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

			CALCULATION	OF FILING FEE
		Tran	saction valuation*	Amount of filing fee**
		No	ot Applicable*	Not Applicable*
*	A fil	ing fee is not required in co	nnection with this filing as it relates solely to preli	minary communications made before the commencement of a tender offer.
			is offset as provided by Rule 0-11(a)(2) and identify, or the Form or Schedule and the date of its filing	ify the filing with which the offsetting fee was previously paid. Identify the previous filing g.
	Form Filin	unt Previously Paid: a or Registration No.: g party: filed:	Not applicable. Not applicable. Not applicable. Not applicable.	
X	Chec	k the box if the filing relate	es solely to preliminary communications made before	ore the commencement of a tender offer.
	Chec	k the appropriate boxes bel	low to designate any transactions to which the state	ement relates:
		third party tender offer s	ubject to Rule 14d-1.	
	X	issuer tender offer subject	et 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. \Box

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 x 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 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

1

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

3

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>\$ 9,06</u> 7	(9.3%)
Normal Stock Gain Rate	\$43,192	44.3%
§409A Tax (Fed/CA)	\$39,000	(40%)
§409A Interest	<u>\$ 8,77</u> 5	(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

R

Sample 2006 Form W-2

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Sample 2006 Form 1040

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Sample 2006 CA Form 540

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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.

Number	Grant Date	Plan	Туре	Granted	Price	Released	Vested	Canoelled	Unvested	Deferred	Next Deferral Release Date
088646	9/19/2006	EIP4	RSU	20	\$0.0000	0	- 0	0	200	0	
				.20	<u></u>			- 0	200	0	
STOCK	DPTION8										
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Number	Date	Plan	Type	Granted	Price	Exercised	Vested	Canoelled	Unvected	Outstanding	Exercisable
015503	8/31/1998	1982	NQ	2,00	\$10,6300	2,000	2,000	0	0	0	
024606	8/13/2000	1982	NQ	24	\$44,6875	0	240	٥	0	240	24
0.28536	8/13/2000	1982	NQ	60	\$44,6875	0	600	0	0	600	6
030475	11/10/2000	1982	NQ	4.2	\$26,2500	420	420	0	0	0	
038097	4/4/2001	2000	NΩ	4.2	\$32,7500	399	420	٥	0	21	
039864	10/2/2001	1982	NQ	1,23	\$ \$29,3100	1,052	1,238	0	0	186	1
046460	11/8/2002	2000	NQ	12	\$37,0500	0	95	0	30	125	
050429	1/28/2003	2000	NQ	25	\$34,6700	0	191	٥	59	250	19
054203	7/30/2003	2000	NQ	12	\$51,2290	0	95	0	30	125	
057705	10/27/2003	1982	NQ	18	\$53,8600	0	105	0	75	180	10
06.2277	1/27/2004	1982	NQ	9	\$58.1000	0	52	0	38	90	
065149	4/26/2004	1982	NQ	31	\$45,1600	0	66	0	4.7	113	
068374	8/2/2004	1982	NQ	6	7 \$40,6600	0	39	0	28	67	
071814	9/16/2004	1982	NΩ	40	\$39,3400	0	160	٥	240	400	16
077746	9/16/2004	1982	NQ	20	\$39.3400	0	40	0	160	200	-
081230	9/26/2005	EIP4	NQ	20	\$47,9500	0	40	٥	160	200	4
				6.66	8	3.871	5.801		867	2.797	1.93

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.