitation on exercisability of ISOs granted after 1986 and before February 10, 1992 provided in Section 6.1.3(b) of this Plan); (b) cancel Options upon payment to each optionee in cash, with respect to each Option to the extent then exercisable, of any amount which, in the absolute discretion of the Option Committee, is determined to be equivalent to any excess of the market value (at the effective time of such event) of the consideration that such optionee would have received if the Option had been exercised before the effective time over the exercise price of the Option; (c) shorten the period during which such Options are exercisable (provided they remain exercisable, to the extent otherwise exercisable, for at least 10 days after the date the notice is given); or (d) arrange that new option rights be substituted for the option rights granted under this Plan, or that the Company's obligations as to Options outstanding under this Plan be assumed, by an employer corporation other than the Company or by a parent or subsidiary of such employer corporation. The actions described in this Section 6.1.2 may be taken without regard to any resulting tax consequences to the optionee.

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#### 6.1.3 Time of Option Exercise.

(a) Options Granted After February 10, 1992. Except as necessary to satisfy the requirements of Section 422 of the Code and subject to Section 5, Options granted under this Plan after February 10, 1992, shall be exercisable (a) immediately as of the effective date of the stock option agreement granting the Option, or (b) at such other times as are specified in the written stock option agreement relating to such Option; provided, however, that so long as the optionee is a director or officer, as those terms are used in Section 16 of the Exchange Act, such Option may not be exercisable, in whole or in part, at any time prior to the six-month anniversary of the date of Option grant, unless the Option Committee determines that the foregoing provision is not necessary to comply with the provisions of Rule 16b-3 or that Rule 16b-3 is not applicable to the Plan. No Option granted after February 10, 1992, shall be exercisable, however, until a written stock option agreement in form satisfactory to the Company is executed by the Company and the optionee.

(b) Options Granted After 1986 and Before February 10, 1992. Subject to the provisions of this Plan, Options granted under this Plan after 1986 and before February 10, 1992 are exercisable in their entirety upon the optionee's execution of the written stock option agreement evidencing the Option or at such times and in such amounts as are specified in the written stock option agreement. However, no portion of any ISO granted after 1986 and before February 10, 1992 shall become exercisable for the first time if, and to the extent that, such vesting would, taken together with vesting of all other ISOs granted to the optionee after 1986 under all option plans of the Company and any Affiliate, occur at a rate in excess of \$100,000 worth of stock (measured on the grant date) in any calendar year. If, by their terms, such ISOs taken together would vest at a faster rate, and unless otherwise provided by the Option Committee, the vesting limitation described above shall be applied by deferring the exercisability of those ISOs or portions thereof which have the highest per share exercise prices. The ISOs or portions thereof, the exercisability of which is so deferred, shall become exercisable on the first day of the first subsequent calendar year during which they may be exercised by their terms (without regard to this limitation), as determined by applying these same principles and all other provisions of this Plan, including those relating to the expiration and termination of Options. In no event, however, will the operation of this Section 6.1.3(b) cause an ISO to vest before its terms or, having vested, cease to be vested.

(c) Options Granted Before 1987. Subject to the other provisions of this Plan, Options granted before 1987 shall be exercisable in their entirety upon the Optionee's execution of the written stock option agreement evidencing the Option or at such times and in such amounts as are specified in the written stock option agreement. ISOs granted before 1987 shall not be exercisable while the optionee holds a previously granted outstanding ISO to purchase stock in the Company, a company which at the time of grant was a parent or subsidiary of the Company, or a company which is a predecessor corporation of any of the foregoing. For these purposes, an option shall be considered outstanding until it is exercised in full or expires by reason of lapse of time within the meaning of Section 422A(c)(7) of the Internal Revenue Code of 1954, as in effect before the enactment of the Tax Reform Act of 1986.

(d) All Options. The Option Committee, in its absolute discretion, may later waive any limitations respecting the time at which an Option or any portion of an Option first becomes exercisable.

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6.1.4 Option Grant Date. Except as provided in Section 5.4 or as otherwise specified by the Option Committee, the date of grant of an Option under this Plan shall be the date as of which the Option Committee approves the grant.

6.1.5 Nonassignability of Option Rights. No ISO granted under this Plan or NQO granted on or before February 10, 1992, shall be assignable or otherwise transferable by the optionee except by will or by the laws of descent and distribution. No NQO granted after February 10, 1992, shall be assignable or otherwise transferable by the optionee except by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code. During the life of the optionee, an Option shall be exercisable only by the optionee.

6.1.6 Payment.

(a) All Options. Except as provided below, payment in full shall be made for all stock purchased at the time written notice of exercise of an Option is given to the Company, and proceeds of any payment shall constitute general funds of the Company. Payment may be made in cash, by delivery to the Company of shares of Common Stock owned by the optionee (duly endorsed in favor of the Company or accompanied by a duly endorsed stock power), or by a combination of cash and stock. Any shares delivered shall be valued as of the date of exercise of the Option in the manner set forth in Section 6.1.12. Optionees may not exercise Options by delivery of shares more frequently than at six-month intervals. Notwithstanding the foregoing, in the event that an optionee's termination of employment with the Company or an Affiliate occurs less than six months after a previous exercise of Options by the optionee by delivery of shares, as described above, the optionee shall be permitted to exercise Options granted on or after November 16, 1992, to the extent they were exercisable on the date of the termination, by delivery of shares.

(b) Options Granted to Officers After May 3, 1991. The Option Committee, in its discretion, may accept as payment for all or part of the Option price of Options granted to an officer of the Company after May 3, 1991, the optionee's full recourse promissory note, having such terms as determined by the Option Committee. In the case of Options granted after February 10, 1992, a promissory note delivered in payment of the purchase price may in no event bear interest at less than the minimum interest rate specified under the Code at which no additional interest on debt instruments of such type would be imputed, and may be either secured or unsecured in such manner as the Option Committee shall approve (including, without limitation, by a security interest in the shares of the Company).

(c) Options Granted After February 10, 1992. In the case of Options granted after February 10, 1992, the Option Committee may accept as payment any other consideration and method of payment to the extent permitted under the California Corporations Code.

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6.1.7 Termination of Employment.

(a) Options Granted After February 10, 1992. Unless determined otherwise by the Option Committee in its absolute discretion, to the extent not already expired or exercised, an Option granted after February 10, 1992 shall terminate at the earlier of (a) the Expiration Date (as defined in Section 6.1.13) or (b) three months after termination of employment with the Company or any Affiliate; provided, that an Option shall be exercisable after the date of termination of employment only to the extent exercisable on the date of termination; and provided further, that if termination of employment is due to the optionee's death or "disability" (as determined in accordance with Section 22(e)(3) of the Code), the optionee, or the optionee's personal representative (or any other person who acquires the Option from the optionee by

will or the applicable laws of descent and distribution), may at any time within 18 months after the termination of employment (or such lesser period as is specified in the option agreement but in no event after the Expiration Date of the Option), exercise the rights to the extent they were exercisable on the date of the termination.

(b) Options Granted on or Before February 10, 1992. An Option granted on or before February 10, 1992 shall terminate on the earlier of (i) the Expiration Date and (ii) three months after termination of employment with the Company or any Affiliate; provided, that an Option shall be exercisable after the date of termination of employment only to the extent exercisable on the date of termination; and provided further, that if the optionee dies while employed by the Company or any Affiliate or within the period that the Option remains exercisable after termination of employment, the optionee's personal representative (or any other person who acquires the Option from the optionee by will or the applicable laws of descent and distribution) may at any time within 12 months after the optionee's death or any lesser period specified in the option agreement (but in no event after the Expiration Date), exercise the rights to the extent they were exercisable on the date of the optionee's death.

(c) All Options. A transfer of an optionee from the Company to an Affiliate or vice versa, or from one Affiliate to another, or a leave of absence due to sickness, military service, or other cause duly approved by the Company, shall not be deemed a termination of employment for purposes of this Plan. For the purpose of this Section 6.1.7, "employment" means engagement with the Company or any subsidiary of the Company either as an employee, as a director, or as a consultant.

6.1.8 Repurchase of Stock. In addition to the right of first refusal set forth in Section 6.1.9, at the time it grants Options under this Plan, the Company may retain, for itself or others, rights to purchase the shares acquired under the Option or impose other restrictions on the shares. The terms and conditions of any such rights or other restrictions shall be set forth in the option agreement evidencing the Option.

#### 6.1.9 Company's Right of First Refusal.

(a) Company's Right; Notice. Stock delivered pursuant to the exercise of any Option granted under this Plan, shall be subject to a right of first refusal by the Company in the event that the holder of such shares proposes to sell, pledge or otherwise transfer

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such shares or any interest in such shares to any person or entity. Any holder of shares purchased under this Plan pursuant to such an Option desiring to transfer such shares or any interest in such shares shall give a written notice (the "Offer Notice") to the Company describing the proposed transfer, including the number of shares proposed to be transferred, the proposed transfer price and terms and the name and address of the proposed transferee. The Company shall have the right within 20 days after receipt of the Offer Notice to purchase the shares proposed to be transferred, on the same terms (including, without limitation, price terms) offered by the proposed transferee. The Company's rights under this Section 6.1.9 shall be freely assignable.

(b) Exercise. Except as provided under any repurchase right imposed under Section 6.1.8, if the Company fails to exercise its right of first refusal within 20 days from the date on which the company receives the Offer Notice, the shareholder may, within the next 90 days, conclude a transfer to the proposed transferee of the exact number of shares covered by that notice on terms not more favorable to the transferee than those described in the notice. Any subsequent proposed transfer shall again be subject to the Company's right of first refusal. If the Company exercises its right of first refusal, the shareholder shall endorse and deliver to the Company the stock certificates representing the shares being repurchased. The Company shall pay the shareholder the total repurchase price for the shares no later than the later of (i) 60 days after receipt of the Offer Notice and (ii) the end of such period for payment offered by the bona fide third party transferor. The holder of the shares being repurchased shall cease to have any rights with respect to such shares immediately upon receipt of the repurchase price.

(c) Exceptions. Notwithstanding the foregoing, no notice of a proposed transfer shall be required and no right of first refusal shall exist with respect to transfers, including sales, to an optionee's children, grandchildren, or parents or to trusts, estates, or custodianships of or for the account of an optionee or an optionee's children, grandchildren, or parents.

(d) Termination of Company's Right. The right of first refusal set forth in this Section 6.1.9 shall terminate upon the consummation of an underwritten public offering of the Company's Common Stock registered under the Securities Act of 1933.

(e) No Limitation. Nothing in this Section 6.1.9 shall limit the rights of the Company under any repurchase right imposed under Section

6.1.10 Withholding and Employment Taxes. At the time of exercise of an Option (or at such later time(s) as the Company may prescribe), the optionee shall remit to the Company in cash all applicable federal and state withholding and employment taxes. The Option Committee may, in the exercise of its sole discretion, permit an optionee to pay some or all of such taxes by means of a promissory note on such terms as the Option Committee deems appropriate. If authorized by the Option Committee in its sole discretion, and if the Option has been held for six months or more, an optionee may elect to have shares of Common Stock which are acquired upon exercise of the Option withheld by the Company or to tender to the company other shares of Common Stock or other securities of the Company owned by the optionee on the date of

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determination of the amount of tax to be withheld as a result of the exercise of such Option (the "Tax Date") to pay the amount of tax that is required by law to be withheld by the Company as a result of the exercise of such Option, provided that such election satisfies the following requirements:

(a) such election shall be irrevocable, shall be made at least six months prior to the Option exercise transaction, and shall be subject to the disapproval of the Option Committee at any time prior to the consummation of the Option exercise; or

(b) such election shall be made in advance to take effect in a subsequent "window period" (as defined below) in which the Option is exercised, and the Option Committee shall approve such election when it is made or at any time thereafter up to consummation of the Option exercise; or

(c) such election is made in a window period and the approval of the Option Committee is given after the election is made and within the same window period, and the Option exercise is consummated within such window period; or

(d) shares or other previously owned securities are tendered (but stock is not withheld) at any time up to the consummation of the Option exercise (in which event, neither a prior irrevocable election nor window period timing requirements is required);

provided that clauses (b) and (c) shall not be available until the Company has been subject to the reporting requirements of the Securities Exchange Act of 1934 for at least one year. A "window period" is the period beginning on the third business day following the date of release for publication of quarterly or annual summary statements of sales and earnings and ending on the twelfth business day following such date. Any securities so withheld or tendered shall be valued by the Company as of the Tax Date.

6.1.11 Other Provisions. Each Option granted under this Plan may contain such other terms, provisions, and conditions not inconsistent with this Plan as may be determined by the Option Committee, and each ISO granted under this Plan shall include such provisions and conditions as are necessary to qualify the Option as an "incentive stock option" within the meaning of Section 422 of the Code.

6.1.12 Determination of Value. For purposes of the Plan, the value of Common Stock or other securities of the Company shall be determined as follows:

(a) If the stock of the Company is listed on any established stock exchange or a national market system, including without limitation the National Market System of the National Association of Securities Dealers Automated Quotation System, its fair market value shall be the closing sales price for such stock or the closing bid if no sales were reported, as quoted on such system or exchange (or the largest such exchange) for the date the value is to be determined (or if there are no sales for such date, then for the last preceding business day on which there were sales), as reported in the Wall Street Journal.

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(b) If the stock of the Company is regularly quoted by a recognized securities dealer but selling prices are not reported, its fair market value shall be the mean between the high bid and low asked prices for the stock on the date the value is to be determined (or if there are no quoted prices for the date of grant, then for the last preceding business day on which there were quoted prices).

(c) If the stock of the Company is as described in Section 6.1.12(a) or (b), but is restricted by law, contract, market conditions or

otherwise as to salability or transferability, its fair market value shall be as set forth in Section 6.1.12(a) or (b), as appropriate, less, as determined by the Option Committee, an appropriate discount, based on the nature and terms of the restrictions.

(d) In the absence of an established market for the stock, the fair market value thereof shall be determined by the Option Committee, with reference to the Company's net worth, prospective earning power, dividend-paying capacity, and other relevant factors, including the goodwill of the Company, the economic outlook in the Company's industry, the company's position in the industry and its management, and the values of stock of other corporations in the same or a similar line of business.

6.1.13 Option Term. No Option shall be exercisable more than ten years after the date of grant, or such lesser period of time as is set forth in the option agreement (the end of the maximum exercise period stated in the option agreement is referred to in this Plan as the "Expiration Date"). No Option granted after February 10, 1992, and no ISO granted on or before that date, to any person who owns, directly or by attribution, stock possessing more than ten percent of the total combined voting power of all classes of stock of the Company or of any Affiliate (a "Ten Percent Stockholder") shall be exercisable more than five years after the date of grant.

6.1.14 Exercise Price. The exercise price of any Option granted to any Ten Percent Stockholder shall in no event be less than 110 percent of the fair market value (determined in accordance with Section 6.1.12) of the stock covered by the Option at the time the Option is granted.

6.1.15 Compliance with Securities Laws. The Company shall not be obligated to offer or sell any shares upon exercise of an Option unless the shares are at that time effectively registered or exempt from registration under the federal securities laws and the offer and sale of the shares are otherwise in compliance with all applicable state and local securities laws. The Company shall have no obligation to register the shares under the federal securities laws or take whatever other steps may be necessary to enable the shares to be offered and sold under federal or other securities laws. Upon exercising all or any portion of an Option, an optionee may be required to furnish representations or undertakings deemed appropriate by the Company to enable the offer and sale of the Option shares or subsequent transfers of any interest in the shares to comply with applicable securities laws. Stock certificates evidencing shares acquired upon exercise of options shall bear any legend required by, or useful for purposes of compliance with, applicable securities laws, this Plan or the option agreement evidencing the Option.

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6.2 Terms and Conditions to Which Only NQOs Are Subject. Options granted under this Plan which are designated as NQOs shall be subject to the following terms and conditions:

6.2.1 Exercise Price. Except as set forth in Section 6.1.14, the exercise price of a NQO shall be not less than 85 percent of the fair market value (determined in accordance with Section 6.1.12) of the stock subject to the Option on the date of grant.

6.3 Terms and Conditions to Which Only ISOs Are Subject. Options granted under this Plan which are designated as ISOs shall be subject to the following terms and conditions:

6.3.1 Exercise Price. Except as set forth in Section 6.1.14, the exercise price of an ISO shall be determined in accordance with the applicable provisions of the Code and shall in no event be less than the fair market value (determined in accordance with Section 6.1.12) of the stock covered by the Option at the time the Option is granted.

6.3.2 Disqualifying Dispositions. If stock acquired upon exercise of an ISO is disposed of in a "disqualifying disposition" within the meaning of Section 422 of the Code, the holder of the stock immediately before the disposition shall notify the Company in writing of the date and terms of the disposition and comply with any other requirements imposed by the Company in order to enable the Company to secure any related income tax deduction to which it is entitled.

## 7. MANNER OF EXERCISE

An optionee wishing to exercise an Option shall give written notice to the Company at its principal executive office, to the attention of the officer of the Company designated by the Option Committee, accompanied by payment of the exercise price as provided in Section 6.1.6. The date the Company receives written notice of an exercise hereunder accompanied by payment of the exercise price and, if required, by payment of any federal or state withholding or employment taxes required to be withheld by virtue of exercise of the Option will be considered as the date such Option was exercised.

Promptly after receipt of written notice of exercise of an Option, the Company shall, without stock issue or transfer taxes to the optionee or other person entitled to exercise the Option, deliver to the optionee or such other person a certificate or certificates for the requisite number of shares of stock. Unless the Company specifies otherwise, an optionee or transferee of an optionee shall not have any privileges as a shareholder with respect to any stock covered by the Option until the date of issuance of a stock certificate. Subject to Section 6.1.1 hereof, no adjustment shall be made for dividends or other rights for which the record date is prior to the date the certificates are delivered.

8. EMPLOYMENT RELATIONSHIP

Nothing in this Plan or any Option granted thereunder shall interfere with or limit in any way the right of the Company or of any of its Affiliates to terminate any optionee's employment at any

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time, nor confer upon any optionee any right to continue in the employ of the Company or any of its Affiliates.

9. AMENDMENTS TO PLAN

The Board may amend this Plan at any time. Without the consent of an optionee, no amendment may affect outstanding Options except to conform this Plan and ISOs granted under this Plan to federal or other tax laws relating to incentive stock options. No amendment shall require shareholder approval unless shareholder approval is required to preserve incentive stock option treatment for tax purposes or the Board otherwise concludes that shareholder approval is advisable.

10. SHAREHOLDER APPROVAL; TERM

The Board of Directors of the Company adopted the 1984 Incentive Stock Option Plan on February 1, 1984, and the Company's shareholders approved it on May 5, 1984. The Board amended the Plan on March 27, 1986, and the Company's shareholders approved such amendment on May 2, 1986. The Board further amended this Plan on November 20, 1987, and formally adopted the amended and restated plan incorporating such amendments on May 6, 1988. The Board further amended the Plan on December 6, 1988, and the Company's shareholders approved such amendment on May 5, 1989. The Board further amended the Plan on March 13, 1990, and the Company's shareholders approved such amendment on May 4, 1990. The Board further amended the Plan on May 3, 1991. The Board further amended this Plan on February 10, 1992, and the shareholders approved such amendment on February 24, 1992. The Board further amended the Plan on November 16, 1992.

This second amended and restated Plan incorporating amendments adopted by the Board on November 16, 1992 became effective upon adoption by the Board.

This Plan shall terminate ten years after initial adoption by the Board unless terminated earlier by the Board. The Board may terminate this Plan at any time without shareholder approval. No Options shall be granted after termination of this Plan, but termination shall not affect rights and obligations under then outstanding options.

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TENCOR INSTRUMENTS  
AMENDED AND RESTATED 1993 EQUITY INCENTIVE PLAN

## SECTION 1. PURPOSE; DEFINITIONS.

(a) Purpose. The purpose of the Plan is to provide selected eligible employees of, and consultants to, Tencor Instruments, a California corporation, and its Affiliates an opportunity to participate in the Company's future by offering them an opportunity to acquire stock in the Company so as to retain, attract and motivate them.

(b) Definitions. For purposes of the Plan, the following terms have the following meanings:

(i) "Administrator" shall mean the entity, either the Board or the committee of the Board, responsible for administering this Plan as provided in Section 2.

(ii) "Affiliate" means a parent or subsidiary corporation as defined in the applicable provisions (currently, Sections 424(e) and (f), respectively) of the Code.

(iii) "Award" means any award under the Plan, including any Option, Stock Appreciation Right, Restricted Stock, Stock Purchase Right or Performance Shares.

(iv) "Award Agreement" means, with respect to each Award, the signed written agreement between the Company and the Plan participant setting forth the terms and conditions of the Award.

(v) "Board" means the Board of Directors of the Company, as constituted from time to time.

(vi) "Change in Control" has the meaning set forth in Section 10(a).

(vii) "Change in Control Price" has the meaning set forth in Section 10(c).

(viii) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor statute.

(ix) "Commission" means the Securities and Exchange Commission and any successor agency.

(x) "Company" means Tencor Instruments, a California corporation, or any successor corporation which assumes any outstanding Awards pursuant to Section 10(d).

(xi) "Disability" means permanent and total disability as determined by the Administrator in accordance with the standards set forth in Section 22(e)(3) of the Code.

(xii) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and any successor statute.

(xiii) "Fair Market Value" means as of any given date (a) the closing price of the Stock on the Nasdaq National Market as reported in the Wall Street Journal; or (b) if the Stock is no longer quoted on the Nasdaq National Market but is listed on an established stock exchange or quoted on any other established interdealer quotation system, the closing price for the Stock on such exchange or system, as reported in the Wall Street Journal; or (c) in the absence of an established market for the Stock, the fair market value of the Stock as determined by the Administrator in good faith.

(xiv) "Incentive Stock Option" means any Option designated in writing as an "incentive stock option" within the meaning of Section 422 of the Code.

(xv) "Nonqualified Stock Option" means any Option that is not an Incentive Stock Option.

(xvi) "Option" means an option granted under Section 5.

(xvii) "Performance Period" means the period determined by the Administrator under Section 9(a).

(xviii) "Performance Share" means a share of Stock

subject to an Award under Section 9.

(xix) "Plan" means this Tencor Instruments 1993 Equity Incentive Plan, as amended from time to time.

(xx) "Restricted Stock" means an Award of Stock subject to restrictions, as more fully described in Section 7.

(xxi) "Restriction Period" means the period determined by the Administrator under Section 7(b), which shall not be less than three years, unless the Restricted Stock is performance-based, in which case the Restriction Period shall not be less than one year.

(xxii) "Rule 16b-3" means Rule 16b-3 under Section 16(b), as amended from time to time, and any successor to such rule.

(xxiii) "Section 16(b)" means Section 16(b) of the Exchange Act, as amended from time to time, and any successor section.

(xxiv) "Stock" means the Common Stock of the Company, and any successor security.

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(xxv) "Stock Appreciation Right" means an Award issued pursuant to Section 6.

(xxvi) "Stock Purchase Right" means an Award granted under Section 8.

(xxvii) "Tax Date" means the date defined in Section 11(f).

(xxiii) "Termination" means, for purposes of the Plan, with respect to a participant, that the participant has ceased to be, for any reason, employed by, or consulting to, the Company or an Affiliate.

(xxiv) "Window Period" means any 10-day period beginning on the third business day following the date of release for publication of the Company's quarterly or annual summary statements of earnings or such other period as is specified in Rule 16b-3(e) under the Exchange Act, as such rule may be amended from time to time, or any successor to such rule.

## SECTION 2. ADMINISTRATION.

(a) Administrator. The Plan shall be administered by the Board or, upon delegation by the Board, by a committee consisting of not less than two directors (in either case, the "Administrator"). In connection with the administration of the Plan, the Administrator shall have the powers possessed by the Board. The Administrator may act only by a majority of its members, except that the Administrator (i) may authorize any one or more of its members or any officer of the Company to execute and deliver documents on behalf of the Administrator and (ii) so long as not otherwise required for the Plan to comply with Rule 16b-3, may delegate to one or more officers or directors of the Company authority to grant Awards to persons who are not subject to Section 16 of the Exchange Act with respect to Stock. The Administrator may delegate administrative duties to such employees of the Company as it deems proper, so long as such delegation is not otherwise prohibited by Rule 16b-3. The Board at any time may terminate the authority delegated to any committee of the Board pursuant to this Section 2(a) and revert in the Board the administration of the Plan.

(b) Authority. The Administrator shall grant Awards to selected eligible employees and consultants. In particular and without limitation, the Administrator, subject to the terms of the Plan, shall:

(i) select the officers, other employees and consultants to whom Awards may be granted;

(ii) determine whether and to what extent Awards are to be granted under the Plan;

(iii) determine the number of shares to be covered by each Award granted under the Plan;

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(iv) determine the terms and conditions of any Award granted under the Plan and any related loans to be made by the Company, based upon factors determined by the Administrator; and

(v) determine to what extent and under what circumstances any Award payments may be deferred by a participant.

(c) Administrator Determinations Binding. The Administrator may adopt, alter and repeal administrative rules, guidelines and practices governing the Plan as it from time to time shall deem advisable, may interpret the terms and provisions of the Plan, any Award and any Award Agreement and may otherwise supervise the administration of the Plan. Any determination made by the Administrator pursuant to the provisions of the Plan with respect to any Award shall be made in its sole discretion at the time of the grant of the Award or, unless in contravention of any express term of the Plan or Award, at any later time. All decisions made by the Administrator under the Plan shall be binding on all persons, including the Company and Plan participants. No member of the Administrator shall be liable for any action that he or she has in good faith taken or failed to take with respect to this Plan or any Award. The Administrator may grant Awards not satisfying the specific limitations of the second proviso of Section 5(b)(iii) or of Section 7(b) regarding limits on accelerating or waiving restrictions for Restricted Stock; provided, that such Awards shall not exceed in amount 5% of the number of shares of Stock issuable under the Plan.

### SECTION 3. STOCK SUBJECT TO PLAN.

(a) Number of Shares. Subject to Section 3(b) below, the total number of shares of Stock reserved and available for issuance pursuant to Awards under this Plan shall be 4,300,000 shares. Such shares may consist, in whole or in part, of authorized and unissued shares or shares reacquired in private transactions or open market purchases, but all shares issued under the Plan regardless of source shall be counted against the 4,300,000 share limitation.

(b) Adjustments. Subject to Section 10, in the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split or other change in corporate structure affecting the Stock, such substitution or adjustments shall be made in the aggregate number and kind of shares of Stock reserved for issuance under the Plan, in the number of shares of Stock specified in Section 3(c), in the number, kind and exercise price of shares subject to outstanding Options, and in the number, kind and purchase price of shares subject to other outstanding Awards, as may be determined to be appropriate by the Administrator, in its sole discretion; provided, however, that the number of shares subject to any Award shall always be a whole number. Such adjusted exercise price shall also be used to determine the amount payable by the Company upon exercise of any Stock Appreciation Right associated with any Option.

(c) Individual Limitation. The Company may not issue Stock Purchase Rights with a Fair Market Value purchase price as of the date of grant, Options with a Fair Market

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Value exercise price as of the date of grant, or Stock Appreciation Rights with a Fair Market Value exercise price as of the date of grant, covering in the aggregate more than 240,000 shares of Stock (subject to adjustments and substitutions as required under Section 3(b) above) to any one participant in any one-year period.

### SECTION 4. ELIGIBILITY.

Awards may be granted to officers and other employees of, and consultants to, the Company and its Affiliates, except that Incentive Stock Options may only be granted to employees of the Company or an Affiliate of the Company, including employees who may also be officers or directors.

### SECTION 5. STOCK OPTIONS.

(a) Types. Any Option granted under the Plan shall be in such form as the Administrator may from time to time approve. The Administrator shall have the authority to grant to any participant Incentive Stock Options, Nonqualified Stock Options or both types of Options (in each case with or without Stock Appreciation Rights). Incentive Stock Options may be granted only to employees of the Company and its Affiliates. Any portion of an Option that is not designated as, or does not qualify as, an Incentive Stock Option shall constitute a Nonqualified Stock Option.

(b) Terms and Conditions. Options granted under the Plan shall be subject to the following terms and conditions:

(i) Option Term. The term of each Option shall be fixed by the Administrator, but no Incentive Stock Option shall be exercisable more than 10 years after the date the Option is granted, and no Nonqualified

Stock Option shall be exercisable more than 15 years after the date the Option is granted. If, at the time the Company grants an Incentive Stock Option, the optionee owns directly or by attribution stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, or any Affiliate of the Company, the Incentive Stock Option shall not be exercisable more than five years after the date of grant.

(ii) Grant Date. The Company may grant Options under the Plan at any time and from time to time before the Plan terminates. The Administrator shall specify the date of grant or, if it fails to, the date of grant shall be the date of action taken by the Administrator to grant the Option. However, if an Option is approved in anticipation of employment, the date of grant shall be the date the intended optionee is first treated as an employee for payroll purposes.

(iii) Exercise Price. The exercise price per share of Stock purchasable under an Option shall be equal to at least 85% of the Fair Market Value on the date of grant, and in the case of Incentive Stock Options shall be equal to at least the Fair Market Value on the date of grant; provided, however, that if, at the time the Company grants an Incentive Stock Option, the optionee owns directly or by attribution stock possessing more than 10% of

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the total combined voting power of all classes of stock of the Company, or any Affiliate of the Company, then the exercise price shall be not less than 110% of the Fair Market Value on the date the Incentive Stock Option is granted; provided, further, that, subject to Section 2(c), if the exercise price of an Option is less than 100% of Fair Market Value on the date of grant, the discount below 100% of Fair Market Value shall be expressly granted by the Administrator in lieu of a reasonable amount of salary or cash bonus.

(iv) Exercisability. Subject to the other provisions of the Plan, an Option shall be exercisable in its entirety at grant or at such times and in such amounts as are specified in the Award Agreement evidencing the Option. The Administrator, in its absolute discretion, at any time may waive any limitations respecting the time at which an Option first becomes exercisable in whole or in part.

(v) Method of Exercise. To the extent the right to purchase shares has accrued, Options may be exercised, in whole or in part, from time to time, by written notice from the optionee to the Company stating the number of shares being purchased, accompanied by payment of the exercise price for the shares.

(vi) No Disqualification. Notwithstanding any other provision in the Plan, no term of the Plan relating to Incentive Stock Options shall be interpreted, amended or altered nor shall any discretion or authority granted under the Plan be exercised so as to disqualify the Plan under Section 422 of the Code or, without the consent of the optionee affected, to disqualify any Incentive Stock Option under such Section 422.

(vii) Exercisability Limitation. The aggregate Fair Market Value (determined from grant date) of the Stock with respect to which an Incentive Stock Option becomes exercisable for the first time by a participant ("vests") during a calendar year (under all plans of the Company and its Affiliates) shall not exceed \$100,000 (the "exercisability limitation"). In applying this provision, Incentive Stock Options with lower exercise prices shall vest before Incentive Stock Options with higher exercise prices, regardless of grant date, unless the Award Agreements, or the Administrator, specifically provide a different order of vesting. Nonqualified Stock Options are not subject to the exercisability limitation.

(viii) Disqualifying Dispositions. If Stock acquired by exercise of an Incentive Stock Option granted pursuant to the Plan is disposed of in a "disqualifying disposition" within the meaning of Section 422 of the Code, the holder of the Stock immediately prior to the disposition shall promptly notify the Company in writing of the date and terms of the disposition and shall provide such other information regarding the disposition as the Company may reasonably require.

## SECTION 6. STOCK APPRECIATION RIGHTS.

(a) Relationship to Options; No Payment by Participant. A Stock Appreciation Right may be awarded either (i) with respect to Stock subject to an Option held by a participant, or (ii) without reference to an Option. If an Option is an Incentive Stock Option, a Stock Appreciation Right granted with respect to such Option may be granted only

at the time of grant of the related Incentive Stock Option, but if the Option is a Nonqualified Stock Option, the Stock Appreciation Right may be granted either simultaneously with the grant of the related Nonqualified Stock Option or at any time during the term of such related Nonqualified Stock Option. No consideration shall be paid by a participant with respect to the grant of a Stock Appreciation Right.

(b) When Exercisable. A Stock Appreciation Right shall be exercisable at such times and in whole or in part, each as determined by the Administrator, subject, with respect to participants subject to Section 16(b), to Rule 16b-3. To exercise a Stock Appreciation Right in whole or in part for cash, a participant must make an election prior to or during a Window Period to take effect in that or any later Window Period; provided that such election shall be subject to the approval of the Administrator. If a Stock Appreciation Right is granted with respect to an Option, unless the Award Agreement otherwise provides, the Stock Appreciation Right may be exercised only to the extent to which shares covered by the Option are not at the time of exercise subject to repurchase by the Company.

(c) Effect on Related Right; Termination of Stock Appreciation Right. If a Stock Appreciation Right granted with respect to an Option is exercised, the Option shall cease to be exercisable and shall be canceled to the extent of the number of shares with respect to which the Stock Appreciation Right was exercised. Upon the exercise or termination of an Option, related Stock Appreciation Rights shall terminate to the extent of the number of shares as to which the Option was exercised or terminated, except that, unless otherwise determined by the Administrator at the time of grant, a Stock Appreciation Right granted with respect to less than the full number of shares covered by a related Option shall not be reduced until the number of shares covered by exercise or termination of the related Option exceeds the number of shares not covered by the Stock Appreciation Right. A Stock Appreciation Right granted independently from an Option shall terminate and shall be no longer exercisable at the time determined by the Administrator at the time of grant, but not later than 15 years from the date of grant. Upon the death or Disability of the participant, a Stock Appreciation Right granted with respect to an Option shall be exercisable only to the extent to which the Option is then exercisable.

(d) Form of Payment Upon Exercise. Despite any attempt by a participant to elect payment in a particular form upon exercise of a Stock Appreciation Right, the Administrator, in its discretion, may elect to cause the Company to pay cash, Stock, or a combination of cash and Stock upon exercise of the Stock Appreciation Right.

(e) Amount of Payment Upon Exercise. Upon the exercise of a Stock Appreciation Right, the participant shall be entitled to receive one of the following payments, as determined by the Administrator under Section 6(d);

(i) Stock. That number of whole shares of Stock equal to the number computed by dividing (A) an amount (the "Stock Appreciation Right Spread"), rounded to the nearest whole dollar, equal to the product computed by multiplying (x) the excess of (1) if the Stock Appreciation Right may only be exercised during the Window Period, the highest Fair Market Value on any day during the Window Period, and otherwise, the Fair Market

Value on the date the Stock Appreciation Right is exercised, over (2) the exercise price per share of Stock of the related Option, or in the case of a Stock Appreciation Right granted without reference to an Option, such other price as the Administrator establishes at the time the Stock Appreciation Right is granted, by (y) the number of shares of Stock with respect to which a Stock Appreciation Right is being exercised by (B) (1) if the Stock Appreciation Right may only be exercised during the Window Period, the highest Fair Market Value during the Window Period in which the Stock Appreciation Right was exercised, and (2) otherwise, the Fair Market Value on the date the Stock Appreciation Right is exercised; plus, if the foregoing calculation yields a fractional share, an amount of cash equal to the applicable Fair Market Value multiplied by such fraction (such payment to be the difference of the fractional share); or

(ii) Cash. An amount in cash equal to the Stock Appreciation Right Spread; or

(iii) Cash and Stock. A combination of cash and Stock, the combined value of which shall equal the Stock Appreciation Right Spread.

(a) Price. The Administrator may grant to a participant Restricted Stock. The grantee shall pay no consideration therefor.

(b) Restrictions. Subject to the provisions of the Plan and the Award Agreement, during the Restriction Period set by the Administrator, commencing with, and not exceeding 10 years from, the date of such Award, the participant shall not be permitted to sell, assign, transfer, pledge or otherwise encumber shares of Restricted Stock. Within these limits, the Administrator may provide for the lapse of such restrictions in installments, but, subject to Sections 2(c) and 10, may not accelerate or waive such restrictions. The Administrator shall determine the performance objectives, if any, to be used in awarding Restricted Stock and the extent to which the performance objectives, if any, have been satisfied.

(c) Dividends. Unless otherwise determined by the Administrator, with respect to dividends on shares of Restricted Stock, dividends payable in cash shall be automatically reinvested in additional Restricted Stock, and dividends payable in Stock shall be paid in the form of Restricted Stock.

(d) Termination. Except to the extent otherwise provided in the Award Agreement and pursuant to Section 7(b), in the event of a Termination during the Restriction Period, all shares then subject to restriction shall be forfeited by the participant.

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#### SECTION 8. STOCK PURCHASE RIGHTS.

(a) Price. The Administrator may grant Stock Purchase Rights which shall enable the recipient to purchase Stock at a price equal to not less than 85% of its Fair Market Value on the date of grant.

(b) Exercisability. Stock Purchase Rights shall be exercisable for a period determined by the Administrator not exceeding 30 days from the date of the grant. The Administrator, however, may provide that if required to exempt the Award from Section 16(b) pursuant to Rule 16b-3 Stock Purchase Rights granted to persons subject to Section 16(b) shall not become exercisable until six months and one day after the grant date and shall then be exercisable for 10 trading days at the purchase price specified by the Administrator in accordance with Section 8(a).

#### SECTION 9. PERFORMANCE SHARES.

(a) Awards. The Administrator shall determine the nature, length and starting date of the Performance Period for each Award of Performance Shares, which period shall be at least two years (subject to Section 10) and not more than six years. The consideration payable by a participant with respect to an Award of Performance Shares shall be an amount determined by the Administrator in the exercise of the Administrator's discretion at the time of the Award; provided, that the amount of consideration may be zero and may in no event exceed 50% of the Fair Market Value at the time of grant. The Administrator shall determine the performance objectives to be used in awarding Performance Shares and the extent to which such Performance Shares have been earned. Performance Periods may overlap and participants may participate simultaneously with respect to Performance Share Awards that are subject to different Performance Periods and different performance factors and criteria. At the beginning of each Performance Period, the Administrator shall determine for each Performance Share Award subject to such Performance Period the number of shares of Stock (which may consist of Restricted Stock) to be awarded to the participant at the end of the Performance Period if and to the extent that the relevant measures of performance for such Performance Share Award are met. Such number of shares of Stock may be fixed or may vary in accordance with such performance or other criteria as may be determined by the Administrator. The Administrator may provide that (i) amounts equivalent to interest at such rates as the Administrator may determine, or (ii) amounts equivalent to dividends paid by the Company upon outstanding Stock shall be payable with respect to Performance Share Awards.

(b) Termination. Except as otherwise provided in the Award Agreement or in Section 11(d) or as otherwise determined by the Administrator, in the event of a Termination during a Performance Period, the participant shall not be entitled to any payment with respect to the Performance Shares subject to the Performance Period.

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#### SECTION 10. CHANGE IN CONTROL.

(a) Definition of "Change in Control". For purposes of Section 10(b), a "Change in Control" means the occurrence of any one of the following:

(i) any "person", as such term is used in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, an Affiliate, or a Company employee benefit plan, including any trustee of such plan acting as trustee) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities;

(ii) the solicitation of proxies (within the meaning of Rule 14a-1(k) under the Exchange Act and any successor rule) with respect to the election of any director of the Company where such solicitation is for any candidate who is not a candidate proposed by a majority of the Board in office prior to the time of such election; or

(iii) the dissolution or liquidation (partial or total) of the Company or a sale of assets involving 30% or more of the assets of the Company, any merger or reorganization of the Company whether or not another entity is the survivor, a transaction pursuant to which the holders, as a group, of all of the shares of the Company outstanding prior to the transaction hold, as a group, less than 70% of the shares of the Company outstanding after the transaction, or any other event which the Board determines, in its discretion, would materially alter the structure of the Company or its ownership.

(b) Impact of Event. In the event of a "Change in Control" as defined in Section 10(a), but only if and to the extent so specifically determined by the Board in its discretion, which determination may be amended or reversed only by the affirmative vote of a majority of the persons who were directors at the time such determination was made, acceleration and valuation provisions no more favorable to participants than one or more of the following may apply, subject to the termination provisions set forth in Section 10(d):

(i) Any Stock Appreciation Rights and, subject to Section 5(b)(vi), any Options outstanding as of the date such Change in Control is determined to have occurred and not then exercisable and vested shall become fully exercisable and vested and any rights of the Company to repurchase the Stock issuable upon exercise thereof shall lapse; provided, that in the case of the holder of Stock Appreciation Rights who is actually subject to Section 16(b), such Stock Appreciation Rights shall have been outstanding for at least six months at the date such Change in Control is determined to have occurred.

(ii) The restrictions and limitations applicable to any Restricted Stock and Stock Purchase Rights shall lapse, and such Restricted Stock shall become fully vested.

(iii) The value (net of any exercise or purchase price) of all outstanding Options, Stock Appreciation Rights, Restricted Stock and Stock Purchase Rights, unless otherwise determined by the Administrator at or after grant and subject to Rule 16b-3,

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shall be paid to participants in cash on the basis of the "Change in Control Price", as defined in Section 10(c), as of the date such Change in Control is determined to have occurred or such other date as the Board may determine prior to the Change in Control.

(iv) Any outstanding Performance Share Awards shall be vested and paid in full as if all performance criteria had been met.

(c) Change in Control Price. For purposes of this Section 10, "Change in Control Price" means the highest price per share paid in any transaction reported on the Nasdaq National Market or paid or offered in any bona fide transaction related to a potential or actual Change in Control of the Company at any time during the preceding 60-day period as determined by the Board, except that, in the case of Incentive Stock Options and Stock Appreciation Rights relating to Incentive Stock Options, such price shall be based only on transactions reported for the date on which the Board decides to cash out such Options.

(d) Assumption or Termination of Awards. New rights may be substituted for Awards granted under the Plan, or the Company's obligations as to Awards outstanding under the Plan may be assumed, by an employer corporation other than the Company, or by an Affiliate of such employer corporation, in connection with any merger, consolidation, acquisition, reorganization, liquidation or like occurrence in which the Company is involved and, in the case of a merger, consolidation acquisition or similar occurrence, the Company

is not the surviving corporation, in such manner that the then outstanding Options which are Incentive Stock Options will continue to be "incentive stock options" within the meaning of Section 422 of the Code to the full extent permitted thereby. Notwithstanding the foregoing or the provisions of Section 3(b), if such employer corporation, or an Affiliate of such employer corporation, does not substitute new and substantially equivalent rights for the Awards granted hereunder, or assume the Awards granted hereunder, the Awards granted hereunder, at the election of the Board, shall terminate (a) upon dissolution or liquidation of the Company, or similar occurrence, or (b) upon any merger, consolidation, acquisition, or similar occurrence, where the Company will not be a surviving corporation; provided that each participant shall be mailed notice at least 10 days prior to such dissolution, liquidation, merger, consolidation, acquisition, or similar occurrence.

#### SECTION 11. GENERAL PROVISIONS.

(a) Award Grants. Any Award may be granted either alone or in addition to other Awards granted under the Plan. Subject to the terms and restrictions set forth elsewhere in the Plan, the Administrator shall determine the consideration, if any, payable by the participant for any Award and, in addition to those set forth in the Plan, any other terms and conditions of the Awards. The Administrator may condition the grant or payment of any Award upon the attainment of specified performance goals or such other factors or criteria, including vesting based on continued employment or consulting, as the Administrator shall determine. Performance objectives may vary from participant to participant and among groups of participants and shall be based upon such Company, subsidiary, group or division factors or criteria as the Administrator may deem appropriate, including, but not limited to, earnings per share or return on equity. The other provisions of Awards also need not be the

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same with respect to each recipient. Unless specified otherwise in the Plan or by the Administrator, the date of grant of an Award shall be the date of action by the Administrator to grant the Award. The Administrator may also substitute new Options for previously granted Options, including previously granted Options having higher exercise prices.

(b) Award Agreement. As soon as practicable after the date of an Award grant, the Company and the participant shall enter into a written Award Agreement identifying the date of grant, and specifying the terms and conditions of the Award. Options are not exercisable until after execution of the Award Agreement by the Company and the Plan participant, but a delay in execution of the agreement shall not affect the validity of the Option grant. Any Award under this Plan shall be governed by the terms of the Plan and the applicable Award Agreement.

(c) Certificates. All certificates for shares of Stock or other securities delivered under the Plan shall be subject to such stock transfer orders, legends and other restrictions as the Administrator may deem advisable under the rules, regulations and other requirements of the Commission, any market in which the Stock is then traded and any applicable federal, state or foreign securities law.

(d) Termination. Unless otherwise provided in the applicable Award Agreement or by the Administrator or as otherwise set forth below, in the event of Termination, Awards held at the date of Termination (and only to the extent then exercisable or payable, as the case may be) may be exercised in whole or in part at any time within three months after the date of Termination, or such lesser period specified in the Award Agreement (but in no event after the expiration date of the Award), but not thereafter. Notwithstanding the foregoing, if Termination is due to retirement or to death or Disability or if the participant dies within three months after Termination, Awards held at the date of Termination (and only to the extent then exercisable or payable, as the case may be) may be exercised in whole or in part by the participant in the case of retirement or Disability, by the participant's guardian or legal representative or by the person to whom the Award is transferred by will or the laws of descent and distribution, at any time within 18 months from the date of Termination or any lesser period specified in the Award Agreement (but in no event after the expiration of the Award). Notwithstanding the foregoing, the tax treatment available pursuant to Section 422 of the Code upon the exercise of an Incentive Stock Option will not be available to a participant who exercises any Incentive Stock Options more than (i) 12 months after the Termination if due to death or Disability or if the participant dies within three months after Termination, or (ii) three months after Termination if due to retirement.

At the option of the Administrator, the Stock to be delivered pursuant to an Award under this Plan may be subject to a right of repurchase in favor of the Company upon Termination, the terms and conditions of which shall be set forth in the Award Agreement.



(e) Delivery of Purchase Price. If and only to the extent authorized by the Administrator, participants may make all or any portion of any payment due to the Company

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(i) with respect to the consideration payable for an Award,

(ii) upon exercise of an Award, or

(iii) with respect to federal, state, local or foreign tax payable in connection with an Award,

by delivery of (x) cash, (y) check, or (z) any property other than cash (including a promissory note of the participant or shares of Stock or securities) so long as, if applicable, such property constitutes valid consideration for the Stock under, and otherwise complies with, applicable law. No promissory note under the Plan shall have a term (including extensions) of more than five years or shall be of a principal amount exceeding 90% of the purchase price paid by the borrower. If authorized by the Administrator, exercise of an Option may be made pursuant to a "cashless exercise/sale" procedure pursuant to which funds to pay for exercise of the Option are delivered to the Company by a broker upon receipt of stock certificates from the Company, or pursuant to which participants obtain margin loans from brokers to fund the exercise of the Option.

(f) Tax Withholding. Unless the Administrator permits otherwise, promptly upon the lapse of restrictions imposed upon an Award, upon exercise or issuance of an Award, or upon a transfer or other disposition of shares of Stock acquired upon exercise or payment of an Award, or, if later, when the amount of such obligations becomes determinable (in any case, the "Tax Date"), the participant shall pay to the Company in cash all applicable federal, state, local and foreign withholding taxes that the Administrator, in its discretion, determines to result from the lapse of restrictions imposed upon an Award or upon exercise or issuance of an Award or from a transfer or other disposition of shares of Stock acquired upon exercise or payment of an Award or otherwise related to the Award or shares of Stock acquired in connection with an Award.

If and to the extent authorized by the Administrator, in its sole discretion, a person who has received an Award, exercised an Award or received payment under an Award, may make an election (i) to deliver to the Company a promissory note of the participant on the terms set forth in Section 11(e), (ii) to tender to the Company previously-owned shares of Stock, or (iii) to have shares of Stock to be obtained upon exercise of the Award or lapse of restrictions applicable to an Award withheld by the Company on behalf of the participant, to pay the amount of tax that the Administrator, in its discretion, determines to be required to be withheld by the Company.

Any shares tendered to or withheld by the Company will be valued at Fair Market Value on such date. The value of the shares of Stock tendered or withheld may not exceed the required federal, state, local and foreign withholding tax obligations as computed by the Company.

(g) No Transferability of Awards. No Award shall be assignable or otherwise transferable by the participant other than by will or by the laws of descent and distribution. During the life of a participant, an Award shall be exercisable, and any elections with respect

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to an Award may be made, only by the participant or participant's guardian or legal representative.

(h) Adjustment of Awards; Waivers. Subject to Section 5(b)(vi), the Administrator may adjust the performance goals and measurements applicable to Awards (i) to take into account changes in law and accounting and tax rules, (ii) to make such adjustments as the Administrator deems necessary or appropriate to reflect the inclusion or exclusion of the impact of extraordinary or unusual items, events or circumstances in order to avoid windfalls or hardships, and (iii) to make such adjustments as the Administrator deems necessary or appropriate to reflect any material changes in business conditions. In the event of hardship or other special circumstances of a participant and otherwise in its discretion, the Administrator may waive in whole or in part any or all restrictions, conditions, vesting, or forfeiture with respect to any Award granted to such participant.

(i) Non-Competition. The Administrator, in addition to any

other requirement it may impose, may condition its discretionary waiver of a forfeiture, the acceleration of vesting at the time of Termination of a participant holding any unexercised or unearned Award, the waiver of restrictions on any Award, or the extension of the expiration period to a period not longer than that provided by the Plan upon such participant's agreement (and compliance with such agreement) to (i) not engage in any business or activity competitive with any business or activity conducted by the Company and (ii) be available for consultations at the request of the Company's management, all on such terms and conditions (including conditions in addition to (i) and (ii)) as the Administrator may determine.

(j) Dividends. The reinvestment of dividends in additional Stock or Restricted Stock at the time of any dividend payment pursuant to Section 7(c) shall only be permissible if sufficient shares of Stock are available under Section 3 for such reinvestment (taking into account then outstanding Awards).

(k) Regulatory Compliance. Each Award under the Plan shall be subject to the condition that, if at any time the Administrator shall determine that (i) the listing, registration or qualification of the shares of Stock upon any securities exchange or for trading in any securities market or under any state or federal law, (ii) the consent or approval of any government or regulatory body or (iii) an agreement by the participant with respect thereto, is necessary or desirable, then such Award shall not be consummated in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any conditions not acceptable to the Administrator. The Company shall have no obligation to register any shares of Stock issuable pursuant to Awards under the federal securities laws or to take any other steps necessary to enable the shares to be offered and issued under federal or other securities laws. As a condition to the issuance of shares of Stock pursuant to an Award, the Company may require the person acquiring such shares at the time of any such acquisition to make such representations, warranties and undertakings deemed appropriate by the Company to enable the offer and issuance of the shares or subsequent transfers of the shares to comply with applicable securities laws. Certificates evidencing shares of Stock acquired pursuant to the Plan shall bear any legend

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required by, or useful for purposes of compliance with, applicable securities laws, the Plan, or the Award Agreement pursuant to which the Shares were issued.

(l) Rights as Shareholder. Unless the Plan or the Administrator expressly specifies otherwise, a participant shall have no rights as a shareholder with respect to any shares of Stock covered by an Award until the issuance (as evidenced by the appropriate entry on the books of the Company or a duly authorized transfer agent) of a certificate representing the shares of Stock. Subject to Sections 3(b) and 7(c), no adjustment shall be made for dividends or other rights for which the record date is prior to the date the certificate is issued.

(m) Beneficiary Designation. The Administrator, in its discretion, may establish procedures for a participant to designate a beneficiary to whom any amounts payable in the event of the participant's death are to be paid.

(n) Additional Plans. Nothing contained in the Plan shall prevent the Company or an Affiliate from adopting other or additional compensation arrangements for its employees and consultants.

(o) No Employment Rights. The adoption of the Plan shall not confer upon any employee any right to receive any Award or to any right to continued employment nor shall it interfere in any way with the right of the Company or an Affiliate to terminate the employment of any employee or the consulting arrangement with any consultant at any time.

(p) Rule 16b-3. Notwithstanding any provisions of the Plan, it is intended that Awards shall always be granted and exercised in such a manner as to conform to the provisions of Rule 16b-3. Notwithstanding the foregoing, it shall be the responsibility of persons subject to Section 16 of the Exchange Act, not of the Company or the Administrator, to comply with the requirements of Section 16 of the Exchange Act; and neither the Company nor the Administrator shall be liable if this Plan or any transaction under this Plan fails to comply with the applicable conditions of Rule 16b-3, or if any such person incurs any liability under Section 16 of the Exchange Act.

(q) Governing Law. The Plan and all Awards shall be governed by and construed in accordance with the laws of the State of California.

(r) Use of Proceeds. All cash proceeds to the Company under

the Plan shall constitute general funds of the Company.

(s) Unfunded Status of Plan. The Plan shall constitute an "unfunded" plan for incentive and deferred compensation. The Administrator may authorize the creation of trusts or arrangements to meet the obligations created under the Plan to deliver Stock or make payments; provided, however, that unless the Administrator otherwise determines, the existence of such trusts or other arrangements shall be consistent with the "unfunded" status of the Plan.

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(t) Transfer Limitation on Stock. In addition to any other transfer restrictions which may be imposed under the Plan or any Award Agreement, a participant subject to Section 16 of the Exchange Act may not sell or otherwise transfer, in whole or in part, any shares of Stock issued pursuant to an Award at any time prior to (i) with respect to Stock issued pursuant to an Option, the six-month anniversary of the issuance of the Option, and (b) with respect to all other Awards, the six-month anniversary of the issuance of the Stock, unless the Administrator determines that the foregoing provisions are not necessary to make the transaction exempt from Section 16(b) of the Exchange Act pursuant to Rule 16b-3.

#### SECTION 12. AMENDMENTS AND TERMINATION.

The Board may amend, alter or discontinue the Plan or any Award, but no amendment, alteration or discontinuance shall be made which would impair the rights of a participant under an outstanding Award without the participant's consent. No amendment, alteration or discontinuance shall require stockholder approval except (a) an increase in the total number of shares reserved for issuance pursuant to Awards under the Plan, (b) with respect to provisions solely as they relate to Incentive Stock Options, to the extent required for the Plan to comply with Section 422 of the Code, (c) to the extent required by other applicable laws, regulations or rules, or (d) to the extent the Board otherwise concludes that stockholder approval is advisable.

#### SECTION 13. EFFECTIVE DATE OF PLAN.

This Plan and any amendment increasing the number of shares of stock reserved for issuance under this Plan shall become effective upon adoption by the Board provided, however, that no Award shall be exercisable and no restrictions imposed upon an Award shall lapse unless and until written consent of the shareholders of the Company, or approval of shareholders of the Company voting at a validly called shareholders' meeting, is obtained within 12 months after adoption by the Board. If such shareholder approval is not obtained within such time, any Awards granted under this Plan or any such amendment shall terminate and be of no force and effect from and after expiration of such 12-month period.

#### SECTION 14. TERM OF PLAN.

No Award shall be granted under the Plan after 10 years from the earlier of the adoption of the Plan by the Board or the approval of the Plan by the shareholders of the Company, but Awards granted prior to that date may extend beyond that date.

Plan approved by the Board of Directors on May 10, 1993.

Amendments to Plan approved by the Board of Directors on February 14, 1994.

Plan, as amended, approved by the Shareholders on May 4, 1994.

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Amendment to Plan increasing the number of shares to 1,000,000 approved by the Board of Directors on May 20, 1994.

Amendment to Plan increasing the number of shares to 1,400,000 approved by the Board of Directors on March 23, 1995.

Amendment to Plan increasing the number of shares to 1,400,000 approved by the Shareholders on May 15, 1995.

Two-for-one stock split with a record date of May 31, 1995 and a distribution date of June 21, 1995, which increased the number of shares from 1,400,000 to 2,800,000, was approved by the Board of Directors on May 15, 1995.

Amendments to Plan, including increasing the number of shares to 4,300,000, approved by the Board of Directors on February 12, 1996.

Amendment to Plan increasing the number of shares to 4,300,000 approved by the Shareholders on May 13, 1996.

Amendment to the Plan approved by the Board of Directors on August 12, 1996.

TENCOR INSTRUMENTS  
1993 NONEMPLOYEE DIRECTORS STOCK OPTION PLAN

1. Purpose.

The purpose of this Plan is to offer Nonemployee Directors of Tencor Instruments an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, by purchasing shares of the Company's Common Stock. This Plan provides for the grant of Options to purchase Shares. Options granted hereunder shall be "Nonstatutory Options," and shall not include "incentive stock options" intended to qualify for treatment under Sections 421 and 422 of the Internal Revenue Code of 1986, as amended.

2. Definitions.

As used herein, the following definitions shall apply:

(a) "Administrator" shall mean the entity, either the Board or the committee of the Board, responsible for administering this Plan, as provided in Section 3.

(b) "Affiliate" means a parent or subsidiary corporation as defined in the applicable provisions (currently, Sections 424(e) and (f), respectively) of the Code.

(c) "Board" shall mean the Board of Directors of the Company, as constituted from time to time.

(d) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any successor statute.

(e) "Company" shall mean Tencor Instruments, a California corporation.

(f) "Common Stock" shall mean the Common Stock of the Company.

(g) "Disability" means permanent and total disability as determined by the Administrator in accordance with the standards set forth in Section 22(e)(3) of the Code.

(h) "Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and any successor statute.

(i) "Expiration Date" shall mean the last day of the term of an Option established under Section 6(c).

(j) "Fair Market Value" means as of any given date (a) the closing price of the Common Stock on the NASDAQ National Market System as reported in the Wall Street Journal; or (b) if the Common Stock is no longer quoted on the NASDAQ National Market System but is listed on an established stock exchange or quoted on any other established interdealer quotation system, the closing price for the Common Stock on such exchange or system, as reported in the Wall Street Journal.

(k) "Nonemployee Director" shall mean any person who is a member of the Board but is not an employee of the Company or any Affiliate of the Company and has not been an employee of the Company or any Affiliate of the Company at any time during the preceding twelve months. Service as a director does not in itself constitute employment for purposes of this definition.

(l) "Option" shall mean a stock option granted pursuant to this Plan. Each Option shall be a nonstatutory option not intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(m) "Option Agreement" shall mean the written agreement described in Section 6 evidencing the grant of an Option to a Nonemployee Director and containing the terms, conditions and restrictions pertaining to such Option.

(n) "Optionee" shall mean a Nonemployee Director who holds an Option.

(o) "Plan" shall mean this Tencor Instruments 1993 Nonemployee Directors Stock Option Plan, as it may be amended from time to

time.

(p) "Section" unless the context clearly indicates otherwise, shall refer to a Section of this Plan.

(q) "Shares" shall mean the shares of Common Stock subject to an Option granted under this Plan.

(r) "Tax Date" means the date defined in Section 7(c).

(s) "Termination" means, for purposes of the Plan, with respect to an Optionee, that the Optionee has ceased to be, for any reason, a director of the Company.

(t) "Window Period" means any 10-day period beginning on the third business day following the date of release for publication of the Company's quarterly or annual summary statements of earnings or such other period as is specified in Rule 16b-3(e) under the Exchange Act, as such rule may be amended from time to time, or any successor to such rule.

### 3. Administration.

(a) Administrator. The Plan shall be administered by the Board or, upon delegation by the Board, by a committee consisting of not less than two directors (in either case, the "Administrator"). The Administrator shall have no authority, discretion or power to select the Nonemployee Directors who will

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receive Options hereunder or to set the number of shares to be covered by each Option granted hereunder, the exercise price of such Option, the timing of the grant of such Option or the period within which such Option may be exercised. In connection with the administration of the Plan, the Administrator shall have the powers possessed by the Board. The Administrator may act only by a majority of its members. The Administrator may delegate administrative duties to such employees of the Company as it deems proper, so long as such delegation is not otherwise prohibited by Rule 16b-3 under the Exchange Act. The Board at any time may terminate the authority delegated to any committee of the Board pursuant to this Section 3(a) and revert in the Board the administration of the Plan.

(b) Administrator Determinations Binding. Subject to the limitations set forth in Section 3(a), the Administrator may adopt, alter and repeal administrative rules, guidelines and practices governing the Plan as it from time to time shall deem advisable, may interpret the terms and provisions of the Plan, any Option and any Option Agreement and may otherwise supervise the administration of the Plan. All decisions made by the Administrator under the Plan shall be binding on all persons, including the Company and Optionees. No member of the Administrator shall be liable for any action that he or she has in good faith taken or failed to take with respect to this Plan or any Option.

### 4. Eligibility.

Only Nonemployee Directors may receive Options under this Plan.

### 5. Shares Subject to Plan.

(a) Aggregate Number. Subject to Section 9 (relating to adjustments upon changes in Shares), the total number of shares of Common Stock reserved and available for issuance pursuant to Options under this Plan shall be 150,000 shares. Such shares may consist, in whole or in part, of authorized and unissued shares or shares reacquired in private transactions or open market purchases, but all shares issued under the Plan regardless of source shall be counted against the 150,000 share limitation. If any Option terminates or expires without being exercised in full, the shares issuable under such Option shall again be available for issuance in connection with other Options. If shares of Common Stock issued pursuant to an Option are repurchased by the Company, such Common Stock shall not again be available for issuance in connection with Options. To the extent the number of shares of Common Stock issued pursuant to an Option is reduced to satisfy withholding tax obligations, the number of shares withheld to satisfy the withholding tax obligations shall not be available for later grant under the Plan.

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(b) No Rights as a Shareholder. An Optionee shall have no rights as a shareholder with respect to any Shares covered by his or her

Option until the issuance (as evidenced by the appropriate entry on the books of the Company or its duly authorized transfer agent) of a stock certificate evidencing such Shares. Subject to Section 9, no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property), distributions, or other rights for which the record date is prior to the date the certificate is issued.

6. Grant of Options.

(a) Mandatory Initial Option Grants. Subject to the terms and conditions of this Plan, if any person who is not an officer or employee of the Company and who has not previously been a member of the Board is elected or appointed as a member of the Board, then on the effective date of such appointment or election the Company shall grant to such new Nonemployee Director an Option to purchase 5,000 Shares at an exercise price equal to the Fair Market Value of such Shares on the date of such option grant.

(b) Mandatory Annual Option Grants. Subject to the terms and conditions of this Plan, the Company shall grant to each Nonemployee Director who was first elected or appointed to the Board more than twelve months prior to the date of approval of the Plan by the Board an Option to purchase 2,500 Shares at the Board meeting at which this Plan is approved at an exercise price equal to the Fair Market Value of such Shares on the date of such option grant. Subject to the terms and conditions of this Plan, on the date of the first meeting of the Board immediately following the annual meeting of shareholders of the Company (even if held on the same day as the meeting of shareholders) which is held more than twelve months after a Nonemployee Director is first elected or appointed to the Board, commencing with the annual meeting of shareholders held in 1994, the Company shall grant to each such Nonemployee Director then in office an Option to purchase 2,500 Shares at an exercise price equal to the Fair Market Value of such Shares on the date of such option grant.

(c) Terms; Vesting. Subject to the other provisions of this Plan, each Option granted pursuant to this Plan shall be for a term of ten years. Each Option granted under Section 6(a) shall become exercisable with respect to one third of the number of Shares covered by such Option on the first anniversary of the date such Option was granted and one thirty-sixth of the number of shares covered by such Option each month thereafter, so that such Option shall be fully exercisable on the third anniversary of the date such Option was granted. Each Option granted under Section 6(b) shall become exercisable with respect to one thirty-sixth of the number of shares covered by such Option each month after the date of grant, so that such Option shall be fully

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exercisable on the third anniversary of the date such Option was granted.

(d) Limitation on Other Grants. The Administrator shall have no discretion to grant Options under this Plan other than as set forth in Sections 6(a) and 6(b).

(e) Option Agreement. As soon as practicable after the grant of an Option, the Optionee and the Company shall enter into a written Option Agreement which specifies the date of grant, the number of Shares, the option price, and the other terms and conditions applicable to the Option.

(f) Transferability. No Option shall be transferable otherwise than by will or the laws of descent and distribution, and an Option shall be exercisable during the Optionee's lifetime only by the Optionee.

(g) Limits on Exercise. Subject to the other provisions of this Plan, an Option shall be exercisable in such amounts as are specified in the Option Agreement.

(h) Exercise Procedures. To the extent the right to purchase Shares has accrued, Options may be exercised, in whole or in part, from time to time, by written notice from the Optionee to the Company stating the number of Shares being purchased, accompanied by payment of the exercise price for the Shares, and other applicable amounts, as provided in Section 7.

(i) Termination. In the event of Termination, Options held at the date of Termination (and only to the extent then exercisable) may be exercised in whole or in part at any time within three months after the date of Termination (but in no event after the expiration date of the Option), but not thereafter. Notwithstanding the foregoing, if Termination is due to retirement or to death or Disability or if the Optionee dies within three months after Termination, Options held at the date of Termination (and only to the extent then exercisable) may be exercised in whole or in part by the Optionee in the case of retirement or Disability, by the participant's guardian or legal representative or by the person to whom the Option is transferred by will or

the laws of descent and distribution, at any time within 18 months from the date of Termination (but in no event after the expiration of the Option).

7. Payment and Taxes upon Exercise of Options.

(a) Purchase Price. The purchase price of Shares issued under this Plan shall be paid in full at the time an Option is exercised.

(b) Delivery of Purchase Price. Optionees may make all or any portion of any payment due to the Company

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(i) upon exercise of an Option, or

(ii) with respect to federal, state, local or foreign tax payable in connection with the exercise of an Option,

by delivery of (x) cash, (y) check, or (z) a promissory note of the Optionee or shares of Common Stock so long as, if applicable, such property constitutes valid consideration for the Common Stock under, and otherwise complies with, applicable law. No promissory note under the Plan shall have a term (including extensions) of more than five years or shall be of a principal amount exceeding 90% of the purchase price paid by the borrower. Exercise of an Option may be made pursuant to a "cashless exercise/sale" procedure pursuant to which funds to pay for exercise of the Option are delivered to the Company by a broker upon receipt of stock certificates from the Company, or pursuant to which Optionees obtain margin loans from brokers to fund the exercise of the Option.

(c) Tax Withholding. The Optionee shall pay to the Company in cash, promptly upon exercise of an Option or, if later, the date that the amount of such obligations becomes determinable (in either case, the "Tax Date"), all applicable federal, state, local and foreign withholding taxes that the Administrator, in its discretion, determines to result upon exercise of an Option or from a transfer or other disposition of shares of Common Stock acquired upon exercise of an Option or otherwise related to an Option or shares of Common Stock acquired in connection with an Option.

A person who has exercised an Option may make an election (i) to deliver to the Company a promissory note of the Optionee on the terms set forth in Section 7(b), (ii) to tender to the Company previously-owned shares of Common Stock held for at least six months, or (iii) to have shares of Common Stock to be obtained upon exercise of the Option withheld by the Company on behalf of the Optionee, to pay the amount of tax that the Administrator, in its discretion, determines to be required to be withheld by the Company. Any election pursuant to clause (iii) above by a Optionee subject to Section 16 of the Exchange Act shall be subject to the following limitations: (1) such election must be made at least six months before the Tax Date and shall be irrevocable; or (2) such election must be made in (or made earlier to take effect in) any Window Period (and the withholding of the shares of Common Stock shall take place during such Window Period) and shall be subject to approval by the Board, which approval may be given any time after such election has been made, and the Option must be held at least six months prior to the Tax Date; provided, that, the election referenced in clause (2) above may not be made unless (A) such election is consistent with Rule 16b-3(c)(2)(ii) under the Exchange Act, and (B) the Company has been subject to the reporting requirements of Section 13(a) of the Exchange Act for at least one year and has filed all reports

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and statements required to be filed pursuant to that section for that year. The right to so withhold shares of Common Stock shall relate separately to each Option.

Any shares tendered to or withheld by the Company will be valued at Fair Market Value on such date. The value of the shares of Common Stock tendered or withheld may not exceed the required federal, state, local and foreign withholding tax obligations as computed by the Company.

8. Use of Proceeds.

Proceeds from the sale of Shares pursuant to this Plan shall be used for general corporate purposes.

9. Adjustment of Shares.

(a) Adjustments. Subject to Section 9(d), in the event of any merger, reorganization, consolidation, recapitalization, stock dividend,



stock split or other change in corporate structure affecting the Common Stock, such substitution or adjustments shall be made in the aggregate number and kind of shares of Stock reserved for issuance under the Plan and in the number, kind and exercise price of shares subject to outstanding Options, as may be determined to be appropriate by the Administrator, in its sole discretion; provided, however, that the number of shares subject to any Option shall always be a whole number.

(b) Definition of "Change in Control". For purposes of Section 9(c), a "Change in Control" means the occurrence of any one of the following:

(i) Any "person", as such term is used in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, an Affiliate, or a Company employee benefit plan, including any trustee of such plan acting as trustee) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities;

(ii) the solicitation of proxies (within the meaning of Rule 14a-1(k) under the Exchange Act and any successor rule) with respect to the election of any director of the Company where such solicitation is for any candidate who is not a candidate proposed by a majority of the Board in office prior to the time of such election; or

(iii) the dissolution or liquidation (partial or total) of the Company or a sale of assets involving 30% or more of the assets of the Company, or any merger or reorganization of the Company (other than a merger effected before May 31, 1994),

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whether or not another entity is the survivor, or other transaction pursuant to which the holders, as a group, of all of the shares of the Company outstanding prior to the transaction hold, as a group, less than 70% of the shares of the Company outstanding after the transaction.

(c) Impact of Event. In the event of a "Change in Control" as defined in Section 9(b), any Options outstanding as of the date such Change in Control is determined to have occurred and not then exercisable and vested shall become fully exercisable and vested.

10. No Right to Directorship.

Neither, this Plan nor any Option granted hereunder shall confer upon any Optionee any right with respect to continuation of the Optionee's membership on the Board or shall interfere in any way with provisions in the Company's Articles of Incorporation and By-Laws relating to the election, appointment, terms of office, and removal of members of the Board.

11. Legal Requirements.

The Company shall not be obligated to offer or sell any Shares upon exercise of any Option unless the Shares are at that time effectively registered or exempt from registration under the federal securities laws and the offer and sale of the Shares are otherwise in compliance with all applicable securities laws and the regulations of any stock exchange on which the Company's securities may then be listed. The Company shall have no obligation to register the securities covered by this Plan under the federal securities laws or take any other steps as may be necessary to enable the securities covered by this Plan to be offered and sold under federal or other securities laws. Upon exercising all or any portion of an Option, an Optionee may be required to furnish representations or undertakings deemed appropriate by the Company to enable the offer and sale of the Shares or subsequent transfers of any interest in the Shares to comply with applicable securities laws. Certificates evidencing Shares acquired upon exercise of Options shall bear any legend required by, or useful for purposes of compliance with, applicable securities laws, this Plan or the Option Agreements.

12. Duration and Amendments.

(a) Duration. This Plan shall become effective upon adoption by the Board provided, however, that no Option shall be exercisable unless and until written consent of the shareholders of the Company, or approval of shareholders of the Company voting at a validly called shareholders' meeting, is obtained within 12 months after adoption by the Board. If such shareholder approval is not obtained within such time, Options granted hereunder shall

terminate and be of no force and effect from and after expiration of such 12-month period.

(b) Amendment and Termination. The Board may amend, alter or discontinue the Plan or any Option, but no amendment, alteration or discontinuance shall be made which would impair the rights of an Optionee under an outstanding Option without the Optionee's consent. In addition, the Board may not amend or alter the Plan without the approval of shareholders of the Company entitled to vote at a duly held shareholders' meeting or by an action by written consent and, if at a meeting, a quorum of the voting power of the Company is represented in person or by proxy, where such amendment or alteration would, except as expressly provided in the Plan, increase the total number of shares reserved for issuance pursuant to Options under the Plan or in such other circumstances as the Board deems appropriate to comply with Rule 16b-3 under the Exchange Act or otherwise. Notwithstanding any other provision of this Section 12(b), the provisions of the Plan governing (A) who is granted Options, (B) the number of Shares to be covered by each Option, (C) the exercise price of each Option, (D) the timing of the grant of each Option, or (E) the period within which each Option may be exercised, shall not be amended more than once every six months, other than to comport with changes in the Code or the rules thereunder or the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder.

(c) Effect of Amendment or Termination. No Shares shall be issued or sold under this Plan after the termination hereof, except upon exercise of an Option granted before termination. Termination or amendment of this Plan shall not affect any Shares previously issued and sold or any Option previously granted under this Plan.

13. Rule 16b-3.

With respect to persons subject to Section 16 of the Exchange Act, transactions under this Plan are intended to comply with the applicable conditions of Rule 16b-3 under the Exchange Act. To the extent any provision of this Plan or action by the Administrator fails to so comply, it shall be adjusted to comply with Rule 16b-3, to the extent permitted by law and deemed advisable by the Administrator. It shall be the responsibility of persons subject to Section 16 of the Exchange Act, not of the Company or the Administrator, to comply with the requirements of Section 16 of the Exchange Act; and neither the Company nor the Administrator shall be liable if this Plan or any transaction under this Plan fails to comply with the applicable conditions of Rule 16b-3, or if any such person incurs any liability under Section 16 of the Exchange Act.

Adopted by the Board of Directors: May 10, 1993

Amendment approved by the Board of Directors: February 14, 1994

Plan, as amended, approved by the shareholders: May 4, 1994

Two-for-one stock split with a record date of May 31, 1995 and a distribution date of June 21, 1995, which increased the number of shares from 50,000 to 100,000, was approved by the Board of Directors on May 15, 1995.

Amendment to Plan increasing the number of shares to 150,000 approved by the Board of Directors on February 12, 1996.

Amendment to Plan increasing the number of shares to 150,000 approved by the Shareholders on May 13, 1996.

TENCOR INSTRUMENTS  
1993 EMPLOYEE STOCK PURCHASE PLAN

1. Purpose

This Tencor Instruments 1993 Employee Stock Purchase Plan is designed to encourage and assist employees of Tencor Instruments and participating subsidiaries to acquire an equity interest in the Company through the purchase of shares of Tencor common stock.

2. Definitions

As used herein, the following definitions shall apply:

(a) "Administrator" shall mean the entity, either the Board or the committee of the Board, responsible for administering this Plan, as provided in Section 3.

(b) "Board" shall mean the Board of Directors of the Company, as constituted from time to time.

(c) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any successor statute.

(d) "Company" shall mean Tencor and Participating Subsidiaries.

(e) "Common Stock" shall mean the Common Stock of Tencor.

(f) "Employee" shall mean any individual who is an employee of the Company or a Participating Subsidiary within the meaning of Section 3401(c) of the Code and the Treasury Regulations thereunder.

(g) "Enrollment Date" shall have the meaning set forth in Section 6.

(h) "Fair market value" means as of any given date: (i) the closing price of the Common Stock on the NASDAQ National Market System as reported in the Wall Street Journal; or (ii) if the Common Stock is no longer quoted on the NASDAQ National Market System but is listed on an established stock exchange or quoted on any other established interdealer quotation system, the closing price for the Common Stock on such exchange or system, as reported in the Wall Street Journal; or (iii) in the absence of an established market for the Common Stock, the fair market value of the Common Stock as determined by the Administrator in good faith.

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(i) "Participating Subsidiary" shall mean a Subsidiary which has been designated by the Administrator as covered by the Plan.

(j) "Plan" shall mean this Tencor Instruments 1993 Employee Stock Purchase Plan, as it may be amended from time to time.

(k) "Purchase Date" shall have the meaning set forth in Section 9(a).

(l) "Section" unless the context clearly indicates otherwise, shall refer to a Section of this Plan.

(m) "Subsidiary" shall mean a "subsidiary corporation" of the Company, whether now or hereafter existing, within the meaning of Section 424(f) of the Code, but only for so long as it is a "subsidiary corporation."

(n) "Tencor" shall mean Tencor Instruments, a California corporation.

(o) "Trading Day" means any day on which regular trading occurs on any established stock exchange or market system on which the Common Stock is traded.

### 3. Administration

(a) Administrator. The Plan shall be administered by the Board or, upon delegation by the Board, by a committee consisting of not fewer than two directors (in either case, the "Administrator"). In connection with the administration of the Plan, the Administrator shall have the powers possessed by the Board. The Administrator may act only by a majority of its members. The Administrator may delegate administrative duties to such employees of the Company as it deems proper, so long as such delegation is not otherwise prohibited by Rule 16b-3 under the Securities Exchange Act of 1934, as amended. The Board at any time may terminate the authority delegated to any committee of the Board pursuant to this Section 3(a) and revest in the Board the administration of the Plan.

(b) Administrator Determinations Binding. The Administrator may adopt, alter and repeal administrative rules, guidelines and practices governing the Plan and the options granted under it as it from time to time shall deem advisable, may interpret the terms and provisions of the Plan and the Options granted under it, may correct any defect, omission or inconsistency in the Plan or in any Option; and may otherwise supervise the administration of the Plan and the Options granted under it. The Administrator may establish, under guidelines from

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the Board, limits on the number of shares which may be purchased by each participant on an annual or other periodic basis or on the number of shares which may be purchased on any Purchase Date. All decisions made by the Administrator under the Plan shall be binding on all persons, including the Company and all participants in the Plan. No member of the Administrator shall be liable for any action that he or she has in good faith taken or failed to take with respect to this Plan.

### 4. Number of Shares

(a) The Company has reserved for sale under the Plan 1,100,000 shares of Common Stock less any shares sold under the Tencor 1993 Foreign Subsidiary Employee Stock Purchase Plan. Shares sold under the Plan may be newly issued shares or shares reacquired in private transactions or open market purchases, but all shares sold under the Plan, regardless of source, shall be counted against the 1,100,000 share limitation.

(b) In the event of any reorganization, recapitalization, stock split, reverse stock split, stock dividend, combination of shares, merger, consolidation, offering of rights, or other similar change in the capital structure of the Company, the Board may make such adjustment, if any, as it deems appropriate in the number, kind, and purchase price of the shares available for purchase under the Plan and in the maximum number of shares subject to any option under the Plan.

### 5. Eligibility Requirements

(a) Each Employee of the Company, except those described in the next paragraph, shall become eligible to participate in the Plan in accordance with Section 6 on the first Enrollment Date on or following commencement of his or her employment by the Company or following such period of employment as is designated by the Board from time to time. Participation in the Plan is entirely voluntary.

(b) The following Employees are not eligible to participate in the Plan:

(i) Employees who would, immediately upon enrollment in the Plan, own directly or indirectly, or hold options or rights to acquire stock possessing, five percent (5%) or more of the total combined voting power or value of all classes of stock of Tencor or any subsidiary of Tencor; and

(ii) Employees who are customarily employed by the Company fewer than 20 hours per week or fewer than five months in any calendar year.

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6. Enrollment

Any eligible employee may enroll or re-enroll in the Plan each year as of the close of the first trading day of: (a) the May, August, November or February immediately following the adoption of the Plan by the Board of Directors of the Company; (b) the third month following each such month; and (c) each yearly anniversary of such months or such other days as may be established by the Board from time to time (the "Enrollment Dates"). In order to enroll, an eligible employee must complete, sign, and submit to the Company an enrollment form. Any enrollment form received by the Company by the 15th day of the month preceding an Enrollment Date (or by the Enrollment Date in the case of employees hired after such 15th day or in the case of the first Enrollment Date), or such other date established by the Administrator from time to time, will be effective on that Enrollment Date. In addition, the Administrator may re-enroll existing participants in the Plan on any Enrollment Date on which the fair market value of the Common Stock is lower than the fair market value on such participant's existing Enrollment Date.

7. Grant of Option Enrollment

(a) Enrollment or re-enrollment by a participant in the Plan on an Enrollment Date will constitute the grant by the Company to the participant of an option to purchase shares of Common Stock from the Company under the Plan. Any participant whose option expires and who has not withdrawn from the Plan will automatically be re-enrolled in the Plan and granted a new option on the Enrollment Date immediately following the date on which the option expires.

(b) Except as provided in Section 10, each option granted under the Plan shall have the following terms:

(i) the option will have a term of not more than 12 months or such shorter option period as may be established by the Board from time to time (the "Option Period"). Notwithstanding the foregoing, however, whether or not all shares have been purchased thereunder, the option will expire on the earlier to occur of: (A) the completion of the purchase of shares on the last Purchase Date occurring within 12 months after the Enrollment Date for such option, or such shorter option period as may be established by the Board before an Enrollment Date for all options to be granted on such date; or (B) the date on which the employee's participation in the Plan terminates for any reason;

(ii) payment for shares purchased under the option will be made only through payroll withholding in accordance with Section 8;

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(iii) purchase of shares upon exercise of the option will be effected only on the Purchase Dates established in accordance with Section 9;

(iv) the option, if not altered, amended or revoked by the Company prior to the relevant Purchase Date, may be accepted only by (x) there having been withheld from the compensation of the employee in accordance with the terms of the Plan amounts sufficient to purchase the Common Stock intended to be purchased under the option, and (y) the employee being employed by the Company and not having withdrawn from the Plan on the relevant Purchase Date.

(v) the price per share under the option will be determined as provided in Section 9;

(vi) the number of shares available for purchase under an option for each one percent (1%) of compensation designated by an employee in accordance with Section 8 will, unless otherwise established by the Board before an Enrollment Date for all options to be granted on such date, be determined by dividing \$25,000 by the fair market value of a share of Common Stock on the Enrollment Date, dividing the result by the maximum number of percentage points that an employee may designate under Section 8 at the time such option is granted, and multiplying the result by the number of calendar years included in whole or in part in the period from grant to expiration of the option;

(vii) the option (taken together with all other options then outstanding under this and all other similar stock purchase or stock option plans of Tencor and any subsidiary of Tencor, collectively "Options") will in no event give the participant the right to purchase shares

at a rate per calendar year which accrues in excess of \$25,000 of fair market value of such shares, less the fair market value of any shares accrued and already purchased during such year under Options which have expired or terminated, determined at the applicable Enrollment Dates; and

(viii) the option will in all respects be subject to the terms and conditions of the Plan, as interpreted by the Administrator from time to time.

#### 8. Payroll and Tax Withholding; Use by Company

(a) Each participant shall elect to have amounts withheld from his or her compensation paid by the Company during the Option Period, at a rate equal to any whole percentage up to a maximum of ten percent (10%), or such lesser percentage as the Board may establish from time to time before an Enrollment Date.

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Compensation includes regular salary payments, annual and quarterly performance bonuses, hire-on bonuses, cash recognition awards, commissions, overtime pay, shift premiums, and elective contributions by the participant to qualified employee benefit plans, but excludes all other payments including, without limitation, long-term disability or workers compensation payments, car allowances, employee referral bonuses, relocation payments, expense reimbursements (including but not limited to travel, entertainment, and moving expenses), salary gross-up payments, and non-cash recognition awards. The participant shall designate a rate of withholding in his or her enrollment form and may elect to increase or decrease the rate of contribution effective as of any Enrollment Date, by delivery to the Company, not later than 15 days before such Enrollment Date, of a written notice indicating the revised withholding rate; provided, however, that an employee who makes an election not to withdraw under Section 10 may not change his or her rate of contribution prior to the Purchase Date for which such election was made.

(b) Payroll withholdings shall be credited to an account maintained for purposes of the Plan on behalf of each participant, as soon as administratively feasible after the withholding occurs. The Company shall be entitled to use the withholdings for any corporate purpose, shall have no obligation to pay interest on withholdings to any participant, and shall not be obligated to segregate withholdings.

(c) Upon disposition of shares acquired by exercise of an option, the participant shall pay, or make provision adequate to the Company for payment of, all federal, state, and other tax (and similar) withholdings that the Company determines, in its discretion, are required due to the disposition, including any such withholding that the Company determines in its discretion is necessary to allow the Company to claim tax deductions or other benefits in connection with the disposition. A participant shall make such similar provisions for payment that the Company determines, in its discretion, are required due to the exercise of an option, including such provisions as are necessary to allow the Company to claim tax deductions or other benefits in connection with the exercise of the option.

#### 9. Purchase of Shares

(a) On the last Trading Day of each month immediately preceding a month containing an Enrollment Date (other than the first Enrollment Date), or on such other days as may be established by the Board from time to time, prior to an Enrollment Date for all options to be granted on an Enrollment Date (each a "Purchase Date"), the Company shall apply the funds then credited to each participant's payroll withholdings account to the purchase of whole shares of Common Stock. The cost to the

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participant for the shares purchased under any option shall be not less than eighty-five percent (85%) of the lower of:

(i) the fair market value of the Common Stock on the Enrollment Date for such option; or

(ii) the fair market value of the Common Stock on

the date such option is exercised.

(b) Any funds in an amount less than the cost of one share of Common Stock left in a participant's payroll withholdings account on a Purchase Date shall be carried forward in such account for application on the next Purchase Date.

(c) If at any Purchase Date, the shares available under the Plan are less than the number all participants would otherwise be entitled to purchase on such date, purchases shall be reduced proportionately to eliminate the deficit. If, at any Purchase Date, the shares which may be purchased by a participant are restricted on account of a limit on the aggregate shares which may be purchased per employee, purchases under each option shall be reduced proportionately. Any funds that cannot be applied to the purchase of shares due to such reductions shall be refunded to participants as soon as administratively feasible.

(d) Notwithstanding the terms of Section 9(a), no funds credited to any employee's payroll withholdings account shall be used to purchase Common Stock on any date prior to the date that the Plan has been approved by the shareholders of the Company, as noted in Section 21. If such approval is not forthcoming within one year from the date that the Plan was approved by the Board of Directors, all amounts withheld shall be distributed to the participants as soon as administratively feasible.

#### 10. Withdrawal from the Plan

A participant may withdraw from the Plan in full (but not in part) at any time, effective after written notice thereof is received by the Company; provided, however, that if on or before any Enrollment Date an employee elects, in the manner designated by the Administrator, not to withdraw prior to the Purchase Date which occurs six months after such Enrollment Date, such election will be binding on the electing employee. Unless the Administrator elects to permit a withdrawing participant to invest funds credited to his or her withholding account on the Purchase Date immediately following notice of withdrawal, all funds credited to a participant's payroll withholdings account shall be distributed to him or her without interest within 60 days after notice of withdrawal is received by the Company. Any eligible employee who has withdrawn from the Plan may enroll in

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the Plan again on any subsequent Enrollment Date in accordance with the provisions of Section 6.

#### 11. Termination of Employment

Participation in the Plan terminates immediately when a participant ceases to be employed by the Company for any reason whatsoever (including death or disability) or otherwise becomes ineligible to participate in the Plan. As soon as administratively feasible after termination, the Company shall pay to the participant or his or her beneficiary or legal representative, all amounts credited to the participant's payroll withholdings account; provided, however, that if a participant ceases to be employed by the Company because of the commencement of employment with a Subsidiary of the Company that is not a Participating Subsidiary, funds then credited to such participant's payroll withholdings account shall be applied to the purchase of whole shares of Common Stock at the next Purchase Date and any funds remaining after such purchase shall be paid to the participant.

#### 12. Designation of Beneficiary

(a) Each participant may designate one or more beneficiaries in the event of death and may, in his or her sole discretion, change such designation at any time. Any such designation shall be effective upon receipt in written form by the Company and shall control over any disposition by will or otherwise.

(b) As soon as administratively feasible after the death of a participant, amounts credited to his or her account shall be paid in cash to the designated beneficiaries or, in the absence of a designation, to the executor, administrator, or other legal representative of the participant's estate. Such payment shall relieve the Company of further liability with respect to the Plan on account of the deceased participant. If more than one beneficiary is designated, each beneficiary shall receive an equal portion of the account unless the participant has given express contrary written instructions.

#### 13. Assignment

(a) The rights of a participant under the Plan shall not be assignable by such participant, by operation of law or otherwise. No participant may create a lien on any funds, securities, rights, or other property held by the Company for the account of the participant under the Plan, except to the extent that there has been a designation of beneficiaries in accordance with the Plan, and except to the extent permitted by the laws of

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descent and distribution if beneficiaries have not been designated.

(b) A participant's right to purchase shares under the Plan shall be exercisable only during the participant's lifetime and only by him or her, except that a participant may direct the Company in the enrollment form to issue share certificates to the participant and his or her spouse in community property, to the participant jointly with one or more other persons with right of survivorship, or to certain forms of trusts approved by the Administrator.

#### 14. Administrative Assistance

If the Administrator in its discretion so elects, it may retain a brokerage firm, bank, or other financial institution to assist in the purchase of shares, delivery of reports, or other administrative aspects of the Plan. If the Administrator so elects, each participant shall (unless prohibited by the laws of the nation of his or her employment or residence) be deemed upon enrollment in the Plan to have authorized the establishment of an account on his or her behalf at such institution. Shares purchased by a participant under the Plan shall be held in the account in the name in which the share certificate would otherwise be issued pursuant to Section 13(b).

#### 15. Costs

All costs and expenses incurred in administering the Plan shall be paid by the Company, except that any stamp duties or transfer taxes applicable to participation in the Plan may be charged to the account of such participant by the Company. Any brokerage fees for the purchase of shares by a participant shall be paid by the Company, but brokerage fees for the resale of shares by a participant shall be borne by the participant.

#### 16. Equal Rights and Privileges

All eligible employees shall have equal rights and privileges with respect to the Plan so that the Plan qualifies as an "employee stock purchase plan" within the meaning of Section 423 of the Code and the related Treasury Regulations. Any provision of the Plan which is inconsistent with Section 423 of the Code shall without further act or amendment by the Company or the Board be reformed to comply with the requirements of Section 423. This Section 16 shall take precedence over all other provisions of the Plan.

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#### 17. Applicable Law

The Plan shall be governed by the substantive laws (excluding the conflict of laws rules) of the State of California.

#### 18. Modification and Termination

(a) The Board may amend, alter, or terminate the Plan at any time, including amendments to outstanding options. No amendment shall be effective unless within 12 months after it is adopted by the Board, it is approved by the holders of a majority of the votes cast at a duly held shareholders' meeting at which a quorum of the voting power of the Company is represented in person or by proxy, if such amendment would:

(i) increase the number of shares reserved for purchase under the Plan; or

(ii) require shareholder approval in order to comply with SEC Rule 16b-3.



(b) In the event the Plan is terminated, the Board may elect to terminate all outstanding options either immediately or upon completion of the purchase of shares on the next Purchase Date, or may elect to permit options to expire in accordance with their terms (and participation to continue through such expiration dates). If the options are terminated prior to expiration, all funds contributed to the Plan that have not been used to purchase shares shall be returned to the participants as soon as administratively feasible.

(c) In the event of the sale of all or substantially all of the assets of Tencor or the Company, or the merger of Tencor or the Company with or into another corporation, or the dissolution or liquidation of Tencor, a Purchase Date shall occur on the trading day immediately preceding the date of such event, unless otherwise provided by the Board in its sole discretion, including provision for the assumption or substitution of each option under the Plan by the successor or surviving corporation, or a parent or subsidiary thereof.

19. Rights as an Employee

Nothing in the Plan shall be construed to give any person the right to remain in the employ of the Company or to affect the Company's right to terminate the employment of any person at any time with or without cause.

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20. Rights as a Shareholder; Delivery of Certificates

Unless otherwise determined by the Board, certificates evidencing shares purchased on any Purchase Date shall be delivered to a participant only if he or she makes a written request to the Administrator. Participants shall be treated as the owners of their shares effective as of the Purchase Date.

21. Board and Shareholder Approval

The Plan was approved by the Board of Directors on May 10, 1993, and by the holders of a majority of the votes cast at a duly held shareholders' meeting on May 4, 1994, at which a quorum of the voting power of the Company was represented in person or by proxy. The Plan was amended by the Board of Directors on March 23, 1995 to increase to 300,000 the number of shares reserved for sale under the Plan and the Company's 1993 Foreign Subsidiary Employee Stock Purchase Plan. Such amendment was approved by the holders of a majority of the votes cast at a duly held shareholders' meeting on May 15, 1995, at which a quorum of the voting power of Tencor was represented in person or by proxy. A two-for-one stock split with a record date of May 31, 1995, which increased the number of shares from 300,000 to 600,000, was approved by the Board of Directors on May 15, 1995. The Plan was amended by the Board of Directors on February 12, 1996 to increase to 1,100,000 the number of shares reserved for sale under the Plan and the Company's 1993 Foreign Subsidiary Employee Stock Purchase Plan. Such amendment was approved by the holders of a majority of the votes cast at a duly held shareholders' meeting on May 13, 1996, at which a quorum of the voting power of Tencor was represented in person or by proxy.

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## International Plan

TENCOR INSTRUMENTS  
1993 FOREIGN SUBSIDIARY EMPLOYEE STOCK PURCHASE PLAN

## 1. Purpose

This Tencor Instruments 1993 Foreign Subsidiary Employee Stock Purchase Plan is designed to encourage and assist employees of participating subsidiaries of Tencor to acquire an equity interest in the Company through the purchase of shares of Tencor common stock.

## 2. Definitions

As used herein, the following definitions shall apply:

- (a) "Administrator" shall mean the entity, either the Board or the committee of the Board, responsible for administering this Plan, as provided in Section 3.
- (b) "Board" shall mean the Board of Directors of Tencor, as constituted from time to time.
- (c) "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any successor statute.
- (d) "Company" shall mean all Participating Subsidiaries collectively.
- (e) "Common Stock" shall mean the Common Stock of Tencor.
- (f) "Employee" shall mean any individual who is an employee of the Company or a Participating Subsidiary under the standards of Section 3401(c) of the Code and the Treasury Regulations thereunder.
- (g) "Enrollment Date" shall have the meaning set forth in Section 6.
- (h) "Fair market value" means as of any given date: (i) the closing price of the Common Stock on the NASDAQ National Market System as reported in the Wall Street Journal; or (ii) if the Common Stock is no longer quoted on the NASDAQ National Market System but is listed on an established stock exchange or quoted on any other established interdealer quotation system, the closing price for the Common Stock on such exchange or system, as reported in the Wall Street Journal; or (iii) in the absence of an established market for the Common Stock, the fair market value of the Common Stock as determined by the Administrator in good faith.

## International Plan

- (i) "Participating Subsidiary" shall mean a Subsidiary which has been designated by the Administrator as covered by the Plan; provided, however, that no Subsidiary participating in the Company's 1993 Employee Stock Purchase Plan may be designated for participation in the Plan.
- (j) "Plan" shall mean this Tencor Instruments 1993 Foreign Subsidiary Employee Stock Purchase Plan, as it may be amended from time to time.
- (k) "Purchase Date" shall have the meaning set forth in Section 9(a).
- (l) "Section" unless the context clearly indicates otherwise, shall refer to a Section of this Plan.
- (m) "Subsidiary" shall mean a "subsidiary corporation" of the Company, whether now or hereafter existing, within the meaning of Section 424(f) of the Code, but only for so long as it is a "subsidiary corporation."
- (n) "Tencor" shall mean Tencor Instruments, a California corporation.
- (o) "Trading Day" means any day on which regular trading

occurs on any established stock exchange or market system on which the Common Stock is traded.

### 3. Administration

(a) Administrator. The Plan shall be administered by the Board or, upon delegation by the Board, by a committee consisting of not fewer than two directors (in either case, the "Administrator"). In connection with the administration of the Plan, the Administrator shall have the powers possessed by the Board. The Administrator may act only by a majority of its members. The Administrator may delegate administrative duties to such employees of the Company as it deems proper, so long as such delegation is not otherwise prohibited by Rule 16b-3 under the Securities Exchange Act of 1934, as amended. The Board at any time may terminate the authority delegated to any committee of the Board pursuant to this Section 3(a) and revest in the Board the administration of the Plan.

(b) Administrator Determinations Binding. The Administrator may adopt, alter and repeal administrative rules, guidelines and practices governing the Plan and the options granted under it as it from time to time shall deem advisable, may interpret the terms and provisions of the Plan and the Options granted under it, may correct any defect, omission or inconsistency in the Plan or in any Option; and may otherwise

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International Plan

supervise the administration of the Plan and the Options granted under it. The Administrator may establish, under guidelines from the Board, limits on the number of shares which may be purchased by each participant on an annual or other periodic basis or on the number of shares which may be purchased on any Purchase Date. All decisions made by the Administrator under the Plan shall be binding on all persons, including the Company and all participants in the Plan. No member of the Administrator shall be liable for any action that he or she has in good faith taken or failed to take with respect to this Plan.

### 4. Number of Shares

(a) Tencor has reserved for sale under the Plan 1,100,000 shares of Common Stock less any shares sold under the Tencor 1993 Employee Stock Purchase Plan. Shares sold under the Plan may be newly issued shares or shares reacquired in private transactions or open market purchases, but all shares sold under the Plan, regardless of source, shall be counted against the 1,100,000 share limitation.

(b) In the event of any reorganization, recapitalization, stock split, reverse stock split, stock dividend, combination of shares, merger, consolidation, offering of rights, or other similar change in the capital structure of Tencor, the Board may make such adjustment, if any, as it deems appropriate in the number, kind, and purchase price of the shares available for purchase under the Plan and in the maximum number of shares subject to any option under the Plan.

### 5. Eligibility Requirements

(a) Each Employee of the Company, except those described in the next paragraph, shall become eligible to participate in the Plan in accordance with Section 6 on the first Enrollment Date on or following commencement of his or her employment by the Company or following such period of employment as is designated by the Board from time to time. Participation in the Plan is entirely voluntary.

(b) The following Employees are not eligible to participate in the Plan:

(i) Employees who would, immediately upon enrollment in the Plan, own directly or indirectly, or hold options or rights to acquire stock possessing, five percent (5%) or more of the total combined voting power or value of all classes of stock of Tencor or any subsidiary of Tencor; and

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(ii) Employees who are customarily employed by the

Company fewer than 20 hours per week or fewer than five months in any calendar year; and

(iii) Employees who are prohibited by the laws of the nation of their residence or employment from participating in the Plan.

#### 6. Enrollment

Any eligible Employee may enroll or re-enroll in the Plan each year as of the close of the first trading day of: (a) the May, August, November or February immediately following the adoption of the Plan by the Board of Directors of Tencor; (b) the third month following each such month; and (c) each yearly anniversary of such months or such other days as may be established by the Board from time to time (the "Enrollment Dates"). In addition, for purposes of participation in the Plan by an eligible Employee following termination of such employee's participation in the Company's 1993 Employee Stock Purchase Plan (the "U.S. Plan"), a deemed Enrollment Date may be designated corresponding to the Employee's most recent Enrollment Date under the U.S. Plan. In order to enroll, an eligible Employee must complete, sign, and submit to Tencor or the Employee's Participating Subsidiary an enrollment form. Any enrollment form received by Tencor or the Employee's Participating Subsidiary by the 15th day of the month preceding an Enrollment Date (or by the Enrollment Date in the case of Employees hired after such 15th day or in the case of the first Enrollment Date), or such other date established by the Administrator from time to time, will be effective on that Enrollment Date. In addition, the Administrator may re-enroll existing participants in the Plan on any Enrollment Date on which the fair market value of the Common Stock is lower than the fair market value on such participant's existing Enrollment Date.

#### 7. Grant of Option Enrollment

(a) Enrollment or re-enrollment by a participant in the Plan on an Enrollment Date will constitute the grant by the Company to the participant of an option to purchase shares of Common Stock under the Plan. Any participant whose option expires and who has not withdrawn from the Plan will automatically be re-enrolled in the Plan and granted a new option on the Enrollment Date immediately following the date on which the option expires.

(b) Except as provided in Section 10 or as determined by the Administrator, each option granted under the Plan shall have the following terms:

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(i) the option will have a term of not more than 12 months or such shorter option period as may be established by the Board from time to time (the "Option Period"). Notwithstanding the foregoing, however, whether or not all shares have been purchased thereunder, the option will expire on the earlier to occur of: (A) the completion of the purchase of shares on the last Purchase Date occurring within 12 months after the Enrollment Date for such option, or such shorter option period as may be established by the Board before an Enrollment Date for all options to be granted on such date; or (B) the date on which the employee's participation in the Plan terminates for any reason;

(ii) payment for shares purchased under the option will be made only through payroll withholding in accordance with Section 8;

(iii) purchase of shares upon exercise of the option will be effected only on the Purchase Dates established in accordance with Section 9;

(iv) the option, if not altered, amended or revoked prior to the relevant Purchase Date, may be accepted only by (x) there having been withheld from the compensation of the Employee in accordance with the terms of the Plan amounts sufficient to purchase the Common Stock intended to be purchased under the option, and (y) the employee being employed by the Company and not having withdrawn from the Plan on the relevant Purchase Date.

(v) the price per share under the option will be determined as provided in Section 9;

(vi) the number of shares available for purchase under an option for each one percent (1%) of compensation designated by an Employee in accordance with Section 8 will, unless otherwise established by the Board before an Enrollment Date for all options to be granted on such date, be determined by dividing \$25,000 by the fair market value of a share of Common Stock on the Enrollment Date, dividing the result by the maximum number of percentage points that an Employee may designate under Section 8 at the time

such option is granted, and multiplying the result by the number of calendar years included in whole or in part in the period from grant to expiration of the option;

(vii) the option (taken together with all other options then outstanding under this and all other similar stock purchase or stock option plans of Tencor and any Subsidiary, collectively "Options") will in no event give the participant the right to purchase shares at a rate per calendar year which

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accrues in excess of \$25,000 of fair market value of such shares, less the fair market value of any shares accrued and already purchased during such year under Options which have expired or terminated, determined at the applicable Enrollment Dates; and

(viii) the option will in all respects be subject to the terms and conditions of the Plan, as interpreted by the Administrator from time to time.

8. Payroll and Tax Withholding; Use by Company

(a) Each participant shall elect to have amounts withheld from his or her compensation paid by the Company during the Option Period, at a rate equal to any whole percentage up to a maximum of ten percent (10%), or such lesser percentage as the Board may establish from time to time before an Enrollment Date. Compensation includes regular salary payments, annual and quarterly performance bonuses, hire-on bonuses, cash recognition awards, commissions, overtime pay, shift premiums, and elective contributions by the participant to qualified employee benefit plans, but excludes all other payments including, without limitation, long-term disability or workers compensation payments, car allowances, employee referral bonuses, relocation payments, expense reimbursements (including but not limited to travel, entertainment, and moving expenses), salary gross-up payments, and non-cash recognition awards. The participant shall designate a rate of withholding in his or her enrollment form and may elect to increase or decrease the rate of contribution effective as of any Enrollment Date, by delivery to the Company, not later than 15 days before such Enrollment Date, of a written notice indicating the revised withholding rate; provided, however, that an Employee who makes an election not to withdraw under Section 10 may not change his or her rate of contribution prior to the Purchase Date for which such election was made.

(b) Payroll withholdings shall be credited to an account maintained for purposes of the Plan in local currency on behalf of each participant, as soon as administratively feasible after the withholding occurs. The Company shall be entitled to use the withholdings for any corporate purpose, shall have no obligation to pay interest on withholdings to any participant, and shall not be obligated to segregate withholdings.

(c) Upon acquisition or disposition of shares acquired by exercise of an option, the participant shall pay, or make provision adequate to the Company for payment of, all federal, state, and other tax (and similar) withholdings that the Company determines, in its discretion, are required due to the disposition, including any such withholding that the Company determines in its discretion is necessary to allow the Company to claim tax deductions or other benefits in connection with the

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disposition. A participant shall make such similar provisions for payment that the Company determines, in its discretion, are required due to the exercise of an option, including such provisions as are necessary to allow the Company to claim tax deductions or other benefits in connection with the exercise of the option.

9. Purchase of Shares

(a) On the last Trading Day of each month immediately preceding a month containing an Enrollment Date (other than the first Enrollment Date), or on such other days as may be established by the Board from time to time, prior to an Enrollment Date for all options to be granted on an

Enrollment Date (each a "Purchase Date"), the Company shall convert each participant's account balance, including amounts carried forward, to U.S. Dollars, determined as of the Purchase Date, and shall apply the funds then credited to each participant's payroll withholdings account to the purchase of whole shares of Common Stock. The cost to the participant for the shares purchased under any option shall be not less than eighty-five percent (85%) of the lower of:

(i) the fair market value of the Common Stock on the Enrollment Date for such option; or

(ii) the fair market value of the Common Stock on the date such option is exercised.

(b) Any funds in an amount less than the cost of one share of Common Stock left in a participant's payroll withholdings account on a Purchase Date shall be carried forward in such account for application on the next Purchase Date.

(c) If at any Purchase Date, the shares available under the Plan are fewer than the number all participants would otherwise be entitled to purchase on such date, purchases shall be reduced proportionately to eliminate the deficit. If, at any Purchase Date, the shares which may be purchased by a participant are restricted on account of a limit on the aggregate shares which may be purchased per employee, purchases under each option shall be reduced proportionately. Any funds that cannot be applied to the purchase of shares due to such reductions shall be refunded to participants as soon as administratively feasible.

(d) Notwithstanding the terms of Section 9(a), no funds credited to any employee's payroll withholdings account shall be used to purchase Common Stock on any date prior to the date that the Plan has been approved by the shareholders of the Company, as noted in Section 21. If such approval is not forthcoming within one year from the date that the Plan was

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approved by the Board of Directors, all amounts withheld shall be distributed to the participants as soon as administratively feasible.

#### 10. Withdrawal from the Plan

A participant may withdraw from the Plan in full (but not in part) at any time, effective after written notice thereof is received by the Company; provided, however, that if on or before any Enrollment Date an Employee elects, in the manner designated by the Administrator, not to withdraw prior to the Purchase Date which occurs six months after such Enrollment Date, such election will be binding on the electing Employee. Unless the Administrator elects to permit a withdrawing participant to invest funds credited to his or her withholding account on the Purchase Date immediately following notice of withdrawal, all funds credited to a participant's payroll withholdings account shall be distributed to him or her without interest within 60 days after notice of withdrawal is received by the Company. Any eligible employee who has withdrawn from the Plan may enroll in the Plan again on any subsequent Enrollment Date in accordance with the provisions of Section 6.

#### 11. Termination of Employment

Participation in the Plan terminates immediately when a participant ceases to be employed by the Company for any reason whatsoever (including death or disability) or otherwise becomes ineligible to participate in the Plan. As soon as administratively feasible after termination, the Company shall pay to the participant or his or her beneficiary or legal representative, all amounts credited to the participant's payroll withholdings account; provided, however, that if a participant ceases to be employed by the Company because of the commencement of employment with a Subsidiary that is not a Participating Subsidiary, funds then credited to such participant's payroll withholdings account shall be applied to the purchase of whole shares of Common Stock at the next Purchase Date and any funds remaining after such purchase shall be paid to the participant.

#### 12. Designation of Beneficiary

(a) Each participant may designate one or more beneficiaries in the event of death and may, in his or her sole discretion, change such designation at any time. Any such designation shall be effective upon receipt in written form by Tencor or the Company and shall control over any disposition by will or otherwise.

(b) As soon as administratively feasible after the death of a participant, amounts credited to his or her account

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shall be paid in cash to the designated beneficiaries or, in the absence of a designation, to the executor, administrator, or other legal representative of the participant's estate. Such payment shall relieve Tencor and the Company of further liability with respect to the Plan on account of the deceased participant. If more than one beneficiary is designated, each beneficiary shall receive an equal portion of the account unless the participant has given express contrary written instructions.

13. Assignment

(a) The rights of a participant under the Plan shall not be assignable by such participant, by operation of law or otherwise. No participant may create a lien on any funds, securities, rights, or other property held by the Company for the account of the participant under the Plan, except to the extent that there has been a designation of beneficiaries in accordance with the Plan, and except to the extent permitted by the laws of descent and distribution if beneficiaries have not been designated.

(b) A participant's right to purchase shares under the Plan shall be exercisable only during the participant's lifetime and only by him or her, except that a participant may direct Tencor in the enrollment form to issue share certificates to the participant and his or her spouse in community property, to the participant jointly with one or more other persons with right of survivorship, or to certain forms of trusts approved by the Administrator.

14. Administrative Assistance

If the Administrator in its discretion so elects, it may retain a brokerage firm, bank, or other financial institution to assist in the purchase of shares, delivery of reports, or other administrative aspects of the Plan. If the Administrator so elects, each participant shall (unless prohibited by the laws of the nation of his or her employment or residence) be deemed upon enrollment in the Plan to have authorized the establishment of an account on his or her behalf at such institution. Shares purchased by a participant under the Plan shall be held in the account in the name in which the share certificate would otherwise be issued pursuant to Section 13(b).

15. Costs

All costs and expenses incurred in administering the Plan shall be paid by the Company, except that any stamp duties or transfer taxes applicable to participation in the Plan may be charged to the account of such participant by the Company. Any brokerage fees for the purchase of shares by a participant shall

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be paid by the Company, but brokerage fees for the resale of shares by a participant shall be borne by the participant.

16. Equal Rights and Privileges

All eligible Employees shall have substantially equal rights and privileges with respect to the Plan; provided, however, that the Administrator may make such changes to the terms of the Plan from Subsidiary to Subsidiary that it deems advisable or necessary to reflect or comply with local laws or conditions. This Section 16 shall take precedence over all other provisions of the Plan.

17. Applicable Law

The Plan shall be governed by the substantive laws (excluding the conflict of laws rules) of the State of California.

18. Modification and Termination

(a) The Board may amend, alter, or terminate the Plan at

any time, including amendments to outstanding options. To the extent required for the Plan to comply with Rule 16b-3 or applicable tax laws, no amendment shall be effective unless within 12 months after it is adopted by the Board, it is approved by the holders of a majority of the votes cast at a duly held shareholders' meeting at which a quorum of the voting power of Tencor is represented in person or by proxy, if such amendment would:

- (i) increase the number of shares reserved for purchase under the Plan;
- (ii) increase benefits under the Plan; or
- (iii) modify the requirements for eligibility for participation in the Plan.

(b) In the event the Plan is terminated, the Board may elect to terminate all outstanding options either immediately or upon completion of the purchase of shares on the next Purchase Date, or may elect to permit options to expire in accordance with their terms (and participation to continue through such expiration dates). If the options are terminated prior to expiration, all funds contributed to the Plan that have not been used to purchase shares shall be returned to the participants as soon as administratively feasible.

(c) In the event of the sale of all or substantially all of the assets of Tencor or the Company, or the merger of

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Tencor or the Company with or into another corporation, or the dissolution or liquidation of Tencor, a Purchase Date shall occur on the trading day immediately preceding the date of such event, unless otherwise provided by the Board in its sole discretion, including provision for the assumption or substitution of each option under the Plan by the successor or surviving corporation, or a parent or subsidiary thereof.

19. Rights as an Employee

Nothing in the Plan shall be construed to give any person the right to remain in the employ of the Company or to affect the Company's right to terminate the employment of any person at any time with or without cause.

20. Rights as a Shareholder; Delivery of Certificates

Unless otherwise determined by the Board, certificates evidencing shares purchased on any Purchase Date shall be delivered to a participant only if he or she makes a written request to the Administrator. Participants shall be treated as the owners of their shares effective as of the Purchase Date.

21. Board and Shareholder Approval

The Plan was approved by the Board of Directors on May 10, 1993, and by the holders of a majority of the votes cast at a duly held shareholders' meeting on May 4, 1994, at which a quorum of the voting power of Tencor was represented in person or by proxy. The Plan was amended by the Board of Directors on March 23, 1995 to increase to 300,000 the number of shares reserved for sale under the Plan and the Company's 1993 Employee Stock Purchase Plan. Such amendment was approved by the holders of a majority of the votes cast at a duly held shareholders' meeting on May 15, 1995, at which a quorum of the voting power of Tencor was represented in person or by proxy. A two-for-one stock split with a record date of May 31, 1995, which increased the number of shares from 300,000 to 600,000, was approved by the Board of Directors on May 15, 1995. The Plan was amended by the Board of Directors on February 12, 1996 to increase to 1,100,000 the number of shares reserved for sale under the Plan and the Company's 1993 Employee Stock Purchase Plan. Such amendment was approved by the holders of a majority of the votes cast at a duly held shareholders' meeting on May 13, 1996, at which a quorum of the voting power of Tencor was represented in person or by proxy.

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1983 EMPLOYEE INCENTIVE STOCK OPTION PLAN  
OF  
PROMETRIX CORPORATION

1. PURPOSE OF THE PLAN

The purposes of the 1983 Employee Incentive Stock Option Plan\* (the "Plan") of PROMETRIX CORPORATION (the "Company") are to:

(a) furnish incentive to employees chosen to receive options because they are considered capable of responding by improving operations and increasing profits;

(b) encourage elected employees to accept or continue employment with the Company or its subsidiaries; and

(c) increase the interest of employees chosen to receive options in the Company's welfare by encouraging ownership of its Common Stock.

To accomplish the foregoing objectives, the Plan provides a means whereby employees may receive stock options which qualify as "incentive stock options" under Section 422A ("Section 422A") of the Internal Revenue Code ("Code") as it may be amended from time to time.

2. ELIGIBLE PERSONS

Every person who at the date of grant is an employee of the Company or of any affiliate of the Company is eligible to receive an option or options under the Plan; provided, however, that options may not be granted under the Plan to any person who owns, directly or indirectly, stock of the Company constituting more than 10% of the total combined voting power of the Company's outstanding stock, or the stock of any affiliate of the Company, unless (i) the exercise price of options granted to any such person under the Plan, at the time such option is granted, is equal to at least 110% of the fair market value of the stock subject to the option, and (ii) any such option is by its terms not exercisable after the expiration of five years from the date of grant. The term "affiliate," as used in the Plan, means a parent or subsidiary corporation of the Company, as defined in the applicable provisions (currently set forth in Section 425) of the Code. The term "employee" includes an officer or a director who is an employee.

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\* Approved by Board of Directors on August 5, 1983 and by Shareholders on August 1, 1983.

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3. STOCK SUBJECT TO THE PLAN

An aggregate of 800,000\*\* authorized but unissued shares of the Common Stock of the Company, or such number and class of securities as adjusted to give effect to the antidilution provisions contained in Section 6(b) hereof, may be sold upon the exercise of options granted under the Plan. In the event that any option outstanding under the Plan expires, or is terminated for any reason, unexercised in whole or in part, prior to the end of the period during which options may be granted under the Plan, the shares of stock allocable to the unexercised portion of such option may again be subjected to option under the Plan.

4. ADMINISTRATION

The Plan shall be administered by the Board of Directors or, if established by the Board of Directors, by a committee (the "Committee") consisting of not less than three persons, all of whom are and shall be directors of the Company, to be appointed by the Company's Board of Directors. Committee members shall serve for such term as the Board of Directors may in each case determine, and shall be subject to removal at any time by the Board of Directors. Vacancies on the Committee, however caused, may be filled by the Board of Directors. The Committee may select one of its members as chairman, and may hold meetings at such times and places as it may determine. A majority of the Committee shall constitute a quorum, and acts of the Committee approved at a meeting at which a quorum is present, or acts approved in writing by all of the members of the Committee, shall be valid acts of the Committee. Subject to the general purposes, terms and conditions of the Plan, and to the direction of the Board of Directors, the Committee, if there be one, shall have full power to implement and carry out the Plan in all ways permissible under the applicable provisions of the Code including, but not limited to, the following: to construe

and interpret the Plan; to prescribe, amend and rescind rules and regulations relating to the Plan; and to make all other determinations necessary or advisable for the administration of the Plan. The Committee, if there be one, shall submit to the Board of Directors the names of employees to whom the Committee recommends that an option or options should be granted under the Plan, the number of shares of stock to be covered by each option and the terms and conditions of each option. Options shall be granted and optionees shall be notified of such grant upon approval by the Board of Directors or, if the Committee is given general or specific authority to do so by the Board of Directors, to the extent so authorized, upon approval by the Committee without submission to, and review by, the Board of Directors, except that the Committee shall not have authority to approve the grant of options to members of the Board of Directors without approval by the Board of Directors.

5. GRANTING OF OPTIONS

No options shall be granted under the plan after July 31, 1993.

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\*\* Adjusted for 4-for-1 stock split effected 8/01/84.

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Each option shall be evidenced by a written stock option agreement executed by the Company and the employee to whom such option is granted.

In no event shall options granted pursuant to the Plan on or prior to December 31, 1986 result in the grant to any one employee during any calendar year of options covering stock in the Company having an aggregate fair market value, determined as of the date of grant, in excess of \$100,000 (plus any unused limit carryover to such year as permitted by then applicable provisions of the Code). In no event shall an option be granted to any employee pursuant to the Plan on or after January 1, 1987 if and to the extent that the aggregate fair market value (determined at the time the option is granted) of all stock in the Company with respect to which incentive stock options are exercisable for the first time by said employee during any calendar year (under the Plan and under any and all other similar employee incentive stock option plans qualifying under Section 422A) exceeds \$100,000.

6. TERMS AND CONDITIONS OF OPTIONS

Each option shall be subject to the following terms and conditions:

(a) Option Price. The option price, which shall be approved by the Board of Directors (or the Committee, if authorized to do so), shall be determined in accordance with the applicable provisions of the code and shall in no event be less than the fair market value of the Company's capital stock at the time the option is granted. In the absence of an established market for such stock, the fair market value thereof, for the purposes of the Plan, shall be determined in good faith by the Committee or the Board of Directors. If the stock of the Company is regularly quoted by a recognized securities dealer, the fair market value thereof, for the purposes of the Plan, shall be the mean between the high bid and low asked prices for such stock for the date the option is granted (or if there are no quoted prices for such date of grant, then for the last preceding business day on which there were quoted prices). If the stock of the Company is listed on any stock exchange, the fair market value of such stock, for the purposes of the Plan, shall be the mean between the highest and lowest selling prices for such stock as quoted on such exchange for the date the option is granted (or if there are no sales for such date of grant, then for the last preceding business day on which there were sales).

(b) Adjustments. In the event that the stock of the Company is changed by reason of any stock split, reverse stock split, recapitalization, or other change in the capital structure of the Company, or converted into or exchanged for other securities as a result of any merger, consolidation or reorganization, or in the event that the outstanding number of shares of stock of the Company is increased through payment of a stock dividend, appropriate proportionate adjustments shall be made in the number and class of shares of stock subject to the Plan, the number and class of shares of stock subject to any option outstanding under the Plan, and the exercise price of any such outstanding option; provided, however, that the Company shall not be required to issue fractional shares as a result of any such adjustment. Any such adjustment shall be made upon approval by the Board of Directors, whose determination shall be conclusive. If there is any other change in the number or kind of the outstanding shares of stock of the Company, or of any other security into which such

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stock shall have been changed or for which it shall have been exchanged, and if

the Board of Directors, in its sole discretion, determines that such change equitably requires any adjustment in the options outstanding under the Plan, such adjustment shall be made in accordance with the determination of the Board of Directors. No adjustments shall be required by reason of the issuance or sale by the Company for cash or other consideration of additional shares of its stock or securities convertible into or exchangeable for shares of its stock. All adjustments shall be made in such a manner that each option which is adjusted will continue to qualify under Section 422A as an "incentive stock option."

(c) Corporate Transactions. New option rights may be substituted for the option rights granted under the Plan, or the Company's duties as to options outstanding under the Plan may be assumed, by an employer corporation other than the Company, or by a parent or subsidiary of such employer corporation, in connection with any merger, consolidation, acquisition, separation, reorganization, liquidation or like occurrence in which the Company is involved, in such a manner that will allow the then outstanding options to continue to qualify as "incentive stock options" under Section 422A to the full extent permitted thereby. Notwithstanding the foregoing or the provisions of paragraph 6(b) hereof, in the event such employer corporation, or parent or subsidiary of such employer corporation, does not substitute new option rights for, and substantially equivalent to, the option rights granted hereunder, or assume the option rights granted hereunder, or if the Company's Board of Directors determines, in its sole discretion, that option rights outstanding under the Plan should not then continue to be outstanding, the option rights granted hereunder shall terminate and thereupon become null and void (i) upon dissolution or liquidation of the Company, or similar occurrence, or (ii) upon any merger, consolidation, acquisition, separation, or similar occurrence, where the Company will not be a surviving corporation; provided, however, that each optionee shall have the right immediately prior to or concurrently with such dissolution, liquidation, merger, consolidation, acquisition, separation, or similar occurrence, to exercise any unexpired option rights granted hereunder to the extent such option rights are then exercisable, but in any event subject to the time limitations for exercise of "incentive stock options" provided in Section 422A.

(d) Option Exercise Period. Each option granted under the Plan shall become exercisable and shall expire on a date or in installments, and shall contain such other terms as may be determined by the Committee or by the Board of Directors and as set forth in the stock option agreement, but in no event shall any option hereunder expire later than ten (10) years from the date such option is granted.

(e) Exercise of Option by Employee Who Holds Other Options. Notwithstanding any terms of any stock option agreement, no option granted on or before December 31, 1986 under the Plan ("new option") shall be exercisable while there is outstanding in favor of the optionee to whom such new option is granted an "incentive stock option," granted to such optionee prior to said December 31, 1986 and prior to the granting of the new option, which permits the employee to purchase stock in such optionee's employer corporation or in a corporation which, at the time of the granting of the new option, was an affiliate of the employer corporation, or in a predecessor corporation of any of such corporations. For such purposes, any incentive stock option shall be treated as outstanding until such option is exercised in full or expires by reason of lapse of time. This

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paragraph 6(e), however, shall not restrict the exercisability of any option granted under the Plan on or after January 1, 1987 or the exercisability of any other option granted under the Plan except as may be necessary to allow such option to qualify under Section 422A as an "incentive stock option."

(f) Change of Option Period. Notwithstanding any other provision of the Plan, the Board of Directors or the Committee may accelerate the earliest date or dates on which outstanding options (or any installments thereof) are exercisable.

(g) Option Grant Date. The date of grant of an option granted under the Plan shall be the date as of which the Board of Directors or the Committee (if the option is granted by the Committee without review by the Board of Directors) approves the grant. If for any reason, including a unilateral decision by the Company not to execute an agreement evidencing such option, a written stock option agreement evidencing the option is not executed within sixty (60) days after the date of grant, such option shall be deemed null and void. No option shall be exercisable until such a stock option agreement is executed by the Company and the optionee.

(h) Nonassignability of Option Rights. No option granted under the Plan shall be assignable or otherwise transferable by the optionee except by will or by the laws of descent and distribution. During the life of an optionee, an option shall be exercisable only by the optionee.

(i) Payment. Except as provided below, payment in full, in cash, shall be made for all stock purchased at the time written notice of

exercise of an option is given to the Company, and proceeds of any payment shall constitute general funds of the Company. Notwithstanding the preceding sentence, the Board of Directors or the Committee may authorize any one or more of the following in connection with the grant of any option, and any such payment rights shall be set forth in the option agreement:

(i) acceptance of the optionee's personal promissory note for all or part of the option price, bearing such interest rate, if any, as determined by the Board of Directors, which promissory note may be either secured or unsecured in such manner as the Board of Directors shall approve (including, without limitation, by a security interest in the shares of the Company);

(ii) delivery by optionee of Common Stock of the Company already owned by such optionee for all or part of the option price, provided the value of such Common Stock (as determined by the Company pursuant to any reasonable valuation method) is equal on the date of exercise to the option price, or such portion thereof as the optionee is authorized to pay by delivery of such stock;

(iii) a loan by the Company to the optionee of all or a portion of the option price at such interest rate, if any, as determined by the Board of Directors, and on an unsecured or secured basis as the Board of Directors shall approve (including, without limitation, by a security interest in the shares of the Company); and/or

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(iv) a guaranty by the Company of a loan to the optionee by a third party of all or part of the option price (but not more than the option price), and such guaranty may be on an unsecured or secured basis as the Board at Directors shall approve (including, without limitation, by a security interest in the shares of the Company).

(j) Termination of Employment. Option rights granted under the Plan, to the extent such rights have not then expired or been exercised, shall terminate and become null and void on a date three months after that date that an optionee ceases, for any reason, to be an employee of the Company or any affiliate of the Company, and shall not be exercisable on or after said date, except that:

(i) In the event of such a termination of employment due to the death of the optionee, the personal representatives of the optionee or any person or persons who acquire any such option rights from the optionee by will or the applicable laws of descent and distribution may, at any time within a period of twelve (12) months after the death of the optionee, exercise any or all of such option rights to the extent such option rights were exercisable on the date of the death of the optionee;

(ii) In the event of such a termination of employment by reason of the permanent and total disability of the optionee (as defined in Section 105(d)(4) of the Code), the optionee or, if the optionee thereafter dies, the personal representatives of the optionee or any person or persons who acquired any such option rights from the optionee by will or the applicable laws of descent and distribution may, at any time within a period of twelve (12) months after said termination, exercise any or all of such option rights to the extent such option rights were exercisable on the date of the termination of employment;

(iii) For Plan purposes a transfer of an optionee from the Company to an affiliate or vice versa, or from one affiliate to another, or leave of absence duly authorized by the Company, shall not be deemed a termination of employment or a break in continuous employment to the extent that such transfer or leave of absence is not deemed a termination or break in continuous employment under the applicable provisions of the Code.

(k) Other Provisions. Each option granted under the Plan may contain such other terms, provisions, and conditions not inconsistent with the Plan as may be determined by the Board of Directors or the Committee, and shall include such provisions and conditions as are necessary to qualify the option under Section 422A as an "incentive stock option."

#### 7. MANNER OF EXERCISE

An optionee wishing to exercise an option shall give written notice to the Company at its principal executive office, to the attention of the Secretary of the Company, accompanied by payment of the exercise price. The date the Company receives written notice of an exercise hereunder accompanied by payment of the exercise price will be considered as the date such option was exercised. As soon as possible after receipt of such written notice, the Company shall, without

stock issue or transfer taxes to the optionee or other person entitled to exercise, deliver to the optionee or other person a certificate or certificates for the requisite number of shares of stock. An optionee or transferee of an option shall not have any privileges as a shareholder with respect to any stock covered by the option until the date of issuance of a stock certificate.

8. EMPLOYMENT RELATIONSHIP

Nothing in the Plan or any option granted thereunder shall interfere with or limit in any way the right of the Company or of any of its subsidiaries to terminate any optionee's employment at any time, nor confer upon any optionee any right to continue in the employ of the Company or any of its subsidiaries.

9. AMENDMENT, SUSPENSION OR TERMINATION OF THE PLAN

The Board of Directors may at any time amend, alter, or discontinue the Plan, but no amendment, alteration, suspension or discontinuation shall be made which would impair the rights of any optionee under any option theretofore granted, without his consent, or which, without the approval of the shareholders, would:

(a) except as is provided in Section 6 of the Plan, increase the total number of shares of stock reserved for the purposes of the Plan;

(b) extend the duration of the Plan;

(c) extend the period during and over which options may be exercised under the Plan; or

(d) change the class of persons eligible to receive options granted hereunder.

Without limiting the foregoing, but subject to the provisions of paragraph 6(a) hereof, the Board of Directors may at any time, or from time to time, authorize the company, with the consent of the respective optionees, to issue new options in exchange for the surrender and cancellation of any or all outstanding options.

10. EFFECTIVE DATE OF THE PLAN

The Plan shall become effective upon approval by the Board of Directors, provided, however, that any option granted prior to approval by shareholders of the Company holding a majority (or such greater number as may be required by law or applicable governmental regulations or order) of the shares of the Company's capital stock entitled to vote shall be subject to, and conditioned upon, such shareholder approval, and shall not be exercisable until such approval is obtained. Options may be granted and exercised under the Plan only after there has been compliance with all applicable federal and state securities laws.

1993 EMPLOYEE INCENTIVE STOCK OPTION PLAN  
OF  
PROMETRIX CORPORATION

1. PURPOSE OF THE PLAN.

The purposes of the 1993 Employee Incentive Stock Option Plan(1) (the "Plan") of PROMETRIX CORPORATION, a California corporation (the "Company") are to:

(a) furnish incentive to employees chosen to receive options because they are considered capable of responding by improving operations and increasing profits;

(b) encourage selected employees to accept or continue employment with the Company or its subsidiaries; and

(c) increase the interest of employees chosen to receive options in the Company's welfare by encouraging ownership of its Common Stock.

To accomplish the foregoing objectives, the Plan provides a means whereby employees may receive stock options which qualify as "incentive stock options" under Section 422(b) ("Section 422(b)") of the Internal Revenue Code ("Code") as it may be amended from time to time.

2. ELIGIBLE PERSONS.

Every person who at the date of grant is an employee of the Company or of any affiliate of the Company is eligible to receive an option or options under the Plan; provided, however, that options may not be granted under the Plan to any person who owns, directly or indirectly, stock of the Company possessing more than 10% of the total combined voting power of all classes of the Company's outstanding stock, or the stock of any affiliate of the Company, unless (i) the exercise price of options granted to any such person under the Plan, at the time such option is granted, is equal to at least 110% of the fair market value of the stock subject to the option, and (ii) any such option is by its terms not exercisable after the expiration of five years from the date of grant. The term "affiliate," as used in the Plan, means a parent or subsidiary corporation of the Company, as defined in the applicable provisions (currently set forth in Section 424) of the Code. The term "employee" includes an officer or a director who is an employee.

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(1) Approved by Board of Directors and by Shareholders on March 16, 1993.

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3. STOCK SUBJECT TO THE PLAN.

An aggregate of 400,000 authorized but unissued shares of the Common Stock of the Company, or such number and class of securities as adjusted to give effect to the antidilution provisions contained in Section 6(b) hereof, may be sold upon the exercise of options granted under the Plan. In the event that any option outstanding under the Plan expires, or is terminated for any reason, unexercised in whole or in part, prior to the end of the period during which options may be granted under the Plan, the shares of stock allocable to the unexercised portion of such option may again be subjected to option under the Plan.

4. ADMINISTRATION.

The Plan shall be administered by the Board of Directors or, if established by the Board of Directors, by a committee (the "Committee") consisting of not less than three persons, all of whom are and shall be directors of the Company, to be appointed by the Company's Board of Directors. Committee members shall serve for such term as the Board of Directors may in each case determine, and shall be subject to removal at any time by the Board of Directors. Vacancies on the Committee, however caused, may be filled by the Board of Directors. The Committee may select one of its members as Chairman, and may hold meetings at such times and places as it may determine. A majority of the Committee shall constitute a quorum, and acts of the Committee approved at a meeting at which a quorum is present, or acts approved in writing by all of the members of the Committee, shall be valid acts of the Committee. Subject to the general purposes, terms and conditions of the Plan, and to the direction of the Board of Directors, the Committee, if there be one, shall have full power to implement and carry out the Plan in all ways permissible under the applicable provisions of the Code including, but not limited to, the following: (i) to construe and interpret the Plan, (ii) to prescribe, amend and rescind rules and regulations relating to the Plan and (iii) to make all other determinations

necessary or advisable for the administration of the Plan. The Committee, if there be one, shall submit to the Board of Directors the names of employees to whom the Committee recommends that an option or options should be granted under the Plan, the number of shares of stock to be covered by each option and the terms and conditions of each option. Options shall be granted and optionees shall be notified of such grant upon approval by the Board of Directors or, if the Committee is given general or specific authority to do so by the Board of Directors, to the extent so authorized, upon approval by the Committee without submission to, and review by, the Board of Directors, except that the Committee shall not have authority to approve the grant of options to members of the Board of Directors without approval by the Board of Directors.

5. GRANTING OF OPTIONS.

No options shall be granted under the plan after the expiration of ten (10) years from the date the Plan is adopted by the Board of Directors, or the date the Plan is approved by the shareholders, whichever date is earlier.

Each option shall be evidenced by a written stock option agreement (the "Stock Option Agreement") executed by the Company and the employee to whom such option is granted.

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In no event shall an option be granted to any employee pursuant to the Plan if and to the extent that the aggregate fair market value (determined at the time the option is granted) of all stock in the Company with respect to which incentive stock options are exercisable for the first time by said employee during any calendar year (under the Plan and under any and all other similar employee incentive stock option plans qualifying under Section 422(b)) exceeds \$100,000.

6. TERMS AND CONDITIONS OF OPTIONS.

Each option shall be subject to the following terms and conditions:

(a) Option Exercise Price. The option exercise price, which shall be approved by the Board of Directors (or the Committee, if authorized to do so), shall be determined in accordance with the applicable provisions of the Code and shall in no event be less than the fair market value of the Company's capital stock at the time the option is granted. In the absence of an established market for such stock, the fair market value thereof, for the purposes of the Plan, shall be determined in good faith by the Committee or the Board of Directors. If the stock of the Company is regularly quoted by a recognized securities dealer (but is not reported on the NASDAQ - National Market System), the fair market value thereof, for the purposes of the Plan, shall be the mean between the high bid and low asked prices for such stock for the date the option is granted (or if there are no quoted prices for such date of grant, then for the last preceding business day on which there were quoted prices). If the stock of the Company is listed on any stock exchange or is reported on the NASDAQ - National Market System, the fair market value of such stock, for the purposes of the Plan, shall be the mean between the highest and lowest selling prices for such stock as quoted on such exchange or NASDAQ - National Market System, as the case may be, for the date the option is granted (or if there are no sales for such date of grant, then for the last preceding business day on which there were sales).

(b) Adjustments. In the event that the stock of the Company is changed by reason of any stock split, reverse stock split, recapitalization, combination, reclassification or other change in the capital structure of the Company, or converted into or exchanged for other securities as a result of any merger, consolidation or reorganization, or in the event that the outstanding number of shares of stock of the Company is increased through payment of a stock dividend, appropriate proportionate adjustments shall be made in the number and class of shares of stock subject to the Plan, the number and class of shares of stock subject to any option outstanding under the Plan, and the exercise price of any such outstanding option; provided, however, that the Company shall not be required to issue fractional shares as a result of any such adjustment. Any such adjustment shall be made upon approval by the Board of Directors, whose determination shall be conclusive. If there is any other change in the number or kind of the outstanding shares of stock of the Company, or of any other security into which such stock shall have been changed or for which it shall have been exchanged, and if the Board of Directors, in its sole discretion, determines that such change equitably requires any adjustment in the options then outstanding under the Plan, such adjustment shall be made in accordance with the determination of the Board of Directors. No adjustments shall be required by reason of the issuance or sale by the Company for cash or other consideration of additional shares of its stock or securities convertible into or exchangeable for shares of its stock. All adjustments shall be

made in such a manner that each option which is adjusted will continue to qualify under Section 422(b) as an "incentive stock option."

(c) Corporate Transactions. New option rights may be substituted for the option rights granted under the Plan, or the Company's duties as to options outstanding under the Plan may be assumed, by an employer corporation other than the Company, or by a parent or subsidiary of such employer corporation, in connection with any merger, consolidation, acquisition, separation, reorganization, liquidation or like occurrence in which the Company is involved, in such a manner that will allow the then outstanding options to continue to qualify as "incentive stock options" under Section 422(b) to the full extent permitted thereby. Notwithstanding the foregoing or the provisions of paragraph 6(b) hereof, in the event such employer corporation, or parent or subsidiary of such employer corporation, does not substitute new option rights for, and substantially equivalent to, the option rights granted hereunder, or assume the option rights granted hereunder, or if the Company's Board of Directors determines, in its sole discretion, that option rights outstanding under the Plan shall not then continue to be outstanding, the option rights granted hereunder shall terminate and thereupon become null and void (i) upon dissolution or liquidation of the Company, or similar occurrence, or (ii) upon any merger, consolidation, acquisition, separation, or similar occurrence, where the Company will not be a surviving corporation; provided, however, that each optionee shall be given notice of such dissolution, liquidation, merger, consolidation, acquisition, separation or similar occurrence, and shall have the right for a period of at least thirty (30) days after such notice is sent by the Company, to exercise any exercisable and unexpired option rights granted hereunder but in any event subject to those time limitations for exercise of "incentive stock options" provided in Section 422(b) of the Code.

(d) Option Exercise Period. Each option granted under the Plan shall become exercisable and shall expire on a date or in installments, and shall contain such other terms as may be determined by the Committee or by the Board of Directors and as set forth in the Stock Option Agreement, but (i) in no event shall any option hereunder expire later than ten (10) years from the date such option is granted, and (ii) all of the rights to purchase shares hereunder must become exercisable at a rate not less than, and as of a date or dates not later than, 20% per year commencing one year following the date of the grant hereof.

(e) Change of Option Period. Except in the case of a consolidation or merger of the Company into any other corporation, or any other entity or person, other than a wholly-owned subsidiary, a parent corporation or as part of a reincorporation, or the case of a reorganization of the Company as defined in Section 368(a)(1)(B) of the Code or in any other transaction in which more than fifty percent (50%) of the outstanding stock of the Company is exchanged (other than a reincorporation) or sold, the Board of Directors or the Committee may accelerate the earliest date or dates on which outstanding options (or any installments thereof) are exercisable.

(f) Option Grant Date. The date of grant of an option granted under the Plan shall be the date as of which the Board of Directors or the Committee (if the option is granted by the Committee without review by the Board of Directors) approves the grant. If for any reason, including a unilateral decision by the Company not to execute an agreement evidencing such option, a

written Stock Option Agreement evidencing the option is not executed within sixty (60) days after the date of grant, such option shall be deemed null and void. No option shall be exercisable until such a Stock Option Agreement is executed by the Company and the optionee.

(g) Nonassignability of Option Rights. No option granted under the Plan shall be assignable or otherwise transferable by the optionee except by will or by the laws of descent and distribution. During the life of an optionee, an option shall be exercisable only by the optionee.

(h) Payment. Except as provided below, payment in full, in cash, shall be made for all stock purchased at the time written notice of exercise of an option is given to the Company, and proceeds of any payment shall constitute general funds of the Company. Notwithstanding the preceding sentence, the Board of Directors or the Committee may authorize any one or more of the following in connection with the grant of any option, and any such payment rights shall be set forth in the Stock Option Agreement:

(i) acceptance of the optionee's personal promissory note for all or part of the option price, bearing such interest rate, if any, as determined by the Board of Directors, which promissory note may be either secured or unsecured in such manner as the Board of Directors shall approve (including, without limitation, by a security interest in the shares of the Company);

(ii) delivery by optionee of Common Stock of the Company



already owned by such optionee for all or part of the option price, provided the value of such Common Stock (as determined by the Company pursuant to any reasonable valuation method) is equal on the date of exercise to the option price, or such portion thereof as the optionee is authorized to pay by delivery of such stock;

(iii) a loan by the Company to the optionee of all or a portion of the option price at such interest rate, if any, as determined by the Board of Directors, and on an unsecured or secured basis as the Board of Directors shall approve (including, without limitation, by a security interest in the shares of the Company); and/or

(iv) a guaranty by the Company of a loan to the optionee by a third party of all or part of the option price (but not more than the option price), and such guaranty may be on an unsecured or secured basis as the Board of Directors shall approve (including, without limitation, by a security interest in the shares of the Company).

(i) Termination of Employment. Option rights granted under the Plan, to the extent such rights have not then expired or been exercised, shall terminate and become null and void on the date that an optionee ceases, for any reason, to be an employee of the Company or any affiliate of the Company, and shall not be exercisable on or after said date, except that the rights exercisable upon said date may be exercised within thirty (30) days thereafter and except further that:

(i) In the event of such a termination of employment due to the death of the optionee, the personal representatives of the optionee or any person or persons who acquire any

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such option rights from the optionee by will or the applicable laws of descent and distribution may, at any time within a period of twelve (12) months after the death of the optionee, exercise any or all of such option rights to the extent such option rights were exercisable on the date of the death of the optionee;

(ii) In the event of such a termination of employment by reason of the permanent and total disability of the optionee (as defined in Section 22(e)(3) of the Code), the optionee, or, if the optionee thereafter dies, the personal representatives of the optionee or any person or persons who acquired any such option rights from the optionee by will or the applicable laws of descent and distribution may, at any time within a period of twelve (12) months after said termination, exercise any or all of such option rights to the extent such option rights were exercisable on the date of the termination of employment;

(iii) For Plan purposes, a transfer of an optionee from the Company to an affiliate or vice versa, or from one affiliate to another, or leave of absence duly authorized by the Company, shall not be deemed a termination of employment or a break in continuous employment to the extent that such transfer or leave of absence is not deemed a termination or break in continuous employment under the applicable provisions of the Code.

(j) Other Provisions. Each option granted under the Plan may contain such other terms, provisions, and conditions not inconsistent with the Plan as may be determined by the Board of Directors or the Committee, and shall include such provisions and conditions as are necessary to qualify the option under Section 422(b) as an "incentive stock option."

#### 7. MANNER OF EXERCISE.

An optionee wishing to exercise an option shall give written notice to the Company at its principal executive office, to the attention of the Secretary of the Company, accompanied by payment of the exercise price. The date the Company receives written notice of an exercise hereunder accompanied by payment of the exercise price will be considered as the date such option was exercised. As soon as possible after receipt of such written notice, the Company shall, without payment of stock issue or transfer taxes by the optionee or other person entitled to exercise, deliver to the optionee or other person a certificate or certificates for the requisite number of shares of stock. An optionee or transferee of an option shall not have any privileges as a shareholder with respect to any stock covered by the option until the date of issuance of a stock certificate.

#### 8. EMPLOYMENT RELATIONSHIP.

Nothing in the Plan or any option granted thereunder shall interfere with or limit in any way the right of the Company or of any of its subsidiaries to terminate any optionee's employment at any time, nor confer upon any optionee any right to continue in the employ of the Company or any of its subsidiaries.

9. AMENDMENT, SUSPENSION OR TERMINATION OF THE PLAN.

The Board of Directors may at any time amend, alter, suspend or discontinue the Plan, but no amendment, alteration, suspension or discontinuation shall be made which would impair the rights of any optionee under any option theretofore granted, without his or her consent, or which, without the approval of the shareholders would:

(a) except as is provided in Section 6 of the Plan, increase the total number of shares of stock reserved for the purposes of the Plan;

(b) extend the duration of the Plan;

(c) extend the period during and over which options may be exercised under the Plan; or

(d) change the class of persons eligible to receive options granted hereunder.

Without limiting the foregoing, the Board of Directors may at any time or from time to time authorize the Company, with the consent of the respective optionees, to issue new options in exchange for the surrender and cancellation of any or all outstanding options.

10. EFFECTIVE DATE OF THE PLAN.

The Plan shall become effective upon approval by the Board of Directors, provided, however, that any option granted prior to approval by shareholders of the Company holding a majority (or such greater number as may be required by law or applicable governmental regulations or order) of the shares of the Company's capital stock entitled to vote shall be subject to, and conditioned upon, such shareholder approval, and shall not be exercisable until such approval is obtained. Shareholder approval of the Plan must be obtained within twelve (12) months before or after the date the Plan is adopted. Options may be granted and exercised under the Plan only after there has been compliance with all applicable federal and state securities laws.

11. INFORMATION RIGHTS.

The Company shall furnish and/or make available financial statements to each optionee under the Plan on an annual basis.

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in this Registration Statement on Form S-8 of our report dated August 7, 1996, which appears on page 24 of the Annual Report to Stockholders of KLA Instruments Corporation, which is incorporated in reference in KLA Instruments Corporation's Annual Report on Form 10-K for the year ended June 30, 1996.

/s/ Price Waterhouse LLP

PRICE WATERHOUSE LLP

San Jose, California  
May 7, 1997