

SECURITIES AND EXCHANGE COMMISSION

FORM S-8

Initial registration statement for securities to be offered to employees pursuant to employee benefit plans

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FILER

TENCOR INSTRUMENTS

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SIC: **3825** Instruments for meas & testing of electricity & elec signals

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SANTA CLARA CA 95054

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4159696784

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-8
REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933

Tencor Instruments

(Exact Name of Registrant as Specified in Its Charter)

California

94-2464767

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer
Identification No.)

3333 Octavius Street, Santa Clara, California 95054

(Address of Principal Executive Offices)

1993 Equity Incentive Plan
1993 Employee Stock Purchase Plan
1993 Non-Employee Director Stock Plan

(Full Title of the Plan)

Bruce R. Wright
Tencor Instruments
3333 Octavius Street
Santa Clara, California 95054
(Name and Address of Agent For Service)

(408) 970-9500

(Telephone Number, Including Area Code, of Agent For Service)

Copy to: Richard A. Peers, Esq.
Heller Ehrman White & McAuliffe
525 University Avenue
Palo Alto, California 94301-1908
(415) 324-7000

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price per Share (1)	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, no par value	2,050,000	\$16.31	\$33,435,500	\$11,532

(1) Estimated solely for the purpose of computing the amount of registration fee pursuant to Rule 457(c) under the Securities Act, as amended, based on the average of the high and low prices of the Registrant's Common Stock reported on the Nasdaq National Market on July 19, 1996.

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

ITEM 3. INCORPORATION OF DOCUMENTS BY REFERENCE

The following documents filed or to be filed with the Securities and Exchange Commission (the "Commission") by the registrant are incorporated by reference in this Registration Statement:

(a) The Registrant's latest annual report (Form 10-K) filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or the latest prospectus filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended (the "Securities Act"), that contains audited financial statements for the Registrant's latest fiscal year for which such statements have been filed;

(b) All other reports filed by the Registrant pursuant to Section 13(a) or 15(d) of the Exchange Act since the end of the fiscal year covered by the annual report or prospectus referred to in (a) above;

(c) The description of the Common Stock of the Registrant contained in the Registration Statement filed under the Exchange Act registering such Common Stock under Section 12 of the Exchange Act.

All documents subsequently filed by the Registrant pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act, prior to the filing of

a post-effective amendment which indicates that all securities offered hereby have been sold or which deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference in this Registration Statement and to be part thereof from the date of filing of such documents.

ITEM 4. DESCRIPTION OF SECURITIES

Not applicable.

ITEM 5. INTERESTS OF NAMED EXPERTS AND COUNSEL

The validity of the Common Stock offered hereby will be passed upon for the Registrant by Heller, Ehrman, White & McAuliffe, Palo Alto, California. As of the date of this Registration Statement, members of Heller, Ehrman, White & McAuliffe beneficially own 3,099 shares of the Registrant's Common Stock.

ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS

The Articles of Incorporation of the Registrant provide that the liability of the directors of the Registrant for monetary damages is to be eliminated to the fullest extent possible under California law. The Articles also authorize the Registrant to indemnify its agents (which includes officers and directors), whether by bylaw, agreement or otherwise, in excess of the indemnification expressly permitted by Section 317 of the California Corporations Code, and to advance defense expenses to its agents in connection with such matters as they are incurred.

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Section 29 of the Registrant's Bylaws provides for the indemnification of directors and officers of the Registrant to the fullest extent permissible under California law, and in excess of that which is expressly permitted by Section 317 of the California Corporations Code. The Bylaws provide that the Registrant shall indemnify its directors and officers against all expenses, judgments, fines, settlements and other amounts actually and reasonably incurred by them in connection with any proceeding, including an action by or in the right of the Registrant, by reason of the fact that such person is or was a director or officer of the Registrant or is or was serving at the request of the Registrant as a director, officer, trustee, employee or agent of another entity. The Bylaws also provide that, to the fullest extent permissible under California law, expenses incurred by a director or officer seeking indemnification under the Registrant's Bylaws in defending any proceeding are to be advanced by the Registrant as they are incurred, upon receipt by the Registrant of an undertaking by or on behalf of the director or officer to repay such amount if it is ultimately determined that the director or officer is not entitled to be indemnified by the Registrant for those expenses.

Section 317 of the California Corporations Code permits a corporation to

include in its charter documents and in agreements between the corporation and its directors and officers, provisions expanding the scope of indemnification beyond that specifically provided by the current law.

ITEM 7. EXEMPTION FROM REGISTRATION CLAIMED

Not applicable.

ITEM 8. EXHIBITS

- 5 Opinion of Heller Ehrman White & McAuliffe
- 23.1 Consent of Price Waterhouse LLP, Independent Accountants
- 23.2 Consent of Coopers & Lybrand L.L.P., Independent Accountants
- 23.3 Consent of Heller Ehrman White & McAuliffe
(filed as part of Exhibit 5)
- 24.1 Power of Attorney (see page II-4)
- 99.1 1993 Equity Incentive Plan, as amended
- 99.1 1993 Employee Stock Purchase Plan, as amended
- 99.3 1993 Non-Employee Director Stock Plan, as amended

ITEM 9. UNDERTAKINGS

A. The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement;

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act");

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(ii) To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement;

PROVIDED, HOWEVER, that paragraphs A(1)(i) and A(1)(ii) do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the Registrant pursuant to Section 13 or 15(d) of the Exchange Act that are incorporated by reference in the Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

B. The undersigned Registrant hereby undertakes that, for purposes of determining liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act that is incorporated by reference in the Registration Statement shall be deemed a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

C. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly

authorized, in the City of Mountain View, State of California, on this 25th day of July, 1996.

TENCOR INSTRUMENTS

By: /s/ Bruce R. Wright

Bruce R. Wright
Senior Vice President, Finance and
Administration, and Chief Financial
Officer

POWER OF ATTORNEY TO SIGN AMENDMENTS

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below does hereby constitute and appoint Jon D. Tompkins and Bruce R. Wright, or either of them, with full power of substitution, such person's true and lawful attorneys-in-fact and agents for such person in such person's name, place and stead, in any and all capacities, to sign any or all amendments (including post-effective amendments) to this Registration Statement on Form S-8 and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises in order to effectuate the same as fully, to all intents and purposes, as he or such person might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement on Form S-8 has been signed by the following persons in the capacities and on the dates indicated.

/s/ Jon D. Tompkins ----- Jon D. Tompkins	President, Chief Executive Officer and Director (Principal Executive Officer)	July 25, 1996
/s/ Bruce R. Wright ----- Bruce R. Wright	Senior Vice President, Finance and Administration, and Chief Financial Officer (Principal	July 25, 1996

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/s/ Frederick A. Ball ----- Frederick A. Ball	Vice President, Corporate Controller and Secretary (Principal Accounting Officer)	July 25, 1996
/s/ Richard J. Elkus, Jr. ----- Richard J. Elkus, Jr.	Vice Chairman of the Board and Executive Vice President	July 25, 1996
----- James W. Bagley	Director	July __, 1996
/s/ Dean O. Morton ----- Dean O. Morton	Director	July 25, 1996
/s/ Calvin F. Quate ----- Calvin F. Quate	Director	July 25, 1996
----- Lida Urbanek	Director	July __, 1996
----- Renn Zaphiropoulos	Director	July __, 1996

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INDEX TO EXHIBITS

Item No. -----	Description of Item -----	Sequentially Numbered Page -----
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5	Opinion of Heller Ehrman White & McAuliffe
23.1	Consent of Price Waterhouse LLP, Independent Accountants . . .
23.2	Consent of Coopers & Lybrand L.L.P., Independent Accountants .
23.3	Consent of Heller Ehrman White & McAuliffe (filed as part of Exhibit 5)
24.1	Power of Attorney (see page II-4)
99.1	1993 Equity Incentive Plan, as amended
99.2	1993 Employee Stock Purchase Plan, as amended.
99.3	1993 Non-Employee Director Stock Plan, as amended.

July 25, 1996

13027-0026

Tencor Instruments
3333 Octavius Street
Santa Clara, California 95054

REGISTRATION STATEMENT ON FORM S-8

Ladies and Gentlemen:

We have acted as counsel to Tencor Instruments, a California corporation (the "Company"), in connection with the Registration Statement on Form S-8 (the "Registration Statement") which the Company proposes to file with the Securities and Exchange Commission on July 25, 1996 for the purpose of registering under the Securities Act of 1933, as amended, an additional 2,050,000 shares of its no par value Common Stock (the "Shares"). The Shares are issuable under the Company's Amended and Restated 1993 Equity Incentive Plan, the Company's 1993 Employee Stock Purchase Plan, and the Company's 1993 Non-Employee Director Stock Plan (collectively the "Plans").

We have assumed the authenticity of all records, documents and instruments submitted to us as originals, the genuineness of all signatures, the legal capacity of natural persons and the conformity to the originals of all records, documents and instruments submitted to us as copies.

In rendering our opinion, we have examined the following records, documents and instruments:

- (a) The Restated Certificate of Incorporation of the Company, certified by the Secretary of State of the State of California as of July 18, 1996, and certified to us by an officer of the Company as being complete and in full force as of the date of this opinion;
- (b) The Bylaws of the Company certified to us by an officer of the Company as being complete and in full force and effect as of the date of this opinion;
- (c) A Certificate of an officer of the Company (i) attaching records certified to us as constituting all records of proceedings and

Tencor Instruments
July 16, 1996

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Company relating to the Shares and the Registration Statement, and (ii) certifying as to certain factual matters;

(d) The Registration Statement;

(d) The Plans; and

(e) A letter from The First National Bank of Boston, the Company's transfer agent, dated July 24, 1996, as to the number of shares of the Company's common stock that were outstanding on July 23, 1996.

This opinion is limited to the federal law of the United States of America and the State of California, and we disclaim any opinion as to the laws of any other jurisdiction. We further disclaim any opinion as to any other statute, rule, regulation, ordinance, order or other promulgation of any other jurisdiction or any regional or local governmental body or as to any related judicial or administrative opinion.

Based upon the foregoing and our examination of such questions of law as we have deemed necessary or appropriate for the purpose of this opinion, and assuming that (i) the Registration Statement becomes and remains effective during the period when the Shares are offered and issued, (ii) the full consideration stated in the Plans is paid for each Share, and (iii) all applicable securities laws are complied with, it is our opinion that, when issued and sold by the Company, after payment therefore in the manner provided in the Plans and the Registration Statement, the Shares will be legally issued, fully paid and nonassessable.

This opinion is rendered to you in connection with the Registration Statement and is solely for your benefit. This opinion may not be relied upon by you for any other purpose, or relied upon by any other person, firm, corporation or other entity for any purpose, without our prior written consent. We disclaim any obligation to advise you of any change of law that occurs, or any facts of which we may become aware, after the date of this opinion.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement.

Very truly yours,

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in this Registration Statement on Form S-8 of our report dated February 6, 1996 which appears on page 28 of the 1995 Annual Report to Shareholders of Tencor Instruments, which is incorporated by reference in Tencor Instruments' Annual Report on Form 10-K for the year ended December 31, 1995.

/s/ Price Waterhouse LLP

San Jose, California
July 22, 1996

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in this registration statement of Tencor Instruments on Form S-8 of our report dated December 12, 1993, except for the matter discussed in Note 11 for which the date is December 17, 1993, on our audit of the consolidated financial statements of Prometrix Corporation and Subsidiaries as of October 31, 1993, and for the year then ended (none of which is presented in Tencor Instruments Annual Report on Form 10-K for the year ended December 31, 1995, or in this registration statement).

/s/ Coopers & Lybrand L.L.P.

COOPERS & LYBRAND L.L.P.

San Jose, California
July 22, 1996

TENCOR INSTRUMENTS
AMENDED AND RESTATED 1993 EQUITY INCENTIVE PLAN

SECTION 1. PURPOSE; DEFINITIONS.

(a) PURPOSE. The purpose of the Plan is to provide selected eligible employees of, and consultants to, Tencor Instruments, a California corporation, and its Affiliates an opportunity to participate in the Company's future by offering them an opportunity to acquire stock in the Company so as to retain, attract and motivate them.

(b) DEFINITIONS. For purposes of the Plan, the following terms have the following meanings:

(i) "ADMINISTRATOR" shall mean the entity, either the Board or the committee of the Board, responsible for administering this Plan as provided in Section 2.

(ii) "AFFILIATE" means a parent or subsidiary corporation as defined in the applicable provisions (currently, Sections 424(e) and (f), respectively) of the Code.

(iii) "AWARD" means any award under the Plan, including any Option, Stock Appreciation Right, Restricted Stock, Stock Purchase Right or Performance Shares.

(iv) "AWARD AGREEMENT" means, with respect to each Award, the signed written agreement between the Company and the Plan participant setting forth the terms and conditions of the Award.

(v) "BOARD" means the Board of Directors of the Company, as constituted from time to time.

(vi) "CHANGE IN CONTROL" has the meaning set forth in Section 10(a).

(vii) "CHANGE IN CONTROL PRICE" has the meaning set forth in Section 10(c).

(viii) "CODE" means the Internal Revenue Code of 1986, as amended from time to time, and any successor statute.

(ix) "COMMISSION" means the Securities and Exchange Commission and any successor agency.

(x) "COMPANY" means Tencor Instruments, a California

corporation, or any successor corporation which assumes any outstanding Awards pursuant to Section 10(d).

(xi) "DISABILITY" means permanent and total disability as determined by the Administrator in accordance with the standards set forth in Section 22(e)(3) of the Code.

(xii) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended from time to time, and any successor statute.

(xiii) "FAIR MARKET VALUE" means as of any given date (a) the closing price of the Stock on the Nasdaq National Market as reported in the WALL STREET JOURNAL; or (b) if the Stock is no longer quoted on the Nasdaq National Market but is listed on an established stock exchange or quoted on any other established interdealer quotation system, the closing price for the Stock on such exchange or system, as reported in the WALL STREET JOURNAL; or (c) in the absence of an established market for the Stock, the fair market value of the Stock as determined by the Administrator in good faith.

(xiv) "INCENTIVE STOCK OPTION" means any Option designated in writing as an "incentive stock option" within the meaning of Section 422 of the Code.

(xv) "NONQUALIFIED STOCK OPTION" means any Option that is not an Incentive Stock Option.

(xvi) "OPTION" means an option granted under Section 5.

(xvii) "PERFORMANCE PERIOD" means the period determined by the Administrator under Section 9(a).

(xviii) "PERFORMANCE SHARE" means a share of Stock subject to an Award under Section 9.

(xix) "PLAN" means this Tencor Instruments 1993 Equity Incentive Plan, as amended from time to time.

(xx) "RESTRICTED STOCK" means an Award of Stock subject to restrictions, as more fully described in Section 7.

(xxi) "RESTRICTION PERIOD" means the period determined by the Administrator under Section 7(b), which shall not be less than three years, unless the Restricted Stock is performance-based, in which case the Restriction Period shall not be less than one year.

(xxii) "RULE 16B-3" means Rule 16b-3 under Section 16(b), as amended from time to time, and any successor to such rule.

(xxiii) "SECTION 16(b)" means Section 16(b) of the Exchange Act, as amended from time to time, and any successor section.

(xxiv) "STOCK" means the Common Stock of the Company, and any successor security.

(xxv) "STOCK APPRECIATION RIGHT" means an Award issued pursuant to Section 6.

(xxvi) "STOCK PURCHASE RIGHT" means an Award granted under Section 8.

(xxvii) "TAX DATE" means the date defined in Section 11(f).

(xxiii) "TERMINATION" means, for purposes of the Plan, with respect to a participant, that the participant has ceased to be, for any reason, employed by, or consulting to, the Company or an Affiliate.

(xxiv) "WINDOW PERIOD" means any 10-day period beginning on the third business day following the date of release for publication of the Company's quarterly or annual summary statements of earnings or such other period as is specified in Rule 16b-3(e) under the Exchange Act, as such rule may be amended from time to time, or any successor to such rule.

SECTION 2. ADMINISTRATION.

(a) ADMINISTRATOR. The Plan shall be administered by the Board or, upon delegation by the Board, either in its entirety or only as it relates to persons subject to Section 16 of the Exchange Act, by a committee consisting of not less than two directors (in either case, the "Administrator"). In connection with the administration of the Plan, the Administrator shall have the powers possessed by the Board. The Administrator may act only by a majority of its members, except that the Administrator (i) may authorize any one or more of its members or any officer of the Company to execute and deliver documents on behalf of the Administrator and (ii) so long as not otherwise required for the Plan to comply with Rule 16b-3, may delegate to one or more officers or directors of the Company authority to grant Awards to persons who are not subject to Section 16 of the Exchange Act with respect to Stock. The Administrator may delegate administrative duties to such employees of the Company as it deems proper, so long as such delegation is not otherwise prohibited by Rule 16b-3. The Board at any time may terminate the authority delegated to any committee of the Board pursuant to this Section 2(a) and revest in the Board the administration of the Plan.

(b) AUTHORITY. The Administrator shall grant Awards to selected eligible employees and consultants. In particular and without limitation, the Administrator, subject to the terms of the Plan, shall:

(i) select the officers, other employees and consultants to whom Awards may be granted;

(ii) determine whether and to what extent Awards are to be granted under the Plan;

(iii) determine the number of shares to be covered by each Award granted under the Plan;

(iv) determine the terms and conditions of any Award granted under the Plan and any related loans to be made by the Company, based upon factors determined by the Administrator; and

(v) determine to what extent and under what circumstances any Award payments may be deferred by a participant.

(c) ADMINISTRATOR DETERMINATIONS BINDING. The Administrator may adopt, alter and repeal administrative rules, guidelines and practices governing the Plan as it from time to time shall deem advisable, may interpret the terms and provisions of the Plan, any Award and any Award Agreement and may otherwise supervise the administration of the Plan. Any determination made by the Administrator pursuant to the provisions of the Plan with respect to any Award shall be made in its sole discretion at the time of the grant of the Award or, unless in contravention of any express term of the Plan or Award, at any later time. All decisions made by the Administrator under the Plan shall be binding on all persons, including the Company and Plan participants. No member of the Administrator shall be liable for any action that he or she has in good faith taken or failed to take with respect to this Plan or any Award. The Administrator may grant Awards not satisfying the specific limitations of the second proviso of Section 5(b) (iii) or of Section 7(b) regarding limits on accelerating or waiving restrictions for Restricted Stock; PROVIDED, that such Awards shall not exceed in amount 5% of the number of shares of Stock issuable under the Plan.

SECTION 3. STOCK SUBJECT TO PLAN.

(a) NUMBER OF SHARES. Subject to Section 3(b) below, the total number of shares of Stock reserved and available for issuance pursuant to Awards under this Plan shall be 5,800,000 shares. Such shares may consist, in whole or in part, of authorized and unissued shares or shares reacquired in private transactions or open market purchases, but all shares issued under the Plan regardless of source shall be counted against the 5,800,000 share limitation. If (i) any Option terminates or expires without being exercised in full, (ii) any shares of Stock issued as Restricted Stock or Performance Shares or issued pursuant to Stock Purchase Rights are forfeited prior to conferring on their holder benefits of ownership other than voting rights or accumulated dividends that are not realized, or (iii) an Award otherwise terminates without a payment being made to the participant in the form of Stock, the shares issuable under such Option or Award shall again be available for issuance in connection with

other Awards. If shares of Stock issued pursuant to an Award are repurchased by the Company or are forfeited after conferring benefits as described above, such Stock shall not again be available for issuance in connection with Awards. To the extent an Award is paid in cash or the

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number of shares of Stock issued pursuant to an Award is reduced to satisfy withholding tax obligations, the number of shares of Stock representing, at Fair Market Value on the date of the payment, the value of the cash payment or the number of shares withheld to satisfy the withholding tax obligations shall not be available for later grant under the Plan.

(b) ADJUSTMENTS. Subject to Section 10, in the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split or other change in corporate structure affecting the Stock, such substitution or adjustments shall be made in the aggregate number and kind of shares of Stock reserved for issuance under the Plan, in the number of shares of Stock specified in Section 3(c), in the number, kind and exercise price of shares subject to outstanding Options, and in the number, kind and purchase price of shares subject to other outstanding Awards, as may be determined to be appropriate by the Administrator, in its sole discretion; PROVIDED, HOWEVER, that the number of shares subject to any Award shall always be a whole number. Such adjusted exercise price shall also be used to determine the amount payable by the Company upon exercise of any Stock Appreciation Right associated with any Option.

(c) INDIVIDUAL LIMITATION. The Company may not issue Stock Purchase Rights with a Fair Market Value purchase price as of the date of grant, Options with a Fair Market Value exercise price as of the date of grant, or Stock Appreciation Rights with a Fair Market Value exercise price as of the date of grant, covering in the aggregate more than 240,000 shares of Stock (subject to adjustments and substitutions as required under Section 3(b) above) to any one participant in any one-year period.

SECTION 4. ELIGIBILITY.

Awards may be granted to officers and other employees of, and consultants to, the Company and its Affiliates, except that Incentive Stock Options may only be granted to employees of the Company or an Affiliate of the Company, including employees who may also be officers or directors.

SECTION 5. STOCK OPTIONS.

(a) TYPES. Any Option granted under the Plan shall be in such form as the Administrator may from time to time approve. The Administrator shall have the authority to grant to any participant Incentive Stock Options, Nonqualified Stock Options or both types of Options (in each case with or without Stock Appreciation Rights). Incentive Stock Options may be granted only to employees of the Company and its Affiliates. Any portion of an Option that is not

designated as, or does not qualify as, an Incentive Stock Option shall constitute a Nonqualified Stock Option.

(b) TERMS AND CONDITIONS. Options granted under the Plan shall be subject to the following terms and conditions:

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(i) OPTION TERM. The term of each Option shall be fixed by the Administrator, but no Incentive Stock Option shall be exercisable more than 10 years after the date the Option is granted, and no Nonqualified Stock Option shall be exercisable more than 15 years after the date the Option is granted. If, at the time the Company grants an Incentive Stock Option, the optionee owns directly or by attribution stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, or any Affiliate of the Company, the Incentive Stock Option shall not be exercisable more than five years after the date of grant.

(ii) GRANT DATE. The Company may grant Options under the Plan at any time and from time to time before the Plan terminates. The Administrator shall specify the date of grant or, if it fails to, the date of grant shall be the date of action taken by the Administrator to grant the Option. However, if an Option is approved in anticipation of employment, the date of grant shall be the date the intended optionee is first treated as an employee for payroll purposes.

(iii) EXERCISE PRICE. The exercise price per share of Stock purchasable under an Option shall be equal to at least 85% of the Fair Market Value on the date of grant, and in the case of Incentive Stock Options shall be equal to at least the Fair Market Value on the date of grant; PROVIDED, HOWEVER, that if, at the time the Company grants an Incentive Stock Option, the optionee owns directly or by attribution stock possessing more than 10% of the total combined voting power of all classes of stock of the Company, or any Affiliate of the Company, then the exercise price shall be not less than 110% of the Fair Market Value on the date the Incentive Stock Option is granted; PROVIDED, FURTHER, that, subject to Section 2(c), if the exercise price of an Option is less than 100% of Fair Market Value on the date of grant, the discount below 100% of Fair Market Value shall be expressly granted by the Administrator in lieu of a reasonable amount of salary or cash bonus.

(iv) EXERCISABILITY. Subject to the other provisions of the Plan, an Option shall be exercisable in its entirety at grant or at such times and in such amounts as are specified in the Award Agreement evidencing the Option. The Administrator, in its absolute discretion, at any time may waive any limitations respecting the time at which an Option first becomes exercisable in whole or in part.

(v) METHOD OF EXERCISE. To the extent the right to purchase shares has accrued, Options may be exercised, in whole or in part, from time to

time, by written notice from the optionee to the Company stating the number of shares being purchased, accompanied by payment of the exercise price for the shares.

(vi) NO DISQUALIFICATION. Notwithstanding any other provision in the Plan, no term of the Plan relating to Incentive Stock Options shall be interpreted, amended or altered nor shall any discretion or authority granted under the Plan be exercised so as to disqualify the Plan under Section 422 of the Code or, without the consent of the optionee affected, to disqualify any Incentive Stock Option under such Section 422.

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(vii) EXERCISABILITY LIMITATION. The aggregate Fair Market Value (determined from grant date) of the Stock with respect to which an Incentive Stock Option becomes exercisable for the first time by a participant ("vests") during a calendar year (under all plans of the Company and its Affiliates) shall not exceed \$100,000 (the "exercisability limitation"). In applying this provision, Incentive Stock Options with lower exercise prices shall vest before Incentive Stock Options with higher exercise prices, regardless of grant date, unless the Award Agreements, or the Administrator, specifically provide a different order of vesting. Nonqualified Stock Options are not subject to the exercisability limitation.

(viii) DISQUALIFYING DISPOSITIONS. If Stock acquired by exercise of an Incentive Stock Option granted pursuant to the Plan is disposed of in a "disqualifying disposition" within the meaning of Section 422 of the Code, the holder of the Stock immediately prior to the disposition shall promptly notify the Company in writing of the date and terms of the disposition and shall provide such other information regarding the disposition as the Company may reasonably require.

SECTION 6. STOCK APPRECIATION RIGHTS.

(a) RELATIONSHIP TO OPTIONS; NO PAYMENT BY PARTICIPANT. A Stock Appreciation Right may be awarded either (i) with respect to Stock subject to an Option held by a participant, or (ii) without reference to an Option. If an Option is an Incentive Stock Option, a Stock Appreciation Right granted with respect to such Option may be granted only at the time of grant of the related Incentive Stock Option, but if the Option is a Nonqualified Stock Option, the Stock Appreciation Right may be granted either simultaneously with the grant of the related Nonqualified Stock Option or at any time during the term of such related Nonqualified Stock Option. No consideration shall be paid by a participant with respect to the grant of a Stock Appreciation Right.

(b) WHEN EXERCISABLE. A Stock Appreciation Right shall be exercisable at such times and in whole or in part, each as determined by the Administrator, subject, with respect to participants subject to Section 16(b), to Rule 16b-3. To exercise a Stock Appreciation Right in whole or in part for cash, a

participant must make an election prior to or during a Window Period to take effect in that or any later Window Period; PROVIDED that such election shall be subject to the approval of the Administrator. If a Stock Appreciation Right is granted with respect to an Option, unless the Award Agreement otherwise provides, the Stock Appreciation Right may be exercised only to the extent to which shares covered by the Option are not at the time of exercise subject to repurchase by the Company.

(c) EFFECT ON RELATED RIGHT; TERMINATION OF STOCK APPRECIATION RIGHT. If a Stock Appreciation Right granted with respect to an Option is exercised, the Option shall cease to be exercisable and shall be canceled to the extent of the number of shares with respect to which the Stock Appreciation Right was exercised. Upon the exercise or termination of an Option, related Stock Appreciation Rights shall terminate to the extent of the number of shares as to which the Option was exercised or terminated, except that,

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unless otherwise determined by the Administrator at the time of grant, a Stock Appreciation Right granted with respect to less than the full number of shares covered by a related Option shall not be reduced until the number of shares covered by exercise or termination of the related Option exceeds the number of shares not covered by the Stock Appreciation Right. A Stock Appreciation Right granted independently from an Option shall terminate and shall be no longer exercisable at the time determined by the Administrator at the time of grant, but not later than 15 years from the date of grant. Upon the death or Disability of the participant, a Stock Appreciation Right granted with respect to an Option shall be exercisable only to the extent to which the Option is then exercisable.

(d) FORM OF PAYMENT UPON EXERCISE. Despite any attempt by a participant to elect payment in a particular form upon exercise of a Stock Appreciation Right, the Administrator, in its discretion, may elect to cause the Company to pay cash, Stock, or a combination of cash and Stock upon exercise of the Stock Appreciation Right.

(e) AMOUNT OF PAYMENT UPON EXERCISE. Upon the exercise of a Stock Appreciation Right, the participant shall be entitled to receive one of the following payments, as determined by the Administrator under Section 6(d);

(i) STOCK. That number of whole shares of Stock equal to the number computed by dividing (A) an amount (the "Stock Appreciation Right Spread"), rounded to the nearest whole dollar, equal to the product computed by multiplying (x) the excess of (1) if the Stock Appreciation Right may only be exercised during the Window Period, the highest Fair Market Value on any day during the Window Period, and otherwise, the Fair Market Value on the date the Stock Appreciation Right is exercised, over (2) the exercise price per share of Stock of the related Option, or in the case of a Stock Appreciation Right granted without reference to an Option, such other price as the Administrator

establishes at the time the Stock Appreciation Right is granted, by (y) the number of shares of Stock with respect to which a Stock Appreciation Right is being exercised by (B) (1) if the Stock Appreciation Right may only be exercised during the Window Period, the highest Fair Market Value during the Window Period in which the Stock Appreciation Right was exercised, and (2) otherwise, the Fair Market Value on the date the Stock Appreciation Right is exercised; plus, if the foregoing calculation yields a fractional share, an amount of cash equal to the applicable Fair Market Value multiplied by such fraction (such payment to be the difference of the fractional share); or

(ii) CASH. An amount in cash equal to the Stock Appreciation Right Spread; or

(iii) CASH AND STOCK. A combination of cash and Stock, the combined value of which shall equal the Stock Appreciation Right Spread.

SECTION 7. RESTRICTED STOCK.

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(a) PRICE. The Administrator may grant to a participant Restricted Stock. The grantee shall pay no consideration therefor.

(b) RESTRICTIONS. Subject to the provisions of the Plan and the Award Agreement, during the Restriction Period set by the Administrator, commencing with, and not exceeding 10 years from, the date of such Award, the participant shall not be permitted to sell, assign, transfer, pledge or otherwise encumber shares of Restricted Stock. Within these limits, the Administrator may provide for the lapse of such restrictions in installments, but, subject to Sections 2(c) and 10, may not accelerate or waive such restrictions. The Administrator shall determine the performance objectives, if any, to be used in awarding Restricted Stock and the extent to which the performance objectives, if any, have been satisfied.

(c) DIVIDENDS. Unless otherwise determined by the Administrator, with respect to dividends on shares of Restricted Stock, dividends payable in cash shall be automatically reinvested in additional Restricted Stock, and dividends payable in Stock shall be paid in the form of Restricted Stock.

(d) TERMINATION. Except to the extent otherwise provided in the Award Agreement and pursuant to Section 7(b), in the event of a Termination during the Restriction Period, all shares then subject to restriction shall be forfeited by the participant.

SECTION 8. STOCK PURCHASE RIGHTS.

(a) PRICE. The Administrator may grant Stock Purchase Rights which shall enable the recipient to purchase Stock at a price equal to not less than 85% of its Fair Market Value on the date of grant.

(b) EXERCISABILITY. Stock Purchase Rights shall be exercisable for a period determined by the Administrator not exceeding 30 days from the date of the grant. The Administrator, however, may provide that if required to exempt the Award from Section 16(b) pursuant to Rule 16b-3 Stock Purchase Rights granted to persons subject to Section 16(b) shall not become exercisable until six months and one day after the grant date and shall then be exercisable for 10 trading days at the purchase price specified by the Administrator in accordance with Section 8(a).

SECTION 9. PERFORMANCE SHARES.

(a) AWARDS. The Administrator shall determine the nature, length and starting date of the Performance Period for each Award of Performance Shares, which period shall be at least two years (subject to Section 10) and not more than six years. The consideration payable by a participant with respect to an Award of Performance Shares shall be an amount determined by the Administrator in the exercise of the Administrator's discretion at the time of the Award; PROVIDED, that the amount of consideration may be zero and may in no event exceed 50% of the Fair Market Value at

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the time of grant. The Administrator shall determine the performance objectives to be used in awarding Performance Shares and the extent to which such Performance Shares have been earned. Performance Periods may overlap and participants may participate simultaneously with respect to Performance Share Awards that are subject to different Performance Periods and different performance factors and criteria. At the beginning of each Performance Period, the Administrator shall determine for each Performance Share Award subject to such Performance Period the number of shares of Stock (which may consist of Restricted Stock) to be awarded to the participant at the end of the Performance Period if and to the extent that the relevant measures of performance for such Performance Share Award are met. Such number of shares of Stock may be fixed or may vary in accordance with such performance or other criteria as may be determined by the Administrator. The Administrator may provide that (i) amounts equivalent to interest at such rates as the Administrator may determine, or (ii) amounts equivalent to dividends paid by the Company upon outstanding Stock shall be payable with respect to Performance Share Awards.

(b) TERMINATION. Except as otherwise provided in the Award Agreement or in Section 11(d) or as otherwise determined by the Administrator, in the event of a Termination during a Performance Period, the participant shall not be entitled to any payment with respect to the Performance Shares subject to the Performance Period.

SECTION 10. CHANGE IN CONTROL.

(a) DEFINITION OF "CHANGE IN CONTROL". For purposes of Section 10(b), a

"Change in Control" means the occurrence of any one of the following:

(i) any "person", as such term is used in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, an Affiliate, or a Company employee benefit plan, including any trustee of such plan acting as trustee) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities;

(ii) the solicitation of proxies (within the meaning of Rule 14a-1(k) under the Exchange Act and any successor rule) with respect to the election of any director of the Company where such solicitation is for any candidate who is not a candidate proposed by a majority of the Board in office prior to the time of such election; or

(iii) the dissolution or liquidation (partial or total) of the Company or a sale of assets involving 30% or more of the assets of the Company, any merger or reorganization of the Company whether or not another entity is the survivor, a transaction pursuant to which the holders, as a group, of all of the shares of the Company outstanding prior to the transaction hold, as a group, less than 70% of the shares of the Company outstanding after the transaction, or any other event which the

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Board determines, in its discretion, would materially alter the structure of the Company or its ownership.

(b) IMPACT OF EVENT. In the event of a "Change in Control" as defined in Section 10(a), but only if and to the extent so specifically determined by the Board in its discretion, which determination may be amended or reversed only by the affirmative vote of a majority of the persons who were directors at the time such determination was made, acceleration and valuation provisions no more favorable to participants than one or more of the following may apply, subject to the termination provisions set forth in Section 10(d):

(i) Any Stock Appreciation Rights and, subject to Section 5(b)(vi), any Options outstanding as of the date such Change in Control is determined to have occurred and not then exercisable and vested shall become fully exercisable and vested and any rights of the Company to repurchase the Stock issuable upon exercise thereof shall lapse; PROVIDED, that in the case of the holder of Stock Appreciation Rights who is actually subject to Section 16(b), such Stock Appreciation Rights shall have been outstanding for at least six months at the date such Change in Control is determined to have occurred.

(ii) The restrictions and limitations applicable to any Restricted Stock and Stock Purchase Rights shall lapse, and such Restricted Stock shall become fully vested.

(iii) The value (net of any exercise or purchase price) of all outstanding Options, Stock Appreciation Rights, Restricted Stock and Stock Purchase Rights, unless otherwise determined by the Administrator at or after grant and subject to Rule 16b-3, shall be paid to participants in cash on the basis of the "Change in Control Price", as defined in Section 10(c), as of the date such Change in Control is determined to have occurred or such other date as the Board may determine prior to the Change in Control.

(iv) Any outstanding Performance Share Awards shall be vested and paid in full as if all performance criteria had been met.

(c) CHANGE IN CONTROL PRICE. For purposes of this Section 10, "Change in Control Price" means the highest price per share paid in any transaction reported on the Nasdaq National Market or paid or offered in any bona fide transaction related to a potential or actual Change in Control of the Company at any time during the preceding 60-day period as determined by the Board, except that, in the case of Incentive Stock Options and Stock Appreciation Rights relating to Incentive Stock Options, such price shall be based only on transactions reported for the date on which the Board decides to cash out such Options.

(d) ASSUMPTION OR TERMINATION OF AWARDS. New rights may be substituted for Awards granted under the Plan, or the Company's obligations as to Awards

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outstanding under the Plan may be assumed, by an employer corporation other than the Company, or by an Affiliate of such employer corporation, in connection with any merger, consolidation, acquisition, reorganization, liquidation or like occurrence in which the Company is involved and, in the case of a merger, consolidation acquisition or similar occurrence, the Company is not the surviving corporation, in such manner that the then outstanding Options which are Incentive Stock Options will continue to be "incentive stock options" within the meaning of Section 422 of the Code to the full extent permitted thereby. Notwithstanding the foregoing or the provisions of Section 3(b), if such employer corporation, or an Affiliate of such employer corporation, does not substitute new and substantially equivalent rights for the Awards granted hereunder, or assume the Awards granted hereunder, the Awards granted hereunder, at the election of the Board, shall terminate (a) upon dissolution or liquidation of the Company, or similar occurrence, or (b) upon any merger, consolidation, acquisition, or similar occurrence, where the Company will not be a surviving corporation; PROVIDED that each participant shall be mailed notice at least 10 days prior to such dissolution, liquidation, merger, consolidation, acquisition, or similar occurrence.

SECTION 11. GENERAL PROVISIONS.

(a) AWARD GRANTS. Any Award may be granted either alone or in addition to

other Awards granted under the Plan. Subject to the terms and restrictions set forth elsewhere in the Plan, the Administrator shall determine the consideration, if any, payable by the participant for any Award and, in addition to those set forth in the Plan, any other terms and conditions of the Awards. The Administrator may condition the grant or payment of any Award upon the attainment of specified performance goals or such other factors or criteria, including vesting based on continued employment or consulting, as the Administrator shall determine. Performance objectives may vary from participant to participant and among groups of participants and shall be based upon such Company, subsidiary, group or division factors or criteria as the Administrator may deem appropriate, including, but not limited to, earnings per share or return on equity. The other provisions of Awards also need not be the same with respect to each recipient. Unless specified otherwise in the Plan or by the Administrator, the date of grant of an Award shall be the date of action by the Administrator to grant the Award. The Administrator may also substitute new Options for previously granted Options, including previously granted Options having higher exercise prices.

(b) AWARD AGREEMENT. As soon as practicable after the date of an Award grant, the Company and the participant shall enter into a written Award Agreement identifying the date of grant, and specifying the terms and conditions of the Award. Options are not exercisable until after execution of the Award Agreement by the Company and the Plan participant, but a delay in execution of the agreement shall not affect the validity of the Option grant. Any Award under this Plan shall be governed by the terms of the Plan and the applicable Award Agreement.

(c) CERTIFICATES. All certificates for shares of Stock or other securities delivered under the Plan shall be subject to such stock transfer orders, legends and other

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restrictions as the Administrator may deem advisable under the rules, regulations and other requirements of the Commission, any market in which the Stock is then traded and any applicable federal, state or foreign securities law.

(d) TERMINATION. Unless otherwise provided in the applicable Award Agreement or by the Administrator or as otherwise set forth below, in the event of Termination, Awards held at the date of Termination (and only to the extent then exercisable or payable, as the case may be) may be exercised in whole or in part at any time within three months after the date of Termination, or such lesser period specified in the Award Agreement (but in no event after the expiration date of the Award), but not thereafter. Notwithstanding the foregoing, if Termination is due to retirement or to death or Disability or if the participant dies within three months after Termination, Awards held at the date of Termination (and only to the extent then exercisable or payable, as the case may be) may be exercised in whole or in part by the participant in the case

of retirement or Disability, by the participant's guardian or legal representative or by the person to whom the Award is transferred by will or the laws of descent and distribution, at any time within 18 months from the date of Termination or any lesser period specified in the Award Agreement (but in no event after the expiration of the Award). Notwithstanding the foregoing, the tax treatment available pursuant to Section 422 of the Code upon the exercise of an Incentive Stock Option will not be available to a participant who exercises any Incentive Stock Options more than (i) 12 months after the Termination if due to death or Disability or if the participant dies within three months after Termination, or (ii) three months after Termination if due to retirement.

At the option of the Administrator, the Stock to be delivered pursuant to an Award under this Plan may be subject to a right of repurchase in favor of the Company upon Termination, the terms and conditions of which shall be set forth in the Award Agreement.

(e) DELIVERY OF PURCHASE PRICE. If and only to the extent authorized by the Administrator, participants may make all or any portion of any payment due to the Company

(i) with respect to the consideration payable for an Award,

(ii) upon exercise of an Award, or

(iii) with respect to federal, state, local or foreign tax payable in connection with an Award,

by delivery of (x) cash, (y) check, or (z) any property other than cash (including a promissory note of the participant or shares of Stock or securities) so long as, if applicable, such property constitutes valid consideration for the Stock under, and otherwise complies with, applicable law. No promissory note under the Plan shall have a term (including extensions) of more than five years or shall be of a principal amount

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exceeding 90% of the purchase price paid by the borrower. If authorized by the Administrator, exercise of an Option may be made pursuant to a "cashless exercise/sale" procedure pursuant to which funds to pay for exercise of the Option are delivered to the Company by a broker upon receipt of stock certificates from the Company, or pursuant to which participants obtain margin loans from brokers to fund the exercise of the Option.

(f) TAX WITHHOLDING. Unless the Administrator permits otherwise, promptly upon the lapse of restrictions imposed upon an Award, upon exercise or issuance of an Award, or upon a transfer or other disposition of shares of Stock acquired upon exercise or payment of an Award, or, if later, when the amount of such obligations becomes determinable (in any case, the "Tax Date"), the participant shall pay to the Company in cash all applicable federal, state, local and

foreign withholding taxes that the Administrator, in its discretion, determines to result from the lapse of restrictions imposed upon an Award or upon exercise or issuance of an Award or from a transfer or other disposition of shares of Stock acquired upon exercise or payment of an Award or otherwise related to the Award or shares of Stock acquired in connection with an Award.

If and to the extent authorized by the Administrator, in its sole discretion, a person who has received an Award, exercised an Award or received payment under an Award, may make an election (i) to deliver to the Company a promissory note of the participant on the terms set forth in Section 11(e), (ii) to tender to the Company previously-owned shares of Stock held for at least six months, or (iii) to have shares of Stock to be obtained upon exercise of the Award or lapse of restrictions applicable to an Award withheld by the Company on behalf of the participant, to pay the amount of tax that the Administrator, in its discretion, determines to be required to be withheld by the Company. Any election pursuant to clause (iii) above by a participant subject to Section 16 of the Exchange Act shall be subject to the following limitations: (1) such election must be made at least six months before the Tax Date and shall be irrevocable; or (2) such election must be made in (or made earlier to take effect in) any Window Period (and the withholding of the shares of Stock shall take place during such Window Period) and shall be subject to approval by the Administrator, which approval may be given any time after such election has been made, and the Award must be held at least six months prior to the Tax Date; PROVIDED, that, the election referenced in clause (2) above may not be made unless the Company has been subject to the reporting requirements of Section 13(a) of the Exchange Act for at least one year and has filed all reports and statements required to be filed pursuant to that section for that year. The right to so withhold shares of Stock shall relate separately to each Award.

Any shares tendered to or withheld by the Company will be valued at Fair Market Value on such date. The value of the shares of Stock tendered or withheld may not exceed the required federal, state, local and foreign withholding tax obligations as computed by the Company.

(g) NO TRANSFERABILITY OF AWARDS. No Award shall be assignable or otherwise transferable by the participant other than by will or by the laws of descent and

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distribution. During the life of a participant, an Award shall be exercisable, and any elections with respect to an Award may be made, only by the participant or participant's guardian or legal representative.

(h) ADJUSTMENT OF AWARDS; WAIVERS. Subject to Section 5(b)(vi), the Administrator may adjust the performance goals and measurements applicable to Awards (i) to take into account changes in law and accounting and tax rules, (ii) to make such adjustments as the Administrator deems necessary or appropriate to reflect the inclusion or exclusion of the impact of extraordinary

or unusual items, events or circumstances in order to avoid windfalls or hardships, and (iii) to make such adjustments as the Administrator deems necessary or appropriate to reflect any material changes in business conditions. In the event of hardship or other special circumstances of a participant and otherwise in its discretion, the Administrator may waive in whole or in part any or all restrictions, conditions, vesting, or forfeiture with respect to any Award granted to such participant.

(i) NON-COMPETITION. The Administrator, in addition to any other requirement it may impose, may condition its discretionary waiver of a forfeiture, the acceleration of vesting at the time of Termination of a participant holding any unexercised or unearned Award, the waiver of restrictions on any Award, or the extension of the expiration period to a period not longer than that provided by the Plan upon such participant's agreement (and compliance with such agreement) to (i) not engage in any business or activity competitive with any business or activity conducted by the Company and (ii) be available for consultations at the request of the Company's management, all on such terms and conditions (including conditions in addition to (i) and (ii)) as the Administrator may determine.

(j) DIVIDENDS. The reinvestment of dividends in additional Stock or Restricted Stock at the time of any dividend payment pursuant to Section 7(c) shall only be permissible if sufficient shares of Stock are available under Section 3 for such reinvestment (taking into account then outstanding Awards).

(k) REGULATORY COMPLIANCE. Each Award under the Plan shall be subject to the condition that, if at any time the Administrator shall determine that (i) the listing, registration or qualification of the shares of Stock upon any securities exchange or for trading in any securities market or under any state or federal law, (ii) the consent or approval of any government or regulatory body or (iii) an agreement by the participant with respect thereto, is necessary or desirable, then such Award shall not be consummated in whole or in part unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any conditions not acceptable to the Administrator. The Company shall have no obligation to register any shares of Stock issuable pursuant to Awards under the federal securities laws or to take any other steps necessary to enable the shares to be offered and issued under federal or other securities laws. As a condition to the issuance of shares of Stock pursuant to an Award, the Company may require the person acquiring such shares at the time of any such acquisition to make such representations, warranties and undertakings deemed

appropriate by the Company to enable the offer and issuance of the shares or subsequent transfers of the shares to comply with applicable securities laws. Certificates evidencing shares of Stock acquired pursuant to the Plan shall bear any legend required by, or useful for purposes of compliance with, applicable securities laws, the Plan, or the Award Agreement pursuant to which the Shares

were issued.

(l) RIGHTS AS SHAREHOLDER. Unless the Plan or the Administrator expressly specifies otherwise, a participant shall have no rights as a shareholder with respect to any shares of Stock covered by an Award until the issuance (as evidenced by the appropriate entry on the books of the Company or a duly authorized transfer agent) of a certificate representing the shares of Stock. Subject to Sections 3(b) and 7(c), no adjustment shall be made for dividends or other rights for which the record date is prior to the date the certificate is issued.

(m) BENEFICIARY DESIGNATION. The Administrator, in its discretion, may establish procedures for a participant to designate a beneficiary to whom any amounts payable in the event of the participant's death are to be paid.

(n) ADDITIONAL PLANS. Nothing contained in the Plan shall prevent the Company or an Affiliate from adopting other or additional compensation arrangements for its employees and consultants.

(o) NO EMPLOYMENT RIGHTS. The adoption of the Plan shall not confer upon any employee any right to receive any Award or to any right to continued employment nor shall it interfere in any way with the right of the Company or an Affiliate to terminate the employment of any employee or the consulting arrangement with any consultant at any time.

(p) RULE 16B-3. With respect to persons subject to Section 16 of the Exchange Act, if any, transactions under this Plan are intended to comply with the applicable conditions of Rule 16b-3. To the extent any provision of this Plan or action by the Administrator fails to so comply, it shall be adjusted to comply with Rule 16b-3 to the extent permitted by law and deemed advisable by the Administrator. It shall be the responsibility of persons subject to Section 16 of the Exchange Act, not of the Company or the Administrator, to comply with the requirements of Section 16 of the Exchange Act; and neither the Company nor the Administrator shall be liable if this Plan or any transaction under this Plan fails to comply with the applicable conditions of Rule 16b-3, or if any such person incurs any liability under Section 16 of the Exchange Act.

(q) GOVERNING LAW. The Plan and all Awards shall be governed by and construed in accordance with the laws of the State of California.

(r) USE OF PROCEEDS. All cash proceeds to the Company under the Plan shall constitute general funds of the Company.

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(s) UNFUNDED STATUS OF PLAN. The Plan shall constitute an "unfunded" plan for incentive and deferred compensation. The Administrator may authorize the creation of trusts or arrangements to meet the obligations created under the Plan to deliver Stock or make payments; PROVIDED, HOWEVER, that unless the

Administrator otherwise determines, the existence of such trusts or other arrangements shall be consistent with the "unfunded" status of the Plan.

(t) TRANSFER LIMITATION ON STOCK. In addition to any other transfer restrictions which may be imposed under the Plan or any Award Agreement, a participant subject to Section 16 of the Exchange Act may not sell or otherwise transfer, in whole or in part, any shares of Stock issued pursuant to an Award at any time prior to (i) with respect to Stock issued pursuant to an Option, the six-month anniversary of the issuance of the Option, and (b) with respect to all other Awards, the six-month anniversary of the issuance of the Stock, unless the Administrator determines that the foregoing provisions are not necessary to make the transaction exempt from Section 16(b) of the Exchange Act pursuant to Rule 16b-3.

SECTION 12. AMENDMENTS AND TERMINATION.

The Board may amend, alter or discontinue the Plan or any Award, but no amendment, alteration or discontinuance shall be made which would impair the rights of a participant under an outstanding Award without the participant's consent. In addition, the Board may not amend or alter the Plan without the approval of shareholders of the Company entitled to vote at a duly held shareholders' meeting or by an action by written consent and, if at a meeting, a quorum of the voting power of the Company is represented in person or by proxy, where such amendment or alteration would, except as expressly provided in the Plan, increase the total number of shares reserved for issuance pursuant to Awards under the Plan or in such other circumstances as the Board deems appropriate to comply with Rule 16b-3 or with Section 422 of the Code or otherwise.

SECTION 13. EFFECTIVE DATE OF PLAN.

This Plan and any amendment increasing the number of shares of stock reserved for issuance under this Plan shall become effective upon adoption by the Board PROVIDED, HOWEVER, that no Award shall be exercisable and no restrictions imposed upon an Award shall lapse unless and until written consent of the shareholders of the Company, or approval of shareholders of the Company voting at a validly called shareholders' meeting, is obtained within 12 months after adoption by the Board. If such shareholder approval is not obtained within such time, any Awards granted under this Plan or any such amendment shall terminate and be of no force and effect from and after expiration of such 12-month period.

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SECTION 14. TERM OF PLAN.

No Award shall be granted under the Plan after 10 years from the earlier of the adoption of the Plan by the Board or the approval of the Plan by the shareholders of the Company, but Awards granted prior to that date may extend

beyond that date.

Plan approved by the Board of Directors on May 10, 1993.

Amendments to Plan approved by the Board of Directors on February 14, 1994.

Plan, as amended, approved by the Shareholders on May 4, 1994.

Amendment to Plan increasing the number of shares to 1,000,000 approved by the Board of Directors on May 20, 1994.

Amendment to Plan increasing the number of shares to 1,400,000 approved by the Board of Directors on March 23, 1995.

Amendment to Plan increasing the number of shares to 1,400,000 approved by the Shareholders on May 15, 1995.

Two-for-one stock split with a record date of May 31, 1995 and a distribution date of June 21, 1995, which increased the number of shares from 1,400,000 to 2,800,000, was approved by the Board of Directors on May 15, 1995.

Amendments to Plan, including increasing the number of shares to 4,300,000, approved by the Board of Directors on February 12, 1996.

Amendment to Plan increasing the number of shares to 5,800,000 approved by the Board of Directors on February 12, 1996.

Amendment to Plan increasing the number of shares to 5,800,000 approved by the Shareholders on May 13, 1996.

TENCOR INSTRUMENTS
1993 EMPLOYEE STOCK PURCHASE PLAN

1. PURPOSE

This Tencor Instruments 1993 Employee Stock Purchase Plan is designed to encourage and assist employees of Tencor Instruments and participating subsidiaries to acquire an equity interest in the Company through the purchase of shares of Tencor common stock.

2. DEFINITIONS

As used herein, the following definitions shall apply:

(a) "ADMINISTRATOR" shall mean the entity, either the Board or the committee of the Board, responsible for administering this Plan, as provided in Section 3.

(b) "BOARD" shall mean the Board of Directors of the Company, as constituted from time to time.

(c) "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any successor statute.

(d) "COMPANY" shall mean Tencor and Participating Subsidiaries.

(e) "COMMON STOCK" shall mean the Common Stock of Tencor.

(f) "EMPLOYEE" shall mean any individual who is an employee of the Company or a Participating Subsidiary within the meaning of Section 3401(c) of the Code and the Treasury Regulations thereunder.

(g) "ENROLLMENT DATE" shall have the meaning set forth in Section 6.

(h) "FAIR MARKET VALUE" means as of any given date: (i) the closing price of the Common Stock on the NASDAQ National Market System as reported in the WALL STREET JOURNAL; or (ii) if the Common Stock is no longer quoted on the NASDAQ National Market System but is listed on an established stock exchange or quoted on any other established interdealer quotation system, the closing price for the Common Stock on such exchange or system, as reported in the WALL STREET JOURNAL; or (iii) in the absence of an established market for the Common Stock, the fair market value of the Common Stock as determined by the Administrator in good faith.

(i) "PARTICIPATING SUBSIDIARY" shall mean a Subsidiary which has been designated by the Administrator as covered by the Plan.

(j) "PLAN" shall mean this Tencor Instruments 1993 Employee Stock Purchase Plan, as it may be amended from time to time.

(k) "PURCHASE DATE" shall have the meaning set forth in Section 9(a).

(l) "SECTION" unless the context clearly indicates otherwise, shall refer to a Section of this Plan.

(m) "SUBSIDIARY" shall mean a "subsidiary corporation" of the Company, whether now or hereafter existing, within the meaning of Section 424(f) of the Code, but only for so long as it is a "subsidiary corporation."

(n) "TENCOR" shall mean Tencor Instruments, a California corporation.

(o) "TRADING DAY" means any day on which regular trading occurs on any established stock exchange or market system on which the Common Stock is traded.

3. ADMINISTRATION

(a) ADMINISTRATOR. The Plan shall be administered by the Board or, upon delegation by the Board, by a committee consisting of not fewer than two directors (in either case, the "Administrator"). In connection with the administration of the Plan, the Administrator shall have the powers possessed by the Board. The Administrator may act only by a majority of its members. The Administrator may delegate administrative duties to such employees of the Company as it deems proper, so long as such delegation is not otherwise prohibited by Rule 16b-3 under the Securities Exchange Act of 1934, as amended. The Board at any time may terminate the authority delegated to any committee of the Board pursuant to this Section 3(a) and reconstitute the Board the administration of the Plan.

(b) ADMINISTRATOR DETERMINATIONS BINDING. The Administrator may adopt, alter and repeal administrative rules, guidelines and practices governing the Plan and the options granted under it as it from time to time shall deem advisable, may interpret the terms and provisions of the Plan and the Options granted under it, may correct any defect, omission or inconsistency in the Plan or in any Option; and may otherwise supervise the administration of the Plan and the Options granted under it. The Administrator may establish, under guidelines from

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the Board, limits on the number of shares which may be purchased by each participant on an annual or other periodic basis or on the number of shares which may be purchased on any Purchase Date. All decisions made by the Administrator under the Plan shall be binding on all persons, including the Company and all participants in the Plan. No member of the Administrator shall be liable for any action that he or she has in good faith taken or failed to

take with respect to this Plan.

4. NUMBER OF SHARES

(a) The Company has reserved for sale under the Plan 1,100,000 shares of Common Stock less any shares sold under the Tencor 1993 Foreign Subsidiary Employee Stock Purchase Plan. Shares sold under the Plan may be newly issued shares or shares reacquired in private transactions or open market purchases, but all shares sold under the Plan, regardless of source, shall be counted against the 1,100,000 share limitation.

(b) In the event of any reorganization, recapitalization, stock split, reverse stock split, stock dividend, combination of shares, merger, consolidation, offering of rights, or other similar change in the capital structure of the Company, the Board may make such adjustment, if any, as it deems appropriate in the number, kind, and purchase price of the shares available for purchase under the Plan and in the maximum number of shares subject to any option under the Plan.

5. ELIGIBILITY REQUIREMENTS

(a) Each Employee of the Company, except those described in the next paragraph, shall become eligible to participate in the Plan in accordance with Section 6 on the first Enrollment Date on or following commencement of his or her employment by the Company or following such period of employment as is designated by the Board from time to time. Participation in the Plan is entirely voluntary.

(b) The following Employees are not eligible to participate in the Plan:

(i) Employees who would, immediately upon enrollment in the Plan, own directly or indirectly, or hold options or rights to acquire stock possessing, five percent (5%) or more of the total combined voting power or value of all classes of stock of Tencor or any subsidiary of Tencor; and

(ii) Employees who are customarily employed by the Company fewer than 20 hours per week or fewer than five months in any calendar year.

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6. ENROLLMENT

Any eligible employee may enroll or re-enroll in the Plan each year as of the close of the first trading day of: (a) the May, August, November or February immediately following the adoption of the Plan by the Board of Directors of the Company; (b) the third month following each such month; and (c) each yearly anniversary of such months or such other days as may be established by the Board from time to time (the "Enrollment Dates"). In order to enroll, an

eligible employee must complete, sign, and submit to the Company an enrollment form. Any enrollment form received by the Company by the 15th day of the month preceding an Enrollment Date (or by the Enrollment Date in the case of employees hired after such 15th day or in the case of the first Enrollment Date), or such other date established by the Administrator from time to time, will be effective on that Enrollment Date. In addition, the Administrator may re-enroll existing participants in the Plan on any Enrollment Date on which the fair market value of the Common Stock is lower than the fair market value on such participant's existing Enrollment Date.

7. GRANT OF OPTION ENROLLMENT

(a) Enrollment or re-enrollment by a participant in the Plan on an Enrollment Date will constitute the grant by the Company to the participant of an option to purchase shares of Common Stock from the Company under the Plan. Any participant whose option expires and who has not withdrawn from the Plan will automatically be re-enrolled in the Plan and granted a new option on the Enrollment Date immediately following the date on which the option expires.

(b) Except as provided in Section 10, each option granted under the Plan shall have the following terms:

(i) the option will have a term of not more than 12 months or such shorter option period as may be established by the Board from time to time (the "Option Period"). Notwithstanding the foregoing, however, whether or not all shares have been purchased thereunder, the option will expire on the earlier to occur of: (A) the completion of the purchase of shares on the last Purchase Date occurring within 12 months after the Enrollment Date for such option, or such shorter option period as may be established by the Board before an Enrollment Date for all options to be granted on such date; or (B) the date on which the employee's participation in the Plan terminates for any reason;

(ii) payment for shares purchased under the option will be made only through payroll withholding in accordance with Section 8;

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(iii) purchase of shares upon exercise of the option will be effected only on the Purchase Dates established in accordance with Section 9;

(iv) the option, if not altered, amended or revoked by the Company prior to the relevant Purchase Date, may be accepted only by (x) there having been withheld from the compensation of the employee in accordance with the terms of the Plan amounts sufficient to purchase the Common Stock intended to be purchased under the option, and (y) the employee being employed by the Company and not having withdrawn from the Plan on the relevant Purchase Date.

(v) the price per share under the option will be determined as provided in Section 9;

(vi) the number of shares available for purchase under an option for each one percent (1%) of compensation designated by an employee in accordance with Section 8 will, unless otherwise established by the Board before an Enrollment Date for all options to be granted on such date, be determined by dividing \$25,000 by the fair market value of a share of Common Stock on the Enrollment Date, dividing the result by the maximum number of percentage points that an employee may designate under Section 8 at the time such option is granted, and multiplying the result by the number of calendar years included in whole or in part in the period from grant to expiration of the option;

(vii) the option (taken together with all other options then outstanding under this and all other similar stock purchase or stock option plans of Tencor and any subsidiary of Tencor, collectively "Options") will in no event give the participant the right to purchase shares at a rate per calendar year which accrues in excess of \$25,000 of fair market value of such shares, less the fair market value of any shares accrued and already purchased during such year under Options which have expired or terminated, determined at the applicable Enrollment Dates; and

(viii) the option will in all respects be subject to the terms and conditions of the Plan, as interpreted by the Administrator from time to time.

8. PAYROLL AND TAX WITHHOLDING; USE BY COMPANY

(a) Each participant shall elect to have amounts withheld from his or her compensation paid by the Company during the Option Period, at a rate equal to any whole percentage up to a maximum of ten percent (10%), or such lesser percentage as the Board may establish from time to time before an Enrollment Date.

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Compensation includes regular salary payments, annual and quarterly performance bonuses, hire-on bonuses, cash recognition awards, commissions, overtime pay, shift premiums, and elective contributions by the participant to qualified employee benefit plans, but excludes all other payments including, without limitation, long-term disability or workers compensation payments, car allowances, employee referral bonuses, relocation payments, expense reimbursements (including but not limited to travel, entertainment, and moving expenses), salary gross-up payments, and non-cash recognition awards. The participant shall designate a rate of withholding in his or her enrollment form and may elect to increase or decrease the rate of contribution effective as of any Enrollment Date, by delivery to the Company, not later than 15 days before such Enrollment Date, of a written notice indicating the revised withholding rate; PROVIDED, however, that an employee who makes an election not to withdraw under Section 10 may not change his or her rate of contribution prior to the Purchase Date for which such election was made.

(b) Payroll withholdings shall be credited to an account maintained for purposes of the Plan on behalf of each participant, as soon as administratively feasible after the withholding occurs. The Company shall be entitled to use the withholdings for any corporate purpose, shall have no obligation to pay interest on withholdings to any participant, and shall not be obligated to segregate withholdings.

(c) Upon disposition of shares acquired by exercise of an option, the participant shall pay, or make provision adequate to the Company for payment of, all federal, state, and other tax (and similar) withholdings that the Company determines, in its discretion, are required due to the disposition, including any such withholding that the Company determines in its discretion is necessary to allow the Company to claim tax deductions or other benefits in connection with the disposition. A participant shall make such similar provisions for payment that the Company determines, in its discretion, are required due to the exercise of an option, including such provisions as are necessary to allow the Company to claim tax deductions or other benefits in connection with the exercise of the option.

9. PURCHASE OF SHARES

(a) On the last Trading Day of each month immediately preceding a month containing an Enrollment Date (other than the first Enrollment Date), or on such other days as may be established by the Board from time to time, prior to an Enrollment Date for all options to be granted on an Enrollment Date (each a "Purchase Date"), the Company shall apply the funds then credited to each participant's payroll withholdings account to the purchase of whole shares of Common Stock. The cost to the

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participant for the shares purchased under any option shall be not less than eighty-five percent (85%) of the lower of:

(i) the fair market value of the Common Stock on the Enrollment Date for such option; or

(ii) the fair market value of the Common Stock on the date such option is exercised.

(b) Any funds in an amount less than the cost of one share of Common Stock left in a participant's payroll withholdings account on a Purchase Date shall be carried forward in such account for application on the next Purchase Date.

(c) If at any Purchase Date, the shares available under the Plan are less than the number all participants would otherwise be entitled to purchase on such date, purchases shall be reduced proportionately to eliminate the deficit.

If, at any Purchase Date, the shares which may be purchased by a participant are restricted on account of a limit on the aggregate shares which may be purchased per employee, purchases under each option shall be reduced proportionately. Any funds that cannot be applied to the purchase of shares due to such reductions shall be refunded to participants as soon as administratively feasible.

(d) Notwithstanding the terms of Section 9(a), no funds credited to any employee's payroll withholdings account shall be used to purchase Common Stock on any date prior to the date that the Plan has been approved by the shareholders of the Company, as noted in Section 21. If such approval is not forthcoming within one year from the date that the Plan was approved by the Board of Directors, all amounts withheld shall be distributed to the participants as soon as administratively feasible.

10. WITHDRAWAL FROM THE PLAN

A participant may withdraw from the Plan in full (but not in part) at any time, effective after written notice thereof is received by the Company; PROVIDED, however, that if on or before any Enrollment Date an employee elects, in the manner designated by the Administrator, not to withdraw prior to the Purchase Date which occurs six months after such Enrollment Date, such election will be binding on the electing employee. Unless the Administrator elects to permit a withdrawing participant to invest funds credited to his or her withholding account on the Purchase Date immediately following notice of withdrawal, all funds credited to a participant's payroll withholdings account shall be distributed to him or her without interest within 60 days after notice of withdrawal is received by the Company. Any eligible employee who has withdrawn from the Plan may enroll in the

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Plan again on any subsequent Enrollment Date in accordance with the provisions of Section 6.

11. TERMINATION OF EMPLOYMENT

Participation in the Plan terminates immediately when a participant ceases to be employed by the Company for any reason whatsoever (including death or disability) or otherwise becomes ineligible to participate in the Plan. As soon as administratively feasible after termination, the Company shall pay to the participant or his or her beneficiary or legal representative, all amounts credited to the participant's payroll withholdings account; PROVIDED, however, that if a participant ceases to be employed by the Company because of the commencement of employment with a Subsidiary of the Company that is not a Participating Subsidiary, funds then credited to such participant's payroll withholdings account shall be applied to the purchase of whole shares of Common Stock at the next Purchase Date and any funds remaining after such purchase shall be paid to the participant.

12. DESIGNATION OF BENEFICIARY

(a) Each participant may designate one or more beneficiaries in the event of death and may, in his or her sole discretion, change such designation at any time. Any such designation shall be effective upon receipt in written form by the Company and shall control over any disposition by will or otherwise.

(b) As soon as administratively feasible after the death of a participant, amounts credited to his or her account shall be paid in cash to the designated beneficiaries or, in the absence of a designation, to the executor, administrator, or other legal representative of the participant's estate. Such payment shall relieve the Company of further liability with respect to the Plan on account of the deceased participant. If more than one beneficiary is designated, each beneficiary shall receive an equal portion of the account unless the participant has given express contrary written instructions.

13. ASSIGNMENT

(a) The rights of a participant under the Plan shall not be assignable by such participant, by operation of law or otherwise. No participant may create a lien on any funds, securities, rights, or other property held by the Company for the account of the participant under the Plan, except to the extent that there has been a designation of beneficiaries in accordance with the Plan, and except to the extent permitted by the laws of

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descent and distribution if beneficiaries have not been designated.

(b) A participant's right to purchase shares under the Plan shall be exercisable only during the participant's lifetime and only by him or her, except that a participant may direct the Company in the enrollment form to issue share certificates to the participant and his or her spouse in community property, to the participant jointly with one or more other persons with right of survivorship, or to certain forms of trusts approved by the Administrator.

14. ADMINISTRATIVE ASSISTANCE

If the Administrator in its discretion so elects, it may retain a brokerage firm, bank, or other financial institution to assist in the purchase of shares, delivery of reports, or other administrative aspects of the Plan. If the Administrator so elects, each participant shall (unless prohibited by the laws of the nation of his or her employment or residence) be deemed upon enrollment in the Plan to have authorized the establishment of an account on his or her behalf at such institution. Shares purchased by a participant under the Plan shall be held in the account in the name in which the share certificate would otherwise be issued pursuant to Section 13(b).

15. COSTS

All costs and expenses incurred in administering the Plan shall be paid by the Company, except that any stamp duties or transfer taxes applicable to participation in the Plan may be charged to the account of such participant by the Company. Any brokerage fees for the purchase of shares by a participant shall be paid by the Company, but brokerage fees for the resale of shares by a participant shall be borne by the participant.

16. EQUAL RIGHTS AND PRIVILEGES

All eligible employees shall have equal rights and privileges with respect to the Plan so that the Plan qualifies as an "employee stock purchase plan" within the meaning of Section 423 of the Code and the related Treasury Regulations. Any provision of the Plan which is inconsistent with Section 423 of the Code shall without further act or amendment by the Company or the Board be reformed to comply with the requirements of Section 423. This Section 16 shall take precedence over all other provisions of the Plan.

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17. APPLICABLE LAW

The Plan shall be governed by the substantive laws (excluding the conflict of laws rules) of the State of California.

18. MODIFICATION AND TERMINATION

(a) The Board may amend, alter, or terminate the Plan at any time, including amendments to outstanding options. No amendment shall be effective unless within 12 months after it is adopted by the Board, it is approved by the holders of a majority of the votes cast at a duly held shareholders' meeting at which a quorum of the voting power of the Company is represented in person or by proxy, if such amendment would:

- (i) increase the number of shares reserved for purchase under the Plan; or
- (ii) require shareholder approval in order to comply with SEC Rule 16b-3.

(b) In the event the Plan is terminated, the Board may elect to terminate all outstanding options either immediately or upon completion of the purchase of shares on the next Purchase Date, or may elect to permit options to expire in accordance with their terms (and participation to continue through such expiration dates). If the options are terminated prior to expiration, all funds contributed to the Plan that have not been used to purchase shares shall be returned to the participants as soon as administratively feasible.

(c) In the event of the sale of all or substantially all of the

assets of Tencor or the Company, or the merger of Tencor or the Company with or into another corporation, or the dissolution or liquidation of Tencor, a Purchase Date shall occur on the trading day immediately preceding the date of such event, unless otherwise provided by the Board in its sole discretion, including provision for the assumption or substitution of each option under the Plan by the successor or surviving corporation, or a parent or subsidiary thereof.

19. RIGHTS AS AN EMPLOYEE

Nothing in the Plan shall be construed to give any person the right to remain in the employ of the Company or to affect the Company's right to terminate the employment of any person at any time with or without cause.

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20. RIGHTS AS A SHAREHOLDER; DELIVERY OF CERTIFICATES

Unless otherwise determined by the Board, certificates evidencing shares purchased on any Purchase Date shall be delivered to a participant only if he or she makes a written request to the Administrator. Participants shall be treated as the owners of their shares effective as of the Purchase Date.

21. BOARD AND SHAREHOLDER APPROVAL

The Plan was approved by the Board of Directors on May 10, 1993, and by the holders of a majority of the votes cast at a duly held shareholders' meeting on May 4, 1994, at which a quorum of the voting power of the Company was represented in person or by proxy. The Plan was amended by the Board of Directors on March 23, 1995 to increase to 300,000 the number of shares reserved for sale under the Plan and the Company's 1993 Foreign Subsidiary Employee Stock Purchase Plan. Such amendment was approved by the holders of a majority of the votes cast at a duly held shareholders' meeting on May 15, 1995, at which a quorum of the voting power of Tencor was represented in person or by proxy. A two-for-one stock split with a record date of May 31, 1995, which increased the number of shares from 300,000 to 600,000, was approved by the Board of Directors on May 15, 1995. The Plan was amended by the Board of Directors on February 12, 1996 to increase to 1,100,000 the number of shares reserved for sale under the Plan and the Company's 1993 Foreign Subsidiary Employee Stock Purchase Plan. Such amendment was approved by the holders of a majority of the votes cast at a duly held shareholders' meeting on May 13, 1996, at which a quorum of the voting power of Tencor was represented in person or by proxy.

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TENCOR INSTRUMENTS
1993 NONEMPLOYEE DIRECTORS STOCK OPTION PLAN

1. PURPOSE.

The purpose of this Plan is to offer Nonemployee Directors of Tencor Instruments an opportunity to acquire a proprietary interest in the success of the Company, or to increase such interest, by purchasing shares of the Company's Common Stock. This Plan provides for the grant of Options to purchase Shares. Options granted hereunder shall be "Nonstatutory Options," and shall not include "incentive stock options" intended to qualify for treatment under Sections 421 and 422 of the Internal Revenue Code of 1986, as amended.

2. DEFINITIONS.

As used herein, the following definitions shall apply:

(a) "ADMINISTRATOR" shall mean the entity, either the Board or the committee of the Board, responsible for administering this Plan, as provided in Section 3.

(b) "AFFILIATE" means a parent or subsidiary corporation as defined in the applicable provisions (currently, Sections 424(e) and (f), respectively) of the Code.

(c) "BOARD" shall mean the Board of Directors of the Company, as constituted from time to time.

(d) "CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any successor statute.

(e) "COMPANY" shall mean Tencor Instruments, a California corporation.

(f) "COMMON STOCK" shall mean the Common Stock of the Company.

(g) "DISABILITY" means permanent and total disability as determined by the Administrator in accordance with the standards set forth in Section 22(e)(3) of the Code.

(h) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended from time to time, and any successor statute.

(i) "EXPIRATION DATE" shall mean the last day of the term of an Option established under Section 6(c).

(j) "FAIR MARKET VALUE" means as of any given date (a) the closing

price of the Common Stock on the NASDAQ National Market System as reported in the WALL STREET JOURNAL; or (b) if the Common Stock is no longer quoted on the NASDAQ National Market System but is listed on an established stock exchange or quoted on any other established interdealer quotation system, the

closing price for the Common Stock on such exchange or system, as reported in the WALL STREET JOURNAL.

(k) "NONEMPLOYEE DIRECTOR" shall mean any person who is a member of the Board but is not an employee of the Company or any Affiliate of the Company and has not been an employee of the Company or any Affiliate of the Company at any time during the preceding twelve months. Service as a director does not in itself constitute employment for purposes of this definition.

(l) "OPTION" shall mean a stock option granted pursuant to this Plan. Each Option shall be a nonstatutory option not intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(m) "OPTION AGREEMENT" shall mean the written agreement described in Section 6 evidencing the grant of an Option to a Nonemployee Director and containing the terms, conditions and restrictions pertaining to such Option.

(n) "OPTIONEE" shall mean a Nonemployee Director who holds an Option.

(o) "PLAN" shall mean this Tencor Instruments 1993 Nonemployee Directors Stock Option Plan, as it may be amended from time to time.

(p) "SECTION" unless the context clearly indicates otherwise, shall refer to a Section of this Plan.

(q) "SHARES" shall mean the shares of Common Stock subject to an Option granted under this Plan.

(r) "TAX DATE" means the date defined in Section 7(c).

(s) "TERMINATION" means, for purposes of the Plan, with respect to an Optionee, that the Optionee has ceased to be, for any reason, a director of the Company.

(t) "WINDOW PERIOD" means any 10-day period beginning on the third business day following the date of release for publication of the Company's quarterly or annual summary statements of earnings or such other period as is specified in Rule 16b-3(e) under the Exchange Act, as such rule may be amended from time to time, or any successor to such rule.

3. ADMINISTRATION.

(a) ADMINISTRATOR. The Plan shall be administered by the Board or, upon delegation by the Board, by a committee consisting of not less than two directors (in either case, the "Administrator"). The Administrator shall have

receive Options hereunder or to set the number of shares to be covered by each Option granted hereunder, the exercise price of such Option, the timing of the grant of such Option or the period within which such Option may be exercised. In connection with the administration of the Plan, the Administrator shall have the powers possessed by the Board. The Administrator may act only by a majority of its members. The Administrator may delegate administrative duties to such employees of the Company as it deems proper, so long as such delegation is not otherwise prohibited by Rule 16b-3 under the Exchange Act. The Board at any time may terminate the authority delegated to any committee of the Board pursuant to this Section 3(a) and revest in the Board the administration of the Plan.

(b) ADMINISTRATOR DETERMINATIONS BINDING. Subject to the limitations set forth in Section 3(a), the Administrator may adopt, alter and repeal administrative rules, guidelines and practices governing the Plan as it from time to time shall deem advisable, may interpret the terms and provisions of the Plan, any Option and any Option Agreement and may otherwise supervise the administration of the Plan. All decisions made by the Administrator under the Plan shall be binding on all persons, including the Company and Optionees. No member of the Administrator shall be liable for any action that he or she has in good faith taken or failed to take with respect to this Plan or any Option.

4. ELIGIBILITY.

Only Nonemployee Directors may receive Options under this Plan.

5. SHARES SUBJECT TO PLAN.

(a) AGGREGATE NUMBER. Subject to Section 9 (relating to adjustments upon changes in Shares), the total number of shares of Common Stock reserved and available for issuance pursuant to Options under this Plan shall be 150,000 shares. Such shares may consist, in whole or in part, of authorized and unissued shares or shares reacquired in private transactions or open market purchases, but all shares issued under the Plan regardless of source shall be counted against the 150,000 share limitation. If any Option terminates or expires without being exercised in full, the shares issuable under such Option shall again be available for issuance in connection with other Options. If shares of Common Stock issued pursuant to an Option are repurchased by the Company, such Common Stock shall not again be available for issuance in connection with Options. To the extent the number of shares of Common Stock issued pursuant to an Option is reduced to satisfy withholding tax obligations, the number of shares withheld to satisfy the withholding tax obligations shall not be available for later grant under the Plan.

(b) NO RIGHTS AS A SHAREHOLDER. An Optionee shall have no rights as a shareholder with respect to any Shares covered by his or her Option until the issuance (as evidenced by the appropriate entry on the books of the Company or its duly authorized transfer agent) of a stock certificate evidencing such Shares. Subject to Section 9, no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property), distributions, or other rights for which the record date is prior to the date the certificate is issued.

6. GRANT OF OPTIONS.

(a) MANDATORY INITIAL OPTION GRANTS. Subject to the terms and conditions of this Plan, if any person who is not an officer or employee of the Company and who has not previously been a member of the Board is elected or appointed as a member of the Board, then on the effective date of such appointment or election the Company shall grant to such new Nonemployee Director an Option to purchase 5,000 Shares at an exercise price equal to the Fair Market Value of such Shares on the date of such option grant.

(b) MANDATORY ANNUAL OPTION GRANTS. Subject to the terms and conditions of this Plan, the Company shall grant to each Nonemployee Director who was first elected or appointed to the Board more than twelve months prior to the date of approval of the Plan by the Board an Option to purchase 2,500 Shares at the Board meeting at which this Plan is approved at an exercise price equal to the Fair Market Value of such Shares on the date of such option grant. Subject to the terms and conditions of this Plan, on the date of the first meeting of the Board immediately following the annual meeting of shareholders of the Company (even if held on the same day as the meeting of shareholders) which is held more than twelve months after a Nonemployee Director is first elected or appointed to the Board, commencing with the annual meeting of shareholders held in 1994, the Company shall grant to each such Nonemployee Director then in office an Option to purchase 2,500 Shares at an exercise price equal to the Fair Market Value of such Shares on the date of such option grant.

(c) TERMS; VESTING. Subject to the other provisions of this Plan, each Option granted pursuant to this Plan shall be for a term of ten years. Each Option granted under Section 6(a) shall become exercisable with respect to one third of the number of Shares covered by such Option on the first anniversary of the date such Option was granted and one thirty-sixth of the number of shares covered by such Option each month thereafter, so that such Option shall be fully exercisable on the third anniversary of the date such Option was granted. Each Option granted under Section 6(b) shall become exercisable with respect to one thirty-sixth of the number of shares covered by such Option each month after the date of grant, so that such Option shall be fully

exercisable on the third anniversary of the date such Option was granted.

(d) LIMITATION ON OTHER GRANTS. The Administrator shall have no discretion to grant Options under this Plan other than as set forth in Sections 6(a) and 6(b).

(e) OPTION AGREEMENT. As soon as practicable after the grant of an Option, the Optionee and the Company shall enter into a written Option Agreement which specifies the date of grant, the number of Shares, the option price, and the other terms and conditions applicable to the Option.

(f) TRANSFERABILITY. No Option shall be transferable otherwise than by will or the laws of descent and distribution, and an Option shall be exercisable during the Optionee's lifetime only by the Optionee.

(g) LIMITS ON EXERCISE. Subject to the other provisions of this Plan, an Option shall be exercisable in such amounts as are specified in the Option Agreement.

(h) EXERCISE PROCEDURES. To the extent the right to purchase Shares has accrued, Options may be exercised, in whole or in part, from time to time, by written notice from the Optionee to the Company stating the number of Shares being purchased, accompanied by payment of the exercise price for the Shares, and other applicable amounts, as provided in Section 7.

(i) TERMINATION. In the event of Termination, Options held at the date of Termination (and only to the extent then exercisable) may be exercised in whole or in part at any time within three months after the date of Termination (but in no event after the expiration date of the Option), but not thereafter. Notwithstanding the foregoing, if Termination is due to retirement or to death or Disability or if the Optionee dies within three months after Termination, Options held at the date of Termination (and only to the extent then exercisable) may be exercised in whole or in part by the Optionee in the case of retirement or Disability, by the participant's guardian or legal representative or by the person to whom the Option is transferred by will or the laws of descent and distribution, at any time within 18 months from the date of Termination (but in no event after the expiration of the Option).

7. PAYMENT AND TAXES UPON EXERCISE OF OPTIONS.

(a) PURCHASE PRICE. The purchase price of Shares issued under this Plan shall be paid in full at the time an Option is exercised.

(b) DELIVERY OF PURCHASE PRICE. Optionees may make all or any portion of any payment due to the Company

(i) upon exercise of an Option, or

(ii) with respect to federal, state, local or foreign tax payable in connection with the exercise of an Option,

by delivery of (x) cash, (y) check, or (z) a promissory note of the Optionee or shares of Common Stock so long as, if applicable, such property constitutes valid consideration for the Common Stock under, and otherwise complies with, applicable law. No promissory note under the Plan shall have a term (including extensions) of more than five years or shall be of a principal amount exceeding 90% of the purchase price paid by the borrower. Exercise of an Option may be made pursuant to a "cashless exercise/sale" procedure pursuant to which funds to pay for exercise of the Option are delivered to the Company by a broker upon receipt of stock certificates from the Company, or pursuant to which Optionees obtain margin loans from brokers to fund the exercise of the Option.

(c) TAX WITHHOLDING. The Optionee shall pay to the Company in cash, promptly upon exercise of an Option or, if later, the date that the amount of such obligations becomes determinable (in either case, the "Tax Date"), all applicable federal, state, local and foreign withholding taxes that the Administrator, in its discretion, determines to result upon exercise of an Option or from a transfer or other disposition of shares of Common Stock acquired upon exercise of an Option or otherwise related to an Option or shares of Common Stock acquired in connection with an Option.

A person who has exercised an Option may make an election (i) to deliver to the Company a promissory note of the Optionee on the terms set forth in Section 7(b), (ii) to tender to the Company previously-owned shares of Common Stock held for at least six months, or (iii) to have shares of Common Stock to be obtained upon exercise of the Option withheld by the Company on behalf of the Optionee, to pay the amount of tax that the Administrator, in its discretion, determines to be required to be withheld by the Company. Any election pursuant to clause (iii) above by a Optionee subject to Section 16 of the Exchange Act shall be subject to the following limitations: (1) such election must be made at least six months before the Tax Date and shall be irrevocable; or (2) such election must be made in (or made earlier to take effect in) any Window Period (and the withholding of the shares of Common Stock shall take place during such Window Period) and shall be subject to approval by the Board, which approval may be given any time after such election has been made, and the Option must be held at least six months prior to the Tax Date; provided, that, the election referenced in clause (2) above may not be made unless (A) such election is consistent with Rule 16b-3(c)(2)(ii) under the Exchange Act, and (B) the Company has been subject to the reporting requirements of Section 13(a) of the Exchange Act for at least one year and has filed all reports

and statements required to be filed pursuant to that section for that year. The right to so withhold shares of Common Stock shall relate separately to each Option.

Any shares tendered to or withheld by the Company will be valued at Fair Market Value on such date. The value of the shares of Common Stock tendered or withheld may not exceed the required federal, state, local and foreign withholding tax obligations as computed by the Company.

8. USE OF PROCEEDS.

Proceeds from the sale of Shares pursuant to this Plan shall be used for general corporate purposes.

9. ADJUSTMENT OF SHARES.

(a) ADJUSTMENTS. Subject to Section 9(d), in the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split or other change in corporate structure affecting the Common Stock, such substitution or adjustments shall be made in the aggregate number and kind of shares of Stock reserved for issuance under the Plan and in the number, kind and exercise price of shares subject to outstanding Options, as may be determined to be appropriate by the Administrator, in its sole discretion; provided, however, that the number of shares subject to any Option shall always be a whole number.

(b) DEFINITION OF "CHANGE IN CONTROL". For purposes of Section 9(c), a "Change in Control" means the occurrence of any one of the following:

(i) Any "person", as such term is used in Sections 13(d) and 14(d) of the Exchange Act (other than the Company, an Affiliate, or a Company employee benefit plan, including any trustee of such plan acting as trustee) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities;

(ii) the solicitation of proxies (within the meaning of Rule 14a-1(k) under the Exchange Act and any successor rule) with respect to the election of any director of the Company where such solicitation is for any candidate who is not a candidate proposed by a majority of the Board in office prior to the time of such election; or

(iii) the dissolution or liquidation (partial or total) of the Company or a sale of assets involving 30% or more of the assets of the Company, or any merger or reorganization of the Company (other than a merger effected before May 31, 1994),

whether or not another entity is the survivor, or other transaction pursuant to which the holders, as a group, of all of the shares of the Company outstanding prior to the transaction hold, as a group, less than 70% of the shares of the Company outstanding after the transaction.

(c) IMPACT OF EVENT. In the event of a "Change in Control" as defined in Section 9(b), any Options outstanding as of the date such Change in Control is determined to have occurred and not then exercisable and vested shall become fully exercisable and vested.

10. NO RIGHT TO DIRECTORSHIP.

Neither, this Plan nor any Option granted hereunder shall confer upon any Optionee any right with respect to continuation of the Optionee's membership on the Board or shall interfere in any way with provisions in the Company's Articles of Incorporation and By-Laws relating to the election, appointment, terms of office, and removal of members of the Board.

11. LEGAL REQUIREMENTS.

The Company shall not be obligated to offer or sell any Shares upon exercise of any Option unless the Shares are at that time effectively registered or exempt from registration under the federal securities laws and the offer and sale of the Shares are otherwise in compliance with all applicable securities laws and the regulations of any stock exchange on which the Company's securities may then be listed. The Company shall have no obligation to register the securities covered by this Plan under the federal securities laws or take any other steps as may be necessary to enable the securities covered by this Plan to be offered and sold under federal or other securities laws. Upon exercising all or any portion of an Option, an Optionee may be required to furnish representations or undertakings deemed appropriate by the Company to enable the offer and sale of the Shares or subsequent transfers of any interest in the Shares to comply with applicable securities laws. Certificates evidencing Shares acquired upon exercise of Options shall bear any legend required by, or useful for purposes of compliance with, applicable securities laws, this Plan or the Option Agreements.

12. DURATION AND AMENDMENTS.

(a) DURATION. This Plan shall become effective upon adoption by the Board provided, however, that no Option shall be exercisable unless and until written consent of the shareholders of the Company, or approval of shareholders of the Company voting at a validly called shareholders' meeting, is obtained within 12 months after adoption by the Board. If such shareholder approval is not obtained within such time, Options granted hereunder shall

terminate and be of no force and effect from and after expiration of such 12-month period.

(b) AMENDMENT AND TERMINATION. The Board may amend, alter or discontinue the Plan or any Option, but no amendment, alteration or discontinuance shall be made which would impair the rights of an Optionee under an outstanding Option without the Optionee's consent. In addition, the Board may not amend or alter the Plan without the approval of shareholders of the Company entitled to vote at a duly held shareholders' meeting or by an action by written consent and, if at a meeting, a quorum of the voting power of the Company is represented in person or by proxy, where such amendment or alteration would, except as expressly provided in the Plan, increase the total number of shares reserved for issuance pursuant to Options under the Plan or in such other circumstances as the Board deems appropriate to comply with Rule 16b-3 under the Exchange Act or otherwise. Notwithstanding any other provision of this Section 12(b), the provisions of the Plan governing (A) who is granted Options, (B) the number of Shares to be covered by each Option, (C) the exercise price of each Option, (D) the timing of the grant of each Option, or (E) the period within which each Option may be exercised, shall not be amended more than once every six months, other than to comport with changes in the Code or the rules thereunder or the Employee Retirement Income Security Act of 1974, as amended, or the rules thereunder.

(c) EFFECT OF AMENDMENT OR TERMINATION. No Shares shall be issued or sold under this Plan after the termination hereof, except upon exercise of an Option granted before termination. Termination or amendment of this Plan shall not affect any Shares previously issued and sold or any Option previously granted under this Plan.

13. RULE 16B-3.

With respect to persons subject to Section 16 of the Exchange Act, transactions under this Plan are intended to comply with the applicable conditions of Rule 16b-3 under the Exchange Act. To the extent any provision of this Plan or action by the Administrator fails to so comply, it shall be adjusted to comply with Rule 16b-3, to the extent permitted by law and deemed advisable by the Administrator. It shall be the responsibility of persons subject to Section 16 of the Exchange Act, not of the Company or the Administrator, to comply with the requirements of Section 16 of the Exchange Act; and neither the Company nor the Administrator shall be liable if this Plan or any transaction under this Plan fails to comply with the applicable conditions of Rule 16b-3, or if any such person incurs any liability under Section 16 of the Exchange Act.

Amendment approved by the Board of Directors: February 14, 1994

Plan, as amended, approved by the shareholders: May 4, 1994

Two-for-one stock split with a record date of May 31, 1995 and a distribution date of June 21, 1995, which increased the number of shares from 50,000 to 100,000, was approved by the Board of Directors on May 15, 1995.

Amendment to Plan increasing the number of shares to 150,000 approved by the Board of Directors on February 12, 1996.

Amendment to Plan increasing the number of shares to 150,000 approved by the Shareholders on May 13, 1996.