
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of The
Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): December 28, 2006

KLA-TENCOR CORPORATION

(Exact name of registrant specified in its charter)

Delaware	000-09992	04-2564110
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)
160 Rio Robles , San Jose, California		95134
(Address of principal executive offices)		(Zip Code)

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

(Former name and former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions *see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

(e) As previously announced, the Company has conducted an extensive examination of its historical stock option grant practices under its various equity incentive plans and has determined that certain outstanding options have exercise prices below the fair market value of the Company's common stock on the actual date on which those particular options were granted. The exercise prices for those options were instead set at the fair market value of the common stock on an earlier date when the fair market value was lower. These retroactively-priced options, to the extent they were not vested as of December 31, 2004, are likely to be subject to taxation under Internal Revenue Code Section 409A unless the exercise price is increased to the fair market value per share of the Company's common stock on the actual grant date. For individuals who were executive officers of the Company subject to the reporting requirements and trading restrictions of Section 16 of the Securities Exchange Act of 1934 at the time such options were granted, the requisite change must be effected by December 31, 2006.

Accordingly, during the three-day period from December 26, 2006 to December 28, 2006, KLA-Tencor Corporation (the "Company") entered into a Stock Option Amendment and Special Bonus Agreement (an "Agreement") with each of the following individuals in the Company's employ:

Name	Title
Richard Wallace	Chief Executive Officer
Neil Richardson	Senior Advisor
Dennis Fortino	Senior Advisor

Mr. Wallace is currently an executive officer of the Company and signed the Agreement on December 28, 2006. Messrs. Richardson and Fortino were executive officers of the Company when they received the options in question, but they do not have such executive officer status at present.

The Agreements increased the per share exercise price in effect for the shares of the Company's common stock purchasable under the portion of each retroactively-priced option potentially subject to Section 409A to the fair market value per share of such common stock on the actual grant date of that option. The specific increases to the retroactively-priced options held by Mr. Wallace may be summarized as follows:

Name	Grant Date	Number of Affected Option Shares	Prior Exercise Price	Increased Exercise Price	Total Increase in Exercise Price
R.Wallace	11/10/00	3,209	\$ 26.25	\$ 32.88	\$ 21,275.67
	04/04/01	4,667	\$ 32.75	\$ 50.82	\$ 84,332.69
	10/02/01	16,500	\$ 29.31	\$ 45.25	\$263,010.00
Aggregate Increase in Exercise Prices:					\$368,618.36

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For Mr. Richardson, the increase in exercise prices affected 11,000 option shares in total. The aggregate dollar amount of that increase was \$195,812.50. For Mr. Fortino, the increase affected 6,375 option shares in total and was \$104,013.75 in the aggregate.

Except for the increases to the exercise prices per share for the options described above, no other terms or provisions of the original option agreements for those options have been modified.

As part of their Agreements, Messrs. Wallace, Richardson and Fortino will each receive a special cash bonus from the Company equal to the aggregate increase in the exercise prices for their Section 409A-covered options, as that aggregate increase is indicated above for each of them. The payment will be made in January 2008, subject to the Company's collection of all applicable withholding taxes.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits. The following exhibits are included in this report:

99.1 Form of Stock Option Amendment and Special Bonus Agreement

SIGNATURES

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

KLA-TENCOR CORPORATION

Date: January 5, 2007

By: /s/ Jeffrey L. Hall

Name: Jeffrey L. Hall

Title: Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
99.1	Form of Stock Option Amendment and Special Bonus Agreement.

STOCK OPTION AMENDMENT AND SPECIAL BONUS AGREEMENT

AGREEMENT, dated as of the Effective Date (as defined on the signature page hereof), between KLA-Tencor Corporation (the "Company") and the undersigned stock option holder (the "Optionee").

WHEREAS, the Company previously granted to Optionee the options identified on attached *Schedule I* (the "Options") to purchase shares of the Company's common stock under one or more of the Company's stock option or equity incentive plans (individually, a "Plan").

WHEREAS, the Company and the Optionee entered into a formal Stock Option Agreement (the "Option Agreement") evidencing each such Option.

WHEREAS, in order to avoid adverse tax consequences under section 409A of the Internal Revenue Code, the Optionee desires to amend each of the Options to increase the exercise price per share for the unexercised portion of that Option which is subject to Section 409A and indicated as such on *Schedule I* (the "Covered Portion") to the higher exercise price per share for that Option indicated on *Schedule I*.

WHEREAS, in order to compensate the Optionee for the increased exercise prices to be in effect for the Covered Portions of the Options, the Company is willing to pay the Optionee a special cash bonus in a dollar amount equal to the aggregate increase in the exercise prices for the Covered Portions of the Options in the gross amount indicated as the Total Special Bonus on *Schedule I*.

NOW THEREFORE, the parties hereby agree as follows:

1. Increased Exercise Price. The exercise price per share set forth in the Option Agreement for each of the Options listed on *Schedule I* is hereby increased, with respect to the shares subject to the Covered Portion of that Option, to the higher exercise price per share set forth for that Option on *Schedule I*.

2. Special Bonus. The Optionee is entitled to receive a cash bonus from the Company (the "Special Bonus") in the gross dollar amount indicated as the Total Special Bonus on *Schedule I*, payable after January 1, 2008 and on or before the Company's second regular payday in January 2008. However, the Special Bonus shall be subject to the Company's collection of all applicable federal, state and local income and employment withholding taxes, and the Optionee shall be paid only the net amount of such bonus remaining after such taxes have been withheld.

3. Entire Agreement. This Agreement, together with the Option Agreements (to the extent not expressly amended hereby) and the applicable Plan under which each Option is outstanding, represents the entire agreement of the parties with respect to the Options, the Covered Portions thereof and the Special Bonus and supersedes any and all previous contracts, arrangements or understandings between the parties with respect to such Options and the Special Bonus. This Agreement may be amended at any time only by means of a writing signed by the Optionee and an authorized officer of the Company.

5. Continuation of Option Agreements. Except for the foregoing increases to the exercise prices per share for the Covered Portions of the Options, no other terms or provisions of the Option Agreements for such Options or the applicable Plans have been modified as a result of this Agreement, and those terms and provisions shall continue in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Agreement on the dates indicated below. The effective date of this Agreement (the "Effective Date") is the later of the two dates indicated below (or the date indicated below, if both dates are the same).

KLA-TENCOR CORPORATION

By: _____

Title: _____

Date Signed: _____, 2006

OPTIONEE

Print Name: _____

Date Signed: _____, 2006