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

SCHEDULE TO
(Rule 13e-4)

**TENDER OFFER STATEMENT UNDER SECTION 14(d)(1) OR 13(e)(1)
OF THE SECURITIES EXCHANGE ACT OF 1934**

KLA-TENCOR CORPORATION

(Name of Subject Company (Issuer) and Filing Person (Offeror))

Options to Purchase Shares of Common Stock, Par Value \$0.001 Per Share
(Title of Class of Securities)

482480100
(CUSIP Number of Class of Securities)
(Underlying Common Stock)

Jeffrey L. Hall
Senior Vice President and Chief Financial Officer
KLA-Tencor Corporation
160 Rio Robles
San Jose, California 95134-1809
(408) 875-3000

(Name, address and telephone number of person authorized to receive notices and communications on behalf of filing person)

Copy to:

S. James DiBernardo, Esq.
Jill Mather Bartow, Esq.
Morgan, Lewis, & Bockius LLP
Two Palo Alto Square
Palo Alto, California 94306
(650) 843-4000

CALCULATION OF FILING FEE

Transaction valuation*

Not Applicable*

Amount of filing fee**

Not Applicable*

* A filing fee is not required in connection with this filing as it relates solely to preliminary communications made before the commencement of a tender offer.

Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: Not applicable.
Form or Registration No.: Not applicable.
Filing party: Not applicable.
Date filed: Not applicable.

Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

- third party tender offer subject to Rule 14d-1.
- issuer tender offer subject to Rule 13e-4.
- going-private transaction subject to Rule 13e-3.
- amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer.

This Schedule TO is being filed by KLA-Tencor Corporation, a Delaware corporation, pursuant to General Instruction D to Schedule TO.

Item 12. Exhibits.

- (a)(5)(A) Email distributed to KLA-Tencor Corporation's employees containing a memorandum dated January 29, 2007 relating to Section 409A informational meetings.
- (a)(5)(B) PowerPoint presentation - Discounted Options, Section 409A & KLA-Tencor's Tender Offer

MEMORANDUM

Date: January 29, 2007
To: KLA-Tencor U.S. Employees
From: Stock and Retirement Services
Re: 409A informational meetings today!

Background on 409A:

Section 409A is a new section of the Internal Revenue Code which was enacted in October 2004 to limit an individual's ability to defer income into future periods. Section 409A imposes a series of requirements governing the timing of deferral elections and the payment of the deferred compensation. These requirements directly affect many KLA-Tencor employees who hold previously granted options vesting in 2005 or later. Failure to comply with these requirements will result in taxation of the amount treated as deferred compensation when the options vest plus an additional 20% federal tax and applicable state tax penalties on that amount. Discounted stock options, including your retroactively-priced options, to the extent they vest after December 31, 2004, are subject to similar tax treatment at vesting or (for options exercised in 2006) at the time of exercise.

Such unfavorable tax treatment can be avoided with respect to your currently outstanding options if certain remedial actions are taken, such as increasing the exercise price to the fair market value of the underlying shares on the actual date the options were granted. Such action must be taken before December 31, 2007 or (if earlier) the date those options are exercised.

The Company has identified the retroactively-priced options potentially subject to Section 409A. Those options are listed in the chart below, and only the portion of each listed option which vests after December 31, 2004 would be covered by Section 409A. ***If you do not have stock option grants that correspond with the dates on the chart, then you will not be affected by Section 409A.*** We sent to your home stock option statements so that you can easily determine if any of your options are potentially subject to Section 409A taxation.

A small number of employees who joined the Company after 2002 may have received options that are affected by Section 409A in connection with their hiring. We are contacting any affected employees directly.

Grant Dates Potentially

Subject to 409A

8/13/2000	11/20/2001
11/10/2000	1/18/2002
2/9/2001	2/28/2002
4/4/2001	9/5/2002
5/30/2001	11/8/2002
	7/10/2001
	10/2/2001

Although we expect to allow employees to resume option exercises Thursday, February 1, 2007, it may not be in your best interest to exercise your Section 409A-covered options until we roll out the new program to remedy the adverse tax treatment of those options. We expect to roll out that program in early February 2007. If your circumstances require any earlier exercise of your potential 409A-covered options (those identified in the above chart, to the extent they vest after December 31, 2004 or those that we separately identified for you), we recommend that you first consult with your personal tax advisor so that you have an understanding of the tax implications that could result from such exercise. *KLA-Tencor will not be able to help you reduce any tax liability associated with such exercises.*

Meeting Notices

In an effort to get information to you as quickly as possible, beginning today we are holding a series of employee meetings to explain Section 409A and describe the programs designed to bring your currently outstanding Section 409A-covered options into compliance with the new law and to address the assistance the Company will provide to those who exercised Section 409A-covered option in the 2006 calendar year. We encourage you to attend if you hold or have exercised options with any dates that match the table above.

TODAY Monday January 29th

11:00 in the Milpitas Multi-Purpose Room

1:30 and 3:30 in the San Jose Cafeteria

Time: 11:00 am, Pacific Standard Time

Time: 1:30 pm, Pacific Standard Time

Program Descriptions

Program One: Addresses those options considered discounted which vested after December 31, 2004 and were exercised during 2006.

Discounted options that vested in 2005 and were exercised in 2005 are not subject to the 20% Section 409A tax under the transition rules provided by the Internal Revenue Service and for that reason are not subject to Program One.

Discounted options that vested in 2005 or 2006 and were exercised in 2006 are subject to the 20% Section 409A tax and similar penalty taxes in California and certain other states. The stock option income recognized at the time those options were exercised is subject to the 20% Section 409A tax and will be included in Box 12 with Code Z on your 2006 Form W-2 if you exercise discounted options in 2006.

As part of KLA-Tencor's commitment to accommodate employees subject to the incremental 20% tax, KLA-Tencor will compensate you for the 20% federal Section 409A tax and any similar state penalty tax you may incur with respect to affected options that were exercised in 2006. KLA-Tencor will also gross-up the compensation you receive to cover the extra 2007 income and payroll taxes you will incur as a result of the extra compensation you received to cover those 2006 penalty taxes. We will include the compensation in a February paycheck. Included below are written instructions prepared with the assistance of a national CPA firm to assist you or your tax advisor in preparing your 2006 tax return.

Reporting Implications Associated with the Exercise of Discounted Stock Options

Q: How do I report and pay the penalty taxes?

A: The compensation income resulting from the exercise of stock options subject to the 20% Section 409A tax will be reported to you on your 2006 Form W-2 (in box 1, and in box 12 using code Z). An example of a 2006 Form W-2 is shown below ; the \$10,000 shown in Box 12 represents the amount of gain for federal and state tax purposes. You will use this amount and multiply it by 20%, and report the resulting amount, \$2,000 in this example ($\$10,000 \times 20\% = \$2,000$), as explained below. The instructions for Form 1040 direct you to write "NQDC \$2,000" on the dotted line to the left of the amount in **line 63** on page 2 of Form 1040, as shown in the example on page 4. The calculated amount of the penalty tax (\$2,000 in this example) should be *added to* the amount otherwise calculated for line 63. If you are a California

resident, you should report the penalty tax on **line 33** of California Form 540. "NQDC" should be written on the dotted line to the left of the amount in line 33 as shown in the example on page 5. We are currently working with a national CPA firm to understand the state tax consequences outside of California.

As a result of the addition of these two amounts of penalty taxes to your federal and state tax returns, you may owe additional taxes when you file your return. If you do, you should pay the additional taxes owed when you file.

KLA-Tencor is providing you extra compensation in 2007 to compensate you for the 20% federal Section 409A tax and any similar state tax you may incur. KLA-Tencor will also gross-up the compensation you receive to cover the extra 2007 income and payroll taxes you will incur as a result of the extra compensation you received to cover the 2006 taxes.

PROGRAM TWO SUMMARIZED BELOW WILL INVOLVE A FORMAL TENDER OFFER BY THE COMPANY TO AMEND CERTAIN OUTSTANDING OPTIONS COVERED BY SECTION 409A OF THE INTERNAL REVENUE CODE. YOU WILL BE NOTIFIED WHEN THAT TENDER OFFER COMMENCES. WE ADVISE YOU TO READ THE TENDER OFFER STATEMENT WHEN IT IS AVAILABLE BECAUSE IT WILL CONTAIN IMPORTANT INFORMATION WITH RESPECT TO YOUR STOCK OPTIONS. WE WILL DELIVER THE ACTUAL TENDER OFFER DOCUMENTS TO ALL AFFECTED EMPLOYEES BY EMAIL WHEN THE TENDER OFFER COMMENCES, AND THOSE DOCUMENTS WILL ALSO BE AVAILABLE FOR FREE AT THE SECURITIES AND EXCHANGE COMMISSION'S PUBLIC WEBSITE.

Program Two: Addresses those options considered discounted but not yet exercised.

This is a brief summary of Program Two and does not take the place of the legal documentation that will be distributed to affected individuals the week of February 5, 2007, when we officially start the program. We recommend that you consult with your personal tax advisor to determine the consequences of accepting or declining participation in the program.

What is the plan for remedy of 409A impact?

KLA-Tencor intends to make a Tender Offer. This covers United States tax paying individuals who currently hold outstanding discounted stock options that vested after December 31, 2004 and are subject to 409A. The Tender Offer document, which will be filed with the SEC, is the legal representation of the remedy that we propose to offer you as a means to avoid the adverse tax consequences under 409A.

Principal aspects of the Offer are:

1. The tender offer will provide you with an election to increase the exercise price of your eligible discounted option to its "Adjusted Exercise Price" (provided you accept and remain an employee until the date the Offer expires)
2. The "Adjusted Exercise Price" will be the lower of the fair market value of our common stock on the day after the Tender Offer closes (anticipated to be March 6, 2007) or the fair market value of our common stock on the actual grant date of your eligible discounted option. In no event will the Adjusted Exercise Price be lower than the current exercise price in effect for that option.
3. Once the exercise price has been amended to its adjusted exercise price, your affected options will no longer be subject to 409A.
4. Each recipient who accepts the tender offer and complies with its terms will receive a cash bonus equal to the amount (if any) by which the adjusted exercise price exceeds the original exercise price of the affected options.

-
5. The cash bonus will be paid in January of 2008, regardless of whether you are employed by KLA-Tencor at that time. The payment will be subject to the Company's withholding of all applicable taxes.
 6. You must remain an employee or service provider until the Tender Offer closes.

Am I affected?

First, check the option statement that was sent to your home or contact your broker to determine if you were granted options that have the dates referenced in the chart above or that have otherwise identified as subject to Section 409A. If not, then you are not subject to 409A. If you hold affected options, then please attend the meetings that are scheduled and watch your e-mail for details. KLA-Tencor will send, via e-mail, to those individuals impacted by Section 409A information on how to access the Tender Offer documents, which includes an FAQ, a formal offer (with the applicable terms and conditions), an election form for submitting your options for amendment and an acceptance agreement. The e-mail will be sent the week of February 5, 2007. This documentation is important and has specific deadlines that must be met. ***Failure to meet those deadlines will result in our inability to execute on the offer agreement.***

How do I prepare my taxes?

KLA-Tencor can not supply tax advice. You must contact a tax advisor on this aspect of the implications.



Discounted Options, Section 409A & KLA-Tencor's Tender Offer

January, 2007

Meeting Objectives

- Understand
 - The § 409A issue
 - What KLA-Tencor is doing for the affected options
 - Your choices
- Review your next steps

Why are we here today?

- KLA-Tencor has determined that you hold certain stock options that may be negatively affected by a recent law change.
- KLA-Tencor has developed a solution that eliminates the problem, but which requires your participation and permission to implement.
- If you do not participate, you may have adverse tax consequences.

Tax Law Change: §409A

- § 409A is a set of operating rules for items considered to be deferred compensation.
- Certain stock options are now considered to be deferred compensation.
- What are the consequences of § 409A?
 - Potential income taxation *prior to exercise*
 - 40% additional tax (20% federal & 20% CA)
 - Interest penalty

Which options are affected?

- Options granted at a price below the stock's fair market value (FMV) on the actual grant date ("Discount Options").
- Only options that vest AFTER 12/31/04.
 - Thus, options granted prior to 409A's enactment could be affected by this new law if they vested 1/1/05 and later.

Example:

- Option granted on Jan 1, 2003 – 10,000 shares
- Option price = \$32.50, but fair market value at grant date = \$35.75
- Vesting: 2,500 options vest on Jan 1, 2004
 - 2,500 options vest on a monthly basis during 2004
 - 2,500 options vest on a monthly basis during 2005
 - 2,500 options vest on a monthly basis during 2006
- CONCLUSION:
 - The 5,000 options that vested prior to 1/1/05 are NOT subject to §409A.
 - The 5,000 options that vest after 12/31/04 are subject to §409A because they were granted at a discount.

Example: (continued)

- Assume that the fair market value of the option shares on the applicable tax date is \$52 and no options were exercised.

§409A Estimated Impact

- W-2 Income Inclusion: \$97,500
(= 5,000 options subject to §409A x \$19.50 (\$52 FMV - \$32.50 Option Price))

Fed Ordinary Income	\$34,125	(35%)
CA Ordinary Income	<u>\$ 9,067</u>	(9.3%)
Normal Stock Gain Rate	\$43,192	44.3%
§409A Tax (Fed/CA)	\$39,000	(40%)
§409A Interest	<u>\$ 8,775</u>	(9%)
Tax Rate w/§409A	\$90,967	93.3%

- This will occur until exercise or expiration of the option.

What is the solution?

KLA-Tencor's Program 1: 2006 W-2

- W-2 Reporting of 2006 exercises of discounted options in Box 12 (Code Z)
- AND
- Provide a cash payment in 2007 to cover additional tax(es) on the exercises
 - Affected employees will pay 20% federal & 20% CA tax(es); these are not withheld
 - Payment is compensation and will be grossed-up for income/payroll taxes

Sample 2006 Form W-2

a Control number		22222		OMB No. 1545-0006	
b Employer identification number (EIN)		1 Wages, tips, other compensation	2 Federal income tax withheld		
c Employer's name, address, and ZIP code		3 Social security wages	4 Social security tax withheld		
		5 Medicare wages and tips	6 Medicare tax withheld		
		7 Social security tips	8 Allocated tips		
d Employee's social security number		9 Advance EIC payment	10 Dependent care benefits		
e Employee's first name and initial Last name Suffix		11 Nonqualified plans	12a Z \$10,000		
		13 <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	12b		
		14 Other	12c		
			12d		
f Employee's address and ZIP code					
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax
					20 Locality name

Form **W-2** Wage and Tax Statement 2006 Department of the Treasury—Internal Revenue Service

Copy 1—For State, City, or Local Tax Department

Sample 2006 Form 1040

Form 1040 (2006)		Page 2	
Tax and Credits	38	Amount from line 37 (adjusted gross income)	38
39a	Check <input type="checkbox"/> You were born before January 2, 1942, <input type="checkbox"/> Blind, <input type="checkbox"/> Total boxes		
	If <input type="checkbox"/> Spouse was born before January 2, 1942, <input type="checkbox"/> Blind, <input checked="" type="checkbox"/> checked <input type="checkbox"/> 39a		
b	If your spouse inherits on a separate return or you were a dual status alien, see page 3 and check box <input type="checkbox"/> 39b		
Standard Deduction for—	40	Itemized deductions from Schedule A or your standard deduction (see left margin)	40
41	Subtract line 40 from line 38		41
42	If line 38 is over \$112,875, or you provided housing to a person displaced by Hurricane Katrina, see page 36. Otherwise, multiply \$3,300 by the total number of exemptions claimed on line 6d		42
43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-		43
44	Tax (see page 36). Check if any tax is from: a <input type="checkbox"/> Form(s) 9814 b <input type="checkbox"/> Form 4972		44
45	Alternative minimum tax (see page 39). Attach Form 6251		45
46	Add lines 44 and 45		46
47	Foreign tax credit. Attach Form 1110 if required		47
48	Credit for child and dependent care expenses. Attach Form 2441		48
49	Credit for the elderly or the disabled. Attach Schedule R		49
50	Education credits. Attach Form 8863		50
51	Retirement savings contributions credit. Attach Form 8880		51
52	Residential energy credits. Attach Form 5695		52
53	Child tax credit (see page 42). Attach Form 8801 if required		53
54	Credits from: a <input type="checkbox"/> Form 8389 b <input type="checkbox"/> Form 8839 c <input type="checkbox"/> Form 8869		54
55	Other credits: a <input type="checkbox"/> Form 8800 b <input type="checkbox"/> Form 8801 c <input type="checkbox"/> Form		55
56	Add lines 47 through 55. These are your total credits		56
57	Subtract line 56 from line 46. If line 56 is more than line 46, enter -0-		57
Other Taxes	58	Self-employment tax. Attach Schedule SE	58
59	Social security and Medicare tax on tip income not reported to employer. Attach Form 4137		59
60	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required		60
61	Advance earned income credit payments from Form(s)		61
62	Household employment taxes. Attach Schedule H		62
63	Add lines 57 through 62. This is your total tax	NQDC \$2,000	63
Payments	64	Federal income tax withheld from Forms W-2 and 1099	64
65	2006 estimated tax payments and amount applied from 2005 return		65
66a	Earned income credit (EIC)		66a
b	Nonrefundable combat pay election <input checked="" type="checkbox"/> 66b		66b
67	Excess social security and tier 1 RRTA tax withheld (see page 60)		67
68	Additional child tax credit. Attach Form 8812		68
69	Amount paid with request for extension to file (see page 60)		69
70	Payments from: a <input type="checkbox"/> Form 2449 b <input type="checkbox"/> Form 4198 c <input type="checkbox"/> Form 8868		70
71	Credit for federal telephone excise tax paid. Attach Form 5913 if required		71
72	Add lines 64, 65, 66a, and 67 through 71. These are your total payments		72
Refund	73	If line 72 is more than line 63, subtract line 63 from line 72. This is the amount you overpaid	73
74a	Amount of line 73 you want refunded to you. If Form 8878 is attached, check here <input type="checkbox"/>		74a
b	Routing number	<input type="checkbox"/> e Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
d	Account number		
75	Amount of line 73 you want applied to your 2007 estimated tax		75
76	Amount you owe. Subtract line 72 from line 63. For details on how to pay, see page 62		76
77	Estimated tax penalty (see page 62)		77
You Owe			
Third Party Designee		Do you want to allow another person to discuss this return with the IRS (see page 63)? <input type="checkbox"/> Yes. Complete the following. <input type="checkbox"/> No	
Designee's name	Phone no.	Personal identification number (PIN)	
Sign Here		Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.	
Your signature	Date	Your occupation	Daytime phone number
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	
Paid Preparer's Use Only		Preparer's signature	Date
Preparer's name (if you're self-employed, address, and ZIP code)	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN	
	Ein		
	Phone no.		

Sample 2006 CA Form 540

For Privacy Notice, get form FTB 1131. FORM 540 C-1 Side 1

California Resident Income Tax Return 2006

Fiscal year filers only. Enter month of year and month year 2007.

Your last name: [] [] Last name: [] Your SSN or ITIN: []

If joint return, spouse's first name: [] Last name: [] Spouse's SSN or ITIN: []

Present home address — number and street, PO box, rural route, or PMB no.: [] Apt. no.: [] PBA Code: []

City, town, or post office (if you have a foreign address, see page 13): [] State: [] ZIP Code: []

If you filed your 2005 tax return under a different last name, write the last name only from the 2005 return.
 Taxpayer Spouse

Filing Status: Single Married filing jointly (see page 3) Head of household (with qualifying person) (see page 3) Qualifying widow(er) with dependent child. Enter year spouse died []
 Married filing separately. Enter spouse's SSN or ITIN above and full name here.

Exemptions: If someone can claim you (or your spouse) as a dependent, fill in the circle here (see page 7) 6

Exemptions: If you filed in the circle on line 6 do not enter amount on line 7 7 X \$91 = \$
 Blind, if you (or your spouse) are visually impaired, enter 1, if both, enter 2 8 X \$91 = \$
 Deaf or hearing impaired, if you (or your spouse) are deaf or hearing impaired, enter 1, if both, enter 2 9 X \$91 = \$

10 Dependents: Enter name and relationship. Do not include yourself or your spouse. Total dependent exemptions 10 X \$285 = \$
 11 Exemption amount. Add line 7 through line 10. Transfer this amount to line 21 11 \$

12 State wages from your Form(s) W-2, box 16 or CA Sch. W-2, line C 12
 13 Enter federal adjusted gross income from Forms 1040, line 37; 1040A, line 21; 1040EZ, line 4 13
 14 California adjustments — subtractions. Enter the amount from Schedule CA (540), line 37, column B 14
 15 Subtract line 14 from line 13. If less than zero, enter the result in parentheses (see page 13) 15
 16 California adjustments — additions. Enter the amount from Schedule CA (540), line 37, column C 16
 17 California adjusted gross income. Combine line 15 and line 16 17
 18 Enter the larger of:
 Your California itemized deductions from Schedule CA (540), line 44; OR
 Your California standard deductions shown below for your filing status:
 • Single or Married filing separately \$3,410
 • Married filing jointly, Head of household, or Qualifying widow(er) \$6,820
 If the circle on line 6 is filled in, STOP (see page 13)
 18
 19 Subtract line 18 from line 17. This is your taxable income. If less than zero, enter -0- 19

Tax: Tax Table Tax Rate Schedule FTB 9900 FTB 9903 20
 21 Exemption credits. Enter the amount from line 11. If your federal AGI is more than \$150,748, see page 14. 21
 22 Subtract line 21 from line 20. If less than zero, enter -0- 22
 23 Tax (see page 14). Fill in the circle if from: Schedule G-1 FTB 5870A 23
 24 Add line 22 and line 23 24

Other Taxes: Enter credit name, code no., and amount 25
 Enter credit name, code no., and amount 26
 To claim more than two credits (see page 15) 27
 Nonrefundable renter's credit (see page 15) 28
 29 Add line 25 through line 26. These are your total credits 29
 30 Subtract line 29 from line 24. If less than zero, enter -0- 30

31 Alternative minimum tax. Attach Schedule P (54) 31
 32 Mental Health Services Tax (see page 16) NQDC 32
 33 Other taxes and credit recapture (see page 16) \$2,000 33
 34 Add line 30, line 31, line 32, and line 33. This is your total tax 34

3101063

Program 2: Tender Offer for Unexercised Options

KLA-Tencor expects to commence a formal tender offer for certain outstanding stock options held by its employees. We will notify you when that tender offer commences. We advise you to read the tender statement when it is available because it will contain important information relating to your stock options. We will deliver the actual tender offer documents to all affected employees by via electronic website when the tender offer commences, and those documents will also be available for free at the Securities and Exchange Commission's public website.

Program 2: Tender Offer for Unexercised Options

- Amend option to potentially increase option price, AND
- Provide a cash payment
- Only options issued below market and that vest after 12/31/04 will be subject to the tender offer.

KLA-Tencor's Solution: Tender Offer

Example:

- Orig. Option Price: \$30
- Adjusted Option Price: \$32
- FMV at Tender Offer close: \$50

Example:

- Orig. Option Price: \$48
- Adjusted Option Price: \$58
- FMV at Tender Offer close: \$50

Example:

- Orig. Option Price: \$30
- Adjusted Option Price: \$32
- FMV at Tender Offer close: \$28

KLA-Tencor's Solution: Tender Offer

Amend options to potentially increase the option price

- Option price will be the lower of:
 - Fair market value on the actual grant date, or
 - Closing price of KLA-Tencor stock the day after the tender offer closes
 - Option price will never be lower than current exercise price
- All other terms will remain the same (including the number of shares, vesting schedule and expiration date)

KLA-Tencor's Solution: Tender Offer

Cash Bonus payment

- Equal to the difference (if any) between the adjusted option price and original option price
- Will be made in January 2008 per IRS requirement

Example

- Option for 8,000 shares granted on 1/1/03 with price = \$32.50, but FMV = \$35.75
- Vesting:
 - 2,000 vest on 1/1/04 – not subject to §409A
 - 2,000 vest monthly in 2004 – not subject to §409A
 - 2,000 vest monthly in 2005 – subject to §409A
 - 2,000 vest monthly in 2006 – subject to §409A
- Option Amendment:
 - 4,000 options vested on 12/31/04 – NO CHANGE
 - 4,000 options vesting 2005-2006 - amended price = \$35.75
 - No change to expiration date or vesting schedule
- Cash Payment:
 - Employee receives cash payment of \$13,000 = 4,000 options x (\$35.75 - \$32.50), (less bonus withholdings), paid in January 2008.

Eligibility

- Must be an employee at the close of the Tender Offer and subject to US income taxation.
- Offer covers unexercised options that were granted at a discount and vest after 12/31/04.
- You can select which of your affected grants to tender (i.e., participate with), but once selected, the entire unexercised portion must be tendered.

What if I do nothing?

What if I do nothing?

- Tax Impact:
 - Income taxation *before exercise*
 - 20% additional federal tax on income amount
 - 20% additional California tax on income amount
 - Potentially other state additional taxes
 - Interest penalty on income amount
- Will occur until exercise or expiration of the discounted options.
- Tender offer is a one-time offer to prevent future adverse tax consequences.

How do I participate?

Tender Offer Expected Timeline

- Tender Offer Begins: February 5, 2007
- Tender Offer Ends: March 6, 2007
 - All elections MUST be received by 11:59PM Pacific Time on the expiration date
 - Late submissions will not be accepted
- Option Amendment: March 7, 2006
- How to submit your election: E-mail with web based instructions will be sent to you.
- Confirming e-mail will be sent to you upon completion of your acceptance of the Offer.

What Information Have You Received?

- Email that includes:
 - Description of Programs
 - Meeting announcements
- Mailed Stock Option Statement
 - Your stock options
- This presentation
 - Available on KLA-Tencor's Stock Option Website

Sample Statement

Personnel Grant Status

KLA-Tencor Corporation
 ID: 04-2564110
 160 Rio Robles
 San Jose, CA 95134

Page: 1
 File: Optstmt
 Date: 10/5/2006
 Time: 9:57:49AM

AS OF 10/5/2006

Your Name Here
 Your Address Here

This will be important at the commencement of the tender offer. Please keep it available.

A W A R D S

Number	Grant Date	Plan	Type	Granted	Price	Released	Vested	Cancelled	Unvested	Deferred	Next Deferral Release Date
088646	9/19/2006	EIP4	RSU	200	\$0.0000	0	0	0	200	0	
				200		0	0	0	200	0	

S T O C K O P T I O N S

Number	Grant Date	Plan	Type	Granted	Price	Exercised	Vested	Cancelled	Unvested	Outstanding	Exercisable
016503	8/31/1998	1982	NQ	2,000	\$10.6300	2,000	2,000	0	0	0	0
024606	8/13/2000	1982	NQ	240	\$44.6875	0	240	0	0	240	240
028536	8/13/2000	1982	NQ	600	\$44.6875	0	600	0	0	600	600
030475	11/10/2000	1982	NQ	420	\$26.2500	420	420	0	0	0	0
038097	4/4/2001	2000	NQ	420	\$32.7500	399	420	0	0	21	21
038664	10/3/2001	1982	NQ	1,238	\$29.3100	1,052	1,238	0	0	186	186
046460	11/8/2002	2000	NQ	125	\$37.0500	0	95	0	30	125	95
050439	1/28/2003	2000	NQ	250	\$34.6700	0	191	0	59	250	191
054203	7/30/2003	2000	NQ	125	\$51.2290	0	95	0	30	125	95
057705	10/27/2003	1982	NQ	180	\$53.8600	0	105	0	75	180	105
062277	1/27/2004	1982	NQ	90	\$58.1000	0	52	0	38	90	52
065149	4/26/2004	1982	NQ	113	\$45.1600	0	66	0	47	113	66
068374	8/2/2004	1982	NQ	67	\$40.6600	0	39	0	28	67	39
071814	9/16/2004	1982	NQ	400	\$39.3400	0	160	0	240	400	160
077746	9/16/2004	1982	NQ	200	\$39.3400	0	40	0	160	200	40
081230	9/26/2006	EIP4	NQ	200	\$47.9500	0	40	0	160	200	40
				6,998		3,871	5,901	0	867	2,797	1,930

This is a sample statement of an employee's entire stock option portfolio

What if I still have questions?

- Follow-up meetings: *Watch your E-mail*
 - 2/5 9:00 and 11:00 in Milpitas Multi-purpose
 - the 11 will also be available via Web-Ex
 - 2/5 1:30 and 3:30 in San Jose, Cafeteria 1:30 will be Web-Ex
 - 2/12 Milpitas Multi-Purpose 3:00
 - 2/22 1:30 San Jose and 3:30 Milpitas

We will add additional meetings if necessary
- Any questions should be directed to 401k.stock@kla-tencor.com

Tax Advice

- Taxation of stock option transactions can be very complicated.
- KLA-Tencor policy prohibits any employees from providing personal income tax advice to any other employee.
- This presentation is general and you should consult with your personal tax advisor for advice relevant to your specific situation.

Circular 230 Disclaimer Notice

- Any tax advice included in this presentation was not intended or written to be used, and it cannot be used by the taxpayer, for the purpose of avoiding any penalties that may be imposed by any governmental taxing authority or agency;
- This tax advice was written to support the promotion of the matter addressed by the presentation; and
- The taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.