

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the quarterly period ended:
December 31, 1994

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)

| | | |
|----------|---|---|
| <TABLE> | | |
| <S> | DELAWARE | <C> |
| | (State or other jurisdiction of incorporation or organization) | 04-2564110 (I.R.S. Employer Identification No.) |
| </TABLE> | | |

160 RIO ROBLES
San Jose, California
(Address of principal executive offices)

95134
(Zip Code)

Registrant's telephone number, including area code: (408) 434-4200

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, 1994: 23,224,000

This report, including all exhibits and attachments, contains 47 pages.

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KLA INSTRUMENTS CORPORATION

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KLA INSTRUMENTS CORPORATION

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

<TABLE>
 <CAPTION>

| | 1993 | 1994 |
|--|-----------|-----------|
| | ----- | ----- |
| <S> | <C> | <C> |
| Net sales | \$ 57,087 | \$104,711 |
| | ----- | ----- |
| Costs and expenses: | | |
| Cost of sales | 32,417 | 48,374 |
| Engineering, research and development | 4,847 | 8,808 |
| Selling, general and administrative | 11,310 | 21,739 |
| Write-off of acquired in-process technology | -- | 25,240 |
| | ----- | ----- |
| | 48,574 | 104,161 |
| | ----- | ----- |
| Income from operations | 8,513 | 550 |
| Interest income and other, net | 376 | 1,535 |
| Interest expense | (499) | (608) |
| | ----- | ----- |
| Income before income taxes | 8,390 | 1,477 |
| Provision for income taxes | 2,098 | 531 |
| | ----- | ----- |
| Net income | \$ 6,292 | \$ 946 |
| | ----- | ----- |
| Net income per share | \$ 0.30 | \$ 0.04 |
| | ===== | ===== |
| Weighted average number of common and dilutive common equivalent shares outstanding | 20,909 | 24,094 |

See accompanying notes to condensed consolidated financial information.

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KLA INSTRUMENTS CORPORATION

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

<TABLE>
 <CAPTION>

| | 1993 | 1994 |
|--|-----------|-----------|
| | ----- | ----- |
| <S> | <C> | <C> |
| Net sales | \$108,991 | \$187,890 |
| | ----- | ----- |
| Costs and expenses: | | |
| Cost of sales | 63,578 | 88,976 |
| Engineering, research and development | 9,776 | 16,990 |
| Selling, general and administrative | 21,243 | 38,189 |
| Write-off of acquired in-process technology | -- | 25,240 |
| | ----- | ----- |
| | 94,597 | 169,395 |
| | ----- | ----- |
| Income from operations | 14,394 | 18,495 |
| Interest income and other, net | 549 | 3,032 |
| Interest expense | (995) | (1,082) |
| | ----- | ----- |
| Income before income taxes | 13,948 | 20,445 |
| Provision for income taxes | 3,490 | 6,601 |
| | ----- | ----- |
| Net income | \$ 10,458 | \$ 13,844 |
| | ===== | ===== |
| Net income per share | \$ 0.50 | \$ 0.58 |
| | ===== | ===== |
| Weighted average number of common and dilutive common equivalent shares outstanding | 20,854 | 23,987 |

See accompanying notes to condensed consolidated financial information.

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KLA INSTRUMENTS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEET
 (In thousands except share amounts)

(Unaudited)

<TABLE>

<CAPTION>

| | JUNE 30, 1994 | DECEMBER 31, 1994 |
|--|------------------|----------------------|
| | ----- | ----- |
| <S> | <C> | <C> |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$139,126 | \$119,847 |
| Short-term investments | -- | 5,680 |
| Accounts receivable, net | 74,226 | 98,016 |
| Inventories | 53,265 | 67,055 |
| Other current assets | 11,838 | 11,811 |
| | ----- | ----- |
| Total current assets | 278,455 | 302,409 |
| Land, property and equipment, net | 37,149 | 40,515 |
| Marketable securities | -- | 16,982 |
| Other assets | 5,966 | 5,541 |
| | ----- | ----- |
| Total assets | \$321,570 | \$365,447 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Notes payable | \$ 4,673 | \$ 2,631 |
| Current portion of long-term debt | -- | 20,000 |
| Accounts payable | 11,890 | 14,701 |
| Income taxes payable | 12,466 | 18,705 |
| Other current liabilities | 36,553 | 55,379 |
| | ----- | ----- |
| Total current liabilities | 65,582 | 111,416 |
| | ----- | ----- |
| Deferred income taxes | 8,606 | 8,606 |
| Long-term debt | 20,000 | -- |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.001 par value, 1,000 shares authorized, none outstanding | -- | -- |
| Common stock, \$0.001 par value, 75,000 shares authorized, 22,864 and 23,224 shares issued and outstanding | 23 | 23 |
| Capital in excess of par value | 147,358 | 151,441 |
| Retained earnings | 80,275 | 94,119 |
| Treasury stock | (581) | (581) |
| Cumulative translation adjustment | 307 | 423 |
| | ----- | ----- |
| Total stockholders' equity | 227,382 | 245,425 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$321,570 | \$365,447 |
| | ===== | ===== |

</TABLE>

See accompanying notes to 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>

| | 1993 | 1994 |
|---|-----------|-----------|
| | ----- | ----- |
| <S> | <C> | <C> |
| Cash flows from operating activities: | | |
| Net income | \$ 10,458 | \$ 13,844 |
| Adjustments required to reconcile net income to cash provided by (used for) operations: | | |
| Depreciation and amortization | 4,904 | 5,669 |
| Write-off of acquired in-process technology | -- | 16,154 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (13,122) | (23,204) |
| Inventories, net | (2,261) | (10,408) |
| Other current assets | (1,465) | 56 |
| Accounts payable | 421 | 1,834 |
| Income taxes payable and deferred income taxes | 1,042 | 6,239 |
| Other current liabilities | (1,815) | 14,732 |
| Other assets | (191) | (2,080) |
| | ----- | ----- |
| Cash provided for (used for) operating activities | (2,029) | 22,836 |
| | ----- | ----- |

| | | |
|--|-----------|-----------|
| Cash flows from investing activities: | | |
| Capital expenditures | (1,411) | (6,155) |
| Short term investments | -- | (5,680) |
| Long term marketable securities | -- | (16,982) |
| Acquisition of Metrologix | -- | (14,182) |
| Capitalization of software development costs | (248) | -- |
| | ----- | ----- |
| Cash (used for) investing activities | (1,659) | (42,999) |
| | ----- | ----- |
| Cash flows from financing activities: | | |
| Short-term borrowings and current portion of long-term debt, net | (4,822) | (3,315) |
| Sales of common stock | 3,191 | 4,083 |
| | ----- | ----- |
| Cash provided by (used for) financing activities | (1,631) | 768 |
| | ----- | ----- |
| Effect of exchange rate changes on cash | 63 | 116 |
| | ----- | ----- |
| Decrease in cash and cash equivalents | (5,256) | (19,279) |
| Cash and cash equivalents at beginning of period | 52,362 | 139,126 |
| | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 47,106 | \$119,847 |
| | ===== | ===== |
| Supplemental disclosure to cash flow information | | |
| Cash paid during the period for: | | |
| Interest | \$ 790 | \$ 1,166 |
| Income taxes | 2,012 | 8,766 |

</TABLE>

See accompanying notes to condensed consolidated financial information.

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KLA INSTRUMENTS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
(IN '000'S)
UNAUDITED

- 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, 1994, 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, 1994.
- 2) Effective July 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Investments in Certain Debt and Equity Securities" (FAS 115), which requires investment securities to be classified as either held to maturity, trading or available for sale. The Company reviewed its portfolio and determined that its investment portfolio would be classified as available for sale. Under FAS 115, for those investments classified as available for sale, any difference between an investment's cost and its fair value should be recorded as a separate component of stockholder's equity. At December 31, 1994, the fair value of the Company's investments approximated cost.
- 3) Details of certain balance sheet components:

<TABLE>

<CAPTION>

| | JUNE 30, 1994 | DECEMBER 31, 1994 |
|-----------------------------------|------------------|----------------------|
| | ----- | ----- |
| <S> | <C> | <C> |
| INVENTORIES: | | |
| Systems raw materials | \$12,597 | \$13,991 |
| Customer service spares | 12,220 | 12,055 |
| Work-In-Process | 13,348 | 23,740 |
| Demonstration Equipment | 15,100 | 17,269 |
| | ----- | ----- |
| | \$53,265 | \$67,055 |
| | ===== | ===== |
| OTHER CURRENT LIABILITIES: | | |
| Accrued compensation and benefits | \$16,328 | \$20,801 |
| Accrued warranty and installation | 14,367 | 15,924 |
| Unearned service contract revenue | 3,054 | 8,780 |
| Other | 2,804 | 9,874 |
| | ----- | ----- |
| | \$36,553 | \$55,379 |
| | ===== | ===== |

</TABLE>

- 4) In December 1994, the Company acquired Metrologix Inc., (Metrologix), a

manufacturer of advanced electron beam measurement equipment for \$14.2 million in cash. This acquisition was accounted for as a purchase and the total purchase price of \$16.1 million has been allocated to assets acquired and liabilities assumed. A significant portion of the purchase price was allocated to acquired in-process technology. The results of operations for Metrologix from the date of the acquisition to December 31, 1994 were immaterial. During the quarter ended December 31, 1994, the Company wrote-off the acquired in-process technology resulting in an after-tax charge of \$16.2 million (25.2 million pre-tax).

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KLA INSTRUMENTS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION
(IN '000'S)
UNAUDITED

RESULTS OF OPERATIONS

SECOND QUARTER AND SIX MONTHS OF FISCAL 1995 COMPARED WITH SECOND QUARTER AND SIX MONTHS OF FISCAL 1994

METROLOGIX

In December 1994, the Company acquired Metrologix Inc., (Metrologix), a manufacturer of advanced electron beam measurement equipment. Except for the non-recurring write-off of Metrologix technology, the acquisition did not have a material impact on the financial performance of the Company. Although Metrologix operated profitably during the quarter ended December 31, 1994, the Company does not expect the Metrologix business to contribute to earnings during the remainder of the fiscal year.

NET SALES

Net sales increased 83.4% and 72.4%, respectively, for the three and six month periods ended December 31, 1994 as compared to the prior fiscal year. The WISARD business unit was predominantly responsible for the dollar increase in net sales. The Company attributes the continuing increase of WISARD's sales primarily to the continuing adoption by customers of KLA's methodology of in-line monitoring. The number of fabs with multiple KLA 2100 series systems per fab increased to 70 fabs at December 31, 1994, from 25 fabs one year ago. In addition, the increase in WISARD's net sales is due to the increase in customers that are upgrading their older fabs. The Metrology division and the RAPID business unit also recorded significant increases in net sales. The RAPID business unit's sales increase is due to the increasing market acceptance of the Company's 331 model.

GROSS MARGIN

Gross margins were 53.8% and 52.6%, respectively, for the three and six month periods ended December 31, 1994 compared to 43.2% and 41.7% for the same periods of the prior fiscal year. The improvement in the gross margin percentage was due about equally to 1) a favorable mix effect as the WISARD business unit's share of total revenues rose and 2) improvement in the WISARD business unit's gross margin as a result of volume efficiencies and the use of lower cost components. The RAPID business unit also recorded significant improvements in gross margin for the quarter ended December 31, 1994 as compared to the same period of the prior fiscal year. The Company attributes this increase primarily to volume efficiencies.

ENGINEERING, RESEARCH AND DEVELOPMENT

Engineering, research and development expenses were 8.4% of net sales for the three month and 9.0% for the six month periods ended December 31, 1994, compared to 8.5% and 9.0% in the comparable periods in the prior fiscal year. Net engineering expenditures rose \$4.0 million and \$7.2 million, respectively, during the three and six month periods of fiscal 1995 compared to the prior fiscal year. The primary business units experiencing dollars increases were the WISARD business unit, the newly formed PRISM division and the Rapid business unit. Although the Company has significantly increased engineering headcount and spending, these expenditure increases have been slightly slower than the Company's revenue growth.

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KLA INSTRUMENTS CORPORATION

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

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses increased 1.0% and 0.8% of sales, respectively, for the three and six month periods ended December 31,

1994, compared to the same periods of the prior fiscal year, prior to the effect of the non-recurring pre-tax charge of \$25.2 million, for the write-off of the Metrologix acquired in-process technology. Sales and administration expenses grew slower than revenues, while representative commissions and profit sharing grew at a rate higher than revenues. The increase in profit sharing reflects the improvement in the Company's financial performance prior to the non-recurring Metrologix charge. Representative commissions increased as a percentage of sales primarily due to the rise in the share of sales to Asia-Pacific customers.

INTEREST INCOME AND OTHER, NET

Interest income and other, net increased \$1.2 million and \$2.5 million, respectively, for the three and six month periods ended December 31, 1994 as compared to the same periods of the prior fiscal year. This increase is primarily attributable to higher average cash and cash equivalent balances.

PROVISION FOR INCOME TAXES

The 32.3% estimated effective tax rate for the six month period ended December 31, 1994 is lower than the U.S. statutory rate primarily as a result of income in foreign jurisdictions having a lower than U.S. tax rate, and from the realization of net deferred tax assets previously reserved, including tax credit carryforwards, and from the realization of Foreign Sales Corporation benefits and research and development tax credits.

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. 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 and cash equivalents decreased \$19.3 million at December 31, 1994 compared to June 30, 1994. The decrease in cash and cash equivalents is entirely due to the adoption of new investment strategies and the implementation of FAS 115, which caused the reclassification of \$22.7 million from cash and cash equivalents to short term investments and marketable securities. Cash generated by operations was \$22.8 million. The Company used \$14.2 million to acquire Metrologix in December 1994. The Company also invested \$6.2 million in new cleanrooms and other capital equipment. Proceeds from the exercise of stock options and the employee stock purchase plan were \$4.1 million. The Company is continuing to expand and anticipates it may begin the construction of an additional facility at its San Jose campus site during 1995. The Company believes that its current level of liquid assets, credit facilities and cash generated from operations are sufficient to fund growth through the foreseeable future.

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KLA INSTRUMENTS CORPORATION

FORM 10-Q

PART II: OTHER INFORMATION

<TABLE>

| <S> | <C> | <C> |
|-----------|---|----------------|
| 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 13 |

</TABLE>

ITEM 4

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

An annual meeting of the stockholders was held on November 16, 1994 at the Company's San Jose headquarters.

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

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

1. Election of two directors
2. Approval of an amendment to the 1981 Employee Stock Purchase Plan to increase the number of shares reserved for issuance under the Purchase Plan by 300,000 shares.
3. Approval of an amendment to the 1982 Stock Option Plan to increase the number of shares reserved for issuance by 1,600,000 shares and to implement a per optionee share limitation.
4. Ratification of the appointment of Price Waterhouse as the independent accountants of the Company for the fiscal year ending June 30, 1995.

The voting results were:

| <TABLE> <CAPTION> | | | | | | |
|----------------------|-----------------|------------|-----------|-----------|---------|-----------|
| ITEM | DIRECTORS | FOR | AGAINST | WITHHELD | ABSTAIN | NO VOTE |
| ----- | | ----- | ----- | ----- | ----- | ----- |
| <C> | <S> | <C> | <C> | <C> | <C> | <C> |
| 1. | Mr. Chamberlain | 19,863,163 | 0 | 24,503 | | |
| | Mr. Tellefsen | 19,863,163 | 0 | 1,792,801 | | |
| 2. | | 19,863,163 | 532,920 | | 32,141 | 2,257,235 |
| 3. | | 19,863,163 | 4,529,327 | | 36,762 | 2,303,251 |
| 4. | | 19,863,163 | 6,501 | | 26,029 | |

</TABLE>

ITEM 6

EXHIBITS AND REPORTS ON FORM 8-K

See exhibit index on page 15. The Company had no Form 8-K filings during the period ended December 31, 1994.

SIGNATURES

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

KLA INSTRUMENTS CORPORATION

| <TABLE> <S> | <C> |
|--------------------------------------|---|
| February 13, 1994 ----- [Date] | Kenneth Levy ----- Kenneth Levy Chairman of the Board |
| February 13, 1994 ----- [Date] | Kenneth L. Schroeder ----- Kenneth L. Schroeder President |
| February 13, 1994 ----- [Date] | Robert J. Boehlke ----- Robert J. Boehlke V.P. Finance and Administration Chief Financial Officer |

</TABLE>

<TABLE>

| | |
|-------|--|
| <S> | <C> |
| (I) | EXHIBITS INCORPORATED BY REFERENCE: |
| 3.1 | Certificate of Incorporation as amended (11) |
| 3.2 | Bylaws, as amended (11) |
| 4.1 | Rights Agreement dated as of March 15, 1989, between the Company and First National Bank of Boston, as Rights Agent. The Rights Agreement includes as Exhibit A, the form of Right Certificate, and as Exhibit B, the form of Summary of Rights to Purchase Common Stock (2) |
| 10.15 | Statement of Partnership to Triangle Partners dated April 12, 1983 (3) |
| 10.16 | Lease Agreement and Addendum thereto dated January 10, 1983, between BBK Partnership and the Company (3) |
| 10.18 | Purchase and Sale Agreement dated January 10, 1983, between BBK Partnership, Triangle Partners and the Company (3) |
| 10.23 | Research and Development Agreement, Cross License and Technology Transfer Agreement and Agreement for Option to License and Purchase Resulting Technology, all dated February 21, 1985, by and between KLA Development No. 3, Ltd., and the Company (4) |
| 10.24 | Research and Development Agreement dated February 21, 1985, by and between KLA Development No. 3, Ltd., and the Company (4) |
| 10.25 | Agreement for Option to License and Purchase Resulting Technology dated February 21, 1985, by and between KLA Development No. 3, Ltd., and the Company (4) |
| 10.33 | (Research and Development) Agreement dated as of February 1, 1987, by and between IBM Corporation and the Company (5) |
| 10.35 | Research and Development Agreement, Cross License and Technology Transfer Agreement and Agreement for Option to License and Purchase Resulting Technology, all dated October 1, 1986, by and between KLA Development No. 4, Ltd., and the Company (5) |
| 10.43 | Amendment to the Exclusive Marketing Agreement dated February 23, 1989, by and between Micrion Limited Partnership and the Company (6) |
| 10.44 | Bank Loan Guarantee dated June 29, 1989, by the Company in favor of The First National Bank of Boston for the Micrion Limited Partnership (6) |
| 10.45 | Distribution Agreement, Manufacturing License Agreement, and Technical Marketing Assistance Agreement, all dated July 1990, by and between Tokyo Electron Limited, a Japanese Corporation, and the Company (7) |
| 10.46 | Principle 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 (7) |
| 10.47 | Joint Venture Agreement between the Company and Nippon Mining Company, Limited, dated September 18, 1990 (8) |
| 10.48 | Exercise of Option to Purchase Technology made effective as of September 30, 1989, by and between KLA Development No. 3, and the Company (8) |
| 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 (8) |
| 10.51 | Guarantee Agreement between First National Bank of Boston and the Company, dated June 29, 1989 (8) |
| 10.52 | Amendment to the Guarantee Agreement between First National Bank of Boston and the Company, dated April 19, 1991 (8) |
| 10.53 | Secured Installment Note between Micrion and First National Bank of Boston, dated April 19, 1991 (8) |
| 10.54 | Micrion Corporation Series E Preferred Stock Purchase Agreement, dated September 13, 1991 (8) |
| 10.55 | Micrion Corporation Guaranty and Warrant Agreement, dated December 8, 1989 (8) |
| 10.57 | Stock repurchase and option grant agreement between Bob Boehlke and the Company, dated April 22, 1991 (8) |
| 10.58 | Purchase Agreement between the Company and Ono Sokki Co., Ltd., dated October 18, 1991 with certain portions for which confidential treatment has been requested, excised (9) |
| 10.59 | Credit Agreement between Bank of America NT & SA and the Company, dated November 15, 1991, as amended July 29, 1992 (9) |
| 10.60 | Employment agreement between the Company and Kenneth L. Schroeder dated October 4, 1991 (9) |
| 10.61 | Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated October 28, 1992 (10) |

</TABLE>

<TABLE>

| | |
|-------|---|
| <S> | <C> |
| 10.62 | Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated December 31, 1992 (10) |
| 10.63 | Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated February 28, 1993 (10) |
| 10.64 | Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated March 31, 1993 (10) |
| 10.65 | Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated June 1, 1993 (10) |
| 10.66 | Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated December 31, 1993 (16) |
| 10.67 | Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated March 31, 1994 (16) |
| 10.68 | Credit Agreement between Bank of America NT & SA and the Company, dated April 30, 1994 (16) |
| 10.71 | 1990 Outside Directors Stock Option Plan (14) |

| | |
|-------|---|
| (II) | EXHIBITS INCLUDED HEREWITH: |
| 10.73 | Amendment of Credit Agreement between Bank of America NT & SA and the Company dated December 31, 1994 |
| 10.74 | 1981 Employee Stock Purchase Plan, as amended by the Board of Directors on October 7, 1994 |
| 10.75 | 1982 Stock Option Plan, as amended by the Board of Directors on October 7, 1994 |
| 27 | Financial Data Schedule |

</TABLE>

- -----

- 2 Filed as exhibit number 1 to Form 8-A, filed effective March 23, 1989
- 3 Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1983
- 4 Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1985
- 5 Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1987
- 6 Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1989
- 7 Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1990
- 8 Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1991
- 9 Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1992
- 10 Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1993
- 11 Filed as the same exhibit number to Registrant's registration statement no. 33-51819 on Form S-3, dated February 2, 1994
- 14 Filed as exhibit number 4.6 as set forth herein to Registrant's Form 10-K for the year ended June 30, 1991
- 16 Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1994

FIRST AMENDMENT TO CREDIT AGREEMENT

This FIRST AMENDMENT TO CREDIT AGREEMENT ("Amendment"), dated as of December 31, 1994, is entered into by and between KLA Instruments Corporation ("Borrower") and Bank of America National Trust and Savings Association ("Bank").

RECITALS

A. The Bank and the Borrower are parties to a Credit Agreement dated as of April 30, 1994 (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 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 sufficiency of which are hereby acknowledged, Bank and Borrower mutually agree to amend said Credit Agreement 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) The definition of the term "Availability Period" occurring in Section 1.01 of the Credit Agreement is hereby amended in its entirety to read as follows:

"AVAILABILITY PERIOD": the period commencing on the date of this Agreement and ending on the date that is the earlier to occur of (a) February 15, 1995, or (b) the date on which the Bank's commitment to extend credit hereunder terminates.

(b) Section 2.10 of the Credit Agreement is amended by deleting the words "December 31, 1994" from the end of the second sentence of the section and replacing the deleted words with "the last day of the Availability Period." .

3. REPRESENTATIONS AND WARRANTIES. The Borrower hereby represents and warrants to the Bank as follows:

(a) No Event of Default or event which with the giving of notice, the lapse of time, or both, would be an 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 the Borrower in accordance with its terms, without defense, counterclaim or offset.

(c) All representations and warranties of the Borrower contained 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, 1994 (the "EFFECTIVE DATE") provided that on or before such date the Bank has received from the Borrower a duly executed original 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 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 (without regard to principles of conflicts of laws).

(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 may not be amended except in writing executed by the Borrower and the Bank.

(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 cost and expenses (including allocated cost 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.

| | |
|---|-----------------------------|
| <TABLE> | |
| <S> | <C> |
| BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION | KLA INSTRUMENTS CORPORATION |
| By: | By: |
| Stephen L. Parry | |
| Vice President | Title: |
| </TABLE> | |

KLA INSTRUMENTS CORPORATION

SECOND AMENDED AND RESTATED
1981 EMPLOYEE STOCK PURCHASE PLAN

1. Purpose. On October 6, 1981, the KLA Instruments Corporation 1981 Employee Stock Purchase Plan (the "Initial Plan") was adopted. On July 1, 1984, the Initial Plan was amended and restated in its entirety and retitled the KLA Instruments Corporation 1981 Employee Stock Purchase Plan as Amended and Restated (the "Second Plan"). On July 19, 1989, the Second Plan was amended and restated in its entirety and retitled the KLA Instruments Corporation Amended and Restated 1981 Employee Stock Purchase Plan (the "Third Plan"). On August 3, 1993, the Third Plan was amended and restated in its entirety as set forth herein and retitled the KLA Instruments Corporation Second Amended and Restated 1981 Employee Stock Purchase Plan (the "Plan").

Notwithstanding any other provision of the Plan to the contrary, the terms and conditions of the Initial Plan, the Second Plan, and the Third Plan shall remain in full force and effect as to options granted and as to shares of common stock of KLA Instruments Corporation ("KLA") purchased pursuant to the Initial Plan, the Second Plan, and the Third Plan, respectively.

Notwithstanding any other provision of the Plan to the contrary, if an employee participating in the Plan is subject to section 16 of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") any provisions of the Plan resulting from the amendment and restatement of the Second Plan and the Third Plan the application of which to such employee which would result in a "material increase" in the benefits accruing to such employee under the Plan such as to require stockholder approval of such provision for purposes of complying with Rule 16b-3 shall not apply to such employee and, instead, the applicable provision of the Initial Plan, the Second Plan, or the Third Plan, as the case may be, if any, shall apply to such employee. The Plan is established to provide eligible employees of KLA and any current or future parent and/or subsidiary corporations of KLA (collectively referred to as the "Company") with an opportunity through payroll deductions to acquire a proprietary interest in the Company by the purchase of common stock of KLA. (KLA and any such parent and/or subsidiary corporation of KLA shall be individually referred to herein as a "Participating Company." For purposes of the Plan, a parent

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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").)

It is intended that the Plan shall qualify as an "employee stock purchase plan" under section 423 of the Code (including any future amendments or replacements of such section), and the Plan shall be so construed. Any term not expressly defined in the Plan but defined for purposes of section 423 of the Code shall have the same definition herein.

An employee participating in the Plan (a "Participant") may withdraw such Participant's accumulated payroll deductions (if any) therein at any time during an Offering Period (as defined below). Accordingly, each Participant is, in effect, granted an option pursuant to the Plan (a "Purchase Right") which may or may not be exercised at the end of an Offering Period and which is intended to qualify as an option described in section 423 of the Code.

2. Administration. The Plan shall be administered by the Board of Directors of KLA (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 to the Board shall also mean the committee if a committee has been appointed. All questions of interpretation of the Plan or of any Purchase Right shall be determined by the Board and shall be final and binding upon all persons having an interest in the Plan and/or any Purchase Right. Subject to the provisions of the Plan, the Board shall determine all of the relevant terms and conditions of Purchase Rights granted pursuant to the Plan; provided, however, that all Participants granted Purchase Rights pursuant to the Plan shall have the same rights and privileges within the meaning of section 423(b)(5) of the Code. All expenses incurred in connection with the administration of the Plan shall be paid by the Company.

3. Share Reserve. The maximum number of shares which may be issued under the Plan shall be two million (2,000,000) shares of KLA's authorized but unissued common stock or treasury stock (the "Shares"). In the event that any Purchase Right for any reason expires or is cancelled or terminated, the Shares allocable to the unexercised portion of such Purchase Right may again be subjected to a Purchase Right.

4. Eligibility. Any employee of a Participating Company (including officers and directors who are also employees) is eligible to participate in the Plan except employees who own or hold options to purchase or who, as a result of participation in this Plan, would own or hold options to purchase, stock of the Company possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of the Company within the meaning of section 423(b)(3) of the Code.

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An employee who is also a director may participate in the Plan but may not purchase shares under the Plan until the Company's stockholders approve the Plan. In the event that stockholder approval of the Plan is not obtained prior to the last Purchase Date of an Offering Period in which a director who is also an employee is participating, then any cash balance in such Participant's account shall be refunded to the Participant as soon as practical after the last day of the Offering Period.

5. Offering Dates.

(a) Offering Periods. Except as otherwise set forth below, the Plan shall be implemented by offerings (individually an "Offering") of two (2) years duration (an "Offering Period"). An Offering Period shall commence on the first day of January and July of each year. The first Offering Period shall commence on July 1, 1989. Notwithstanding the foregoing, the Board may establish a different term for one (1) or more Offerings and/or different commencing and/or ending dates for such Offerings and/or additional Offerings, including, without limitation, an Offering commencing October 1, 1989. An employee who becomes eligible to participate in the Plan after an Offering Period has commenced shall not be eligible to participate in such Offering but may participate in any subsequent Offering provided such employee is still eligible to participate in the Plan as of the commencement of any such subsequent Offering. The Company shall have the authority to designate the maximum number of Offerings in which an eligible employee may participate at any one time. The first day of an Offering Period shall be the "Offering Date" for such Offering Period. In the event the first and/or last day of an Offering Period is not a business day, the Company shall specify the business day that will be deemed the first or last day, as the case may be, of the Offering Period.

(b) Purchase Periods. Each Offering Period shall consist of four (4) consecutive purchase periods of six (6) months duration (a "Purchase Period"). The last day of each Purchase Period shall be the "Purchase Date" for such Purchase Period. Notwithstanding the foregoing, the Board may establish a different term for one (1) or more Purchase Periods and/or different commencing dates and/or Purchase Dates for such Purchase Periods. In the event the first and/or last day of a Purchase Period is not a business day, the Company shall specify the business day that will be deemed the first or last day, as the case may be, of the Purchase Period.

(c) Governmental Approval; Stockholder Approval. Notwithstanding any other provision of the Plan to the contrary, any Purchase Right granted pursuant to the Plan shall be subject to (i) obtaining all necessary governmental approvals and/or qualifications of the sale and/or issuance of the

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Purchase Rights and/or the Shares, and (ii) in the case of Purchase Rights with an Offering Date after an amendment of the Plan, obtaining any necessary approval of the stockholders of the Company required by paragraph 22.

6. Participation in the Plan.

(a) Initial Participation. An eligible employee shall become a Participant on the first Offering Date after satisfying the eligibility requirements set forth in paragraph 4 and delivering to the Company not later than the close of business on the date seven (7) days prior to such Offering Date or on a date as may be established by the Company from time to time (the "Subscription Date") a subscription agreement indicating the employee's election to participate in the Plan and authorizing payroll deductions. An eligible employee who does not deliver a subscription agreement to the Company on or before the Subscription Date shall not participate in the Plan for that Offering Period or for any subsequent Offering Period unless such eligible employee subsequently enrolls in the Plan by complying with the provisions of paragraph 4 and by filing a subscription agreement with the Company on or before the Subscription Date for such subsequent Offering Period. The Company may, from time to time, change the Subscription Date as deemed

advisable by the Company in its sole discretion for proper administration of the Plan.

(b) Continued Participation. Participation in the Plan shall continue until (i) the Participant ceases to be eligible as provided in paragraph 4, (ii) the Participant withdraws from the Plan pursuant to paragraph 11, or (iii) the Participant terminates employment as provided in paragraph 12. If a Participant is automatically withdrawn from an Offering at the end of a Purchase Period of such Offering pursuant to paragraph 11(c), then the Participant shall automatically participate in the Offering Period commencing on the next business day. At the end of an Offering Period, each Participant in such terminating Offering Period shall automatically participate in the first subsequent Offering Period according to the same elections contained in the Participant's subscription agreement effective for the Offering Period which has just ended, provided such Participant is still eligible to participate in the Plan as provided in paragraph 4. However, a Participant may file a subscription agreement with respect to such subsequent Offering Period if the Participant desires to change any of the Participant's elections contained in the Participant's then effective subscription agreement.

7. Right to Purchase Shares. During an Offering Period each Participant in such Offering Period shall have a Purchase Right consisting of the right to purchase that number of whole Shares arrived at by dividing Twenty Thousand Dollars (\$20,000) by eighty-five percent (85%) of the fair market value of the Shares on the Offering Date of such Offering Period; provided, however,

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that in no event shall a Participant have a Purchase Right for more than two thousand (2,000) Shares.

8. Purchase Price. The purchase price at which Shares may be acquired at the end of an Offering pursuant to the exercise of all or any portion of a Purchase Right granted under the Plan (the "Offering Exercise Price") shall be set by the Board; provided, however, that the purchase price shall not be less than eighty-five percent (85%) of the lesser of (a) the fair market value of the Shares on the Offering Date of such Offering Period, or (b) the fair market value of the Shares at the time of exercise of all or any portion of the Purchase Right. Unless otherwise provided by the Board prior to the commencement of an Offering Period, the Offering Exercise Price shall be eighty-five percent (85%) of the lesser of (a) the fair market value of the Shares on the Offering Date of such Offering Period or (b) the fair market value of the Shares at the time of exercise of all or any portion of the Purchase Right. For purposes of the Plan, the fair market value of the Shares at any point in time shall be determined by the Board based on such factors as the Board deems relevant; including, without limitation, the mean of the bid and asked price of the Shares on the date in question (or the immediately preceding business day in the event the date in question falls on a weekend or legal holiday) as reported on the National Association of Securities Dealers Automated Quotations system, if available.

9. Payment of Purchase Price. Shares which are acquired pursuant to the exercise of all or any portion of a Purchase Right for a given Offering Period may be paid for only by means of payroll deductions from the Participant's Compensation accumulated during the Offering Period. For purposes of the Plan, a Participant's "Compensation" with respect to an Offering shall include all amounts paid in cash and includable as "wages" subject to tax under section 3101(a) of the Code without applying the dollar limitation of section 3121(a) of the Code. Accordingly, Compensation shall include, without limitation, salaries, commissions, bonuses, overtime and amounts contributed to the Participant's Salary Reduction Account, as that term is defined in the Company's Employee Savings and Investment Plan (the "Savings and Investment Plan"). Compensation shall not include reimbursements of expenses, allowances, or any amount deemed received without the actual transfer of cash or any amounts directly or indirectly paid pursuant to the Plan or any other stock purchase or stock option plan or credits or benefits under the Savings and Investment Plan (other than as set forth above) or any other Company contributions or payments to any trust, fund, or plan to provide retirement, pension, profit sharing, health, welfare, death, insurance or similar benefits to or on behalf of such Participant or any other payments not specifically referenced above, except to the extent that the inclusion of any such item with respect to all Participants on a nondiscriminatory basis is specifically approved by the Board. Except as set forth below, the amount of Compensation to be

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withheld from a Participant's Compensation during each month shall be

determined by the Participant's subscription agreement.

(a) Election to Decrease Withholding. During an Offering Period, a Participant may elect to decrease the amount withheld from his or her Compensation by filing an amended subscription agreement with the Company on or before the Change Notice Date. The "Change Notice Date" shall initially be the date fifteen (15) days prior to the end of the first pay period for which such election is to be effective; provided, however, the Company may change such Change Notice Date from time to time. A Participant may not elect to increase the amount withheld from the Participant's Compensation during an Offering Period.

(b) Limitations on Payroll Withholding. The amount of payroll withholding with respect to the Plan for any Participant shall be at least Ten Dollars (\$10.00) per month but shall not exceed ten percent (10%) of the Participant's Compensation for any relevant pay period. Amounts shall be withheld in whole percentages only and shall be reduced by any amounts contributed by the Participant and applied to the purchase of Company stock pursuant to any other employee stock purchase plan qualifying under section 423 of the Code.

(c) Payroll Withholding. Payroll deductions shall commence on the first payday following the Offering Date and shall continue to the end of the Offering Period unless sooner altered or terminated as provided in the Plan.

(d) Participant Accounts. Individual accounts shall be maintained for each Participant. All payroll deductions from a Participant's Compensation shall be credited to such account and shall be deposited with the general funds of the Company. All payroll deductions received or held by the Company may be used by the Company for any corporate purpose.

(e) No Interest Paid. Interest shall not be paid on sums withheld from a Participant's Compensation

(f) Exercise of Purchase Right. On each Purchase Date of an Offering Period, each Participant who has not withdrawn from the Offering or whose participation in the Offering has not terminated on or before such last day shall automatically acquire pursuant to the exercise of the Participant's Purchase Right the number of whole Shares arrived at by dividing the total amount of the Participant's accumulated payroll deductions for the Purchase Period by the Offering Exercise Price; provided, however, that in no event shall the number of Shares purchased by the Participant exceed the number of Shares subject to the Participant's Purchase Right. No Shares shall be

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purchased on behalf of a Participant whose participation in the Offering or the Plan has terminated on or before the date of such exercise.

(g) Return of Cash Balance. Any cash balance remaining in the Participant's account shall be refunded to the Participant as soon as practical after the last day of the Offering Period. In the event the cash to be returned to a Participant pursuant to the preceding sentence is an amount less than the amount necessary to purchase a whole Share, the Company may establish procedures whereby such cash is maintained in the Participant's account and applied toward the purchase of Shares in the subsequent Purchase Period or Offering Period.

(h) Withholding. At the time the Purchase Right is exercised, in whole or in part, or at the time some or all of the Shares are disposed of, the Participant shall make adequate provision for foreign, federal and state tax withholding obligations of the Company, if any, which arise upon exercise of the Purchase Right and/or upon disposition of Shares. The Company may, but shall not be obligated to, withhold from the Participant's Compensation the amount necessary to meet such withholding obligations.

(i) Company Established Procedures. The Company may, from time to time, establish or change (i) a minimum required withholding amount for participation in any Offering, (ii) limitations on the frequency and/or number of changes in the amount withheld during an Offering, (iii) an exchange ratio applicable to amounts withheld in a currency other than United States dollars, (iv) payroll withholding in excess of or less than the amount designated by a Participant in order to adjust for delays or mistakes in the Company's processing of subscription agreements, (v) the date(s) and manner by which the fair market value of the Shares is determined for purposes of the administration of the Plan, and/or (vi) such other limitations or procedures as deemed advisable by the Company in the Company's sole discretion which are consistent with the Plan.

(j) Expiration of Purchase Right. Any portion of a Participant's Purchase Right remaining unexercised after the end of the

Offering Period to which such Purchase Right relates shall expire immediately upon the end of such Offering Period.

10. Limitations on Purchase of Shares; Rights as a Stockholder.

(a) Fair Market Value Limitation. Notwithstanding any other provision of the Plan, no Participant shall be entitled to purchase Shares under the Plan at a rate which exceeds Twenty-Five Thousand Dollars (\$25,000) in fair market value, determined as of the Offering Date for each Offering Period (or

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such other limit as may be imposed by the Code), for each calendar year in which the Participant participates in the Plan.

(b) Allocation of Shares. In the event the number of Shares which might be purchased by all Participants in the Plan exceeds the number of Shares available in the Plan pursuant to all Offerings which have commenced, the Company shall make a pro rata allocation of the remaining Shares (and within each Offering, to each Participant in such Offering) in as uniform a manner as shall be practicable and as the Company shall determine to be equitable.

(c) Rights as a Stockholder and Employee. A Participant shall have no rights as a stockholder by virtue of the Participant's participation in the Plan until the date of the issuance of a stock certificate(s) for the Shares being purchased pursuant to the exercise of the Participant's Purchase Right. No adjustment shall be made for cash dividends or distributions or other rights for which the record date is prior to the date such stock certificate(s) are issued. Nothing herein shall confer upon a Participant any right to continue in the employ of the Company or interfere in any way with any right of the Company to terminate the Participant's employment at any time.

11. Withdrawal.

(a) Withdrawal From an Offering. A Participant may withdraw from an Offering by signing a written notice of withdrawal on a form provided by the Company for such purpose and delivering such notice to the Company at any time prior to the end of an Offering Period; provided, however, that if a Participant withdraws after the Purchase Date for a Purchase Period of an Offering, the withdrawal shall not affect Shares acquired by the Participant in such Purchase Period. Unless otherwise indicated by the Participant, withdrawal from an Offering shall not result in a withdrawal from the Plan or any succeeding Offering therein. By withdrawing from an Offering on a Purchase Date, a Participant may have Shares purchased on such Purchase Date and immediately commence participating in the Offering commencing immediately after such Purchase Date. A Participant is prohibited from again participating in an Offering upon withdrawal from such Offering. The Company may impose, from time to time, a requirement that the notice of withdrawal be on file with the Company for a reasonable period prior to the effectiveness of the Participant's withdrawal from an Offering.

(b) Withdrawal from the Plan. A Participant may withdraw from the Plan by signing a written notice of withdrawal on a form provided by the Company for such purpose and delivering such notice to the Company. Withdrawals made after a Purchase Date of an Offering Period shall not affect

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shares acquired by the Participant on such Purchase Date. In the event a Participant voluntarily elects to withdraw from the Plan, the Participant may not resume participation in the Plan during the same Offering Period, but may participate in any subsequent Offering under the Plan by again satisfying the requirements of paragraph 6. The Company may impose, from time to time, a requirement that the notice of withdrawal be on file with the Company for a reasonable period prior to the effectiveness of the Participant's withdrawal from the Plan.

(c) Automatic Withdrawal From an Offering. If the fair market value of the Shares on a Purchase Date of an Offering is less than the fair market value of the Shares on the Offering Date for such Offering, then every Participant shall automatically (i) be withdrawn from the Offering at the close of the Purchase Date and after the acquisition of Shares for such Purchase Period, and (ii) be enrolled in the Offering commencing on the first business day subsequent to such Purchase Period. A Participant may elect not to be automatically withdrawn from an Offering pursuant to this paragraph 11(c) by delivering to the Company not later than the close of business on the last

business day before the date seven (7) days prior to the Purchase Date a written notice indicating such election; provided, however, that the Company may change the date such notice is required to be delivered to the Company from time to time.

12. Termination of Employment. Termination of a Participant's employment with the Company for any reason, including retirement or death or the failure of a Participant to remain an employee eligible to participate in the Plan, shall terminate the Participant's participation in the Plan immediately. A Participant whose participation has been so terminated may again become eligible to participate in the Plan by again satisfying the requirements of paragraphs 4 and 6.

13. Repayment of Payroll Deductions. In the event a Participant's interest in the Plan or any Offering therein is terminated for any reason, the balance held in the Participant's account shall be returned as soon as practical after such termination to the Participant (or, in the case of the Participant's death, to the Participant's legal representative) and all of the Participant's rights under the Plan shall terminate. Such account balance may not be applied to any other Offering under the Plan. No interest shall be paid on sums returned to a Participant pursuant to this paragraph 13.

14. Transfer of Control. A "Transfer of Control" shall be deemed to have occurred in the event any of the following occurs with respect to the Control Company. For purposes of applying this paragraph 14, the "Control

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Company" shall mean the Participating Company whose stock is subject to the Purchase Right.

(a) the direct or indirect sale or exchange by the stockholders of the Control Company of all or substantially all of the stock of the Control Company where the stockholders of the Control Company before such sale or exchange do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Control Company;

(b) a merger in which the stockholders of the Control Company before such merger do not retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the Control Company; or

(c) the sale, exchange, or transfer of all or substantially all of the Control Company's assets (other than a sale, exchange, or transfer to one (1) or more corporations where the stockholders of the Control Company before such sale, exchange, or transfer retain, directly or indirectly, at least a majority of the beneficial interest in the voting stock of the corporation(s) to which the assets were transferred).

In the event of a Transfer of Control, the Board, in its sole discretion, shall either (i) provide that Purchase Rights granted under the Plan shall be fully exercisable to the extent of each Participant's account balance for the Offering Period as of a date prior to the Transfer of Control, as the Board so determines or (ii) arrange with the surviving, continuing, successor, or purchasing corporation, as the case may be, that such corporation assume the Company's rights and obligations under the Plan. All Purchase Rights shall terminate effective as of the date of the Transfer of Control to the extent that the Purchase Right is neither exercised as of the date of the Transfer of Control nor assumed by the surviving, continuing, successor, or purchasing corporation, as the case may be.

15. Capital Changes. In the event of changes in the common stock of the Company due to a stock split, reverse stock split, stock dividend, combination, reclassification, or like change in the Company's capitalization, or in the event of any merger, sale or other reorganization, appropriate adjustments shall be made by the Company in the Plan's share reserve, the number and class of shares of stock subject to a Purchase Right and in the purchase price per share of any outstanding Purchase Right, including, without limitation, the number of Shares subject to a Purchase Right as set forth in paragraph 7.

16. Non-Transferability. A Purchase Right may not be transferred in any manner otherwise than by will or the laws of descent and distribution and

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shall be exercisable during the lifetime of the Participant only by the Participant.

17. Reports. Each Participant who exercised all or part of the Participant's Purchase Right for a Purchase Period shall receive as soon as practical after the last day of such Purchase Period a report of such Participant's account setting forth the total payroll deductions accumulated, the number of Shares purchased and the remaining cash balance to be refunded or retained in the Participant's account pursuant to paragraph 9(g), if any.

18. Plan Term. This Plan shall continue until terminated by the Board or until all of the Shares reserved for issuance under the Plan have been issued or until December 31, 2000, whichever shall first occur.

19. Restriction on Issuance of Shares. The issuance of shares pursuant to the Purchase Right shall be subject to compliance with all applicable requirements of federal or state law with respect to such securities. The Purchase Right may not be exercised if the issuance of shares upon such exercise would constitute a violation of any applicable federal or state securities laws or other law or regulations. In addition, no Purchase Right may be exercised unless (i) a registration statement under the Securities Act of 1933, as amended, shall at the time of exercise of the Purchase Right be in effect with respect to the shares issuable upon exercise of the Purchase Right, or (ii) in the opinion of legal counsel to the Company, the shares issuable upon exercise of the Purchase Right may be issued in accordance with the terms of an applicable exemption from the registration requirements of said Act. As a condition to the exercise of the Purchase Right, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

20. Legends. The Company may at any time place legends or other identifying symbols referencing any applicable federal and/or state securities restrictions and any provision convenient in the administration of the Plan on some or all of the certificates representing shares of stock issued under the Plan. The Participant shall, at the request of the Company, promptly present to the Company any and all certificates representing shares acquired pursuant to a Purchase Right in the possession of the Participant in order to effectuate the provisions of this paragraph.

21. Transfer Restrictions. The Company, in its absolute discretion, may impose such restrictions on the transferability of the shares purchasable upon the exercise of a Purchase Right as it deems appropriate and any such

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restriction shall be set forth in the respective subscription agreement and may be referred to on the certificates evidencing such shares. The Company may require the employee to give the Company prompt notice of any disposition of shares of stock acquired by exercise of a Purchase Right within two years from the date of granting such Purchase Right or one year from the date of exercise of such Purchase Right. The Company may direct that the certificates evidencing shares acquired by exercise of a Purchase Right refer to such requirement to give prompt notice of disposition.

22. Amendment or Termination of the Plan. The Board may at any time amend or terminate the Plan, except that (i) such termination shall not affect Purchase Rights previously granted under the Plan except as permitted by the Plan, and (ii) no amendment may adversely affect a Purchase Right previously granted under the Plan (except to the extent permitted by the Plan or as may be necessary to qualify the Plan as an "employee stock purchase plan" pursuant to section 423 of the Code). In addition, an amendment to the Plan must be approved by the stockholders of the Company, within the meaning of section 423 of the Code, within twelve (12) months of the adoption of such amendment if such amendment would authorize the sale of more shares than are authorized for issuance under the Plan or would change the designation of corporations whose employees may be offered Purchase Rights under the Plan. Notwithstanding any other provision of the Plan to the contrary, in the event of an amendment to the Plan which affects the rights or privileges of Purchase Rights to be offered under the Plan, each Participant with an outstanding Purchase Right shall have the right to exercise such outstanding Purchase Right on the effective date of the amendment.

IN WITNESS WHEREOF, the undersigned Secretary of KLA Instruments Corporation certifies that the foregoing Second Amended and Restated 1981 Employee Stock Purchase Plan, as amended, was duly adopted by the Board of Directors of KLA Instruments Corporation on October 7, 1994.

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Plan History

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| <TABLE> | |
| <S> | <C> |
| October 6, 1981 | Initial Plan adopted by Board of Directors. |
| December 7, 1981 | Initial Plan approved by stockholders. |
| December 17, 1982 | 2-for-1 stock split. |
| December 8, 1983 | 2-for-1 stock split. |
| June 1, 1984 | Second Plan adopted by Board of Directors. |
| October 25, 1984 | Second Plan approved by stockholders. |
| January 1, 1985 | Paragraph 9(a) of the Second Plan amended by the Board of Directors to change the definition of "base pay." (No stockholder approval required.) |
| July 19, 1989 | Third Plan adopted by Board of Directors. (No stockholder approval required.) |
| July 20, 1990 | Share reserve increase of 300,000 shares (from 900,000 shares to 1,200,000 shares) and extension of the Plan term until December 31, 2000 approved by the Board of Directors. |
| October 26, 1990 | Share reserve increase and extension of Plan term approved by stockholders. |
| October 26, 1990 | Paragraph 7 of the Plan amended to limit the number of shares that a participant may purchase during an offering period. (No stockholder approval required.) |
| September 14, 1992 | Share reserve increase of 500,000 shares (from 1,200,000 shares to 1,700,000 shares) and amendment to allow use of treasury stock approved by Board of Directors. (Stockholder approval required.) |
| November 18, 1992 | Stockholders approve the 500,000 share increase and the amendment to allow use of treasury stock. |
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| <TABLE> | |
| <S> | <C> |
| August 3, 1993 | Paragraph 4 amended to include employees who are also directors and to allow part-time employees to participate. Plan restated and renamed the Second Amended and Restated 1981 Employee Stock Purchase Plan. (Stockholder approval required.) |
| November 17, 1993 | Stockholders approve the amendments to include employees who are also director, to allow part-time employees to participate, and to restate and rename the Plan the "Second Amended and Restated 1981 Employee Stock Purchase Plan." |
| October 7, 1994 | The Plan was amended to increase the number of Shares reserved for issuance under the Plan from 1,700,000 to 2,000,000 shares. (Stockholder approval required.) |
| November 16, 1994 | Stockholders approve the share increase to 2,000,000 shares. |
| </TABLE> | |

[] Original Application

[] Change in Percentage of Payroll Deductions

I hereby elect to participate in the Second Amended and Restated 1981 Employee Stock Purchase Plan (the "Stock Purchase Plan") of KLA Instruments Corporation (the "Company") and subscribe to purchase shares of the Company's common stock (the "Shares") as determined in accordance with the terms of the Stock Purchase Plan.

I hereby authorize payroll deductions in the amount of \$ _____ or _____ percent of my compensation from each paycheck throughout the "Offering Period" (as defined in the Stock Purchase Plan) in accordance with the terms of the Stock Purchase Plan. (The amount deducted each [pay period] [month] must be at least [\$] and may be no greater than 10% of compensation for any pay period (if stated in percentages, must be in whole percentages).) I understand that these payroll deductions will be accumulated for the purchase of Shares at the applicable purchase price determined in accordance with the Stock Purchase Plan. I further understand that, except as otherwise set forth in the Stock Purchase Plan, Shares will be purchased for me automatically on the last day of the Purchase Period unless I withdraw from the Stock Purchase Plan or from the Offering Period by giving written notice to the Company or unless I terminate employment.

I understand that I will automatically participate in each subsequent Offering Period under the Stock Purchase Plan until such time as I file with the Company a notice of withdrawal from the Stock Purchase Plan or any such subsequent Offering Period on such form as may be established from time to time by the Company or I terminate employment.

I understand that I will be automatically withdrawn from an Offering Period and be automatically enrolled in the subsequent Offering Period if the fair market value of the Shares on the purchase date of an Offering Period is less than the fair market value of the Shares on the first day of such Offering Period; provided, however, that I may elect not to be automatically withdrawn if I notify the Company in writing of such election no later than the close of business on the last business day before the date 7 days prior to the purchase date of such Offering Period.

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Shares purchased for me under the Stock Purchase Plan should be issued in the name set forth below. I understand that Shares may be issued either in my name alone or together with my spouse as community property or in joint tenancy.)

NAME: _____

ADDRESS: _____

MY SOCIAL SECURITY NUMBER: _____

I am familiar with the terms and provisions of the Stock Purchase Plan and hereby agree to participate in the Stock Purchase Plan subject to all of the terms and provisions thereof. I understand that the Board reserves the right to amend the Stock Purchase Plan and my right to purchase stock under the Stock Purchase Plan as may be necessary to qualify the Plan as an employee stock purchase plan as defined in section 423 of the Internal Revenue Code of 1986, as amended. I understand that the effectiveness of this subscription agreement is dependent upon my eligibility to participate in the Stock Purchase Plan.

Date: _____ Signature: _____

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KLA INSTRUMENTS CORPORATION

SECOND AMENDED AND RESTATED
1981 EMPLOYEE STOCK PURCHASE PLAN

NOTICE OF WITHDRAWAL

I hereby elect to withdraw from the current offering (the "Offering") of the common stock of KLA Instruments Corporation (the "Company") under the Second Amended and Restated 1981 Employee Stock Purchase Plan (the "Stock Purchase Plan"), and hereby request that all payroll deductions credited to my account under the Stock Purchase Plan with respect to the Offering (if any), and not previously used to purchase shares of common stock of the Company under

the Stock Purchase Plan, be paid to me as soon as is practical. I understand that this Notice of Withdrawal automatically terminates my interest in the Offering.

As to participation in future offerings of stock under the Stock Purchase Plan, I elect as follows:

I elect to participate in future offerings under the Stock Purchase Plan.

I understand that by making the election set forth above I will automatically participate in each subsequent Offering under the Stock Purchase Plan until such time as I file with the Company a notice of withdrawal from the Stock Purchase Plan or any such subsequent offering on such form as may be established from time to time by the Company or I terminate employment.

I elect not to participate in future offerings under the Stock Purchase Plan.

I understand that by making the election set forth above I terminate my interest in the Stock Purchase Plan and that no further payroll deductions will be made unless I elect in accordance with the Stock Purchase Plan to become a participant in another offering under the Stock Purchase Plan.

I understand that if no election is made as to participation in future offerings under the Stock Purchase Plan, I will be deemed to have elected to participate in such future offerings.

Date: _____ 17
Signature: _____

KLA INSTRUMENTS CORPORATION

1982 STOCK OPTION PLAN

AS AMENDED

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

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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 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

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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 Six Million Seven Hundred Fifty Thousand (6,350,000) shares of the Company's authorized but unissued 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 One Hundred Thousand (100,000) shares; provided, however, that the foregoing limit shall be Three Hundred Thousand (300,000) 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

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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.

(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.

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(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 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.

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(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 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

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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.

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 October 7, 1994.

| | |
|--------------------|--|
| <TABLE> | |
| <S> | <C> |
| 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. |
| </TABLE> | |

EXHIBIT A

1. Paragraph 2 of the 1982 Stock Option Plan shall be amended to read as follows:

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

2. Paragraph 4 of the 1982 Stock Option Plan shall be amended to read as follows:

"4. Shares Subject to Option. The maximum number of shares of stock which may be issued under the Plan shall be Six Million Seven Hundred Fifty Thousand (6,350,000) shares of the Company's authorized but unissued common stock subject to adjustment as provided in paragraph 6(f).

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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 One Hundred Thousand (100,000) shares; provided, however, that the foregoing limit shall be Three Hundred Thousand (300,000) 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."

3. Paragraph 6(f) of the 1982 Stock Option Plan shall be amended to read as follows:

"6. Terms, Conditions and Form of Options.

(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."

2

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

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.

</LEGEND>

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