

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: December 31, 1995

OR

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

For the transition period from to COMMISSION FILE NUMBER 0-9992

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

DELAWARE

04-2564110

-----  
(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

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

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

95134  
(Zip Code)

Registrant's telephone number, including area code: (408) 468-4200

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

Yes X No  
--- ---

Common shares outstanding at December 31, 1995: 50,613,000

This report, including all exhibits and attachments, contains 16 pages.

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KLA INSTRUMENTS CORPORATION

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KLA INSTRUMENTS CORPORATION

PART 1 FINANCIAL INFORMATION

Item 1 Financial Statements

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
 THREE MONTHS ENDED DECEMBER 31,  
 (In thousands except per share amounts)  
 (Unaudited)

<TABLE>  
 <CAPTION>

|   | 1994      | 1995      |
|---|-----------|-----------|
|   | ----      | ----      |
| <S>   | <C>       | <C>       |
| Net Sales                                     | \$104,711 | \$165,750 |
|   | -----     | -----     |
| Cost and expenses:                            |           |           |
| Cost of sales                                 | 48,374    | 75,352    |
| Engineering, research and development         | 8,808     | 18,036    |
| Selling, general and administrative           | 21,739    | 29,447    |
| Write-off of acquired in-process technology   | 25,240    | -         |
|   | -----     | -----     |
|   | 104,161   | 122,835   |
|   | -----     | -----     |
| Income from operations                        | 550       | 42,915    |
| Interest income and other, net                | 1,535     | 3,908     |
| Interest expense                              | (608)     | (206)     |
|   | -----     | -----     |
| Income before income taxes                    | 1,477     | 46,617    |
| Provision for income taxes                    | 531       | 16,782    |
|   | -----     | -----     |
| Net income                                    | \$ 946    | \$ 29,835 |
|   | =====     | =====     |
| Net income per share                          | \$ 0.02   | \$ 0.57   |
|   | =====     | =====     |
| Shares used in computing net income per share | 48,188    | 52,386    |

</TABLE>

See accompanying notes to unaudited condensed consolidated financial information.

KLA INSTRUMENTS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
 SIX MONTHS ENDED DECEMBER 31,  
 (In thousands except per share amounts)  
 (Unaudited)

<TABLE>  
 <CAPTION>

|           | 1994      | 1995      |
|-----------|-----------|-----------|
|           | ----      | ----      |
| <S>       | <C>       | <C>       |
| Net sales | \$187,890 | \$314,826 |
|           | -----     | -----     |

|   |           |           |
|---|-----------|-----------|
| Costs and expenses:                           |           |           |
| Cost of sales                                 | 88,976    | 142,024   |
| Engineering, research and development         | 16,990    | 33,657    |
| Selling, general and administrative           | 38,189    | 57,302    |
| Write-off of acquired in-process technology   | 25,240    | --        |
|   | -----     | -----     |
|   | 169,395   | 232,983   |
|   | -----     | -----     |
| Income from operations                        | 18,495    | 81,843    |
| Interest income and other, net                | 3,032     | 8,095     |
| Interest expense                              | (1,082)   | (624)     |
|   | -----     | -----     |
| Income before income taxes                    | 20,445    | 89,314    |
| Provision for income taxes                    | 6,601     | 32,153    |
|   | -----     | -----     |
| Net income                                    | \$ 13,844 | \$ 57,161 |
|   | =====     | =====     |
| Net income per share                          | \$ 0.29   | \$ 1.09   |
|   | =====     | =====     |
| Shares used in computing net income per share | 47,974    | 52,397    |

See accompanying notes to unaudited condensed consolidated financial information.

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KLA INSTRUMENTS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET  
(In thousands)  
(Unaudited)

<TABLE>  
<CAPTION>

|   | June 30,<br>1995 | December 31,<br>1995 |
|---|------------------|----------------------|
|   | -----            | -----                |
| <S>   | <C>              | <C>                  |
| ASSETS  |                  |                      |
| Current assets:   |                  |                      |
| Cash and cash equivalents   | \$ 92,059        | \$ 58,243            |
| Short-term investments  | 26,681           | 27,030               |
| Accounts receivable, net of allowances of \$2,196 and \$2,668   | 129,274          | 189,031              |
| Inventories   | 79,759           | 113,639              |
| Deferred income taxes   | 18,155           | 18,155               |
| Other current assets  | 14,949           | 14,839               |
|   | -----            | -----                |
| Total current assets  | 360,877          | 420,937              |
| Land, property and equipment, net   | 49,004           | 55,768               |
| Marketable securities   | 126,013          | 136,500              |
| Other assets  | 10,402           | 10,013               |
|   | -----            | -----                |
| Total assets  | \$546,296        | \$623,218            |
|   | =====            | =====                |
| LIABILITIES AND STOCKHOLDERS' EQUITY  |                  |                      |
| Current liabilities:  |                  |                      |
| Notes payable   | \$ 4,458         | \$ 896               |
| Current portion of long-term debt   | 20,000           | --                   |
| Accounts payable  | 19,376           | 31,176               |
| Income taxes payable  | 22,797           | 25,785               |
| Other current liabilities   | 66,220           | 90,701               |
|   | -----            | -----                |
| Total current liabilities   | 132,851          | 148,558              |
|   | -----            | -----                |
| Deferred income taxes   | 9,476            | 9,480                |
|   | -----            | -----                |
| Commitments and contingencies   |                  |                      |
| Stockholders' equity:   |                  |                      |
| Preferred stock, \$0.001 par value, 1,000 shares authorized, none issued and outstanding                    | --               | --                   |
| Common shares, \$0.001 par value, 75,000 shares authorized, 50,160 and 50,613 shares issued and outstanding | 25               | 25                   |
| Capital in excess of par value  | 263,016          | 267,509              |

|  |           |           |
|--|-----------|-----------|
| Retained earnings                          | 138,893   | 196,054   |
| Treasury stock                             | (581)     | (581)     |
| Net unrealized gain on investments         | 1,241     | 1,517     |
| Cumulative translation adjustment          | 1,375     | 656       |
|  | -----     | -----     |
| Total stockholders' equity                 | 403,969   | 465,180   |
|  | -----     | -----     |
| Total liabilities and stockholders' equity | \$546,296 | \$623,218 |
|  | =====     | =====     |

</TABLE>

See accompanying notes to unaudited condensed consolidated financial information.

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KLA INSTRUMENTS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
SIX MONTHS ENDED DECEMBER 31  
(In thousands)  
(Unaudited)

<TABLE>

<CAPTION>

|  | 1994      | 1995      |
|--|-----------|-----------|
|  | ----      | ----      |
| <S>  | <C>       | <C>       |
| Cash flows from operating activities:  |           |           |
| Net income   | \$13,844  | \$57,161  |
| Adjustments required to reconcile net income to cash provided by operations: |           |           |
| Depreciation and amortization  | 5,669     | 6,460     |
| Write-off of acquired in-process technology                                  | 16,154    | --        |
| Changes in assets and liabilities:   |           |           |
| Accounts receivable  | (23,204)  | (59,757)  |
| Inventories  | (10,408)  | (33,880)  |
| Other assets   | (2,024)   | 499       |
| Accounts payable   | 1,834     | 11,800    |
| Income taxes payable   | 6,239     | 2,988     |
| Other current liabilities  | 14,732    | 24,481    |
|  | -----     | -----     |
| Cash provided by operations  | 22,836    | 9,752     |
|  | -----     | -----     |
| Cash flows from investing activities:  |           |           |
| Capital expenditures   | (6,155)   | (13,221)  |
| Purchases of short and long-term available for sale securities               | (23,654)  | (248,555) |
| Sales and maturities of short and long-term available for sale securities    | 992       | 237,996   |
| Investment in Metrologix   | (14,182)  | --        |
|  | -----     | -----     |
| Cash used for investing activities   | (42,999)  | (23,780)  |
|  | -----     | -----     |
| Cash flows from financing activities:  |           |           |
| Short-term borrowings, net   | (3,315)   | (3,562)   |
| Payment of current portion of long-term debt                                 | --        | (20,000)  |
| Sales of common stock/tax benefit of options exercised                       | 4,083     | 4,493     |
|  | -----     | -----     |
| Cash provided by (used for) financing activities                             | 768       | (19,069)  |
|  | -----     | -----     |
| Effect of exchange rate changes  | 116       | (719)     |
|  | -----     | -----     |
| Decrease in cash and cash equivalents  | (19,279)  | (33,816)  |
| Cash and cash equivalents at beginning of period                             | 139,126   | 92,059    |
|  | -----     | -----     |
| Cash and cash equivalents at end of period                                   | \$119,847 | \$58,243  |
|  | =====     | =====     |
| CASH PAID DURING THE PERIOD FOR:   |           |           |
| INTEREST   | \$ 1,166  | \$ 595    |
| INCOME TAXES   | 8,766     | 29,603    |

See accompanying notes to unaudited condensed consolidated financial information.

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KLA INSTRUMENTS CORPORATION  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL  
INFORMATION

1) This information is unaudited but, in the opinion of Registrant's management, all adjustments (consisting only of adjustments that are of a normal recurring nature) necessary for a fair statement of results have been included. The results for the quarter ended December 31, 1995, are not necessarily indicative of results to be expected for the entire year. This financial information should be read in conjunction with the Registrant's Annual Report on Form 10-K (including items incorporated by reference therein) for the year ended June 30, 1995.

2) Details of certain balance sheet components:

<TABLE>  
<CAPTION>

| <u>&lt;S&gt;</u>        | <u>&lt;C&gt;</u><br>June 30,<br>1995<br>----- | <u>&lt;C&gt;</u><br>December 31,<br>1995<br>----- |
|-------------------------|---|---|
| <u>Inventories:</u>     |   |   |
| Systems raw materials   | \$ 18,944                                     | \$ 35,665   |
| Customer service spares | 13,050  | 13,217  |
| Work-in-process         | 26,863  | 42,275  |
| Demonstration equipment | 20,902  | 22,482  |
|                         | -----   | -----   |
|                         | \$ 79,759                                     | \$ 113,639  |
|                         | =====   | =====   |

</TABLE>

- 3) In August of 1995, the Company repaid the \$20.0 million mortgage on its principal facility.
- 4) Net income per share is computed using the weighted average number of common and common equivalent shares outstanding during the respective periods, including the assumed net shares issuable upon exercise of stock options, when dilutive.

A two-for-one stock split was declared by the Board of Directors on July 24, 1995. The stock split was in the form of a 100% stock dividend. The dividend was paid on September 29, 1995, to stockholders of record on August 31, 1995. Earnings per share was calculated on a post-split basis.

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KLA INSTRUMENTS CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF  
OPERATIONS AND FINANCIAL CONDITION

Results of Operations

Second Quarter and Six Months of Fiscal 1996 Compared with Second Quarter and Six Months of Fiscal 1995

Net Sales

Net sales increased 58% and 68%, respectively, for the three and six month periods ended December 31, 1995 compared to the same periods of the prior fiscal year. The WISARD business unit was predominantly responsible for the increase in net sales. The Company attributes the continuing increase in WISARD's sales primarily to the growing acceptance of the Company's in-line wafer monitoring equipment that allows semiconductor manufacturers to optimize device yields. The RAPID business unit, Metrology Group and Automated Test business unit also recorded significant increases in net sales.

Gross Margin

Gross margins were 54.5% and 54.9%, respectively, for the three and six month periods ended December 31, 1995 compared to 53.8% and 52.6% for the same periods of the prior fiscal year. The RAPID Business Unit recorded significant improvements in gross margin for the quarter ended December 31, 1995 as compared to the same period of the prior fiscal year. The Company attributes this increase primarily to volume efficiencies. The improvement in the gross margin percentage for the three and six months ended December 31, 1995 was also due to a favorable product mix as the WISARD business unit's share of total revenue rose.

Engineering, Research and Development

Engineering, research and development expenses were 10.9% and 10.7% of net sales, respectively, for the three and six month periods ended December 31, 1995 compared to 8.4% and 9.0% for the same periods of the prior fiscal year. Net engineering expenditures rose \$9.2 million and \$16.7 million, respectively, during the three and six month periods ended December 31, 1995 compared to the same periods of the prior fiscal year. The Company is concentrating on the broad opportunities in yield management, including the networking of all measurement tools in a fab, the development of new measurement tools and the related software for using those tools. The WISARD business unit accounted for approximately 40% of the increase in dollar spending. The next largest dollar increase was recorded in the Metrology Group. Smaller increases in dollar spending were also recorded in the RAPID, PRISM and SEMSpec divisions.

#### Selling, General and Administrative

Selling, general and administrative expenses were 17.8% and 18.2% of net sales, respectively, for the three and six month periods ended December 31, 1995 compared to 20.8% and 20.3% for the same periods of the prior fiscal year. Sales and administration expenses increased at a rate somewhat slower than sales. Representative commissions increased slightly faster than sales due to an increase in shipments to Japan.

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### KLA INSTRUMENTS CORPORATION

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

#### Interest Income and Other net

- - - - -

Interest income and other, net increased \$2.4 million and \$5.1 million, respectively, for the three and six month periods ended December 31, 1995 compared to the same periods of the prior fiscal year. The increase is due to higher average cash balances and higher yields on the Company's investment portfolio.

#### Provision for Income Taxes

- - - - -

The Company's effective tax rate increased to 36% for the three and six month periods ended December 31, 1995. The Company's tax rate was 34% for the year ended June 30, 1995. The increase from 34% to 36% is due primarily to the lower impact of the realization of previously reserved deferred tax assets and the expiration of the federal research and development tax credit on June 30, 1995.

The IRS is currently auditing the Company's federal income tax returns for fiscal years 1985 to 1992. The Company has not yet received a notice of proposed tax deficiency. However, it anticipates a notice will be received in fiscal 1996. Management believes sufficient taxes have been provided in prior years and that the ultimate outcome of the IRS audit will not have a material adverse impact on the Company's financial position or results of operations.

#### Future Operating Results

- - - - -

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

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#### Liquidity and Capital Resources

- - - - -

Cash, cash equivalents and marketable securities decreased \$23 million at December 31, 1995 compared to June 30, 1995. Cash provided by operations was \$9.8 million. This was offset by the repayment in full of the Company's \$20 million mortgage on its principal facility, and by \$13.2 million in capital expenditures. Cash provided by operations was substantially less than reported earnings, primarily due to investments in Accounts Receivable and Inventories. Accounts Receivable increased \$59.8 million due primarily to an overall increase in net sales along with nonlinear shipments for the three and six month periods ended December 31, 1995. Inventories increased \$33.9 million to support the increase in net sales and the ramp-up of new products. Capital expenditures were primarily for computer equipment to accommodate the planned introduction of the Company's new enterprise business systems, engineering computers and equipment to support KLA's rapidly expanding research and development efforts, plus continued expenditures for facility improvements. The Company believes that its current level of liquid assets, credit facilities and expected cash generated from operations are sufficient to fund growth through the next fiscal year.

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KLA INSTRUMENTS CORPORATION

FORM 10-Q

PART II: OTHER INFORMATION

|          |   |                |
|----------|---|----------------|
| Item 1 - | Legal Proceedings                                   | Not Applicable |
| Item 2 - | Changes in Securities                               | Not Applicable |
| Item 3 - | Defaults Upon Senior Securities                     | Not Applicable |
| Item 4 - | Submission of Matters to a Vote of Security Holders | Page 12        |
| Item 5 - | Other Events  | Not Applicable |
| Item 6 - | Exhibits and Reports on Form 8-K                    | Page 14-15     |

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ITEM 4

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

An annual meeting of the stockholders was held on November 15, 1995 at the Company's San Jose headquarters.

At the meeting Mr. Edward W. Barnholt, Dr. Yoshio Nishi and Mr. Kenneth L. Schroeder were elected directors of the Company. Mr. Leo J. Chamberlain, Mr. Kenneth Levy, Mr. Robert E. Lorenzini, Mr. Samuel Rubinovitz and Mr. Dag Tellefsen continued in the office as directors after the meeting.

At the meeting three items were put to a vote of stockholders:

1. Election of two directors
2. Approval of an amendment to the 1982 Employee Stock Option Plan to increase the number of shares reserved for issuance under the Option Plan by 2,200,000 shares.
3. Ratification of the appointment of Price Waterhouse LLP as the independent accountants of the Company for the fiscal year ending June 30, 1996.

The voting results were:

<TABLE>  
<CAPTION>

| Item          | For        | Against    | Withheld | Abstain | No Vote |
|---------------|------------|------------|----------|---------|---------|
| - - - - -     | ---        | -----      | -----    | -----   | -----   |
| <S>           | <C>        | <C>        | <C>      | <C>     | <C>     |
| 1. Directors  |            |            |          |         |         |
| Mr. Barnholt  | 40,784,600 | 0          | 161,957  |         |         |
| Dr. Nishi     | 40,788,287 | 0          | 158,270  |         |         |
| Mr. Schroeder | 40,787,105 | 0          | 159,452  |         |         |
| 2.            | 26,551,550 | 13,909,377 |          | 144,490 | 341,140 |
| 3.            | 40,872,954 | 50,873     |          | 22,730  |         |

</TABLE>

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

KLA INSTRUMENTS CORPORATION

February 12, 1996

ROBERT J. BOEHLKE

-----  
[Date]

-----  
Robert J. Boehlke  
V.P. Finance and Administration  
Chief Financial Officer

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INDEX TO EXHIBITS

- (i) EXHIBITS INCORPORATED BY REFERENCE:
- 3.1 Certificate of Incorporation as amended (7)
  - 3.2 Bylaws, as amended(7)
  - 4.1 Amended and Restated Rights Agreement dated as of August 30, 1995, between the Company and First National Bank of Boston, as Rights Agent. The Rights Agreement includes as Exhibit A, the form of Right Certificate.(1)
  - 10.15 Statement of Partnership to Triangle Partners dated April 12, 1983(2)
  - 10.16 Lease Agreement and Addendum thereto dated January 10, 1983, between BB&K Partnership and the Company(2)
  - 10.18 Purchase and Sale Agreement dated January 10, 1983, between BB&K Partnership, Triangle Partners and the Company(3)
  - 10.35 Research and Development Agreement, Cross License and Technology Transfer Agreement and Agreement for Option to License and Purchase Resulting Technology, all dated
  - 10.45 Distribution Agreement dated July 1990, by and between Tokyo Electron Limited, a Japanese Corporation, and the Company(4)
  - 10.46 Principal facility Purchase Agreement dated July 1990, including all exhibits and amendments; Lease Agreement, Termination of Lease, Lot line adjustment, rights of first refusal, Deeds of Trust(4)
  - 10.47 Joint Venture Agreement between the Company and Nippon Mining Company, Limited, dated September 18, 1990(5)
  - 10.49 Exercise of Option to Purchase Technology made effective as of January 1, 1990, by and between KLA Development No. 4 and the Company(5)
  - 10.54 Micrion Corporation Series E Preferred Stock Purchase Agreement, dated September 13, 1991(6)
  - 10.67 Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated March 31, 1994(9)
  - 10.71 1990 Outside Directors Stock Option Plan (8)
  - 10.73 Amendment of Credit Agreement between Bank of America NT & SA and the Company dated December 31, 1994(10)
  - 10.74 1981 Employee Stock Purchase Plan, as amended by the Board of Directors on October 7, 1994(10)



- 10.76 Amendment of Credit Agreement between Bank of America NT & SA and the Company dated February 15, 1995(10)
- 10.77 Lease Agreement, Ground Lease Agreement and Purchase Agreement dated June 5, 1995, between BNP Leasing Corporation and the Company(10)
- 10.78 Lease Agreement and Purchase Agreement dated August 10, 1995, between BNP Leasing Corporation and the Company(10)
- (ii) EXHIBITS INCLUDED HEREWITH:
- 10.68 Credit Agreement between Bank of America NT & SA and the Company as amended, on February 7, 1996(9)
- 10.75 1982 Stock Option Plan, as amended on November 15, 1995(10)
- 10.79 Amendment of Credit Agreement between Bank of America NT & SA and the Company dated December 29, 1995
- 27 Financial Data Schedule

- - - - -

- (1) Filed as exhibit number 1 to Form 8-A/A, filed effective September 25, 1995
- (2) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1983
- (3) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1987
- (4) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1990
- (5) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1991
- (6) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1992
- (7) Filed as the same exhibit number to Registrant's registration statement no. 33-51819 on Form S-3, dated February 2, 1994
- (8) Filed as exhibit number 4.6 as set forth herein to Registrant's Form 10-K for the year ended June 30, 1991

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- (9) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1994
- (10) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1995

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FOURTH AMENDMENT TO CREDIT AGREEMENT

THIS FOURTH AMENDMENT TO CREDIT AGREEMENT (the "Amendment"), dated as of January \_\_\_\_, 1996, is entered into by and between KLA INSTRUMENTS CORPORATION (the "Borrower") and BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION (the "Bank").

RECITALS

A. The Borrower and the Bank are parties to a Credit Agreement dated as of April 30, 1994, as amended by a First Amendment to Credit Agreement dated as of December 31, 1994, a Second Amendment to Credit Agreement dated as of February 15, 1995, and a Third Amendment to Credit Agreement dated as of December 29, 1995 (as so amended, the "Credit Agreement") pursuant to which the Bank has extended certain credit facilities to the Borrower and certain of its Subsidiaries.

B. The Borrower has requested that the Bank agree to amend the Credit Agreement to increase the total amount of the facility and to certain other amendments to the Credit Agreement.

C. The Bank is willing to amend the Credit Agreement, subject to the terms and conditions of this Amendment.

NOW, THEREFORE, for valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein shall have the meanings, if any, assigned to them in the Credit Agreement.

2. Amendments to Credit Agreement.

(a) Section 1.01 of the Credit Agreement shall be amended at the defined term "Credit Limit" by amending and restating such defined term as follows:

"'Credit Limit': the amount \$15,000,000 or the

Equivalent Amount thereof."

(b) Section 7.01 of the Credit Agreement shall be amended by deleting the word "and" at the end of clause (f) thereof and inserting a ";" in lieu thereof, and by adding the following clause (h) at the end of such Section:

";and (h) liens on cash, cash equivalents, or marketable securities in an aggregate amount not to exceed \$45,000,000 at any one time, to secure obligations of the Borrower or its Subsidiaries with respect to the Borrower's "off-balance sheet" real estate construction lease(s) with Banque Nationale de Paris or an affiliate thereof".

(c) Section 7.03 of the Credit Agreement shall be amended by amending and restating in its entirety the defined term "A" as follows:

"'A' means the sum of unencumbered and unrestricted cash, short-term cash investments, marketable securities not classified as long-term investments and accounts receivable; and"

3. Representations and Warranties. The Borrower hereby represents and warrants to the Bank as follows:

(a) No Default or Event of Default has occurred and is continuing.

(b) The execution, delivery and performance by the Borrower of this Amendment have been duly authorized by all necessary corporate and other action and do not and will not require any registration with, consent or approval of, notice to or action by, any person (including any governmental authority) in order to be effective and enforceable. The Credit Agreement as amended by this Amendment constitutes the legal, valid and binding obligations of the Borrower, enforceable against it in accordance with its respective terms, without defense, counterclaim or offset.

(c) All representations and warranties of the Borrower contained in the Credit Agreement are true and correct.

own investigation and for its own reasons, without reliance upon the Bank or any other person.

4. Effective Date. This Amendment will become effective as of January \_\_\_\_, 1996 (the "Effective Date"), provided that each of the following conditions precedent has been satisfied:

(a) The Bank has received from the Borrower a duly executed original of this Amendment.

(b) The Bank has received from the Borrower a copy of a resolution passed by the board of directors of such corporation, certified by the Secretary or an Assistant Secretary of such corporation as being in full force and effect on the date hereof, authorizing the execution, delivery and performance of this Amendment.

5. Reservation of Rights. The Borrower acknowledges and agrees that the execution and delivery by the Bank of this Amendment shall not be deemed to create a course of dealing or otherwise obligate the Bank to forbear or execute similar amendments under the same or similar circumstances in the future.

6. Miscellaneous.

(a) Except as herein expressly amended, all terms, covenants and provisions of the Credit Agreement are and shall remain in full force and effect and all references therein to such Credit Agreement shall henceforth refer to the Credit Agreement as amended by this Amendment. This Amendment shall be deemed incorporated into, and a part of, the Credit Agreement.

(b) This Amendment shall be binding upon and inure to the benefit of the parties hereto and thereto and their respective successors and assigns. No third party beneficiaries are intended in connection with this Amendment.

(c) This Amendment shall be governed by and construed in accordance with the law of the State of California.

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(d) This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

(e) This Amendment, together with the Credit Agreement, contains the entire and exclusive agreement of the parties hereto with reference to the matters discussed herein and therein. This Amendment supersedes all prior drafts and communications with respect thereto. This Amendment may not be amended or modified except in writing executed by both of the parties hereto.

(f) If any term or provision of this Amendment shall be deemed prohibited by or invalid under any applicable law, such provision shall be invalidated without affecting the remaining provisions of this Amendment or the Credit Agreement, respectively.

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(g) Borrower covenants to pay to or reimburse the Bank, upon demand, for all costs and expenses (including allocated costs of in-house counsel) incurred in connection with the development, preparation, negotiation, execution and delivery of this Amendment.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment as of the date first above written.

KLA INSTRUMENTS CORPORATION

By: \_\_\_\_\_

Title: \_\_\_\_\_

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

By: \_\_\_\_\_

Title: Vice President



## KLA INSTRUMENTS CORPORATION

## 1982 STOCK OPTION PLAN

(AS AMENDED JULY 24, 1995)

1. Purpose: On October 6, 1981, the KLA Instruments Corporation 1981 Incentive Stock Option Plan (the "1981 Plan") was adopted. The 1981 Plan was amended and restated in its entirety and renamed the KLA Instruments Corporation 1982 Stock Option Plan (the "1982 Plan"). The 1982 Plan was amended and restated in its entirety in 1985 (the "Prior Plan"). The Prior Plan was amended and restated in its entirety effective January 1, 1987 (the "Plan"). The Plan is established to create additional incentive for key employees, consultants and directors of KLA Instruments Corporation and any present or future parent and/or subsidiary corporations of such corporation (collectively referred to as the "Company"). For purposes of the Plan, a parent corporation and a subsidiary corporation shall be as defined in sections 425(e) and 425(f) of the Internal Revenue Code of 1986, as amended (the "Code").

## 2. Administration.

(a) Administration by Board and/or Committee. The Plan shall be administered by the Board of Directors of the Company (the "Board") and/or by a duly appointed committee of the Board having such powers as shall be specified by the Board. Any subsequent references herein to the Board shall also mean the committee if such committee has been appointed and, unless the powers of the committee have been specifically limited, the committee shall have all of the powers of the Board granted herein, including, without limitation, the power to terminate or amend the Plan at any time, subject to the terms of the Plan and any applicable limitations imposed by law. All questions of interpretation of the Plan or of any options granted under the Plan (an "Option") shall be determined by the Board, and such determinations shall be final and binding upon all persons having an interest in the Plan and/or any Option.

(b) Options Authorized. Options may be either incentive stock options as defined in section 422 of the Code or nonqualified stock options.

(c) Compliance with Section 162(m) of the Code. In the event that the Company is a "publicly held corporation" as defined in paragraph (2) of section 162(m) of the Code, as amended by the Revenue Reconciliation Act of 1993 (P.L. 103-66), and the regulations promulgated thereunder ("Section 162(m)"), the Company may establish a committee of outside directors meeting the requirements of Section 162(m) to approve the grant of Options which might reasonably be anticipated to result in the payment of employee remuneration

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that would otherwise exceed the limit on employee remuneration deductible for income tax purposes pursuant to Section 162(m).

## 3. Eligibility:

(a) Eligible Persons. The Options may be granted only to employees (including officers), consultants and directors of the Company; provided, however, that no non-employee director may be granted an Option after October 25, 1991. The Board shall, in its sole discretion, determine which persons shall be granted Options (an "Optionee"). A consultant of the Company shall be eligible to be granted only a nonqualified stock option. In the event an Optionee is not an employee at the time an Option is granted to such Optionee, termination of such Optionee's status as a consultant shall be deemed to be termination of the Optionee's employment for purposes of applying the provisions of the Plan. An Optionee may, if he is otherwise eligible, be granted additional Options.

(b) Fair Market Value Limitation. To the extent that the aggregate fair market value (determined at the time the Option is granted) of stock with respect to which Incentive Stock Options are exercisable by an Optionee for the first time during any calendar year (under all stock option plans of the Company, including the Plan) exceeds One Hundred Thousand Dollars (\$100,000), such options shall be treated as nonqualified stock options. This paragraph shall be applied by taking Incentive Stock Options into account in the order in which they were granted. In the event of an amendment to section 422 of the Code, this paragraph 3(b) shall be automatically amended to make this provision no more restrictive to the Optionee than necessary to insure qualification of the incentive stock option as meeting the requirements of section 422 of the Code. In the event an Optionee receives an Option intended to be an incentive stock option which is subsequently determined to have exceeded the fair market value limitation, the Option shall be amended, if necessary, in accordance with applicable Treasury Regulations and rulings to preserve, as the first priority, to the maximum possible extent, the status of the Option as an incentive stock option and to preserve, as a second priority, to the maximum possible extent, the total number of shares subject to the Option. Options designated as

nonqualified stock options shall not be subject to the fair market value limitation.

(c) Ten Percent Owner Optionees. No person shall be eligible to receive an Option which is intended to be an incentive stock option if such person owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company within the meaning of section 422(b)(6) of the Code.

4. Shares Subject to Option. The maximum number of shares of stock which may be issued under the Plan shall be Fourteen Million Nine Hundred Thousand (14,900,000) shares of the Company's authorized but unissued

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common stock subject to adjustment as provided in paragraph 6(f). Subject to adjustment as provided in paragraph 6(f) below, at any such time as the Company is a "publicly held corporation" as defined in Section 162(m), no person shall be granted within any fiscal year of the Company Options which in the aggregate cover more than Two Hundred Thousand (200,000) shares; provided, however, that the foregoing limit shall be Six Hundred Thousand (600,000) shares with respect to Options granted to any person during the first fiscal year of such person's employment with the Company (the "Per Optionee Limit"). In the event that any outstanding Option for any reason expires or is terminated, the shares allocable to the unexercised portion of such Option may again be subjected to an Option.

5. Time for Granting Options. All options shall be granted, if at all, within ten (10) years from July 20, 1990.

6. Terms, Conditions and Form of Options. Subject to the provisions of the Plan, the Board shall determine for each Option (which need not be identical) the number of shares for which the Option shall be granted, the option price of the Option, the exercisability of the Option, whether the Option is a nonqualified stock option or an incentive stock option, and all other terms and conditions of the Option. Options granted pursuant to the Plan shall be evidenced by written agreements specifying the number of shares covered thereby, in such form as the Board shall from time to time establish, which agreements may incorporate all or any of the terms of the Plan by reference and shall comply with and be subject to the following terms and conditions:

(a) Option Price. The option price shall be not less than the fair market value as determined by the Board of the shares of common stock of the Company on the date the Option is granted.

(b) Exercise Period of Options. The Board shall have the power to set the time or times within which each Option shall be exercisable or the event or events upon the occurrence of which all or a portion of each Option shall be exercisable and the term of each Option; provided, however, that no incentive stock option shall be exercisable after the expiration of ten (10) years from the date such option is granted and no nonqualified stock option shall be exercisable after the expiration of ten (10) years and one (1) day from the date such option is granted. Unless otherwise provided for by the Board in the grant of the Option, any Option granted hereunder shall be exercisable during the period commencing seven (7) months after the date the Option is granted (the "Grant Date") and ending at the time set forth in the previous sentence. During such period the Option shall be exercised only in proportion to the vested ratio at the time of the exercise. The "vested ratio" at the time of an exercise is a fraction the numerator of which is the number of full months of continuous employment with the Company which have occurred more than six (6) months after the Grant Date and the denominator of which is 54.

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(c) Exercise of Options.

(i) Options may be exercised only by written notice to the Company, stating the number of shares being purchased and accompanied by payment of the option price for the number of shares being purchased (1) in cash, by check, or in cash equivalent, (2) by tender to the Company of shares of common stock of the Company which (a) either have been owned by the optionee for more than six (6) months or were not acquired directly or indirectly from the Company, and (b) have a fair market value not less than the option price, or (3) by such other consideration as the Board may approve at the time the Option is granted. Notwithstanding the foregoing, the Board shall have the authority (A) with respect to Optionees who would not be subject to suit under section 16(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), upon the sale of shares of the Company, to establish or approve a program and/or procedures which permit the payment of the option price upon the exercise of an Option by the assignment of the proceeds of a sale of some or all of the shares being so acquired and (B) with respect to Optionees who would be subject to suit under section 16(b) of the Exchange Act upon the sale of shares of the Company, to establish or approve a program and/or procedures which permit the payment of the option price upon the exercise of an Option by cash for a portion of the

option price and the Optionee's promissory note for the balance of the option price. At the time an Option is exercised, in whole or in part, or at any time thereafter as requested by the Company, the Optionee shall make adequate provision for the federal and state income tax withholding obligations of the Company, if any, which arise upon exercise, in whole or in part, of the Option or which arise, directly or indirectly, upon any transfer, in whole or in part, of any shares acquired on exercise of the Option.

(ii) The Company reserves, at any and all times, the right, in the Company's sole and absolute discretion, to establish, decline to approve and/or terminate any programs and/or procedures for the exercise of Options by means of an assignment of the proceeds of a sale of some or all of the shares to be acquired upon such exercise.

(iii) No promissory note shall be permitted pursuant to paragraph 6(c)(i)(B) if an exercise using a promissory note would be a violation of any law. In the event an Optionee provides for partial payment with a promissory note, such promissory note shall comply with provisions established by the Board; provided, however, that the principal balance shall not exceed the lesser of (A) the option price or (B) the maximum amount permitted under the Delaware General Corporation Law or other applicable law. Any permitted promissory note shall be due and payable not more than two (2) years after the Option is granted and interest shall be payable at least annually and be at least equal to the minimum interest rate necessary to avoid imputed interest pursuant to all applicable sections of the Code. The Board shall have the authority to

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permit or require the Optionee to secure any promissory note used to exercise an Option with the shares acquired on exercise of the Option and/or with other collateral acceptable to the Company. In the event the Company at any time is subject to the regulations promulgated by the Board of Governors of the Federal Reserve System or any other governmental entity affecting the extension of credit in connection with the Company's securities, any promissory note shall comply with such applicable regulations, and the Optionee shall pay the unpaid principal and accrued interest, if any, to the extent necessary to comply with such applicable regulations.

(iv) If an amendment to the Plan requiring the approval of the stockholders of the Company is necessary for the grant of an Option and/or the approval of such stockholders is deemed necessary or advisable by the Board prior to the exercise of an Option, such Option shall not be exercisable until such time as the Plan is duly approved by the stockholders of the Company.

(v) In the event of (1) a merger or consolidation or other reorganization in which the stockholders of the Company before such merger do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the surviving entity, and/or (2) the sale of all or substantially all of the Company's assets (other than a sale or transfer to a subsidiary of the Company as defined in section 425(f) of the Code), all outstanding Options, notwithstanding the terms of such Options, shall become fully exercisable prior to consummation of such merger or sale of assets at such time(s) as the Board shall determine or the surviving or acquiring corporation, as a condition precedent to consummation of said transaction, shall assume the outstanding Options or issue substitute options in place thereof. Such assumption or substitution shall meet the requirements of section 425(a) of the Code if the Options assumed or surrendered are incentive stock options (as defined in the Code) and shall satisfy comparable requirements if the Options assumed or surrendered are nonqualified stock options.

(d) Options Non-Transferable. During the lifetime of the Optionee, the Option shall be exercisable only by said Optionee. No option shall be assignable or transferable by the Optionee, except by will or by the laws of descent and distribution.

(e) Termination of Options. If an Optionee ceases to be an employee of the Company for any reason except death or disability within the meaning of Section 422(c) of the Code, any Option, to the extent unexercised and exercisable by the Optionee on the date on which the Optionee ceased to be an employee, may be exercised by the Optionee within one (1) month after the date on which the Optionee ceased to be an employee, but in any event no later than the date of expiration of the Option's term. If the Optionee's employment with the Company is terminated because of the death of the Optionee or disability of the Optionee within the meaning of section 422(c) of the Code, any Option, to the

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extent unexercised and exercisable by the Optionee on the date the Optionee ceased to be employed by the Company, may be exercised by the Optionee (or the Optionee's legal representative) at any time prior to the expiration of twelve (12) months from the date the Optionee ceased to be employed, but in any event no later than the date of expiration of the Option's term. An Optionee's

employment shall be deemed to have terminated on account of death if the Optionee dies within three (3) months of the Optionee's termination of employment. Except as provided in this paragraph 6(e), an Option shall terminate and may not be exercised after the Optionee ceases to be an employee of the Company.

(f) Effect of Change in Stock Subject to Plan. Appropriate adjustments shall be made in the number and class of shares of stock subject to the Plan, to the Per Optionee Limit set forth in paragraph 4 above, and to any outstanding Options and in the exercise price of any outstanding Options in the event of a stock dividend, stock split, reverse stock split, or like change in the capital structure of the Company.

(g) Restriction on Issuance of Shares. The grant of Options and the issuance of shares shall be subject to compliance with all of the applicable requirements of all federal, state, and other laws and regulations with respect to such securities.

(h) Rights as a Stockholder or Employee. No person shall have any rights as a stockholder with respect to any shares covered by an Option until the date of the issuance of a stock certificate(s) for the shares for which the Option has been exercised. No adjustment shall be made for dividends or distributions or other rights for which the record date is prior to the date such stock certificate(s) are issued, except as provided in paragraph 6(f). Nothing in the Plan or in any Option agreement shall confer upon any Optionee any right to continue in the employ of the Company or interfere in any way with any right of the Company to terminate the Optionee's employment at any time.

(i) Fractional Shares. In no event shall the Company be required to issue fractional shares upon the exercise of an Option.

7. Termination or Amendment of Plan. The Board may at any time terminate or amend the Plan, provided that without approval of stockholders there shall be: (i) no increase in the total number of shares covered by the Plan (except by operation of the provisions of paragraph 6(f) above), and (ii) no change in the class of person eligible to receive Options. In any case, no amendment may adversely affect any then outstanding Options or any unexercised portions thereof without the consent of the Optionee unless such amendment is required to enable the Option to qualify as an incentive stock option.

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8. Continuation of Prior Plan as to Outstanding Options. Notwithstanding the provisions of the Plan set forth herein, the terms of the 1981 Plan, the 1982 Plan, and the Prior Plan shall remain in effect and apply to Options granted pursuant to the 1981 Plan, the 1982 Plan, and the Prior Plan, respectively.

IN WITNESS WHEREOF, the undersigned Secretary of the Company certifies that the foregoing KLA Instruments Corporation 1982 Stock Option Plan, as amended, was duly adopted by the Board of Directors of the Company on July 24, 1995.

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#### Plan History

|                    |  |
|--------------------|--|
| April 23, 1987     | Date Plan as amended adopted by Board of Directors.  |
| June 22, 1987      | Date share reserve increase of 1,000,000 shares (from 2,250,000 shares to 3,250,000 shares) approved by Board of Directors.  |
| July 23, 1987      | Date first amendments to Plan regarding a same-day-sale program and loans to Company officers were approved by Board of Directors.                                       |
| October 29, 1987   | Date Plan as amended, share reserve increase and first amendment were approved by the Stockholders.  |
| September 12, 1988 | Date share reserve increase of 1,000,000 shares (from 3,250,000 shares to 4,250,000 shares) approved by Board of Directors.  |
| October 27, 1988   | Date share reserve increase approved by Stockholders.  |
| July 20, 1990      | Date share reserve increase of 500,000 shares (from 4,250,000 shares to 4,750,000 shares) and extension of Plan term until July 20, 2000 approved by Board of Directors. |



October 26, 1990 Date share reserve increase and extension of Plan term approved by Stockholders.

October 26, 1991 Date Plan amended by Board of Directors to make non-employee directors ineligible to receive stock option grants. (No Stockholder approval required.)

October 7, 1994 Date Plan amended by Board of Directors to increase the number of shares reserved for issuance under the Plan from 4,750,000 to 6,350,000 shares and to modify certain other provisions as required by Section 162(m) of the Internal Revenue Code. (Stockholder approval required.)

November 16, 1994 Date share reserve increase and amendment of Plan approved by Stockholders.

July 24, 1995 Date two-for-one <sup>8</sup> stock split and share reserve increase of 2,200,000 shares (from 12,700,000 shares to 14,900,000 shares), net of the stock split, approved by Board of Directors.

November 15, 1995 Date share reserve increase approved by Stockholders.

THIRD AMENDMENT TO CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT (the "Amendment"), dated as of December \_\_\_, 1995, is entered into by and between KLA INSTRUMENTS CORPORATION (the "Borrower") and BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION (the "Bank").

RECITALS

A. The Borrower and the Bank are parties to a Credit Agreement dated as of April 30, 1994, as amended by a First Amendment to Credit Agreement dated as of December 31, 1994 and a Second Amendment to Credit Agreement dated as of February 15, 1995 (as so amended, the "Credit Agreement") pursuant to which the Bank has extended certain credit facilities to the Borrower and certain of its Subsidiaries.

B. The Borrower has requested that the Bank agree to certain amendments of the Credit Agreement.

C. The Bank is willing to amend the Credit Agreement, subject to the terms and conditions of this Amendment.

NOW, THEREFORE, for valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Defined Terms. Unless otherwise defined herein, capitalized terms used herein shall have the meanings, if any, assigned to them in the Credit Agreement.

2. Amendments to Credit Agreement.

(a) Section 1.01 of the Credit Agreement shall be amended as follows:

(i) The definition of "Availability Period" set forth in such Section shall be amended by deleting "December 31, 1995" and inserting "December 31, 1996" in lieu thereof.

(ii) The definition of "Final Maturity Date" set forth in such Section shall be amended in its entirety to read as follows:

"Final Maturity Date": (a) in respect of any Advances, June 30, 1997; (b) in respect of any commercial letters of credit, June 30, 1997; and (c) in respect of any standby letters of credit, December 31, 1997."

(b) Section 7.02 of the Credit Agreement shall be amended by deleting the phrase "The Borrower shall not permit as of the last day of any fiscal quarter on a consolidated basis its Tangible Net Worth to be less than \$215,000,000;" and inserting in lieu thereof the phrase "The Borrower shall not permit as of the last day of any fiscal quarter on a consolidated basis its Tangible Net Worth to be less than \$345,000,000;".

(c) Section 7.05 of the Credit Agreement shall be amended in its entirety to read as follows:

"7.05 Acquisitions. The Borrower and its Subsidiaries shall not acquire or purchase control of, or the assets or business of, any other person, firm, or corporation if, immediately prior to or after giving effect to such acquisition or purchase, there shall exist a Default or Event of Default."

3. Representations and Warranties. The Borrower hereby represents and warrants to the Bank as follows:

(a) No Default or Event of Default has occurred and is continuing.

(b) The execution, delivery and performance by the Borrower of this Amendment have been duly authorized by all necessary corporate and other action and do not and will not require any registration with, consent or approval of, notice to or action by, any person (including any governmental authority) in order to be effective and enforceable. The Credit Agreement as amended by this Amendment constitutes the legal, valid and binding obligations of the Borrower, enforceable against it in

in the Credit Agreement are true and correct.

(d) The Borrower is entering into this Amendment on the basis of its own investigation and for its own reasons, without reliance upon the Bank or any other person.

4. Effective Date. This Amendment will become effective as of December 31, 1995 (the "Effective Date"), provided that each of the following conditions precedent has been satisfied:

(a) The Bank has received from the Borrower a duly executed original of this Amendment.

(b) The Bank has received from the Borrower a copy of a resolution passed by the board of directors of such corporation, certified by the Secretary or an Assistant Secretary of such corporation as being in full force and effect on the date hereof, authorizing the execution, delivery and performance of this Amendment.

5. Reservation of Rights. The Borrower acknowledges and agrees that the execution and delivery by the Bank of this Amendment shall not be deemed to create a course of dealing or otherwise obligate the Bank to forbear or execute similar amendments under the same or similar circumstances in the future.

6. Miscellaneous.

(a) Except as herein expressly amended, all terms, covenants and provisions of the Credit Agreement are and shall remain in full force and effect and all references therein to such Credit Agreement shall henceforth refer to the Credit Agreement as amended by this Amendment. This Amendment shall be deemed incorporated into, and a part of, the Credit Agreement.

(b) This Amendment shall be binding upon and inure to the benefit of the parties hereto and thereto and their

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respective successors and assigns. No third party beneficiaries are intended in connection with this Amendment.

(c) This Amendment shall be governed by and construed in accordance with the law of the State of California.

(d) This Amendment may be executed in any number of counterparts, each of which shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

(e) This Amendment, together with the Credit Agreement, contains the entire and exclusive agreement of the parties hereto with reference to the matters discussed herein and therein. This Amendment supersedes all prior drafts and communications with respect thereto. This Amendment may not be amended or modified except in writing executed by both of the parties hereto.

(f) If any term or provision of this Amendment shall be deemed prohibited by or invalid under any applicable law, such provision shall be invalidated without affecting the remaining provisions of this Amendment or the Credit Agreement, respectively.

(g) Borrower covenants to pay to or reimburse the Bank, upon demand, for all costs and expenses (including allocated costs of in-house counsel) incurred in connection with the development, preparation, negotiation, execution and delivery of this Amendment.

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IN WITNESS WHEREOF, the parties hereto have executed and delivered this Amendment as of the date first above written.

KLA INSTRUMENTS CORPORATION

By: \_\_\_\_\_

Title: \_\_\_\_\_

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

By:

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Title: Vice President

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

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