

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
[FEE REQUIRED]
FOR THE FISCAL YEAR ENDED JUNE 30, 1995

OR

/ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
[NO FEE REQUIRED]
FOR THE TRANSITION PERIOD FROM _____ TO _____ COMMISSION FILE NO. 0-9992

KLA INSTRUMENTS CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

04-2564110
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

160 RIO ROBLES
SAN JOSE, CALIFORNIA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

95134
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (408) 468-4200

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
NONE	NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK, \$0.001 PAR VALUE
COMMON STOCK PURCHASE RIGHTS
(TITLE OF CLASS)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. / /

The aggregate market value of the voting stock held by non-affiliates of the Registrant based upon the average bid and asked prices of the registrant's stock, as of August 31, 1995, was \$1,767,219,628. Shares of common stock held by each officer and director and by each person or group who owns 5% or more of the outstanding common stock have been excluded in that such persons or groups may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The registrant had 25,136,065 shares of Common Stock outstanding as of August 31, 1995.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Stockholders for the fiscal year ended June 30, 1995 ("1995 Annual Report to Stockholders") are incorporated by reference into Parts I, II and IV of this Report.

Portions of the Proxy Statement for the Annual Meeting of Stockholders ("Proxy Statement") to be held on November 15, 1995, and to be filed pursuant to Regulation 14A within 120 days after registrant's fiscal year ended June 30,

1995, are incorporated by reference into Part III of this Report.

PART I

Item 1. DESCRIPTION OF BUSINESS

THE COMPANY AND ITS PRODUCTS

The Company was incorporated under the laws of the State of Delaware in July 1975. The Company's headquarters are located at 160 Rio Robles, San Jose, California, 95134, telephone (408) 468-4200. Unless the text requires otherwise, the "Company" or "KLA" refers to KLA Instruments Corporation and its subsidiaries.

KLA is the leader in the design, manufacture, marketing and service of yield management and process monitoring systems for the semiconductor industry. KLA believes that it is the world's largest supplier to the wafer and reticle inspection and optical metrology equipment markets. KLA's systems are used to analyze product and process quality at critical steps in the manufacture of integrated circuits and to provide feedback so that fabrication problems can be identified, addressed and contained. This understanding of defect sources and how to contain them enables semiconductor manufacturers to increase yields. Quickly attaining and then maintaining high yields is one of the most important determinants of profitability in the semiconductor industry. The Company believes that its customers typically experience rapid paybacks on their investments in the Company's systems. The Company sells to virtually all of the world's semiconductor manufacturers and has achieved very high market shares in its principal businesses.

The Company's technological strength has enabled it to develop and introduce major new product families in the past three years for the following three business units: WISARD, which addresses semiconductor wafer inspection; RAPID, which addresses reticle inspection; and Metrology, which addresses overlay registration and linewidth measurement. The Company believes that its WISARD and RAPID product families incorporate proprietary technologies which provide greater sensitivity to defects than any competing systems.

YIELD MANAGEMENT

Maximizing yields, or the number of good die per wafer, is a key goal of modern semiconductor manufacturing. Higher yields increase the revenue a manufacturer can obtain for each semiconductor wafer processed. As geometry linewidths decrease, yields become more sensitive to the size and density of defects. Semiconductor manufacturers use yield management and process monitoring systems to improve yields by identifying defects, by analyzing them to determine process problems, and, after corrective action has been taken, by monitoring subsequent results to ensure that the problem has been contained. Monitoring and analysis often takes place at various points in the fabrication process as wafers move through a production cycle consisting of hundreds of separate process steps.

Semiconductor factories are increasingly expensive to build and equip. Yield management and process monitoring systems, which typically represent a small percentage of the total investment required to build and equip a fabrication facility, enable integrated circuit manufacturers to leverage these expensive facilities and improve their returns on investment.

The most significant opportunities for yield improvement generally occur when production is started at new factories and when new products are first built. Equipment that helps a manufacturer quickly increase new product yields enables the manufacturer to offer these new products in volume at a time when they are likely to generate the greatest profits.

The following are some of the methods used to manage yield, all of which require the capture and analysis of data gathered through many measurements:

- - Engineering analysis is performed off the manufacturing line to identify and analyze defect sources. Engineering analysis equipment operates with very high sensitivity to enable comprehensive analysis of wafers. Because they operate off-line, engineering analysis systems do not require high speeds of operation.
- - In-line monitoring is used to review the status of circuits during production steps. Information generated is used to determine whether the fabrication process steps are within required tolerances and to make any necessary process adjustments in real-time before wafer lots move to subsequent process stations. Because the information is needed quickly to be of greatest value, in-line monitoring requires both high throughput and

high sensitivity.

- - Pass/fail tests are used at several steps in the manufacturing process to evaluate products. For example, a pass/fail test is used to determine whether reticles used in photolithography are defect-free; electrical pass/fail testing is performed at the end of the manufacturing process to determine whether products meet performance specifications.

KLA STRATEGY

KLA is the premier supplier of yield management and process monitoring systems to the semiconductor manufacturing industry. Key elements of KLA's strategy are as follows:

- - Leadership in Yield Management. The Company believes that yield management requires both the ability to identify defects and the ability to use defect data (i) to recognize patterns which reveal process problems, and (ii) to resolve and contain process flaws which are causing reduced yields. The Company has developed yield management solutions that consist of sophisticated defect detection sensors located at key steps in the production process, as well as analysis stations with relational database software, that enable isolation of defect sources, identification of problem causes and implementation of corrective action.

The Company believes that its worldwide organization of more than 90 applications engineers provides an important competitive advantage. These applications engineers serve as yield management consultants to the Company's customers, assisting in applying KLA's systems to accelerate yield improvement and achieve real-time process control.

- - Expansion of In-Line Monitoring Markets. Several years ago, the Company recognized the industry's need for in-line monitoring to provide real-time process management capability. Prior to the introduction of KLA's 2100 series, no supplier's products were capable of both the speed and the sensitivity needed for in-line inspection for all defect types at critical process steps. In-line inspection is a critical yield enhancement and cost reduction technique because it allows defect detection in real-time rather than waiting until after final test results become available to discover problems that have a significant yield impact. In response, the Company devoted substantial resources to developing systems with the throughput, reliability and associated data analysis capabilities for in-process inspection. During the past several years, customers' use of the Company's wafer inspection systems began evolving from single system, off-line engineering analysis applications to multiple systems directly monitoring critical steps on advanced fabrication lines. Most of the Company's customers are now adopting the KLA methodology of installing multiple systems directly monitoring critical steps in the integrated circuit manufacturing process. The Company believes that the market for in-line monitoring systems is several times larger than its traditional market for engineering analysis systems.

- - Development of In-Line Monitoring Market. KLA's strategy is to leverage its technology leadership to develop new hardware and software yield management tools. The Company has committed significant resources to internally developing emerging yield management technologies. KLA has also acquired technologies that it believes will be critical to enhancing its long-term competitive position. In fiscal 1995, the Company enhanced its position in the market for yield management and process monitoring systems by expanding its product offerings to include yield management software through its recently formed PRISM division, and electron beam ("E-Beam") metrology applications through the December 1994 acquisition of Metrologix, Inc. The Company's long-term strategy is to link information from its new and existing products, as well as from measurement systems manufactured by others, to form an integrated network of detection and analysis systems.

YIELD MANAGEMENT AND PROCESS MONITORING SYSTEMS

KLA's systems are developed to offer its customers integrated yield management solutions. KLA offers inspection systems for key steps in the semiconductor manufacturing process and analysis systems comprised of database management hardware and software to translate raw inspection data into patterns which reveal process problems. The Company's wafer inspection and metrology systems are used for engineering analysis and in-line monitoring, and its reticle inspection systems and wafer probers are used for pass/fail tests. The Company's software productivity and analysis systems collect, store and analyze data collected by test equipment manufactured by both the Company and others to provide semiconductor manufacturers with an integrated yield management application. The Company's principal business units are: Wafer Inspection Systems (WISARD); Reticle Inspection Systems (RAPID); Metrology, including

Optical Metrology and E-Beam Metrology; Wafer Probing Systems (ATS); Software Productivity and Analysis Systems (PRISM); and Scanning Electron Microscope Inspection Systems (SEMSpec).

WISARD - WAFER INSPECTION SYSTEMS

KLA's WISARD business unit created the market for automated inspection of semiconductor wafers with the introduction of the KLA 2000 series over ten years ago. KLA continues to have a predominant market share with its current generation of wafer inspection systems, the 2100 series.

KLA's 2100 series, combined with a dedicated defect data gathering and analysis workstation, the KLA 2552, and an off-line Review Station, the KLA 2608, provides semiconductor manufacturers with a yield management system sensitive enough for engineering analysis and fast enough for in-line monitoring of the semiconductor manufacturing process. The 2100 series of inspection systems offers an increase in inspection speed of up to 2,000 times over that of KLA's original wafer inspection system. This marked increase in speed and sensitivity allows customers to obtain very prompt feedback on process status by placing wafer inspection systems on the production line.

The selection of the technology architecture for the 2100 series was made to allow the base unit to support a family of products capable of performance enhancements through upgrades of various subsystems. The first model, the KLA 2110, was introduced in 1991 with sufficient speed and sensitivity to enable in-line inspection of repeating arrays typical in memory devices. KLA introduced a new repeating array model in 1992, the KLA 2111, which operated at up to five times the speed of the KLA 2110 and had improved sensitivity. In 1995, KLA introduced the 2112 for repeating array with greater sensitivity and greater maximum speed.

In 1992, KLA introduced the KLA 2130 which is capable of "all pattern" inspection required for microprocessors and other logic devices as well as both the logic and repeating array portions of memory devices. In late 1993, KLA introduced the new 2131 model for all pattern inspection which operates at up to twice the speed of the KLA 2130 and with higher sensitivity. In 1995, KLA introduced the 2132 for all pattern inspection with higher sensitivity and higher maximum speed. The Company believes that there are further opportunities to expand the 2100 series and has several new models under development.

To manage defect data, KLA offers the KLA 2552 Analysis Station, a multi-user work station using a relational database for storing defect coordinates and digitized images. Defect analysis and image review operate through a Windows(TM) -based interface. The KLA 2552 incorporates an open architecture which consolidates data from inspection systems, review stations, wafer sort electrical testers, host computers, and scanning electron microscopes (SEMs). The data analysis software provides statistical process control reports, defect source analysis, and automated correlation of in-line process defects to bit failures. The graphical software combines both data and image to produce wafer maps, trend charts, and video review. When coupled with an optional remote terminal, the KLA 2552 permits process engineers in remote locations to link to the database of defect records and images to perform further analyses or compare data from different wafer fabrication facilities.

The KLA 2608 Review Station provides a platform for reviewing and classifying defects detected on KLA and non-KLA wafer inspection systems. An operator may append classification codes to the defect record, a record which also includes wafer number, die coordinates, defect location, and defect size.

The average selling prices of KLA's 2100 series of wafer inspection systems range from approximately \$1 million to approximately \$2.5 million.

RAPID-RETICLE INSPECTION SYSTEMS

RAPID, KLA's first business unit, created the market for automated inspection of reticles and photomasks for the semiconductor manufacturing industry over 17 years ago and continues to have a predominant market share. KLA has delivered over 700 reticle and photomask inspection systems worldwide.

During photolithography, a stepper projects a circuit pattern from a reticle onto a wafer. Error-free reticles are the first step in ensuring high yields in the manufacturing process because defects in reticles can translate into millions of ruined die.

In 1992, KLA introduced its new generation of reticle inspection systems, the 300 series. The KLA 301 Reticle Inspection System and the KLA 30 Reference Data Computer together form the KLA 331 Inspection System, which represents a major advance in speed, sensitivity and flexibility. The KLA 331 offers the highest inspection sensitivity available in the marketplace, which the Company believes is vital to meet reticle inspection requirements for today's more

complex microprocessors and larger DRAMs. This dedicated image processor employs a flexible system architecture which permits future upgrades and enhancements through software, rather than hardware changes. Furthermore, the KLA 331's optics include a rotating telescope turret to provide three sensitivities in one system. The KLA 331 offers flexibility for users who need a versatile inspection system to address the inspection needs of both the most demanding and the more routine semiconductor manufacturing processes. Users may obtain higher throughput by selecting lower sensitivity inspections.

The KLA 331 incorporates a reference database generator and data preparation system which give full die-to-database functionality to the inspection, permitting inspection against the ideal reticle pattern as specified by the user's CAD program. The Company is continuing to develop enhancements to the KLA 331 inspection system to improve performance, serviceability and reliability.

The Company recently introduced a new reticle inspection product, STARlight, which uses reflected and transmitted light detection techniques simultaneously to identify reticle contaminants, including particles. STARlight permits users to identify defects which previously had not been detectable. The Company believes STARlight will be applied by mask manufacturers and semiconductor manufacturers. STARlight is offered as an option on the KLA 331 inspection system and as a stand-alone unit.

During fiscal 1993 and 1994, delays in completing all features of the KLA 331 systems caused a decline in RAPID's business as many customers waited for the new model. In fiscal 1995, system enhancements coupled with successful customer demonstrations resulted in increased industry acceptance of the KLA 331.

The average selling prices of KLA's 331 inspection systems range from approximately \$1.7 million to approximately \$3 million.

METROLOGY GROUP

Optical Metrology Business Unit. Lithography for sub-micron semiconductor fabrication requires increasingly stringent overlay and critical dimension tolerances. In particular, decreasing linewidths, larger die sizes, and additional layers have made overlay mis-registration errors a crucial cause of yield loss. To address these challenges, KLA offers the KLA 5000 series metrology systems: the 5100 for overlay; and the 5105 for both overlay and critical dimension measurement. KLA estimates that during its fiscal 1994 and 1995, it had the leading share in the worldwide market for overlay registration systems.

The KLA 5000 series uses a patented coherence probe microscopy technology which permits fast autofocus and precision critical dimension measurements. Applying its expertise in digital image processing, KLA has developed sophisticated measurement algorithms that are tolerant of process variations. With coherence probe microscopy, the system scans the image-forming coherence region through the wafer plane, only gathering information from in-focus surfaces. As a result, measurements are more tolerant of process and substrate reflectivity variations than those from ordinary optical systems.

The precision measurements from the KLA 5000 series identify the magnitude and direction of overlay mis-registration errors arising from the stepping process and from optical distortion inherent in the stepper lens. Based upon these measurements, users can fine-tune the stepper program to compensate for these errors, and improve process yield.

5

The disk drive manufacturing industry is an emerging market for KLA's metrology systems. Disk drive manufacturers use a semiconductor photolithography process to produce thin film heads. The Company's coherence probe technology is particularly well-suited to handle the complex topography characteristics encountered in the thin film head process. The Company believes that its solution to these requirements has allowed it to achieve the major share of the thin film head metrology market.

The average selling prices of KLA's metrology systems for the semiconductor industry range from approximately \$300,000 to approximately \$550,000, and systems for the disk drive industry range from approximately \$500,000 to approximately \$900,000.

E-Beam Metrology Business Unit. KLA broadened its portfolio of metrology products in December 1994 with the acquisition of Metrologix, Inc., a manufacturer of advanced electron beam measurement equipment. With this acquisition, KLA's E-Beam Metrology business gained an established position in the CD SEM inspection market, a market which KLA believes is larger than the optical overlay market, and one which it believes will grow as semiconductor manufacturers continue to produce more complex semiconductor devices.

KLA's first generation E-Beam metrology system features high throughput and automated setup. One major U.S. memory manufacturer and two major U.S. microprocessor manufacturers have purchased multiple systems for use in both production and research and development. KLA anticipates increasing its expenditures for engineering and manufacturing to enhance the capabilities of the E-Beam metrology system.

The average selling prices of KLA's E-Beam metrology systems range from approximately \$1.1 million to approximately \$1.4 million.

ATS DIVISION-WAFER PROBING SYSTEMS

The ATS division sells and services a family of automated wafer probers and accessories which position individual semiconductor devices still in wafer form under electrical test probes. The probers work in conjunction with electronic parametric and functional testers to perform fully automated tests of the performance of completed die before the wafers are diced and packaged. The electrical test procedure also identifies failed die, classifies die by performance and generates a database of test results for use in process control.

KLA develops, manufactures and markets these products in cooperation with Tokyo Electron, Limited ("TEL"), the leading distributor of semiconductor equipment in Japan. KLA develops and manufactures the prober's image processing electronics and optical subsystems. TEL manufactures the prober's mechanical chassis and incorporates the KLA electronics and subsystems. The ATS division sells the integrated prober systems in the United States and Europe with its own control software and custom interfaces. TEL sells and services the integrated prober systems in Japan and the rest of Asia.

The average selling prices of KLA's basic wafer prober systems range from approximately \$130,000 to approximately \$600,000.

PRISM-SOFTWARE PRODUCTIVITY AND ANALYSIS SYSTEMS

The PRISM division was formed in April 1994 to address the market for software products that can be utilized in semiconductor fabrication applications for yield management and productivity improvement. The PRISM division is developing and marketing two software product lines, Discovery and CIMA. Discovery is an enterprise-wide yield management system that collects, stores and correlates yield information from multiple data sources in a fabrication facility. This product was the result of a cooperative development project with Motorola. The Company released production versions of Discovery in early fiscal 1996. CIMA is a test floor automation product that was developed by the Company and introduced in August 1994. CIMA collects test data from, and automates the operation of, the wafer floor. CIMA is currently in production and is installed in several modern fabrication facilities. PRISM has formed a client services organization to provide system integration and consulting services to assist its customers in the integration of its software products into the facility's information systems.

The average selling prices of KLA's Discovery software range from approximately \$1 million to approximately \$2 million. The average selling prices of KLA's CIMA software range from approximately \$10,000 to approximately \$40,000.

SEMSPEC-SCANNING ELECTRON MICROSCOPE INSPECTION SYSTEMS

As feature sizes of semiconductor circuits continue to decrease for leading edge semiconductor products, the Company believes that conventional optical technologies ultimately will begin to reach physical limits imposed by the wavelength of light and fail to provide the necessary inspection resolution. Working closely with those customers with the most advanced inspection requirements, KLA has developed the world's only fully automatic electron beam inspection systems. These systems, comprised of the world's fastest scanning electron-optical column and a high speed image computer, are used for wafer and x-ray mask inspection. The development of these systems was funded in part by customer-sponsored research and development programs. KLA has sold four of these systems to customers. KLA expects the market for these inspection systems to emerge slowly.

The average selling prices of KLA's SEMSpec systems range from approximately \$4 million to approximately \$5 million.

CUSTOMERS AND APPLICATIONS

The Company believes that it is one of the few suppliers which sells its systems to virtually all of the world's semiconductor manufacturers. During fiscal 1993, Motorola accounted for approximately 11% of the Company's revenues. In fiscal 1994 and 1995, no single customer accounted for more than 10% of the Company's revenues.

SALES, SERVICE AND MARKETING

The Company sells products through a combination of direct sales and distribution channels. The Company believes that the size and location of its field sales, service and applications engineering organization represents a significant competitive advantage in its served markets. In the United States, Europe, and Korea the Company has a direct sales force located in major geographical markets. The Company's sales, service and applications facilities throughout the world employ over 400 sales, service and applications engineers.

In Japan, the Company sells systems for the semiconductor market through TEL. TEL has been the Company's distributor to the Japanese semiconductor market since 1978. The sales effort in Japan is supported by KLA Japan, which provides marketing, applications support, technical support and service to Japanese customers. Over the last three years, the Company significantly increased its customer service organization in Japan in order to assume service and support responsibilities from TEL. KLA Japan has over 130 local employees in its Yokohama headquarters and six regional service centers.

In Singapore and Taiwan, the Company sells its systems through local sales representatives. Post-sales support is handled by the Company's local organizations.

KLA maintains an export compliance program that fully meets the requirements of the U.S. Department of Commerce. KLA has never been denied approval to ship against a purchase order.

For information regarding the Company's revenues from foreign operations for the Company's last three fiscal years, see Note 10 on page 24 of the 1995 Annual Report to Stockholders, incorporated herein by reference.

TECHNOLOGY

KLA's inspection and metrology systems precisely capture trillions of features on wafers and reticles that are as small as 10 millionths of an inch on a side and analyze each of these features for possible defects through the use of the following technologies:

Image Acquisition. KLA's systems acquire images of sub-micron features on wafers and reticles. The quality and brightness of the images greatly influence the speed and sensitivity of the final inspection system. KLA has developed a wide range of optical imaging systems, such as laser scanners, interference microscope systems, and conventional white light and deep UV optical systems. To satisfy the future sensitivity requirements of advanced lithography, KLA has already developed an electron beam system which incorporates the world's fastest scanning electron-optical column.

7

Image Conversion. The Company's equipment converts the photon or electron image to an electronic digital format. KLA has been a pioneer in the use of time-delay-integration sensors that convert as many as 100 million pixels (picture elements) to 256-level gray scale images each second. KLA also utilizes other image conversion technologies such as avalanche diode detectors, photo multiplier systems and fixed frame pickups.

Precision Mechanics. In the most common configuration of an inspection system, the reticle or the wafer is moved at a constant speed through the field of the imaging system. Since areas of interest are as small as 5 millionths of an inch, and vibrations in the scanning system of one-tenth of the area of interest can degrade system performance, the mechanical stage must be extremely smooth and precise. To address these requirements, KLA has nine years experience in the design and manufacture of air-bearing linear drive stages.

Proprietary Algorithms. To perform the inspection or measurement task, the Company's equipment examines the properties of the digitized images using a set of logical steps (algorithms) which measure the desired image property. KLA's engineers develop sets of algorithms that are specifically tailored to obtain optimum performance for its wafer, reticle and metrology systems. These algorithms are largely responsible for the state-of-the-art performance of KLA's systems.

Image Computers. The combination of proprietary algorithms and special purpose computers allows KLA's equipment to have a high performance to cost ratio. While general purpose computers are capable of executing KLA's algorithms, very few computer architectures can sustain the computing speed that is required in KLA's systems. To address this requirement, KLA develops and builds special purpose image computers designed to execute its algorithms.

Database Analysis. Many of the inspections that KLA reticle inspection systems perform require a digital image representation of the ideal pattern obtained from the data used to manufacture the reticle. This capability allows

inspection systems to compare the actual circuit with its design specifications. KLA has been developing database systems for over 15 years to satisfy this objective. Its present generation of special purpose database computers is capable of generating simulated images at the same high speeds at which KLA's image conversion systems generate the digital image from the actual reticle.

Statistical Process Control. Integrated circuit yield management and process monitoring systems generate hundreds of thousands of data items each day. To enhance the utility of these data, KLA has a team of software engineers who build systems containing statistical process control software to simplify data and present these data in a useful manner. KLA is continuing to work on new software to enhance its statistical process control systems.

RESEARCH AND DEVELOPMENT

The market for yield management and process monitoring systems is characterized by rapid technological development and product innovation. The Company believes that continued and timely development of new products and enhancements to existing products are necessary to maintain its competitive position. Accordingly, the Company devotes a significant portion of its personnel and financial resources to research and development programs and seeks to maintain close relationships with customers to remain responsive to their needs. In order to meet continuing developments in the semiconductor industry and to broaden the applications for its image processing technology, the Company is committed to significant engineering efforts for product improvement and new product development. Approximately 20% of the Company's workforce is engaged in engineering, research and development. For information regarding the Company's research and development expense during the last three fiscal years, see Notes 1 and 8 on pages 21 and 24, respectively, of the 1995 Annual Report to Stockholders incorporated herein by reference.

KLA typically receives some external funding from customers, from industry groups, and from government sources to augment its engineering, research and development efforts. In addition, KLA capitalizes some software development costs. Although the timing and the level of these external funds cannot be predicted, the level of such funding and capitalization has been approximately 4%, 2% and 1% of sales for fiscal 1993, 1994 and 1995, respectively. The Company reports engineering, research and development expense net of this funding and capitalization. Thus, recorded amounts for engineering, research and development expense were 10%, 9% and 10% of sales in fiscal 1993, 1994 and 1995, respectively.

8

MANUFACTURING

The Company's principal manufacturing activities take place in San Jose, California; Bevaix, Switzerland; and Migdal Ha'Emek, Israel; and consist primarily of manufacturing, assembling and testing components and subassemblies which are acquired from third party vendors and then integrated into the Company's finished products. In June 1995, the Company entered into a lease agreement for an additional manufacturing facility being constructed at its San Jose campus site. In August 1995, the Company leased two additional facilities adjacent to its San Jose campus site. The Company is also cross-training personnel, so that it can respond to changes in product mix by reallocating personnel in addition to hiring.

The Company has been working with key vendors to improve inventory management. Volume purchase agreements and just-in-time delivery schedules have reduced both inventory levels and costs. The Company's manufacturing engineers, in conjunction with key vendors, are improving the manufacturability and reliability of the new wafer and reticle inspection systems.

Many of the components and subassemblies are standard products, although certain items are made to Company specifications. Certain of the components and subassemblies included in the Company's systems are obtained from a single source or a limited group of suppliers. Those parts subject to single or limited source supply are routinely monitored by management and the Company endeavors to ensure that adequate supplies are available to maintain manufacturing schedules, should supply for any part be interrupted. Although the Company seeks to reduce its dependence on sole and limited source suppliers, in some cases the partial or complete loss of certain of these sources could have at least a temporary adverse effect on the Company's results of operations and damage customer relationships.

COMPETITION

The market for yield management and process control systems is highly competitive. In each of the markets it serves, the Company faces competition from established and potential competitors, some of which may have greater financial, engineering, manufacturing and marketing resources than the Company.

Significant competitive factors in the market for yield management and process control systems include system performance, ease of use, reliability, installed base and technical service and support.

The Company believes that, while price and delivery are important competitive factors, the customers' overriding requirement is for systems which easily and effectively incorporate automated, highly accurate inspection capabilities into their existing manufacturing processes, thereby enhancing productivity. The Company's yield management and process control systems for the semiconductor industry are generally higher priced than those of its present competitors and are intended to compete based upon performance and technical capabilities. These systems also compete with less expensive, more labor-intensive manual inspection devices.

The Company's wafer and reticle inspection systems have a predominant share of their respective markets. The Company is the leading provider of overlay registration systems. The Company believes it is the second largest supplier of wafer prober systems in the U.S. and Europe.

Many of the Company's competitors are investing in the development of new products aimed at applications currently served by the Company. The Company's competitors can be expected to continue to improve the design and performance of their products in each product area and to introduce new products with competitive price/performance characteristics. Competitive pressures often necessitate price reductions which can adversely affect operating results. Although the Company believes that it has certain technical and other advantages over its competitors, maintaining such advantages will require a continued high level of investment by the Company in research and development and sales and marketing. There can be no assurance that the Company will have sufficient resources to continue to make such investments or that the Company will be able to make the technological advances necessary to maintain these competitive advantages.

The yield management and process control industry is characterized by rapidly changing technology and a high rate of technological obsolescence. Development of new technologies that have price/performance characteristics superior to the Company's technologies could adversely affect the Company's results of operations. In order to remain competitive, the Company believes that it will be necessary to expend substantial effort on continuing product improvement and new product development. There can be no assurance that the Company will be able to develop and market new products successfully or that the products introduced by others will not render the Company's products or technologies non-competitive or obsolete.

PATENTS AND OTHER PROPRIETARY RIGHTS

The Company believes that, due to the rapid pace of innovation within the yield management and process control systems industry, its protection of patent and other intellectual property rights is less important than factors such as its technological expertise, continuing development of new systems, market penetration and installed base and the ability to provide comprehensive support and service to customers.

The Company protects its proprietary technology through a variety of intellectual property laws including patents, copyrights and trade secrets. The Company's source code is protected as a trade secret and as an unpublished copyright work. The Company has a number of United States and foreign patents and patent applications. The Company's effort to protect its intellectual property rights through trade secret and copyright protection may be impaired if third parties are able to copy or otherwise obtain and use the Company's technology without authorization. Effective intellectual property protection may be unavailable or limited in certain foreign countries. In addition, the semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. No assurance can be given that any patent held by the Company will provide sufficient protection.

BACKLOG

Backlog orders for systems were \$250 million as of June 30, 1995, with 100% shippable in one year, as compared with \$125 million as of June 30, 1994, with 99% shippable in one year. The Company generally ships systems within six months after receipt of a customer's purchase order.

EMPLOYEES

As of August 31, 1995, KLA employed a total of approximately 1,654 persons. None of KLA's employees are represented by a labor union. KLA has experienced no work stoppages and believes that its employee relations are excellent.

Competition in the recruiting of personnel in the semiconductor and

semiconductor equipment industry is intense. KLA believes that its future success will depend in part on its continued ability to hire and retain qualified management, marketing and technical employees.

Item 2. PROPERTIES

KLA owns a corporate facility which houses engineering, manufacturing and administrative functions in San Jose, California, occupying approximately 232,000 square feet. The Company purchased this facility in 1990 at a total cost of approximately \$30 million, including improvements. The Company leases additional office space for manufacturing, engineering, sales and service activities, including seven locations in the U.S., six in Japan, four in Europe, and one each in Malaysia, Korea, Taiwan and Israel. The Company entered into two leases, for two year terms commencing August 10, 1994 and November 1, 1994, respectively, for two buildings adjacent to its campus facility, consisting of an aggregate of approximately 73,000 square feet.

In June 1995, the Company entered into an agreement to lease a building to be constructed on land owned by the Company in San Jose, California. The lessor of the building, which ground-leased the property from the Company, has committed to fund up to \$12.5 million (subject to reductions based on certain conditions in the lease) for the construction of the building, with the portion of the committed amount actually utilized to be determined by the Company. In August 1995, the Company entered into a similar lease agreement to occupy two buildings in San Jose, California. The lessor has committed to fund up to \$15.4 million for the acquisition of the land and buildings and for the completion of improvements to the buildings. Rent obligations for the three buildings will commence upon the Company's occupation of the buildings in fiscal year 1996. The Company may, at its option, purchase the properties during the term of the leases at approximately the amount expended by the lessor to acquire, construct and improve the properties. If the Company does not purchase the properties at the end of the leases, the Company will guarantee to the lessor 85% of the residual values of the properties as determined at the inception of each lease. In addition, the lease agreements require the Company to maintain, among other things, minimum quick ratio, tangible net worth and profitability.

10

Item 3. LEGAL PROCEEDINGS

In June 1990, the Company filed a lawsuit in the U.S. Federal District Court in San Jose, California, against Orbot Systems Ltd. and Orbot, Inc., now Orbotech ("Orbot"), for patent infringement. Orbot has since counter-sued for interference with normal business. If the Company were to lose, Orbot would be allowed to continue to sell products using its present illuminator. The Company believes that the outcome of this suit will most likely be determined based upon the validity of KLA's patent, U.S. Patent No. 4,877,326. Orbot has moved for a summary judgment dismissal of the case. The matter is being heard by a special master, with no trial date scheduled. Management believes the results of this lawsuit will not have a significant adverse effect on the Company.

In November 1993, KLA filed suit, in U.S. District Court in San Jose, CA, against Orbot Instruments Inc. for infringing upon a KLA patent on die-to-database inspection. Orbot Instruments has moved for a summary judgment dismissal of the case. The matter is under consideration by the judge. The trial is scheduled for the Spring of 1996.

The Company is also the defendant in three suits resulting from the discontinuance of the printed circuit inspection business. In one case the trial court denied the plaintiff's demand for damages. This case is under appeal. One case is in the discovery phase, while the other case was dismissed by the judge with leave to refile. Management does not believe that these suits will have a significant adverse effect on the Company.

Beginning in August 1992, Jerome Lemelson, an independent inventor, filed suit in U.S. District Court in Reno, NV, against the three U.S. automobile companies, Motorola and several Mitsubishi subsidiaries for the infringement of Lemelson's patents on machine vision. Recently, Mitsubishi settled with Lemelson. On June 16, 1995 the Magistrate Judge in Reno handed down a ruling which recommends that all of Lemelson's patents-in-suit be declared unenforceable due to the inventor's delay in the patent prosecution.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable.

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

"Common Stock" on page 26 of the 1995 Annual Report to Stockholders is incorporated herein by reference.

Item 6. SELECTED FINANCIAL DATA

"Selected Financial Data" on page 16 of the 1995 Annual Report to Stockholders is incorporated herein by reference.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

"Management's Financial Commentary" on pages 14 and 15 of the 1995 Annual Report to Stockholders is incorporated herein by reference.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements, together with the report thereon of Price Waterhouse LLP dated July 26, 1995, appearing on pages 16 through 26 of the accompanying 1995 Annual Report to Stockholders are incorporated herein by reference in this Form 10-K Annual Report. With the exception of the aforementioned information and the information incorporated in Items 5, 6, 7 and 8, the 1995 Annual Report to Stockholders is not to be deemed filed as part of this Form 10-K Annual Report.

Item 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

11

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below are the names of the present executive officers of the Company, their ages and positions held with the Company.

<TABLE>

<CAPTION>

Name	Age	Position
- - - - -	---	-----
<S>	<C>	<C>
Kenneth Levy	52	Chairman of the Board of Directors and Chief Executive Officer
Kenneth L. Schroeder	49	President, Chief Operating Officer and Director
Robert J. Boehlke	54	Vice President of Finance and Administration, Chief Financial Officer and Assistant Secretary
Frank Brienzo	44	Vice President, Asia Operations
Virginia J. DeMars	53	Vice President, Human Resources
Gary E. Dickerson	37	Vice President, Wafer Inspection
Samuel Harrell	55	Senior Vice President, Strategic Business Development
Michael D. McCarver	49	Vice President, Corporate Sales
Neil Richardson	40	Vice President, Metrology
Magnus O. W. Ryde	39	Vice President, U.S. and European Sales Organizations
Arthur P. Schnitzer	52	Group Vice President, Wafer and Reticle Inspection
Christopher Stoddart	39	Treasurer
Bin-Ming Ben Tsai	37	Vice President, Chief Technical Officer
William Turner	39	Vice President, Corporate Controller
Edward W. Barnholt	52	Director
Leo J. Chamberlain	65	Director
Robert E. Lorenzini	58	Director
Yoshio Nishi	55	Director
Samuel Rubinovitz	65	Director
Dag Tellefsen	53	Director

</TABLE>

Mr. Levy co-founded the Company in July 1975 and served as President and Chief Executive Officer and a Director of the Company until November 1991, when he became Chairman of the Board of Directors and Chief Executive Officer. Since May 1993, Mr. Levy has been a Director of Ultratech Stepper, Inc., a manufacturer of photolithography equipment; since April 1993, a Director of Network Peripherals, Inc., a supplier of high-performance client-server networking solutions; and since August 1995, a Director of Integrated Process Equipment for chemical, mechanical, planarization (CMP) and cleaning of advanced integrated circuits.

Mr. Schroeder rejoined the Company in November 1991 as President, Chief Operating Officer and Director. Mr. Schroeder had worked previously at KLA from 1979 through 1987, during which time he held the positions of Vice President of Operations (1979); Vice President and General Manager, RAPID (1982); Vice President and General Manager, WISARD (1983); and Senior Vice President (1985). In July 1988, he became President and Chief Executive Officer of Photon

Dynamics, Inc., a manufacturer of electro-optic test equipment. In mid-1990, he was appointed President, Chief Operating Officer and Director of Genus, Inc., a manufacturer of CVD chemical vapor deposition and ion implant equipment. He left Genus in October 1991, to rejoin KLA.

Mr. Boehlke joined the Company in April 1983 as Vice President and General Manager of the RAPID Division. Subsequently, he was General Manager of several divisions and groups of divisions at KLA. In June 1985, Mr. Boehlke was elected to Senior Vice President and to Executive Vice President in January 1989, and to Chief Operating Officer in August 1989 until July 1990, when he became Chief Financial Officer.

Mr. Brienzo joined the Company in July 1989 as Vice President of Manufacturing, WISARD Division. In October 1990, he was named President of KLA Acrotec. He served there until September 1994, when he took the position of Vice President Operations, KLA Japan. In July 1995, he was promoted to Vice President, Asia Operations and General Manager, KLA Japan.

Ms. DeMars joined KLA in 1988 as Director of Human Resources after a 13 year career in Employee Relations at Monolithic Memories, Inc. and Advanced Micro Devices. In November 1991, KLA promoted Ms. DeMars to Vice President of Human Resources, worldwide.

12

Mr. Dickerson joined KLA in January 1986 as a Senior Applications Engineer in the Wafer Inspection Division. In July 1987 he was promoted to Manager of Applications Engineering for the Wafer Inspection Division, followed by Manager of Product Planning in July 1989, Director of Marketing in July 1990, and Vice President of Marketing in July 1992. In July 1993, he was promoted to Vice President and Director of the Wafer Inspection Business Unit. In July 1994, he was elected Vice President of the Company.

Dr. Harrell joined the Company in September 1995 as Senior Vice President and Chief Strategy Officer. Dr. Harrell is also serving until December 1995 as the Senior Vice President and Chief Strategy Officer at SEMATECH. He has been at the government/semiconductor industry consortium since October 1992. From August 1987 to September 1992 he served as President of SEMI/SEMATECH.

Mr. McCarver joined the Company in October 1985 as Vice President of Sales for the RAPID Division, was promoted to General Manager in July 1987, and was additionally elected to Vice President of the Company in August 1989. In August 1993, he became Vice President of Corporate Sales.

Dr. Richardson joined KLA in June 1993 as Vice President and General Manager of the Metrology Division, and was elected Vice President of the Company in July 1994. He served as Vice President and General Manager of Diagnostic Systems Group of Schlumberger Technologies from September 1985 to November 1991, and was the Corporate Technology Adviser for Schlumberger Ltd., a manufacturer of electronic test equipment, from November 1991 to May 1993.

Mr. Ryde joined KLA in June 1980 as Production Control Manager. In May 1981 he was promoted to Materials Manager, followed by Production Manager in January 1982 and Manager, Advance Manufacturing - KLA208 in May 1984. In March 1985, he became Product Marketing Manager for the RAPID Division. In December 1988, after leaving KLA for 6 months to pursue other interests, he returned as Director of EMMI Business within the ATS Division. In January 1989, he was promoted to Director of Operations - Europe, and in January 1991 became Vice President of Operations for the ATS Division. He was promoted to Vice President and General Manager of the Customer Support Division in July 1992 and was elected to Vice President of the Company in July 1994. In July 1995, he became Vice President of the U.S. and European Sales Organizations.

Mr. Schnitzer joined the Company in July 1978 as Software Engineering Manager and was promoted to Director of Engineering of the RAPID Division in July 1982, and was promoted to Vice President in July 1983. He became Vice President of Technology and Marketing of RAPID in May 1987, and Vice President of Advanced Inspection in January 1989. In October 1989, he was promoted to General Manager of the WISARD Division and, additionally, was elected to Vice President of the Company in July 1990. In July 1993, he became Group Vice President of the Wafer and Reticle Inspection Group ("WRInG"), composed of the former WISARD, RAPID and SEMSpec business units.

Mr. Stoddart joined the Company in December 1991 as Treasurer. Prior to joining the Company, Mr. Stoddart was Treasurer of General Cellular Corporation, a cellular telephone service provider, from October 1989 to September 1991 and previously with The Cooper Companies, Inc., a manufacturer of pharmaceuticals and medical and implant equipment, as Assistant Treasurer from August 1986 to July 1988, and then Treasurer from July 1988 to September 1989.

Dr. Tsai joined the Company in June 1984 as a member of the WISARD Technical Staff and was promoted to Manager of Algorithm Development for the WISARD Division. From August 1989 until September 1990 he served as Director of

Engineering for WISARD. In October 1990, he was promoted to Vice President of Engineering for KLA Acrotec, and in July 1994 he was elected Vice President of the Company and promoted to Chief Technical Officer.

Mr. Turner joined the Company in September 1983 as a Corporate Financial Analyst, transferred to be the Field Service Financial Administrator of the RAPID Division in August 1984, was promoted to RAPID Division Controller in February 1986, transferred to International Division Controller in July 1988, was promoted to Corporate Controller in December 1989, and was elected Vice President of the Company in July 1990.

Mr. Barnholt has served as a Director of the Company since September 1995. From October 1990 to October 1993 he served as Vice President and General Manager of the Test and Measurement Organization for Hewlett-Packard. In November 1993 he was promoted to Senior Vice President and General Manager of the Test and Measurement Organization.

13

Mr. Chamberlain has served as a Director of the Company since 1982. He has also served as a Director of Octel Communications Corporation, a manufacturer of high performance voice processing systems since March 1989.

Mr. Lorenzini has served as a Director of the Company since 1976. He has served since January 1993 as Chairman of SunPower Corporation, a manufacturer of optoelectronic devices, and from October 1988 to January 1993, he served as President and Chief Executive Officer. Since July 1993, he has also been a Principal in Dalton Partners, a turn-around management company. He was a founder and, until December 1986, Chairman of the Board of Siltec Corporation, a manufacturer of semiconductor materials and manufacturing equipment. Since October 1986, Mr. Lorenzini has also served as a Director of FSI International, a semiconductor process equipment manufacturer.

Dr. Nishi has served as a Director of the Company since 1989. He has served as Vice President and Director of Research and Development for the Semiconductor Group of Texas Instruments since May 1995. Mr. Nishi served as a Director of numerous research laboratories at Hewlett-Packard from January 1986 to April 1995. He is a consulting professor in the Stanford University Department of Electrical Engineering and teaches at Waseda University in Japan as a visiting Professor of the Materials Science and Engineering Department and the Electronic Communication Engineering Department.

Mr. Rubinovitz previously served as a Director of the Company from October 1979 to January 1989, and rejoined the Company as a Director in 1990. From April 1989 through December 1993, he served as Executive Vice President of EG&G, Inc., a diversified manufacturer of scientific instruments and electronic, optical and mechanical equipment, and previously as Senior Vice President of EG&G, Inc. between April 1986 and April 1989. Since April 1989, Mr. Rubinovitz has served as a Director of EG&G. Since October 1984, he has served as Director of Richardson Electronics, Inc., a manufacturer and distributor of electron tubes and semiconductors and, since October 1986, Director of Kronos, Inc., a manufacturer of electronic time keeping systems.

Mr. Tellefsen has served as a Director of the Company since 1978. He is General Partner of Glenwood Capital Management, a venture capital firm. Since January 1983, he has served as a Director of Iwerks Entertainment, a producer of movie-based specialty theaters, and since 1982, as a director of Octel Communications Corporation.

Item 11. EXECUTIVE COMPENSATION

The information regarding Executive Compensation as it appears in the Proxy Statement is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information regarding Security Ownership of Certain Beneficial Owners and Management as it appears in the Proxy Statement is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information regarding Certain Relationships and Related Transactions as it appears in the Proxy Statement is incorporated herein by reference.

14

Item 14. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES, AND REPORT ON FORM 8-K

- (a) (1) Financial Statements: See Index to Financial Statements, page 17.
- (2) Financial Statement Schedules: See Index to Financial Statement Schedules, page 17.
- (3) Exhibits: See Index to Exhibits, pages 18 and 19.
- (b) No reports on Form 8-K were filed during the quarter ended June 30, 1995.

15

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized in the City of San Jose, State of California, on the 27th day of September 1995.

KLA INSTRUMENTS CORPORATION

By WILLIAM TURNER

 William Turner
 Vice President/Corporate Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of this registrant and in the capacities and on the dates indicated.

<TABLE>
 <CAPTION>

<S> Signature	<C> Title	<C> Date
----- KENNETH LEVY ----- Kenneth Levy	Director, Chairman of the Board, and Chief Executive Officer	September 27, 1995
----- KENNETH L. SCHROEDER ----- Kenneth L. Schroeder	Director, President and Chief Operating Officer	September 27, 1995
----- ROBERT J. BOEHLKE ----- Robert J. Boehlke	Vice President Finance and Administration, Chief Financial Officer, and Assistant Secretary	September 27, 1995
----- EDWARD W. BARNHOLT ----- Edward W. Barnholt	Director	September 27, 1995
----- LEO J. CHAMBERLAIN ----- Leo J. Chamberlain	Director	September 27, 1995
----- ROBERT E. LORENZINI ----- Robert E. Lorenzini	Director	September 27, 1995
----- DR. YOSHIO NISHI ----- Dr. Yoshio Nishi	Director	September 27, 1995
----- SAMUEL RUBINOVITZ ----- Samuel Rubinovitz	Director	September 27, 1995
----- DAG TELLEFSEN ----- Dag Tellefsen	Director	September 27, 1995

</TABLE>

KLA INSTRUMENTS CORPORATION AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

	Page(s) in 1995 Annual Report*

<S>	<C>
Consolidated Statement of Operations for the three years ended June 30, 1995.....	16
Consolidated Balance Sheet at June 30, 1994 and 1995.....	17
Consolidated Statement of Stockholders' Equity for the three years ended June 30, 1995.....	18
Consolidated Statement of Cash Flows for the three years ended June 30, 1995.....	19
Notes to the Consolidated Financial Statements.....	20-25
Report of Independent Accountants.....	26

</TABLE>

INDEX TO FINANCIAL STATEMENT SCHEDULES

*Incorporated by reference from the indicated pages of the 1995 Annual Report to Stockholders.

Financial Statement Schedules not included in this Form 10-K Annual Report have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

INDEX TO EXHIBITS

(i) EXHIBITS INCORPORATED BY REFERENCE:

- 3.1 Certificate of Incorporation as amended(7)
- 3.2 Bylaws, as amended(7)
- 4.1 Amended and Restated Rights Agreement dated as of August 30, 1995, between the Company and First National Bank of Boston, as Rights Agent. The Rights Agreement includes as Exhibit A, the form of Right Certificate.(1)
- 10.15 Statement of Partnership to Triangle Partners dated April 12, 1983(2)
- 10.16 Lease Agreement and Addendum thereto dated January 10, 1983, between BB&K Partnership and the Company(2)
- 10.18 Purchase and Sale Agreement dated January 10, 1983, between BB&K Partnership, Triangle Partners and the Company(2)
- 10.35 Research and Development Agreement, Cross License and Technology Transfer Agreement and Agreement for Option to License and Purchase Resulting Technology, all dated October 1, 1986, by and between KLA Development No. 4, Ltd., and the Company(3)
- 10.45 Distribution Agreement dated July 1990, by and between Tokyo Electron Limited, a Japanese Corporation, and the Company(4)
- 10.46 Principal facility Purchase Agreement dated July 1990, including all exhibits and amendments; Lease Agreement, Termination of Lease, Lot line adjustment, rights of first refusal, Deeds of Trust(4)
- 10.47 Joint Venture Agreement between the Company and Nippon Mining Company, Limited, dated September 18, 1990(5)
- 10.49 Exercise of Option to Purchase Technology made effective as of January 1, 1990, by and between KLA Development No. 4, and the Company(5)
- 10.54 Micrion Corporation Series E Preferred Stock Purchase Agreement, dated September 13, 1991(6)
- 10.67 Amendment of Credit Agreement between Bank of America NT & SA and the Company, dated March 31, 1994(9)
- 10.68 Credit Agreement between Bank of America NT & SA and the Company, dated April 30, 1994(9)
- 10.71 1990 Outside Directors Stock Option Plan(8)
- 10.73 Amendment of Credit Agreement between Bank of America NT & SA and the Company dated December 31, 1994(10)
- 10.74 1981 Employee Stock Purchase Plan, as amended by the Board of Directors on October 7, 1994(10)
- 10.75 1982 Stock Option Plan, as amended by the Board of Directors on October 7, 1994(10)

10.76 Amendment of Credit Agreement between Bank of America NT & SA and the Company dated February 15, 1995(11)

(ii) EXHIBITS INCLUDED HEREWITH:

10.77 Lease Agreement, Ground Lease Agreement and Purchase Agreement dated June 5, 1995, between BNP Leasing Corporation and the Company.
10.78 Lease Agreement and Purchase Agreement dated August 10, 1995, between BNP Leasing Corporation and the Company.
13 1995 Annual Report to Stockholders. This Annual Report shall not be deemed to be filed except to the extent that the information is specifically incorporated by reference.
21 List of Subsidiaries of KLA Instruments Corporation
23.1 Consent of Independent Accountants
27 1995 Year End Financial Data Schedule

- -----
(1) Filed as exhibit number 1 to Form 8-A/A, filed effective September 25, 1995

(2) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1983

(3) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1987

(4) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1990

(5) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1991

18

(6) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1992

(7) Filed as the same exhibit number to Registrant's registration statement no.33-51819 on Form S-3, dated February 2, 1994

(8) Filed as exhibit number 4.6 as set forth herein to Registrant's Form 10-K for the year ended June 30, 1991

(9) Filed as the same exhibit number as set forth herein to Registrant's Form 10-K for the year ended June 30, 1994

(10) Filed as the same exhibit number as set forth herein to Registrant's Form 10-Q for the quarter ended December 31, 1994

(11) Filed as the same exhibit number as set forth herein to Registrant's Form 10-Q for the quarter ended March 31, 1995

19

\$12,500,000

LEASE AGREEMENT

BETWEEN

BNP LEASING CORPORATION,

AS LANDLORD

AND

KLA INSTRUMENTS CORPORATION,

AS TENANT

EFFECTIVE AS OF JUNE 5, 1995

PURSUANT TO AND AS MORE PARTICULARLY PROVIDED IN SUBPARAGRAPH 20.(j) OF THIS LEASE, THIS LEASE AND THE PURCHASE AGREEMENT REFERENCED HEREIN ARE TO CONSTITUTE, FOR INCOME TAX PURPOSES ONLY, A FINANCING ARRANGEMENT OR CONDITIONAL SALE. AS PROVIDED IN SUBPARAGRAPH 20.(j) OF THIS LEASE, LANDLORD AND TENANT EXPECT THAT TENANT (AND NOT LANDLORD) SHALL BE TREATED AS THE TRUE OWNER OF THE PROPERTY FOR INCOME TAX PURPOSES, THEREBY ENTITLING TENANT (AND NOT LANDLORD) TO TAKE DEPRECIATION DEDUCTIONS AND OTHER TAX BENEFITS AVAILABLE TO THE OWNER.

TABLE OF CONTENTS

<TABLE>
<CAPTION>

<S>

	Page
	<C>
1. Definitions.....	2
(a) Administrative Fee.....	2
(b) Active Negligence.....	2
(c) Additional Rent.....	2
(d) Advance Date.....	2
(e) Affiliate.....	2
(f) Applicable Laws.....	2
(g) Applicable Purchaser.....	3
(h) Attorneys' Fees.....	3
(i) Base Rent.....	3
(j) Base Rent Commencement Date.....	3
(k) Base Rent Date.....	3
(l) Base Rent Period.....	4
(m) Breakage Costs.....	4
(n) Business Day.....	5
(o) Capital Adequacy Charges.....	5
(p) Carrying Costs.....	5
(q) Closing Costs.....	5
(r) Change of Control Event.....	5
(s) Code.....	5
(t) Commitment Fee.....	5
(u) Completion Notice.....	5
(v) Completion Deadline.....	5
(w) Construction Advances.....	5
(x) Construction Allowance.....	6
(y) Construction Periods.....	6
(z) Custodial Agreement.....	6
(aa) Debt.....	6
(ab) Default.....	6
(ac) Default Rate.....	6
(ad) Defaulting Participant.....	6
(ae) Designated Payment Date.....	6
(af) Effective Rate.....	7
(ag) Environmental Indemnity.....	7
(ah) Environmental Laws.....	7
(ai) Environmental Losses.....	7
(aj) Environmental Report.....	8
(ak) ERISA.....	8
(al) ERISA Affiliate.....	8

(am)	ERISA Termination Event.....	8
(an)	Escrowed Proceeds.....	8
(ao)	Eurocurrency Liabilities.....	9
(ap)	Eurodollar Rate Reserve Percentage.....	9
(aq)	Event of Default.....	9
(ar)	Excluded Taxes.....	9
(as)	Fair Market Value.....	9
(at)	Fed Funds Rate.....	9

</TABLE>

<TABLE>		
<S>		<C>
(au)	Funding Advances.....	9
(av)	GAAP.....	9
(aw)	Hazardous Substance.....	10
(ax)	Hazardous Substance Activity.....	10
(ay)	Impositions.....	10
(az)	Improvements.....	10
(ba)	Indemnified Party.....	10
(bb)	Initial Funding Advance.....	10
(bc)	Initial Improvements.....	11
(bd)	Landlord's Lender.....	11
(be)	Last Advance Date.....	11
(bf)	LIBOR.....	11
(bg)	LIBOR Period Election.....	11
(bh)	Lien.....	12
(bi)	Losses.....	12
(bj)	Maximum Construction Allowance.....	12
(bk)	Notice of Last Advance.....	12
(bl)	Ordinary Negligence.....	12
(bm)	Outstanding Construction Allowance.....	12
(bn)	Participant.....	12
(bo)	Participation Agreements.....	13
(bp)	Permitted Encumbrances.....	13
(bq)	Permitted Hazardous Substance Use.....	13
(br)	Permitted Hazardous Substances.....	13
(bs)	Permitted Transfer.....	13
(bt)	Person.....	14
(bu)	Plan.....	14
(bv)	Pledge Agreement.....	14
(bw)	Potential Lien Claimants.....	14
(bx)	Prime Rate.....	14
(by)	Purchase Agreement.....	14
(bz)	Qualified Payments.....	14
(ca)	Remaining Proceeds.....	15
(cb)	Rent.....	15
(cc)	Responsible Financial Officer.....	15
(cd)	Revolving Credit Agreement.....	15
(ce)	Scope Change.....	15
(cf)	Spread.....	15
(cg)	Stipulated Loss Value.....	16
(ch)	Subsidiary.....	16
(ci)	Tenant's Knowledge.....	16
(cj)	Term.....	16
(ck)	Unfunded Benefit Liabilities.....	16
(cl)	Upfront Fee.....	17
(cm)	Other Terms and References.....	17

2.	Term.....	17
3.	Rent.....	17

</TABLE>

(ii)

<TABLE>		
<S>		<C>
(a)	Base Rent Generally.....	17
(b)	Calculation of Base Rent.....	18
(c)	Upfront Fee.....	18
(d)	Administrative Agency Fees.....	18
(e)	Commitment Fees.....	19
(f)	Additional Rent.....	19
(g)	Interest and Order of Application.....	19
(h)	Net Lease.....	19
(i)	No Demand or Setoff.....	19
4.	Insurance and Condemnation Proceeds.....	19
5.	No Lease Termination.....	21
(a)	Status of Lease.....	21

	(b)	Waiver By Tenant.....	21
6.		Construction Allowance.....	22
	(a)	Advances; Outstanding Construction Allowance.....	22
	(b)	Initial Improvements.....	23
		(i) Responsibility for Construction.....	23
		(ii) Scope Changes.....	23
		(iii) Value Added.....	23
		(iv) Estoppel Letters Required.....	23
		(v) Advances Not a Waiver.....	24
	(c)	Conditions to Construction Advances.....	24
		(i) Prior Notice.....	24
		(ii) Amount of the Advances.....	24
		(iii) Insurance.....	24
		a) Title Insurance.....	24
		b) Builder's Risk Insurance.....	25
		(iv) Progress of Construction.....	25
		(v) Evidence of Costs to be Reimbursed.....	25
		(vi) No Event of Default or Change of Control Event.....	25
		(vii) No Sale of Landlord's Interest.....	25
		(viii) Construction Advance Certificate.....	25
	(d)	Completion Notice.....	26
7.		Future Modifications.....	26
8.		Purchase Agreement, Pledge Agreement and Environmental Indemnity.....	27
9.		Use and Condition of Leased Property.....	27
	(a)	Use.....	27
	(b)	Condition.....	27
	(c)	Consideration of and Scope of Waiver.....	27
10.		Other Representations, Warranties and Covenants of Tenant.....	28
	(a)	Financial Matters.....	28
	(b)	Ground Lease.....	28

</TABLE>

(iii)

<TABLE>			<C>
<S>	(c)	No Default or Violation.....	28
	(d)	Compliance with Covenants and Laws.....	28
	(e)	Environmental Representations.....	29
	(f)	No Suits.....	29
	(g)	Condition of Property.....	29
	(h)	Organization.....	29
	(i)	Enforceability.....	30
	(j)	Not a Foreign Person.....	30
	(k)	Omissions.....	30
	(l)	Existence.....	30
	(m)	Tenant Taxes.....	30
	(n)	Operation of Property.....	30
	(o)	Debts for Construction.....	31
	(p)	Impositions.....	31
	(q)	Repair, Maintenance, Alterations and Additions.....	32
	(r)	Insurance and Casualty.....	32
	(s)	Condemnation.....	33
	(t)	Protection and Defense of Title.....	34
	(u)	No Liens on the Leased Property.....	34
	(v)	Books and Records.....	34
	(w)	Financial Statements; Required Notices; Certificates as to Default.....	35
	(x)	Further Assurances.....	36
	(y)	Fees and Expenses; General Indemnification; Increased Costs; and Capital Adequacy Charges.....	36
	(z)	Liability Insurance.....	38
	(aa)	Permitted Encumbrances.....	38
	(ab)	Environmental.....	39
	(ac)	Compliance with Financial Covenants and Certain Other Requirements Established by the Revolving Credit Agreement.....	40
	(ad)	ERISA.....	41
11.		Representations, Warranties and Covenants of Landlord.....	41
	(a)	Title Claims By, Through or Under Landlord.....	41
	(b)	Actions Required of the Title Holder.....	41
	(c)	No Default or Violation.....	42
	(d)	No Suits.....	42
	(e)	Organization.....	42
	(f)	Enforceability.....	42
	(g)	Existence.....	42
	(h)	Not a Foreign Person.....	43
12.		Assignment and Subletting.....	43
	(a)	Consent Required.....	43
	(b)	Standard for Landlord's Consent to Assignments and Certain Other Matters.....	43

	(c)	Consent Not a Waiver.....	43
	(d)	Landlord's Assignment.....	43
13.		Environmental Indemnification.....	44
	(a)	Indemnity.....	44
</TABLE>			
(iv)			
<TABLE>			
<S>			
	(b)	Assumption of Defense.....	44
	(c)	Notice of Environmental Losses.....	44
	(d)	Rights Cumulative.....	45
	(e)	Survival of the Indemnity.....	45
14.		Landlord's Right of Access and Right to Perform.....	45
15.		Events of Default.....	46
	(a)	Definition of Event of Default.....	46
	(b)	Remedies.....	48
	(c)	Enforceability.....	49
	(d)	Remedies Cumulative.....	49
	(e)	Waiver by Tenant.....	49
	(f)	No Implied Waiver.....	50
16.		Default by Landlord.....	50
17.		Quiet Enjoyment.....	50
18.		Surrender Upon Termination.....	50
19.		Holding Over by Tenant.....	50
20.		Miscellaneous.....	51
	(a)	Notices.....	51
	(b)	Severability.....	53
	(c)	No Merger.....	53
	(d)	NO IMPLIED REPRESENTATIONS BY LANDLORD.....	53
	(e)	Entire Agreement.....	53
	(f)	Binding Effect.....	53
	(g)	Time is of the Essence.....	53
	(h)	Governing Law.....	53
	(i)	Waiver of a Jury Trial.....	53
	(j)	Income Tax Reporting.....	54
</TABLE>			

Exhibits

Exhibit A.....	Legal Description
Exhibit B.....	Encumbrance List
Exhibit C.....	Information Concerning Initial Improvements
Exhibit D.....	Contractor's Estoppel Letter
Exhibit E.....	Architect's Estoppel Letter
Exhibit F.....	Draw Request Forms
Exhibit G.....	Covenant Compliance Certificate
Exhibit H.....	Permitted Hazardous Substances
Exhibit I.....	Resolution of Disputed Insurance Claims
Exhibit J.....	LIBOR Period Election Notice

(v)

LEASE AGREEMENT

This LEASE AGREEMENT (hereinafter called this "LEASE"), made to be effective as of June 5, 1995 (all references herein to the "DATE HEREOF" or words of like effect shall mean such effective date), by and between BNP LEASING CORPORATION, a Delaware corporation (hereinafter called "LANDLORD"), and KLA INSTRUMENTS CORPORATION, a Delaware corporation (hereinafter called "TENANT");

W I T N E S E T H T H A T:

WHEREAS, pursuant to a Ground Lease dated of even date herewith (hereinafter called the "GROUND LEASE") from Tenant, as lessor, to Landlord, as lessee, covering the land described in Exhibit A attached hereto (hereinafter called the "LAND"), Landlord is leasing the Land and any existing improvements thereon from Tenant for a term of 34 years;

WHEREAS, in anticipation of Landlord's lease of the Land, Landlord and Tenant have reached agreement as to the terms and conditions upon which Landlord is willing to sublease the same to Tenant, and by this Lease Landlord and Tenant desire to evidence such agreement;

NOW, THEREFORE, in consideration of the rent to be paid and the covenants and agreements to be performed by Tenant, as hereinafter set forth, Landlord does hereby SUBLEASE, DEMISE and LET unto Tenant for the term hereinafter set forth the Land, together with:

(i) Landlord's interest in any and all buildings and improvements now or hereafter erected on the Land, including, but not limited to, the fixtures, attachments, appliances, equipment, machinery and other articles attached to such buildings and improvements (hereinafter called the "IMPROVEMENTS");

(ii) all easements and rights-of-way now owned or leased or hereafter acquired or leased by Landlord for use in connection with the Land or Improvements or as a means of access thereto;

(iii) all right, title and interest of Landlord, now owned or hereafter acquired, in and to (A) any land lying within the right-of-way of any street, open or proposed, adjoining the Land, (B) any and all sidewalks and alleys adjacent to the Land and (C) any strips and gores between the Land and abutting land (except strips and gores, if any, between the Land and abutting land owned or leased by Landlord, with respect to which this Lease shall cover only the portion thereof to the center line between the Land and the abutting land owned or leased by Landlord).

The Land and all of the property described in items (i) through (iii) above are hereinafter referred to collectively as the "REAL PROPERTY".

In addition to conveying (by sublease) the leasehold in the Real Property as described above, Landlord hereby grants and assigns to Tenant for the term of this Lease the right to use and enjoy (and, to the extent the following consist of contract rights, to enforce) any interests or rights in, to or under the following that have been transferred to Landlord under the Ground Lease, to the extent any such rights and interests are assignable and related to the Real Property: (a) any goods, equipment, furnishings, furniture, chattels and tangible personal property of whatever nature that are located on the Real Property and all renewals or replacements of or substitutions for any of the foregoing; and (b) any general intangibles, permits, licenses, franchises, certificates,

and other rights and privileges. All of the property, rights and privileges described above in this paragraph, together with any furniture, furnishings and other personalty included in the Initial Improvements (as hereinafter defined) because of Tenant's purchase thereof with the Construction Allowance (as hereinafter defined), are hereinafter collectively called the "PERSONAL PROPERTY". The Real Property and the Personal Property are hereinafter sometimes collectively called the "LEASED PROPERTY."

Provided, however, the leasehold estate conveyed hereby and Tenant's rights hereunder are expressly made subject and subordinate to the Permitted Encumbrances (as hereinafter defined) and to any other claims or encumbrances not asserted by Landlord itself or by third parties lawfully claiming through or under Landlord.

The Leased Property is leased by Landlord to Tenant and is accepted and is to be used and possessed by Tenant upon and subject to the following terms, provisions, covenants, agreements and conditions:

2. Definitions. As used herein, the terms "Landlord," "Tenant," "Ground Lease," "Land," "Improvements," "Real Property," "Personal Property" and "Leased Property" shall have the meanings indicated above and the terms listed immediately below shall have the following meanings:

(a) Administrative Fee. "ADMINISTRATIVE FEE" shall have the meaning assigned to it in subparagraph 3.(d) below.

(b) Active Negligence. "ACTIVE NEGLIGENCE" of an Indemnified Party means, and is limited to, the negligent conduct of activities on the Leased Property by the Indemnified Party in a manner that proximately causes actual bodily injury or property damage to occur. "ACTIVE NEGLIGENCE" shall not include (1) any negligent failure of Landlord to act when the duty to act would not have been imposed but for Landlord's status as owner of any interest in the Leased Property or as a party to the transactions described in this Lease, (2) any negligent failure of any other Indemnified Party to act when the duty to act would not have been imposed but for such party's contractual or other relationship to Landlord or participation or facilitation in any manner, directly or indirectly, of the transactions described in this Lease, or (3) the exercise in a lawful manner by Landlord (or any party lawfully claiming through or under Landlord) of any remedy provided herein or in the Purchase Agreement.

(c) Additional Rent. "ADDITIONAL RENT" shall have the meaning assigned to it in subparagraph 3.(f) below.

(d) Advance Date. "ADVANCE DATE" means, regardless of whether any Construction Advance shall actually be made thereon, each of the following: (i) June 14, 1995 and (ii) the first Business Day of every calendar month, beginning with July 3, 1995 and continuing regularly thereafter to and including the Base Rent Commencement Date. If the Base Rent Commencement Date occurs before the Last Advance Date, then each Base Rent Date through and including the Last Advance Date shall also constitute an "ADVANCE DATE" hereunder. In any event, the Last Advance Date shall be the final Advance Date.

(e) Affiliate. "AFFILIATE" of any Person means any other Person controlling, controlled by or under common control with such Person. For purposes of this definition, the term "CONTROL" when used with respect to any Person means the power to direct the management of policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "CONTROLLING" and "CONTROLLED" have meanings correlative to the foregoing.

(f) Applicable Laws. "APPLICABLE LAWS" shall have the meaning assigned to it in subparagraph 10.(d) below.

(g) Applicable Purchaser. "APPLICABLE PURCHASER" means any third party designated by Tenant to purchase the Landlord's interest in the Leased Property and in any Escrowed Proceeds as provided in the Purchase Agreement.

(h) Attorneys' Fees. "ATTORNEYS' FEES" means the reasonable fees and expenses of counsel to the parties incurring the same, which may include fairly allocated costs of in-house counsel, printing, photostating, duplicating and other expenses, air freight charges, and fees billed for law clerks, paralegals, librarians and others not admitted to the bar but performing services under the supervision of an attorney. Such terms shall also include, without limitation, all such fees and expenses incurred with respect to appeals, arbitrations and bankruptcy proceedings, and whether or not any manner or proceeding is brought with respect to the matter for which such fees and expenses were incurred.

(i) Base Rent. "BASE RENT" means the rent payable by Tenant pursuant to subparagraph 3.(a) below.

(j) Base Rent Commencement Date. "BASE RENT COMMENCEMENT DATE" means the earlier of (1) the Last Advance Date, or (2) the first Business Day of any calendar month that occurs at least ten (10) days after Landlord has received a notice from Tenant stating that Tenant irrevocably elects to have Base Rent begin to accrue as soon as possible under this Lease. It is understood that Tenant may, but shall not be required, to give such a notice at any time Tenant would prefer to commence payment of Base Rent rather than have Carrying Costs continue to accrue.

(k) Base Rent Date. "BASE RENT DATE" means a date upon which Base Rent must be paid under this Lease, all of which dates shall be the first Business Day of a calendar month. The first Base Rent Date shall be determined as follows:

a) If a LIBOR Period Election of one month is in effect on the Base Rent Commencement Date, then the first Business Day of the first calendar month following the Base Rent Commencement Date shall be the first Base Rent Date.

b) If the LIBOR Period Election in effect on the Base Rent Commencement Date is three months or longer, then the first Business Day of the third calendar month following the Base Rent Commencement Date shall be the first Base Rent Date.

Each successive Base Rent Date after the first Base Rent Date shall be the first Business Day of the first or third calendar month following the calendar month which includes the preceding Base Rent Date, determined as follows:

a) If a LIBOR Period Election of one month is in effect on a Base Rent Date, then the first Business Day of the first calendar month following such Base Rent Date shall be the next following Base Rent Date.

b) If a LIBOR Period Election of three months or longer is in effect on a Base Rent Date, then the first Business Day of the third calendar month following such Base Rent Date shall be the next following Base Rent Date.

Thus, for example, if the Base Rent Commencement Date falls on June 2, 1997 and a LIBOR Period Election of six months commences on the Base Rent Commencement Date, then the first Base Rent Date shall be the first

Business Day of September, 1997, and the second Base Rent Date shall be the first Business Day of December, 1997.

(l) Base Rent Period. "BASE RENT PERIOD" means a period for which Base Rent must be paid under this Lease, each of which periods shall correspond to the LIBOR Period Election for such period. The first Base Rent Period shall begin on and include the Base Rent Commencement Date, and each successive Base Rent Period shall begin on and include the Base Rent Date upon which the preceding Base Rent Period ends. Each Base Rent Period, including the first Base Rent Period, shall end on but not include the first, second, third or fourth Base Rent Date after the Base Rent Date upon which such period began, determined as follows:

a) If the LIBOR Period Election for a Base Rent Period is one month or three months, then such Base Rent Period shall end on the first Base Rent Date after the Base Rent Date upon which such period began.

b) If the LIBOR Period Election for a Base Rent Period is six months, then such Base Rent Period shall end on the second Base Rent Date after the Base Rent Date upon which such period began.

c) If the LIBOR Period Election for a Base Rent Period is nine months, then such Base Rent Period shall end on the third Base Rent Date after the Base Rent Date upon which such period began.

d) If the LIBOR Period Election for a Base Rent Period is twelve months, then such Base Rent Period shall end on the fourth Base Rent Date after the Base Rent Date upon which such period began.

The determination of Base Rent Periods can be illustrated by two examples:

1) If Tenant makes a LIBOR Period Election of three months for a hypothetical Base Rent Period beginning on June 2, 1997, then such Base Rent Period will end on but not include the first Base Rent Date after June 1, 1997; that is, such Base Rent Period will end on September 1, 1997, the first Business Day of the third calendar month after June 2, 1997.

2) If, however, Tenant makes a LIBOR Period Election of six months for the hypothetical Base Rent Period beginning June 2, 1997, then such Base Rent Period will end on but not include the second Base Rent Date after June 2, 1997; that is, December 1, 1997.

If the Base Rent Commencement Date occurs before the Last Advance Date, then because of the interplay of the definitions in this Lease: (1) the last day of each Base Rent Period shall also constitute an Advance Date hereunder through and including the Last Advance Date; (2) Base Rent Periods ending on or prior to the Last Advance Date shall also constitute Construction Periods hereunder; and (3) the LIBOR Period Election for any Base Rent Period ending on or prior to the Last Advance Date shall, under the definition of LIBOR Period Election in subparagraph 1.(bg) below, be one month, thus causing each such Base Rent Period to be only one month.

(m) Breakage Costs. "BREAKAGE COSTS" means any and all costs, losses or expenses incurred or sustained by Landlord's Lender or any Participant, for which Landlord's Lender or the Participant shall expect reimbursement from Landlord, because of the resulting liquidation or redeployment of deposits or other funds used to make Funding Advances upon any termination of the Ground Lease by Tenant (as lessor thereunder) pursuant to Paragraph 2 thereof or upon any termination of this Lease by Tenant pursuant to

Paragraph 2 below, if such termination is effective as of any day other than the last day of a Construction Period or Base Rent Period. Breakage Costs will include losses attributable to any decline in LIBOR as of the effective date of termination as compared to LIBOR used to determine the Effective Rate then in effect. (However, if Landlord's Lender or a Participant actually receives a profit upon the liquidation or redeployment of deposits or other funds used to

make Funding Advances, because of any increase in LIBOR, then such profit will be offset against costs or expenses that would otherwise be charged as Breakage Costs under this Lease.) Each determination by Landlord's Lender of Breakage Costs shall, in the absence of clear and demonstrable error, be conclusive and binding upon Landlord and Tenant.

(n) Business Day. "BUSINESS DAY" means any day that is (1) not a Saturday, Sunday or day on which commercial banks are generally closed or required to be closed in New York City, New York or San Francisco, California, and (2) a day on which dealings in deposits of dollars are transacted in the London interbank market; provided that if such dealings are suspended indefinitely for any reason, "BUSINESS DAY" shall mean any day described in clause (1).

(o) Capital Adequacy Charges. "CAPITAL ADEQUACY CHARGES" means any additional amounts Landlord's Lender or any Participant requires Landlord to pay as compensation for an increase in required capital as provided in subparagraph 10.(y) (iv).

(p) Carrying Costs. "CARRYING COSTS" means the charges (accruing at the Effective Rate) added to and made a part of the Outstanding Construction Allowance from time to time on and before the Base Rent Commencement Date pursuant to and as more particularly described in subparagraph 6.(a) (ii) below.

(q) Closing Costs. "CLOSING COSTS" means the costs paid from the Initial Funding Advance in connection with the preparation and negotiation of this Lease, the Ground Lease, the Purchase Agreement, the Pledge Agreement, the Environmental Indemnity and related documents. To the extent that Landlord does not itself use the entire Initial Funding Advance to pay expenses incurred by Landlord in connection with the preparation and negotiation of such documents, the remainder thereof will be advanced to Tenant for payment of expenses incurred by Tenant in connection therewith, or title insurance premiums.

(r) Change of Control Event. "CHANGE OF CONTROL EVENT" means the occurrence of any merger or consolidation or sale of assets involving Tenant that would constitute an "Event of Default" as defined in the Revolving Credit Agreement.

(s) Code. "CODE" means the Internal Revenue Code of 1986, as amended from time to time.

(t) Commitment Fee. "COMMITMENT FEE" shall have the meaning assigned to it in subparagraph 3.(e) below.

(u) Completion Notice. "COMPLETION NOTICE" shall have the meaning assigned to it in subparagraph 6.(d) below.

(v) Completion Deadline. "COMPLETION DEADLINE" means November 1, 1997.

(w) Construction Advances. "CONSTRUCTION ADVANCES" means actual advances of funds made by or on behalf of Landlord pursuant to Paragraph 6.(a) (i) below for costs incurred to construct the Initial Improvements or for property taxes and assessments assessed against the Leased Property and paid prior to the Last Advance Date.

(x) Construction Allowance. "CONSTRUCTION ALLOWANCE" means the allowance, consisting of all Construction Advances and Carrying Costs, which is to be provided by Landlord for the construction of the Initial Improvements as more particularly described in Paragraph 6 below.

(y) Construction Periods. The first "CONSTRUCTION PERIOD" shall be a short period beginning on and including the effective date hereof and ending on but not including July 3, 1995. Each successive "CONSTRUCTION PERIOD" after the first Construction Period shall be a period of approximately one (1) month, and shall begin on and include the day on which the preceding Construction Period ends and shall end on but not include the next following Advance Date. The last "CONSTRUCTION PERIOD" shall end on but not include the Last Advance Date.

(z) Custodial Agreement. "CUSTODIAL AGREEMENT" means the Custodial Agreement dated as of the date hereof between Banque Nationale de Paris, New York Branch (or any successor or replacement custodian), and Tenant pursuant to which such bank will hold securities pledged by Tenant as collateral for Tenant's obligations under the Purchase Agreement, as such Custodial Agreement may be extended, supplemented, amended, restated or otherwise modified from time to time in accordance with its terms.

(aa) Debt. "DEBT" of any Person means (i) indebtedness of

such Person for borrowed money, (ii) obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) obligations of such Person to pay the deferred purchase price of property or services, (iv) obligations of such Person as lessee under leases which shall have been or should be, in accordance with GAAP, recorded as capital leases, (v) obligations under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clauses (i) through (iv) above, (vi) liabilities of another Person secured by a Lien on, or payable out of the proceeds of production from, property of such Person even though such obligation shall not be assumed by such Person (but in the case of such liabilities not assumed by such Person, the liabilities shall constitute Debt of such Person only to the extent of the value of such Person's property encumbered by the Lien securing such liabilities) and (vii) Unfunded Benefit Liabilities.

(bb) Default. "DEFAULT" means any event which, with the passage of time or the giving of notice or both, would (if not cured within any applicable cure period) constitute an Event of Default.

(cc) Default Rate. "DEFAULT RATE" means a floating per annum rate equal to three percent (3%) above the Prime Rate. However, in no event will the Default Rate exceed the maximum interest rate permitted by law.

(dd) Defaulting Participant. "DEFAULTING PARTICIPANT" means any Participant that shall have breached its Participation Agreement with Landlord by failing to provide a Funding Advance to Landlord for (or equal to) such Participant's percentage of any Construction Advance requested by Tenant. (For purposes of this Lease a "PARTICIPANT'S PERCENTAGE" shall mean the percentage that, under such Participant's Participation Agreement with Landlord, is to be multiplied against Construction Advances to compute the amount the Participant must advance to Landlord for (or equal to) a percentage of Construction Advances requested hereunder.) Notwithstanding the foregoing, however, in no event will any Participant be a Defaulting Participant unless its Participation Agreement with Landlord expressly makes Tenant a third party beneficiary of the applicable Participant's promise to fund advances for (or equal to) its percentage share of Construction Advances hereunder.

(ee) Designated Payment Date. "DESIGNATED PAYMENT DATE" shall have the meaning assigned to it in the Purchase Agreement.

(ff) Effective Rate. "EFFECTIVE RATE" means:

(i) for each day during the short first Construction Period ending July 3, 1995 the per annum rate which equals the Spread plus the rate which is fifty basis points (50/100 of 1%) above the Fed Funds Rate for that day; and

(ii) for each subsequent Construction Period and for each Base Rent Period, the per annum rate which equals the Spread for such Construction Period or Base Rent Period plus the per annum rate determined by dividing (A) LIBOR for such Construction Period or Base Rent Period, as the case may be, by (B) 100% minus the Eurodollar Rate Reserve Percentage for such Construction Period or Base Rent Period.

If LIBOR or the Eurodollar Rate Reserve Percentage changes from Construction Period to Construction Period or from Base Rent Period to Base Rent Period, then the Effective Rate shall be automatically increased or decreased as of the date of such change, as the case may be. If for any reason Landlord determines that it is impossible or unreasonably difficult to determine the Effective Rate with respect to a given Construction Period or Base Rent Period in accordance with the preceding sentences, then the "EFFECTIVE RATE" for that Construction Period or Base Rent Period shall equal the Spread plus any published index or per annum interest rate determined reasonably and in good faith by Landlord's Lender to be comparable to LIBOR at the beginning of the first day of that period. A comparable interest rate might be, for example, the then existing yield on short term United States Treasury obligations (as compiled by and published in the then most recently published United States Federal Reserve Statistical Release H.15(519) or its successor publication), plus or minus a fixed adjustment based on Landlord's Lender's comparison of past eurodollar market rates to past yields on such Treasury obligations. Any determination by Landlord of the Effective Rate hereunder shall, in the absence of clear and demonstrable error, be conclusive and binding.

(gg) Environmental Indemnity. "ENVIRONMENTAL INDEMNITY" means the separate Environmental Indemnity Agreement dated as of the date hereof executed by Tenant in favor of Landlord covering the Land and certain other property described therein, as such agreement may be extended, supplemented, amended, restated or otherwise modified from time to time in accordance with its terms.

(hh) Environmental Laws. "ENVIRONMENTAL LAWS" means any and all existing and future Applicable Laws pertaining to safety, health or the environment, or to Hazardous Substances or Hazardous Substance Activities, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 (as amended, hereinafter called "CERCLA"), and the Resource Conservation and Recovery Act of 1976, as amended by the Used Oil Recycling Act of 1980, the Solid Waste Disposal Act Amendments of 1980, and the Hazardous and Solid Waste Amendments of 1984 (as amended, hereinafter called "RCRA").

(ii) Environmental Losses. "ENVIRONMENTAL LOSSES" means Losses suffered or incurred by any Indemnified Party, directly or indirectly, relating to or arising out of, based on or as a result of: (i) any Hazardous Substance Activity; (ii) any violation of Environmental Laws relating to the Leased Property or to the ownership, use, occupancy or operation thereof; (iii) any investigation, inquiry, order, hearing, action, or other proceeding by or before any governmental or quasi-governmental agency or authority in connection with any Hazardous Substance Activity; or (iv) any claim, demand, cause of action or investigation, or any action or other proceeding, whether meritorious or not, brought or asserted against any Indemnified Party which directly or indirectly relates to, arises from, is based on, or results from any of the matters described in clauses (i), (ii), or (iii) of this subparagraph 1.(ai), or any allegation of any such matters. ENVIRONMENTAL LOSSES INCURRED BY OR ASSERTED AGAINST A PARTICULAR INDEMNIFIED PARTY SHALL INCLUDE LOSSES RELATING TO OR ARISING OUT OF OR AS A RESULT OF ANY MATTERS

LISTED IN THE PRECEDING SENTENCE EVEN WHEN SUCH MATTERS ARE CAUSED BY THE ORDINARY NEGLIGENCE (AS DEFINED BELOW) OF THAT PARTICULAR OR ANY OTHER INDEMNIFIED PARTY. However, Losses incurred by or asserted against a particular Indemnified Party and proximately caused by (and attributed by any applicable principles of comparative fault to) the wilful misconduct, Active Negligence or gross negligence of any Indemnified Party will not constitute Environmental Losses of such Indemnified Party for purposes of this Lease.

(jj) Environmental Report. "ENVIRONMENTAL REPORT" means, collectively, the following reports prepared by Tetra Tech, Inc. for Lund Financial Corporation: (i) Limited Soils Investigation for Vacant Parcel at the KLA Instruments Facility, 160 Rio Robles, San Jose, California dated April 18, 1995; and (ii) Phase I Environmental Site Assessment KLA Instruments Property, 160 Rio Robles Drive, San Jose, California dated April 21, 1995, and all tables, figures, certificates, appendices and other attachments to such reports.

(kk) ERISA. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, together with all rules and regulations promulgated with respect thereto.

(ll) ERISA Affiliate. "ERISA AFFILIATE" means any Person who for purposes of Title IV of ERISA is a member of Tenant's controlled group, or under common control with Tenant, within the meaning of Section 414 of the Code, and the regulations promulgated and rulings issued thereunder.

(mm) ERISA Termination Event. "ERISA TERMINATION EVENT" means (i) the occurrence with respect to any Plan of a) a reportable event described in Sections 4043(b)(5) or (6) of ERISA or b) any other reportable event described in Section 4043(b) of ERISA other than a reportable event not subject to the provision for 30-day notice to the Pension Benefit Guaranty Corporation pursuant to a waiver by such corporation under Section 4043(a) of ERISA, or (ii) the withdrawal of Tenant or any Affiliate of Tenant from a Plan during a plan year in which it was a "SUBSTANTIAL EMPLOYER" as defined in Section 4001(a)(2) of ERISA, or (iii) the filing of a notice of intent to terminate any Plan or the treatment of any Plan amendment as a termination under Section 4041 of ERISA, or (iv) the institution of proceedings to terminate any Plan by the Pension Benefit Guaranty Corporation under Section 4042 of ERISA, or (v) any other event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan.

(nn) Escrowed Proceeds. "ESCROWED PROCEEDS" shall mean any proceeds that are received by Landlord from time to time during the Term (and any interest earned thereon), which Landlord is holding for the purposes specified in the next sentence, from any party (1) under any casualty insurance policy as a result of damage to the Leased Property, (2) as compensation for any restriction placed upon the use or development of the Leased Property or for the condemnation of the Leased Property or any portion thereof, (3) because of any judgment, decree or award for injury or damage to the Leased Property or (4) under any title insurance policy or otherwise as a result of any title defect or claimed title defect with respect to the Leased Property; provided, however, in determining "ESCROWED PROCEEDS" there shall be deducted all expenses and costs of every type, kind and nature (including Attorneys' Fees) incurred by Landlord to collect such proceeds; and provided, further, "ESCROWED PROCEEDS" shall not include any payment to Landlord by a Participant or an Affiliate of Landlord

that is made to compensate Landlord for the Participant's or Affiliate's share of any Losses Landlord may incur as a result of any of the events described in the preceding clauses (1) through (4). "ESCROWED PROCEEDS" shall include only such proceeds as are held by Landlord (A) pursuant to Paragraph 4 for the payment to Tenant for the restoration or repair of the Leased Property or (B) for application (generally, on the next following Advance Date or Base Rent Date which is at least three (3) Business Days following Landlord's receipt of such proceeds) as a Qualified Payment or as reimbursement of costs incurred in connection with a Qualified Payment. "ESCROWED PROCEEDS" shall not include any proceeds that have been applied as a Qualified Payment or to pay any costs incurred in connection with a Qualified Payment. Until Escrowed Proceeds are paid to Tenant pursuant to Paragraph 4 below or applied as a Qualified Payment or as reimbursement for costs incurred

in connection with a Qualified Payment, Landlord shall keep the same deposited in an interest bearing account established in Landlord's name, and all interest earned on such account shall be added to and made a part of Escrowed Proceeds.

(oo) Eurocurrency Liabilities. "EUROCURRENCY LIABILITIES" has the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

(pp) Eurodollar Rate Reserve Percentage. "EURODOLLAR RATE RESERVE PERCENTAGE" means, for purposes of determining the Effective Rate for any Construction Period or Base Rent Period, the reserve percentage applicable two Business Days before the first day of such Construction Period or Base Rent Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for a member bank of the Federal Reserve System in New York City with deposits exceeding One Billion Dollars with respect to liabilities or deposits consisting of or including Eurocurrency Liabilities (or with respect to any other category or liabilities by reference to which LIBOR is determined) having a term comparable to such Construction Period or Base Rent Period.

(qq) Event of Default. "EVENT OF DEFAULT" shall have the meaning assigned to it in subparagraph 15.(a) below.

(rr) Excluded Taxes. "EXCLUDED TAXES" shall mean (1) all federal, state and local income taxes upon the Base Rent, the Upfront Fee, Administrative Fees, Commitment Fees and any interest paid to Landlord pursuant to subparagraph 3.(g), (2) any taxes imposed by any governmental authority outside the United States, and (3) any transfer or change of ownership taxes assessed because of Landlord's transfer or conveyance to any third party of any rights or interest in the Lease, the Purchase Agreement or the Leased Property, but excluding any such taxes assessed because of any Permitted Transfer to a Participant or because of any Permitted Transfer described in clause (4) of the definition of Permitted Transfer below.

(ss) Fair Market Value. "FAIR MARKET VALUE" shall have the meaning assigned to it in the Purchase Agreement.

(tt) Fed Funds Rate. "FED FUNDS RATE" means, for any period, a fluctuating interest rate (expressed as a per annum rate and rounded upwards, if necessary, to the next 1/16 of 1%) equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rates are not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Landlord's Lender from three Federal funds brokers of recognized standing selected by Landlord's Lender. All determinations of the Fed Funds Rate by Landlord's Lender shall, in the absence of clear and demonstrable error, be binding and conclusive upon Landlord and Tenant.

(uu) Funding Advances. "FUNDING ADVANCES" means (1) the Initial Funding Advance and (2) all future advances (which, together with Initial Funding Advance, are expected to total \$12,500,000) made by Landlord's Lender or any Participant to or on behalf of Landlord to allow Landlord to provide the Construction Allowance hereunder.

(vv) GAAP. "GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time, applied on a basis consistent with those used in the preparation of the financial statements referred to in subparagraph 10.(w) (except for changes concurred in by Tenant's independent public accountants).

(ww) Hazardous Substance. "HAZARDOUS SUBSTANCE" means (i) any chemical, compound, material, mixture or substance that is now or hereafter defined or listed in, regulated under, or otherwise classified pursuant to, any Environmental Laws as a "hazardous substance," "hazardous material," "hazardous waste," "extremely hazardous waste," "infectious waste," "toxic substance," "toxic pollutant," or any other formulation intended to define, list or classify substances by reason of deleterious properties, including, without limitation, ignitability, corrosiveness, reactivity, carcinogenicity, toxicity or reproductive toxicity; (ii) petroleum, any fraction of petroleum, natural gas, natural gas liquids, liquified natural gas, synthetic gas usable for fuel (or mixtures of natural gas and such synthetic gas), and ash produced by a resource recovery facility utilizing a municipal solid waste stream, and drilling fluids, produced waters and other wastes associated with the exploration, development or production of crude oil, natural gas or geothermal resources; (iii) asbestos and any asbestos containing material; (iv) "waste" as defined in section 13050(d) of the California Water Code; and (v) any other material that, because of its quantity, concentration or physical or chemical characteristics, poses a significant present or potential hazard to human health or safety or to the environment if released into the workplace or the environment.

(xx) Hazardous Substance Activity. "HAZARDOUS SUBSTANCE ACTIVITY" means any actual, proposed or threatened use, storage, holding, existence, location, release (including, without limitation, any spilling, leaking, leaching, pumping, pouring, emitting, emptying, dumping, disposing into the environment, and the continuing migration into or through soil, surface water, groundwater or any body of water), discharge, deposit, placement, generation, processing, construction, treatment, abatement, removal, disposal, disposition, handling or transportation of any Hazardous Substance from, under, in, into or on the Leased Property, including, without limitation, the movement or migration of any Hazardous Substance from surrounding property, surface water, groundwater or any body of water under, in, into or onto the Leased Property and any residual Hazardous Substance contamination in, on or under the Leased Property.

(yy) Impositions. "IMPOSITIONS" shall have the meaning assigned to it in subparagraph 10.(p) below.

(zz) Improvements. "IMPROVEMENTS," as defined in the recitals at the beginning of this Lease, shall include not only existing improvements to the Land as of the date hereof, if any, but also any new improvements or changes to existing improvements made by Tenant. Accordingly, any and all new improvements made to the Leased Property by Tenant using the Construction Allowance as contemplated in this Lease shall constitute Improvements as that term is used herein.

(aaa) Indemnified Party. "INDEMNIFIED PARTY" means each of (1) Landlord, any of Landlord's successors and any of Landlord's assigns to the extent that the transfer to such assigns was permitted hereunder, as to all or any portion of the Leased Property or any interest therein (but excluding Tenant or any Applicable Purchaser under the Purchase Agreement or any Person that claims its interest in the Leased Property through or under Tenant or such Applicable Purchaser), (2) any Participants, and (3) any Affiliate, officer, agent, director, employee or servant of any of the parties described in clause (1) or (2) preceding.

(bbb) Initial Funding Advance. "INITIAL FUNDING ADVANCE" means the advance of \$300,000 made by Landlord's Lender to or on behalf of Landlord on or prior to the date of this Lease to finance Closing Costs.

(ccc) Initial Improvements. "INITIAL IMPROVEMENTS" shall mean the improvements on the Land and any furnishings for such improvements which are to be constructed and installed by Tenant using the Construction Allowances described in Paragraph 6 below.

(ddd) Landlord's Lender. "LANDLORD'S LENDER" means Landlord's Affiliate, Banque Nationale de Paris, a bank organized and existing under the laws of France, together with any Affiliates of such bank that directly or indirectly provided or hereafter during the Term provide or maintain any of the Funding Advances, and any successors of such bank and such Affiliates.

(eee) Last Advance Date. "LAST ADVANCE DATE" means the earlier of (1) the Completion Deadline, or (2) the Designated Payment Date under the Purchase Agreement, or (3) the first Business Day of any calendar month that occurs at least ten (10) days after Landlord has received a Completion Notice or Notice of Last Advance from Tenant, or (4) the first Business Day of any calendar month during which Landlord has received a Lessor's Termination Notice under and as defined in the Ground Lease.

(fff) LIBOR. "LIBOR" means, for purposes of determining the Effective Rate for each Construction Period and Base Rent Period, the rate determined by Landlord's Lender to be the average rate of interest per annum (rounded upwards, if necessary, to the next 1/16 of 1%) of the rates at which deposits of dollars are offered or available to Landlord's Lender in the London interbank market at approximately 11:00 a.m. (London time) on the second Business Day preceding the first day of such Construction Period or Base Rent Period, as the case may be. Landlord shall instruct Landlord's Lender to consider deposits, for purposes of making the determination described in the preceding sentence, that are offered: (i) for delivery on the first day of such Construction Period or Base Rent Period, (ii) in an amount equal or comparable to the total (projected on the applicable date of determination by Landlord's Lender) Stipulated Loss Value on the first day of such Construction Period or Base Rent Period, and (iii) for a period of time equal or comparable to the length of such Construction Period or Base Rent Period. If Landlord's Lender so chooses, it may determine LIBOR for any period by reference to the rate reported by the British Banker's Association on Page 3750 of the Telerate Service at approximately 11:00 a.m. (London time) on the second Business Day preceding the first day of such period; provided, however, Tenant may notify Landlord that Tenant objects to any future determination of LIBOR in the manner provided by this sentence, in which case any determination of LIBOR required more than three Business Days after Landlord's receipt of such notice shall be made as if this sentence had been struck from this Lease. If for any reason Landlord's Lender determines that it is impossible or unreasonably difficult to determine LIBOR with respect to a given Construction Period or Base Rent Period in accordance with the preceding sentences, or if Landlord's Lender shall determine that it is unlawful (or any central bank or governmental authority shall assert that it is unlawful) for Landlord, Landlord's Lender or any Participant to provide Funding Advances hereunder during any Base Rent Period for which Base Rent is computed by reference to LIBOR, then "LIBOR" for that Construction Period or Base Rent Period shall equal the rate which is fifty basis points (50/100 of 1%) above the Fed Funds Rate for that period. All determinations of LIBOR by Landlord's Lender shall, in the absence of clear and demonstrable error, be binding and conclusive upon Landlord and Tenant.

(ggg) LIBOR Period Election. The "LIBOR PERIOD ELECTION" for any Base Rent Period means a period of one month, three months, six months, nine months or twelve months as designated by Tenant at least ten (10) Business Days prior to the commencement of such Base Rent Period by a written notice given to Landlord in the form of Exhibit J attached hereto. (For purposes of this Lease a LIBOR Period Election for any Base Rent Period shall also be considered the LIBOR Period Election in effect on (1) the Base Rent Commencement Date or Base Rent Date upon which such Base Rent Period begins and (2) subsequent Base Rent Dates, if any, which occur before the date upon which such Base Rent Period ends.) Any Libor Period Election so designated by Tenant shall remain in effect for the entire Base Rent Period specified in Tenant's notice to Landlord (provided such Base Rent Period commences at least ten (10) Business Days after Landlord's receipt of the notice) and for all subsequent Base Rent Periods until a new designation becomes effective in accordance with the provisions set forth in this paragraph. Notwithstanding the foregoing, however: (1) Tenant shall not be entitled to designate a LIBOR Period Election that would cause a Base Rent Period to extend beyond the end of the scheduled Term; (2) changes in the LIBOR Period Election shall become effective only upon the commencement of a new Base Rent Period; (3) if Tenant fails to make a LIBOR Period Election in accordance

with the foregoing requirements for any Base Rent Period, or if an Event of Default shall have occurred and be continuing on the third Business Day preceding the commencement of any Base Rent Period, the LIBOR Period Election for such Base Rent Period shall be deemed to be one month; and (4) for any Base Rent Period which ends on or prior to the Last Advance Date, the LIBOR Period Election shall be deemed to be one month.

(hhh) Lien. "LIEN" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any agreement to sell receivables with recourse, any lease in the nature thereof, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction). Customary bankers' rights of set-off arising by operation of law or by contract (however styled, if the contract grants rights no greater than those arising by operation of law) in connection with working capital facilities, lines of credit, term loans and letter of credit facilities and other contractual arrangements entered into with banks in the ordinary course of business are not "Liens" for the purposes of this Lease.

(iii) Losses. "LOSSES" means any and all losses, liabilities, damages (whether actual, consequential, punitive or otherwise denominated), demands, claims, actions, judgments, causes of action, assessments, fines, penalties, costs, and out-of-pocket expenses (including, without limitation, Attorneys' Fees and the fees of outside accountants and environmental consultants), of any and every kind or character, foreseeable and unforeseeable,

liquidated and contingent, proximate and remote, known and unknown.

(jjj) Maximum Construction Allowance. "MAXIMUM CONSTRUCTION ALLOWANCE" means an amount equal to \$12,500,000, less the Initial Funding Advance.

(kkk) Notice of Last Advance. "NOTICE OF LAST ADVANCE" means any notice given by Tenant to Landlord stating that Tenant irrevocably elects not to request or accept any further Construction Advances which Tenant might be entitled to but for such election. It is understood that Tenant may, but shall not be required, to give a Notice of Last Advance in order to accelerate the Last Advance Date and to thereby accelerate the date upon which Commitment Fees shall cease to accrue.

(lll) Ordinary Negligence. "ORDINARY NEGLIGENCE" of an Indemnified Party means any negligent acts or omissions of such party that does not for any reason constitute Active Negligence as defined in this Lease.

(mmm) Outstanding Construction Allowance. "OUTSTANDING CONSTRUCTION ALLOWANCE" shall have the meaning assigned to it in subparagraph 6. (a) (i).

(nnn) Participant. "PARTICIPANT" means any Person other than Landlord that agrees with Landlord or another Participant to participate in all or some of the risks and rewards to Landlord of this Lease and the Purchase Agreement. As of the effective date hereof, there are no Participants, but Landlord may through a Permitted Transfer (and only through a Permitted Transfer) share in risks and rewards of this Lease and the Purchase Agreement with Participants in the future.

(ooo) Participation Agreements. "PARTICIPATION AGREEMENTS" means participation agreements between Landlord and one or more third parties, pursuant to which the third party or parties become Participants by agreeing to participate in all or some of the risks and rewards to Landlord of this Lease and the Purchase Agreement, as such Participation Agreements may be extended, supplemented, amended, restated or otherwise modified from time to time.

(ppp) Permitted Encumbrances. "PERMITTED ENCUMBRANCES" means (i) the encumbrances and other matters affecting the Leased Property that are set forth in Exhibit B attached hereto and made a part hereof,

and (ii) the Ground Lease or any other agreement described therein that survived the execution and delivery thereof, and (iii) any easement agreement or other document affecting title to the Leased Property executed by Landlord at the request of or with the consent of Tenant.

(qqq) Permitted Hazardous Substance Use. "PERMITTED HAZARDOUS SUBSTANCE USE" means the use, storage and offsite disposal of Permitted Hazardous Substances in strict accordance with applicable Environmental Laws and with due care given the nature of the Hazardous Substances involved; provided, the scope and nature of such use, storage and disposal shall not include the use of underground storage tanks for any purpose other than the storage of water for fire control, nor shall such scope and nature:

(1) exceed that reasonably required for the construction of the Initial Improvements and any other Improvements permitted by this Lease and for the operation of the Leased Property for the purposes expressly permitted under subparagraph 9. (a); or

(2) include any disposal, discharge or other release of Hazardous Substances from operations on the Leased Property in any manner that might allow such substances to reach the San Francisco Bay, surface water or groundwater, except (i) through a lawful and properly authorized discharge (A) to a publicly owned treatment works or (B) with rainwater or storm water runoff in accordance with Applicable Laws and any permits obtained by Tenant that govern such runoff; or (ii) any such disposal, discharge or other release of Hazardous Substances for which no permits are required and which are not otherwise regulated under applicable Environmental Laws.

Further, notwithstanding anything to the contrary herein contained, Permitted Hazardous Substance Use shall not include any use of the Leased Property as a treatment, storage or disposal facility (as defined by federal Environmental Laws) for Hazardous Substances, including but not limited to a landfill, incinerator or other waste disposal facility.

(rrr) Permitted Hazardous Substances. "PERMITTED HAZARDOUS SUBSTANCES" means Hazardous Substances used and reasonably required for the construction of the Initial Improvements or for Tenant's operation of the Leased Property for the purposes expressly permitted by subparagraph 9. (a), in either case in strict compliance with all Environmental Laws and with due care given

the nature of the Hazardous Substances involved. Without limiting the generality of the foregoing, Permitted Hazardous Substances shall include, without limitation, usual and customary office and janitorial products, and the materials listed on Exhibit H attached hereto.

(sss) Permitted Transfer. "PERMITTED TRANSFER" means any one or more of the following: (1) any assignment or conveyance by Landlord of any lien or security interest against the Leased Property (in contrast to a conveyance of Landlord's leasehold estate under the Ground Lease) or of any of Landlord's interest in Rent, payments required by the Purchase Agreement or payments to be generated from the Leased Property after the Term, to any Person not an Affiliate of Landlord that is approved in advance by Tenant as a Participant (which approval shall not be unreasonably withheld for any proposed Participant that is a commercial bank operating in the United States of America having capital and surplus in excess of \$500,000,000 or for any Affiliate of such a bank) or to any Person that is an Affiliate of Landlord but is not classified as a special purpose entity under GAAP as it pertains to the characterization of this Lease as an operating lease; (2) any agreement to exercise or refrain from exercising rights or remedies hereunder or under the Purchase Agreement, the Pledge Agreement or the Environmental Indemnity made by Landlord with any Participant or Affiliate of Landlord; (3) any assignment or conveyance by Landlord requested by Tenant or required by any Permitted Encumbrance, by the Purchase Agreement or by Applicable Laws; (4) any assignment or conveyance by Landlord when an Event of Default shall have occurred and be continuing; or (5) any assignment or conveyance by Landlord after the Designated Payment Date.

(ttt) Person. "PERSON" means an individual, a corporation, a partnership, an unincorporated organization, an association, a joint stock company, a joint venture, a trust, an estate, a government or agency or political subdivision thereof or other entity, whether acting in an individual, fiduciary or other capacity.

(uuu) Plan. "PLAN" means at any time an employee pension benefit plan which is covered under Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code and is either (i) maintained by Tenant or any Subsidiary for employees of Tenant or any Subsidiary or (ii) maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which Tenant or any Subsidiary is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

(vvv) Pledge Agreement. "PLEDGE AGREEMENT" means the Pledge Agreement dated as of the date hereof between Landlord and Tenant pursuant to which Tenant may pledge securities as collateral for Tenant's obligations under the Purchase Agreement, as such Pledge Agreement may be extended, supplemented, amended, restated or otherwise modified from time to time.

(www) Potential Lien Claimants. "POTENTIAL LIEN CLAIMANTS" shall have the meaning assigned to it in subparagraph 6.(c)(v).

(xxx) Prime Rate. "PRIME RATE" means the prime interest rate or equivalent charged by Landlord's Lender in the United States as announced or published by Landlord's Lender from time to time, which need not be the lowest interest rate charged by Landlord's Lender. If for any reason Landlord's Lender does not announce or publish a prime rate or equivalent, the prime rate or equivalent announced or published by either Citibank, N.A. or Credit Commercial de France as selected by Landlord shall be used as the Prime Rate. The prime rate or equivalent announced or published by such bank need not be the lowest rate charged by it. The Prime Rate may change from time to time after the date hereof without notice to Tenant as of the effective time of each change in rates described in this definition.

(yyy) Purchase Agreement. "PURCHASE AGREEMENT" means the Purchase Agreement dated as of the date hereof between Landlord and Tenant pursuant to which Tenant has agreed to purchase or to arrange for the purchase by a third party of the Leased Property, as such Purchase Agreement may be extended, supplemented, amended, restated or otherwise modified from time to time in accordance with its terms.

(zzz) Qualified Payments. "QUALIFIED PAYMENTS" means all payments received by Landlord from time to time during the Term from any party (1) under any casualty insurance policy as a result of damage to the Leased Property, (2) as compensation for any restriction placed upon the use or development of the Leased Property or for the condemnation of the Leased Property or any portion thereof, (3) because of any judgment, decree or award for injury or damage to the Leased Property or (4) under any title insurance policy or otherwise as a result of any title defect or claimed title defect with respect to the Leased Property; provided, however, that (x) in determining Qualified Payments, there shall be deducted all expenses and costs of every kind, type and nature (including taxes and Attorneys' Fees) incurred by Landlord with respect to the collection of such payments, (y) Qualified Payments shall

not include any payment to Landlord by a Participant or an Affiliate of Landlord that is made to compensate Landlord for the Participant's or Affiliate's share of any Losses Landlord may incur as a result of any of the events described in the preceding clauses (1) through (4) and (z) Qualified Payments shall not include any payments received by Landlord that Landlord has paid to Tenant for the restoration or repair of the Leased Property or that Landlord is holding as Escrowed Proceeds. For purposes of computing the total Qualified Payments (and other amounts dependent upon Qualified Payments, such as Stipulated Loss Value and the Outstanding Construction Allowance) paid to or received by Landlord as of any date, payments described in the preceding clauses (1) through (4) will be considered as Escrowed Proceeds, not

Qualified Payments, until they are actually applied as Qualified Payments by Landlord, which Landlord will do upon the first Advance Date or Base Rent Date which is at least three (3) Business Days after Landlord's receipt of the same unless postponement of such application is required by other provisions of this Lease or consented to by Tenant in writing. Thus, for example, condemnation proceeds actually received by Landlord in the middle of a Base Rent Period will not be considered as having been received by Landlord for purposes of computing the total Qualified Payments unless and until actually applied by Landlord as a Qualified Payment on a subsequent Base Rent Date in accordance with Paragraph 4 below.

(aaaa) Remaining Proceeds. "REMAINING PROCEEDS" shall have the meaning assigned to it in subparagraph 4.(a)(ii).

(bbbb) Rent. "RENT" means the Base Rent and all Additional Rent.

(cccc) Responsible Financial Officer. "RESPONSIBLE FINANCIAL OFFICER" means the chief financial officer, the controller, the treasurer or the assistant treasurer of Tenant.

(dddd) Revolving Credit Agreement. "REVOLVING CREDIT AGREEMENT" shall have the meaning assigned to it in subparagraph 10.(ac) below.

(eeee) Scope Change. A "SCOPE CHANGE" means a material addition to, deletion from or other modification to the quality, function or capacity of the Initial Improvements as delineated in Exhibit C or in any plans and specifications therefor previously approved by Landlord, but shall not include refinement, correction and detailing by Tenant or Tenant's architects or contractors from time to time. As used in this definition, a "MATERIAL" change includes any change that (a) is reasonably likely to substantially reduce the fair market value of the Leased Property (after completion of the Initial Improvements), or (b) will change the general character of the Initial Improvements from that described in Exhibit C.

(ffff) Spread. "SPREAD" means, for purposes of determining the Effective Rate for each Construction Period and Base Rent Period, the difference between (1) eighty-seven and one-half basis points (87.5/100 of 1%), less (2) the product of (a) sixty-two and one-half basis points (62.5/100 of 1%) times (b) the Collateral Percentage (as defined below) in effect for such Construction Period or Base Rent Period. As used in this Lease, "COLLATERAL PERCENTAGE" means the Collateral Percentage determined under (and as defined in) the Pledge Agreement; provided, however, for purposes of this Lease, the Collateral Percentage for any Construction Period or Base Rent Period shall not exceed a fraction; the numerator of which fraction shall equal the Market Value (as defined below) of all collateral (a) that is, on the first day of such Construction Period or Base Rent Period, held by the Custodian under the Custodial Agreement subject to a Qualifying Security Interest (as defined below), (b) that is free from claims or security interests held or asserted by any third party, and (c) with respect to which Tenant shall have satisfied the requirements of Section 2.3 of the Pledge Agreement; and the denominator of which fraction shall equal the Stipulated Loss Value on the first day of such Construction Period or Base Rent Period (computed after the addition of any Construction Advance made on such first day, after the addition of all Carrying Costs for prior Construction Periods, and after the subtraction of any Qualified Payments applied on such first day), but in no event shall such fraction exceed 1.0/1.0. As used in this paragraph, "MARKET VALUE" means, for purposes of determining the Collateral Percentage for each Construction Period and Base Rent Period, the Market Value determined in accordance with (and as defined in) the Pledge Agreement on the Valuation Date (as defined in the Custodial Agreement) upon which such Construction Period or Base Rent Period commences or, if such Construction Period or Base Rent Period does not commence upon a Valuation Date, on the most recent Valuation Date prior to the commencement of such period. As used in this paragraph, "QUALIFYING SECURITY INTEREST" means a first priority perfected security interest under the Pledge Agreement which is sufficient, for purposes of the laws and regulations which govern minimum amounts of capital that Landlord and Participants or their affiliates must maintain, to permit them to assign a twenty percent

risk weighting to a portion of their collective investment in the Property equal to the Market Value of the collateral encumbered by such an interest.

(gggg) Stipulated Loss Value. "STIPULATED LOSS VALUE" means the amount computed from time to time in accordance with the formula specified in this definition. Such amount shall equal the Initial Funding Advance (i.e., \$300,000), PLUS the Outstanding Construction Allowance as of the date a computation is required hereunder, LESS the amount (if any) of Qualified Payments paid to Landlord on or prior to such date that have not been deducted in calculating the Outstanding Construction Allowance. Thus, for example, if a determination of Stipulated Loss Value is required under subparagraph 3.(b) on the first day of the applicable Base Rent Period, and if Tenant has used the entire Construction Allowance to make the Initial Improvements to the Leased Property, but the Leased Property has been damaged by fire or other casualty with the result that \$5,000,000 of net insurance proceeds have been paid to Landlord and retained by Landlord as Qualified Payments, then the Stipulated Loss Value as of the date of the required determination shall be \$7,500,000:

The Initial Funding Allowance (\$300,000) PLUS the Outstanding Construction Allowance--after accounting for Qualified Payments that were applied to reduce the Outstanding Construction Allowance-- (\$12,200,000 - \$5,000,000 = \$7,200,000) LESS zero (since all Qualified Payments were applied to reduce the Outstanding Construction Allowance) = \$300,000 + \$7,200,000 - \$0 = \$7,500,000.

Under no circumstances will any payment of Base Rent or the Upfront Fee, Administrative Fees or Commitment Fees reduce Stipulated Loss Value.

(hhhh) Subsidiary. "SUBSIDIARY" means any corporation of which Tenant and/or its other Subsidiaries own, directly or indirectly, such number of outstanding shares as have more than 50% of the ordinary voting power for the election of directors.

(iiii) Tenant's Knowledge. "TENANT'S KNOWLEDGE," "TO THE KNOWLEDGE OF TENANT" and words of like effect means the actual knowledge (with due investigation) of any of the following employees of Tenant: Christopher Stoddart, Treasurer; Robert Boehlke, Chief Financial Officer; and Gerald B. Campbell, Facilities Manager. However, to the extent Tenant's knowledge after the date hereof may become relevant hereunder or under any certificate or other notice provided by Tenant to Landlord in connection with this Lease, "Tenant's knowledge" and words of like effect shall include the then actual knowledge of other employees of Tenant (if any) that have assumed responsibilities of the current employees listed in the preceding sentence or that have replaced such current employees. But none of the employees of Tenant whose knowledge is now or may hereafter be relevant shall be personally liable for the representations of Tenant made herein.

(jjjj) Term. "TERM" shall have the meaning assigned to it in Paragraph 2 below.

(kkkk) Unfunded Benefit Liabilities. "UNFUNDED BENEFIT LIABILITIES" means, with respect to any Plan, the amount (if any) by which the present value of all benefit liabilities (within the meaning of Section 4001(a)(16) of ERISA) under the Plan exceeds the fair market value of all Plan assets allocable to such benefit liabilities, as determined on the most recent valuation date of the Plan and in accordance with the provisions of ERISA for calculating the potential liability of Tenant or any ERISA Affiliate of Tenant under Title IV of ERISA.

(llll) Upfront Fee. "UPFRONT FEE" shall have the meaning assigned to it in subparagraph 3.(c) below.

(mmmm) Other Terms and References. Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the

plural and vice versa, unless the context otherwise requires. References herein to Paragraphs, subparagraphs or other subdivisions shall refer to the corresponding Paragraphs, subparagraphs or subdivisions of this Lease, unless specific reference is made to another document or instrument. References herein to any Schedule or Exhibit shall refer to the corresponding Schedule or Exhibit attached hereto, which shall be made a part hereof by such reference. All capitalized terms used in this Lease which refer to other documents shall be deemed to refer to such other documents as they may be renewed, extended, supplemented, amended or otherwise modified from time to time, provided such documents are not renewed, extended or modified in breach of any provision contained herein or therein or, in the case of any other document to which Landlord is a party or of which Landlord is an intended beneficiary, without the

consent of Landlord. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. The words "THIS LEASE", "HEREIN", "HEREOF", "HEREBY", "HEREUNDER" and words of similar import refer to this Lease as a whole and not to any particular subdivision unless expressly so limited. The phrases "THIS PARAGRAPH" and "THIS SUBPARAGRAPH" and similar phrases refer only to the Paragraphs or subparagraphs hereof in which the phrase occurs. The word "OR" is not exclusive. Other capitalized terms are defined in the provisions that follow.

3. Term. The term of this Lease (herein called the "TERM") shall commence on and include the effective date hereof, and end at 8:00 A.M. on July 1, 2000 (or the next following Business Day if July 1, 2000 is not a Business Day), unless extended or sooner terminated as herein provided. Notwithstanding any other provision of this Lease which may expressly restrict the early termination hereof, and provided that Tenant is still in possession of the Leased Property and has not breached its obligation to make or have made any payment required by Paragraph 2 of the Purchase Agreement on any prior Designated Payment Date, Tenant may notify Landlord of Tenant's election to terminate this Lease by giving Landlord an irrevocable notice of such election and of the effective date of the termination, which notice must be given (if at all) at least sixty (60) days prior to the effective date of the termination. If Tenant elects to so terminate this Lease, then on the date on which this Lease is to be terminated, not only must Tenant pay all unpaid Rent, Tenant must also pay any Breakage Costs resulting from the termination and must satisfy its obligations under the Purchase Agreement. The payment of any unpaid Rent and Breakage Costs and the satisfaction of Tenant's obligations under the Purchase Agreement shall be conditions precedent to the effectiveness of any early termination of this Lease by Tenant. All provisions of this Lease which by the terms hereof survive the termination of this Lease, shall continue in full force and effect and shall be unaffected by the early termination provided for in this Paragraph.

4. Rent.

(a) Base Rent Generally. Tenant shall pay Landlord rent (herein called "BASE RENT") in arrears, in currency that at the time of payment is legal tender for public and private debts in the United States of America, in installments on each Base Rent Date through the end of the Term. Each payment of Base Rent must be received by Landlord no later than 12:00 noon (San Francisco time) on the date it becomes due; if received after 12:00 noon it will be considered for purposes of this Lease as received on the next following Business Day. The Base Rent payable on the first Base Rent Date shall represent rent for the period from the Base Rent Commencement Date to the first Base Rent Date. Each subsequent installment of Base Rent shall represent rent allocable to the period ending on the Base Rent Date on which the installment is due and beginning on the preceding Base Rent Date. After the Base Rent Commencement Date, Landlord shall notify Tenant in writing of the Base Rent payable for each Base Rent Period or portion thereof at least fifteen (15) days prior to the Base Rent Date on which such Base Rent is actually due. Any failure by Landlord to so notify Tenant shall not constitute a waiver of Landlord's right to payment, but absent such notice Tenant shall not be in default for any underpayment resulting therefrom if Tenant, in good faith, reasonably estimates the payment required, makes a timely payment of the amount so estimated and corrects any underpayment within three (3) Business Days after being notified by Landlord of the underpayment. If Tenant or any other Applicable Purchaser purchases Landlord's interest in the Leased Property after the Base Rent Commencement Date pursuant to the Purchase Agreement, any Base Rent for the period ending on the date of purchase (including, if the date of Purchase is not a Base Rent Date, a pro rated portion of the Base Rent which would become due on the next Base Rent Date but for the purchase) and all outstanding Additional Rent shall be due on the Designated Payment Date in addition to the purchase price and other sums due Landlord under the Purchase Agreement.

(b) Calculation of Base Rent. Payments of Base Rent shall be calculated and become due as follows:

(i) For all Base Rent Periods subject to a LIBOR Period Election of one month or three months, all Base Rent shall be due on the Base Rent Date upon which the Base Rent Period ends. The Base Rent for each such Base Rent Period shall equal (A) Stipulated Loss Value on the first day of such Base Rent Period, times (B) the Effective Rate with respect to such Base Rent Period, times (C) the number of days in such Base Rent Period, divided by (D) three hundred sixty (360).

(ii) For Base Rent Periods subject to a LIBOR Period Election of greater than three months, Base Rent shall be payable in more than one installment, with an installment becoming due on (1) each

Base Rent Date that occurs during the Base Rent Period (other than the Base Rent Date upon which the Base Rent Period begins) and (2) the Base Rent Date upon which the Base Rent Period ends. The amount of each installment shall equal (A) Stipulated Loss Value on the first day of such Base Rent Period, times (B) the Effective Rate with respect to such Base Rent Period, times (C) the number of days in the period from and including the preceding Base Rent Date to but not including the Base Rent Date upon which the installment is due, divided by (D) three hundred sixty (360).

Assume, only for the purpose of illustration: that the Initial Advance was made in the amount of \$300,000; that a hypothetical Base Rent Period contains exactly ninety (90) days; that on the first day of such Base Rent Period, after considering total Construction Advances and Carrying Costs of \$12,200,000 and deducting a total of \$1,000,000 of Qualified Payments received by Landlord, the resulting Stipulated Loss Value is \$11,500,000; and that the Effective Rate computed with respect to the applicable Base Rent Period is 4%. Under such assumptions, the Base Rent for the hypothetical Base Rent Period will equal:

$\$11,500,000 \times 4\% \times 90/360$, or \$115,000.

(c) Upfront Fee. Contemporaneously with the execution and delivery of this Lease by Landlord, Tenant is paying Landlord an upfront fee (the "UPFRONT FEE"), which represents Additional Rent for the first Construction Period, as agreed pursuant to a Letter Agreement dated March 31, 1995, as amended April 4, 1995.

(d) Administrative Agency Fees. Upon execution and delivery of this Lease by Landlord, and again on each anniversary of the date hereof until the Base Rent Commencement Date, Tenant shall pay Landlord an administrative fee (the "ADMINISTRATIVE FEE") equal to \$4,500. Each Administrative Fee shall represent Additional Rent Construction Period during which it is paid. In the event that the Construction Period ends after the first anniversary of the date hereof and Landlord has received payment of the Administrative Fee due on such anniversary date, Landlord shall refund to Lessee the pro rata portion of such Administrative Fee allocable to the period from the end of the Construction Period until the second anniversary of the date hereof.

(e) Commitment Fees. For each Construction Period Tenant shall pay Landlord a fee (herein called a "COMMITMENT FEE") equal to (1) twenty-five basis points (25/100 of 1%), times (2) the difference at the end of the first day of such Construction Period between (A) the Maximum Construction Allowance and (B) the sum (computed without deduction for any Qualified Payments) of all Construction Advances made by or on behalf of Landlord and all Carrying Costs added to and made a part of the Construction Allowance, times (3) the number of days in such Construction Period, divided by (4) three hundred sixty (360). Tenant shall pay Commitment Fees in arrears on January 1, April 1, July 1, and October 1 of each calendar year, beginning with October 1, 1995 and continuing regularly thereafter to and including the first of such dates to fall on or after the Last Advance Date; provided that if any of such dates does not fall on a Business Day, the payment of Commitment Fees otherwise then due shall become due on the next following Business Day; and provided, further, if any Commitment Fees shall have accrued and remain unpaid on the Designated Payment Date, such accrued unpaid Commitment Fees shall be due on the Designated Payment Date.

(f) Additional Rent. All amounts which Tenant is required to pay to or on behalf of Landlord pursuant to this Lease, together with every charge, premium, interest and cost set forth herein which may be added for nonpayment or late payment thereof, shall constitute rent (all such amounts, other than Base Rent, are herein called "ADDITIONAL RENT").

(g) Interest and Order of Application. All Rent shall bear interest, if not paid when first due, at the Default Rate in effect from time to time from the date due until paid; provided, that nothing herein contained will be construed as permitting the charging or collection of interest at a rate exceeding the maximum

rate permitted under Applicable Laws. Landlord shall be entitled to apply any amounts paid by or on behalf of Tenant hereunder against any Rent then past due in the order the same became due or in such other order as Landlord may elect.

(h) Net Lease. It is the intention of Landlord and Tenant that the Base Rent and all other payments herein specified shall be absolutely net to Landlord. Tenant shall pay all costs, expenses and obligations of every kind relating to the Leased Property or this Lease which may arise or become due, including, without limitation: (i) Impositions, including any taxes payable by virtue of Landlord's receipt of amounts paid to or on behalf of Landlord in accordance with this subparagraph 3.(h), but not including any Excluded Taxes; (ii) any Capital Adequacy Charges; (iii) any amount for which Landlord is or

becomes liable with respect to the Permitted Encumbrances; and (iv) any costs incurred by Landlord (including Attorneys' Fees) because of Landlord's acquisition of any interest in the Leased Property under the Ground Lease or otherwise or because of this Lease or the transactions contemplated herein.

(i) No Demand or Setoff. The Base Rent and all Additional Rent shall be paid without notice or demand and without abatement, counterclaim, deduction, setoff or defense, except as expressly provided herein.

5. Insurance and Condemnation Proceeds.

(a) Subject to Landlord's rights under this Paragraph 4, and so long as no Event of Default shall have occurred and be continuing, Tenant shall be entitled to use all casualty insurance and condemnation proceeds payable with respect to the Leased Property during the Term for the restoration and repair of the Leased Property or any remaining portion thereof. Except as provided in the last sentence of subparagraph 10.(r) and the last sentence of subparagraph 10.(s), all insurance and condemnation proceeds received with respect to the Leased Property (including proceeds payable under any insurance policy covering the Leased Property which is maintained by Tenant) shall be paid to Landlord and then applied as follows:

(i) First, such proceeds shall be used to reimburse Landlord for any costs and expenses, including Attorneys' Fees, incurred in connection with the collection of such proceeds.

(ii) Second, the remainder of such proceeds (the "REMAINING PROCEEDS"), shall be held by Landlord as Escrowed Proceeds and applied to reimburse Tenant for the actual cost of the repair, restoration or replacement of the Leased Property. However, any Remaining Proceeds not needed for such purpose shall be applied by Landlord as Qualified Payments after Tenant notifies Landlord that they are not needed for repairs, restoration or replacement.

Notwithstanding the foregoing, if an Event of Default shall have occurred and be continuing, then Landlord shall be entitled to receive and collect insurance or condemnation proceeds payable with respect to the Leased Property, and either, at the discretion of Landlord, (A) hold such proceeds as Escrowed Proceeds until paid to Tenant as reimbursement for the actual and reasonable cost of repairing, restoring or replacing the Leased Property when Tenant has completed such repair, restoration or replacement, or (B) retain such proceeds (net of the deductions described in clause (i) above) as Qualified Payments.

(b) Any Remaining Proceeds held by Landlord as Escrowed Proceeds shall be deposited by Landlord in an interest bearing account as provided in the definition of Escrowed Proceeds and shall be paid to Tenant upon completion of the applicable repair, restoration or replacement and upon compliance by Tenant with such terms, conditions and requirements as may be reasonably imposed by Landlord, but in no event shall Landlord be required to pay any Escrowed Proceeds to Tenant in excess of the actual cost to Tenant of the applicable repair, restoration or replacement, it being understood that Landlord may retain any such excess as a Qualified

Payment. In any event, Tenant will not be entitled to any abatement or reduction of the Base Rent or any other amount due hereunder except to the extent that such excess Remaining Proceeds result in Qualified Payments which reduce Stipulated Loss Value (and thus payments computed on the basis of Stipulated Loss Value) as provided in the definitions set out above. Further, notwithstanding the inadequacy of the Remaining Proceeds held by Landlord as Escrowed Proceeds, if any, or anything herein to the contrary, Tenant must, after any taking of less than all or substantially all of the Leased Property by condemnation and after any damage to the Leased Property by fire or other casualty, restore or improve the Leased Property or the remainder thereof to a value no less than fifty percent (50%) of Stipulated Loss Value (computed after the application of any Remaining Proceeds as a Qualified Payment) and to a safe and sightly condition. Any taking of so much of the Leased Property as, in Landlord's reasonable judgment, makes it impracticable to restore or improve the remainder thereof as required by the preceding sentence shall be considered a taking of substantially all the Leased Property for purposes of this Paragraph 4.

(c) In the event of any taking of all or substantially all of the Leased Property, Landlord shall be entitled to apply all Remaining Proceeds as a Qualified Payment, notwithstanding the foregoing. In addition, if Stipulated Loss Value immediately prior to any taking of all or substantially all of the Leased Property by condemnation exceeds the sum of the Remaining Proceeds resulting from such condemnation, then Landlord shall be entitled to recover the excess from Tenant upon demand as an additional Qualified Payment, whereupon this Lease shall terminate.

(d) Nothing herein contained shall be construed to prevent Tenant

from obtaining and applying as it deems appropriate any separate award from any condemning authority or from any insurer for a taking of or damage to Tenant's personal property not included in the Leased Property or for moving expenses or business interruption, provided, such award is not combined with and does not reduce the award for any taking of the Leased Property, including Tenant's interest therein. Further, notwithstanding anything to the contrary herein contained, if Remaining Proceeds held by Landlord during the term of this Lease shall exceed Stipulated Loss Value and any Rent payable by Tenant, then Tenant may obtain the excess by terminating this Lease in accordance with Paragraph 2 and purchasing any remaining interest of Landlord in the Leased Property and the Escrowed Proceeds, pursuant to the Purchase Agreement.

(e) Landlord and Tenant each waive any right of recovery against the other, and the other's agents, officers or employees, for any damage to the Leased Property or to the personal property situated from time to time in or on the Leased Property resulting from fire or other casualty covered by a valid and collectible insurance policy; provided, however, that the waiver set forth in this subparagraph 4.(e) shall be effective insofar, but only insofar, as compensation for such damage or loss is actually recovered by the waiving party (net of costs of collection) under the policy notwithstanding the waivers set out in this paragraph. Tenant shall cause the insurance policies required of Tenant by this Lease to be properly endorsed, if necessary, to prevent any loss of coverage because of the waivers set forth in this paragraph. If such endorsements are not available, the waivers set forth in this paragraph shall be ineffective to the extent that such waivers would cause required insurance with respect to the Leased Property to be impaired.

6. No Lease Termination.

(a) Status of Lease. Except as expressly provided herein, this Lease shall not terminate, nor shall Tenant have any right to terminate this Lease, nor shall Tenant be entitled to any abatement of the Rent, nor shall the obligations of Tenant under this Lease be excused, for any reason whatsoever, including without limitation any of the following: (i) any damage to or the destruction of all or any part of the Leased Property from whatever cause, (ii) the taking of the Leased Property or any portion thereof by eminent domain or otherwise for any reason, (iii) the prohibition, limitation or restriction of Tenant's use of all or any portion of the Leased Property or any interference with such use by governmental action or otherwise, (iv) any eviction of

Tenant or of anyone claiming through or under Tenant by paramount title or otherwise (provided, if Tenant is wrongfully evicted by Landlord or by any third party lawfully claiming through or under Landlord, other than Tenant or a third party claiming through or under Tenant, then Tenant will have the remedies described in Paragraph 16 below), (v) any default on the part of Landlord under this Lease or under any other agreement to which Landlord and Tenant are parties, (vi) the inadequacy in any way whatsoever of the design or construction of any improvements included in the Leased Property, it being understood that Landlord has not made and will not make any representation express or implied as to the adequacy thereof, or (vii) any other cause whether similar or dissimilar to the foregoing, any existing or future law to the contrary notwithstanding. It is the intention of the parties hereto that the obligations of Tenant hereunder shall be separate and independent of the covenants and agreements of Landlord, that the Base Rent and all other sums payable by Tenant hereunder shall continue to be payable in all events and that the obligations of Tenant hereunder shall continue unaffected, unless the requirement to pay or perform the same shall have been terminated or limited pursuant to an express provision of this Lease. However, nothing in this Paragraph shall be construed as a waiver by Tenant of any right Tenant may have at law or in equity to (i) recover monetary damages for any default under this Lease by Landlord that Landlord fails to cure within the period provided in Paragraph 16, (ii) injunctive relief in case of the violation, or attempted or threatened violation, by Landlord of any of the express covenants, agreements, conditions or provisions of this Lease, or (iii) a decree compelling performance of any of the express covenants, agreements, conditions or provisions of this Lease.

(b) Waiver By Tenant. Without limiting the foregoing, Tenant waives to the extent permitted by Applicable Laws, except as otherwise expressly provided herein, all rights to which Tenant may now or hereafter be entitled by law (including any such rights arising because of any implied "warranty of suitability" or other warranty under Applicable Laws) (i) to quit, terminate or surrender this Lease or the Leased Property or any part thereof or (ii) to any abatement, suspension, deferment or reduction of the Base Rent or any other sums payable under this Lease.

7. Construction Allowance.

(a) Advances; Outstanding Construction Allowance.

(i) Subject to the conditions set forth below, Landlord

shall make advances (herein called "CONSTRUCTION ADVANCES") on Advance Dates from time to time as requested by Tenant to reimburse Tenant for the actual cost of making the Initial Improvements to the Leased Property and for any property taxes or assessments payable prior to the Last Advance Date with respect to the Leased Property. In no event will the total of all Construction Advances which may be required of Landlord, when added to Carrying Costs accrued or projected by Landlord to accrue prior to the Base Rent Commencement Date as described below, exceed the Maximum Construction Allowance. As used herein, references to the "OUTSTANDING CONSTRUCTION ALLOWANCE" shall mean the difference on the date in question (but not less than zero) of (A) the total Construction Advances made by Landlord and all Carrying Costs added thereto under subparagraph 6.(a)(ii) on or prior to the date in question, less (B) any Qualified Payments received on or prior to the date in question. (Landlord will not be under any obligation to readvance any portion of the Construction Allowance repaid by Qualified Payments.) Notwithstanding the foregoing, if for any reason Stipulated Loss Value (and thus the Outstanding Construction Allowance included as a component thereof) must be determined under this Lease as of any date between Advance Dates, the Outstanding Construction Allowance determined on such date shall equal the Outstanding Construction Allowance on the immediately preceding Advance Date computed in accordance with the preceding sentence, plus Carrying Costs accruing on and after such preceding Advance Date to but not including the date in question.

(ii) Charges accruing at the Effective Rate (herein collectively called "CARRYING COSTS") for each Construction Period prior to or ending on the Base Rent Commencement Date will be added to (and thereafter be included in) the Outstanding Construction Allowance on the last day of such Construction Period (i.e., generally on the Advance Date upon which such Construction Period ends). Carrying Costs shall be calculated as follows:

a) The total Carrying Costs for the first short Construction Period ending July 3, 1995 shall be equal to the sum of the Carrying Costs computed for each day included in such period computed as follows:

(1) for each day during such Construction Period prior to the first Advance Date (A) the Initial Funding Advance, times (B) the per annum Effective Rate for such day, divided by (C) 360; plus

(2) for each day during such Construction Period beginning on and including the first Advance Date (A) the Initial Funding Advance plus the Construction Advance, if any, advanced on the first Advance Date, times (B) the per annum Effective Rate for such day, divided by (C) 360.

b) The amount of Carrying Costs for each subsequent Construction Period shall be equal to (A) Stipulated Loss Value (including Carrying Costs added with respect to every previous Construction Period, if any) as of the first day of such Construction Period, times (B) the Effective Rate with respect to such Construction Period, times (C) the number of days in such Construction Period, divided by (D) 360.

(b) Initial Improvements.

(i) Responsibility for Construction. Tenant shall construct all Initial Improvements in a good and workmanlike manner, in accordance with (1) the descriptions in and renderings listed in Exhibit C, (2) Applicable Laws, and (3) the other provisions of this Lease. Further, except for building foundations, driveways, parking lots, sidewalks and other improvements which would not suffer damage by being submerged under flood waters, all Initial Improvements shall be constructed by Tenant above the elevation that the U.S. Army Corp of Engineers or any other governmental authority estimates as the highest elevation that 100 year flood waters could be expected to reach. Tenant shall have sole responsibility for contracting for and administering the construction of Initial Improvements, it being understood that Landlord's obligation with respect to the Initial Improvements shall be limited to the making of advances under and subject to the conditions set forth in this Paragraph 6. No contractor or other third party shall be entitled to enforce Landlord's obligations to make advances as a third party beneficiary. Notwithstanding delays beyond Tenant's control, and even if the Construction Allowance is not sufficient to pay for completion of Initial Improvements, Tenant warrants that it shall cause all Initial Improvements with respect to which it receives any Construction Advances to be completed on or prior to the Completion Deadline.

(ii) Scope Changes. Before making any Scope Change to the Initial Improvements contemplated in Exhibit C, Tenant shall provide to Landlord a reasonably detailed written description of the Scope Change and a revised construction budget, all of which must be approved in writing by Landlord (or by any construction representative appointed by Landlord from time to time) before the Scope Change is implemented.

(iii) Value Added. The Initial Improvements, upon completion and taken as a whole, must enhance the value of the Leased Property by an amount commensurate with the total Construction Allowance used by Tenant; however, this requirement will not preclude Tenant from obtaining Construction Advances for soft costs (such as architectural fees), demolition costs or other costs that do not, individually, add value to the Leased Property but that are incurred in connection with the construction of Initial Improvements which will in the aggregate satisfy this requirement. For purposes hereof, the Initial Improvements will be deemed to have added value "commensurate" with the Construction Allowance used by Tenant if, when the Initial Improvements are substantially complete, the Leased Property has a fair market value with the Initial Improvements that exceeds the fair market value which the Leased Property would have without the Initial Improvements by an amount equal to no less than fifty percent (50%) of the then Outstanding Construction Allowance.

(iv) Estoppel Letters Required. If requested by Landlord prior to the substantial completion of the Initial Improvements, Tenant shall cause the contractor under each significant general construction contract for the Initial Improvements to execute and deliver to Landlord an estoppel letter in the form of Exhibit D attached hereto. Similarly, if requested by Landlord prior to the substantial completion of the Initial Improvements, Tenant shall also cause the architect and engineer under any material architectural or engineering contract for the Initial Improvements to execute and deliver to Landlord an estoppel letter in the form of Exhibit E attached hereto; provided, that no such estoppel letter shall be required from any architect or engineer who has assigned his plans and specifications for the Initial Improvements to Tenant without restricting Tenant's right to further assign or allow another to use the same. Tenant hereby grants to Landlord (and Landlord's successors and assigns through any Permitted Transfer) a license to copy and use any such plans and specifications as Landlord shall deem appropriate.

(v) Advances Not a Waiver. No funding of Construction Advances and no failure of Landlord to object to Initial Improvements proposed or constructed by Tenant shall constitute a waiver by Landlord of the requirements contained in this subparagraph 6.(b).

(c) Conditions to Construction Advances. Landlord's obligation to make Construction Advances from time to time under this Paragraph 6 shall be subject to the following terms and conditions, all of which are intended for the sole benefit of Landlord:

(i) Prior Notice. Tenant must make a request in substantially the form attached to this Lease as Exhibit F for any Construction Advance at least ten (10) Business Days prior to the Advance Date upon which the advance is to be paid, except in the case of any Construction Advance requested on the first Advance Date, for which only five (5) Business Days shall be required. Landlord shall consider in good faith any changes to the Construction Advance request forms attached hereto that Tenant may reasonably request, provided the requested changes do not impair Landlord's rights or create or increase any liability Landlord may have in connection with the Initial Improvements.

(ii) Amount of the Advances. No Construction Advance shall exceed the lesser of:

a) the Maximum Construction Allowance, less (1) all prior Construction Advances and all Carrying Costs accruing through the date of such advance, and (2) the Carrying Costs then projected by Landlord to be added to the Construction Allowance on and after the date of the advance; or

b) (1) the actual costs and expenses previously incurred and paid by Tenant for the Initial Improvements, including "soft costs," and for property taxes or assessments assessed against the Leased Property after the date hereof and prior to the Last Advance Date, less (2) the sum of all

previous Construction Advances made under this Paragraph 6 to Tenant as reimbursement for such costs and expenses.

(In the event that Landlords executes an amendment to this Lease providing for an increase in the Maximum Construction Allowance or adding other property acquired by Landlord to the Leased Property covered by this Lease, such amendment shall limit the Maximum Amount of Construction Advances required to be made by Landlord when there are Defaulting Participants.)

Further, no Construction Advance shall be required that would cause the cost of completing all Initial Improvements then contemplated as estimated by Landlord to exceed the difference computed by subtracting (1) the Carrying Costs then projected by Landlord to be added to the Outstanding Construction Allowance, from (2) the Construction Allowance remaining to be advanced.

Further, Tenant shall not request any Construction Advance (other than the final Construction Advance) for an amount less than \$250,000.

(iii) Insurance. Tenant shall have obtained and provided certificates (or, in the case of clause a) below, title policies or binders) reasonably satisfactory to Landlord evidencing insurance covering the Leased Property as follows (in addition to the liability insurance required under subparagraph 10. (z) below):

a) Title Insurance. An owner's title insurance policy (or binder committing the applicable title insurer to issue an owner's title insurance policy, without the payment of further premiums) in an amount, form and substance and written by Santa Clara Land Title Company or one or more other title insurance companies reasonably satisfactory to Landlord and insuring Landlord's interest in the Leased Property, including Landlord's leasehold under the Ground Lease and Landlord's interest in any new Improvements constructed by Tenant, in the amount no less than Stipulated Loss Value plus any remaining portion of the Construction Allowance to be advanced under this Lease; and

b) Builder's Risk Insurance. Builder's Completed Value Risk and such other hazard insurance as Landlord may reasonably require against all risks of physical loss (including collapse and transit coverage, but not including earthquake or flood coverage) with deductibles not to exceed \$500,000, such insurance to be in amounts sufficient to cover the total value of any Improvements under construction and to be maintained in full force and effect at all times until completion of the Initial Improvements.

(iv) Progress of Construction. Construction of the Initial Improvements shall be progressing in a good and workmanlike manner and in accordance with the requirements of this Lease without any continuing significant interruption, other than interruptions beyond the reasonable control of Tenant that are not likely to cause the cost of such construction (and Carrying Costs and construction period ad property taxes and assessments) to exceed the Maximum Construction Allowance. Also, Tenant shall have corrected or caused the correction promptly of any significant defect in such construction.

(v) Evidence of Costs to be Reimbursed. To the extent contemplated by the Construction Advance request forms attached as Exhibit F and described in subparagraph 6. (c) (i), or otherwise required by Landlord at the time a Construction Advance is to be made, Tenant shall have submitted invoices, requests for payment from contractors, certifications from Tenant's architect or construction manager, lien releases and other evidence satisfactory to Landlord that (A) all costs for which Tenant requests reimbursement constitute actual costs incurred by Tenant for the construction of the Initial Improvements

or constitute property taxes or assessments assessed against the Leased Property and paid by Tenant prior to the Last Advance Date with respect to the Leased Property and (B) general contractors and all parties that have filed a statutory Preliminary Notice which would give them the right to assert a mechanic's or materialman's lien against the Leased Property (collectively, "POTENTIAL LIEN CLAIMANTS") have been paid all sums for which prior Construction Advances have been advanced. Without limiting the foregoing, Landlord may decline to advance any amount that would result in an excess of \$2,000,000 or more of (1) the total cost of work with respect to which Potential Lien Claimants could have asserted

a lien against the Leased Property and for which Construction Advances have been advanced by Landlord, over (2) the cost of such work for which Tenant has provided to Landlord unconditional statutory lien releases from all Potential Lien Claimants in form and substance reasonably satisfactory to Landlord.

(vi) No Event of Default or Change of Control Event. No Event of Default shall have occurred and be continuing under this Lease and no Change of Control Event shall have occurred.

(vii) No Sale of Landlord's Interest. No sale of Landlord's interest in the Leased Property shall have occurred pursuant to the Purchase Agreement.

(viii) Construction Advance Certificate. Landlord shall have received, together with the notice requesting the Construction Advance described in clause (i) above, a current Construction Advance Certificate executed by a Responsible Financial Officer of Tenant in the form attached to Exhibit F.

(d) Completion Notice. Tenant shall provide a notice to Landlord (the "COMPLETION NOTICE") promptly after construction of the Initial Improvements is substantially complete and more than fifty percent (50%) of the Initial Improvements are being occupied by Tenant.

8. Future Modifications. This Lease and other agreements referenced herein between Landlord and Tenant may be modified after the date hereof by written amendments to:

(a) provide an increase in the Construction Allowance or a second construction allowance comparable to the Construction Allowance for a new building or buildings to be constructed by Tenant on the Land in addition to the Initial Improvements;

(b) cause this Lease (and the Purchase Agreement and Environmental Indemnity) to cover not only the Leased Property, but also any interest in additional land or improvements that Landlord may acquire after the effective date hereof at the request of Tenant; or

(c) cause this Lease (and the Ground Lease and the Purchase Agreement) to no longer cover a part of the Land over which there are no significant Initial Improvements.

This Paragraph 7 shall not, however, be construed as a covenant by Landlord or Tenant to agree to any such modification or even to act reasonably or in good faith, it being understood that before any such modification becomes effective, both parties must after the effective date hereof execute a written definitive modification agreement acceptable to each of the parties in its sole and absolute discretion after review and approval of their respective legal counsel and other advisors. Without limiting the foregoing, Landlord and Tenant acknowledge that:

(1) Tenant may buy or lease property in the vicinity of the Land from others without any obligation pursuant to this Paragraph to first give Landlord an opportunity to acquire such property and include it in the Leased Property.

(2) Landlord makes no commitment whatsoever to acquire additional property for lease or sale to Tenant or to provide additional funds for an increase in the Construction Allowance or for a second construction allowance.

(3) Landlord may decline to execute any modification agreement without the approval of then existing Participants (if any).

(4) Landlord may decline to even consider any modifications at any time when after an Event of Default or when there exists events or circumstances which, with the giving of notice or the passing of time or both, could become an Event of Default.

(5) Any modifications proposed to accomplish the exclusion of a part of the Land from the Ground Lease or this Lease, as described in clause (c) preceding, must be needed for a new development of the excluded land which will be used by KLA or a third party approved by Landlord and must not violate platting or map recording ordinances and statutes. Also, the property that will continue to be covered by the Ground Lease and this Lease after any such modifications (the "REMAINING LEASED PROPERTY") must be such that it can be operated on a stand alone basis; that is, the Remaining Leased Property must have access, utilities and sufficient parking, all on-site or through easements or public dedications. Further, as a condition to executing any such modifications Landlord may

require that the Tenant provide at the Tenant's expense an appraisal satisfactory to Landlord in Landlord's sole and absolute discretion which establishes that the Remaining Leased Property will have a value no less than fifty six percent (56%) of Stipulated Loss Value.

9. Purchase Agreement, Pledge Agreement and Environmental Indemnity. Tenant acknowledges and agrees that nothing contained in this Lease shall limit, modify or otherwise affect any of Tenant's obligations under the Purchase Agreement, Pledge Agreement or Environmental Indemnity, which obligations are intended to be separate, independent and in addition to, and not in lieu of, the obligations established by this Lease. In the event of any inconsistency between the terms and provisions of the Purchase Agreement, Pledge Agreement or Environmental Indemnity and the terms and provisions of this Lease, the terms and provisions of the Purchase Agreement, Pledge Agreement or Environmental Indemnity (as the case may be) shall control.

10. Use and Condition of Leased Property.

(a) Use. Subject to the Permitted Encumbrances and the terms hereof, Tenant may use and occupy the Leased Property so long as no Event of Default occurs hereunder, but only for the following purposes and other lawful purposes incidental thereto:

(i) administrative and office space; and

(ii) distribution and warehouse storage of semiconductor-related and other electronic products; and

(iii) assembly of semiconductor-related and other electronic products using components manufactured elsewhere; and

(iv) cafeteria, library, fitness center and other support function uses that Tenant may provide to its employees.

Although the term "electronic products" in this subparagraph may include products designed to detect, monitor, neutralize, handle or process Hazardous Substances, the use of the Leased Property by Tenant shall not include

bringing Hazardous Substances onto the Leased Property for the purpose of researching, testing or demonstrating any such products.

(b) Condition. Tenant accepts the Leased Property (and will accept the same upon any purchase of the Landlord's interest therein) in its present state, AS IS, and without any representation or warranty, express or implied, as to the condition of such property or as to the use which may be made thereof. Tenant also accepts the Leased Property without any representation or warranty, express or implied, by Landlord regarding the title thereto or the rights of any parties in possession of any part thereof, except as set forth in subparagraph 11.(a). Landlord shall not be responsible for any latent or other defect or change of condition in the Land, Improvements, fixtures and personal property forming a part of the Leased Property, and the Rent hereunder shall in no case be withheld or diminished because of any latent or other defect in such property, any change in the condition thereof or the existence with respect thereto of any violations of Applicable Laws. Nor shall Landlord be required to furnish to Tenant any facilities or service of any kind, such as, but not limited to, water, steam, heat, gas, hot water, electricity, light or power.

(c) Consideration of and Scope of Waiver. The provisions of subparagraph 9.(b) above have been negotiated by the Landlord and Tenant after due consideration for the Rent payable hereunder and are intended to be a complete exclusion and negation of any representations or warranties of the Landlord, express or implied, with respect to the Leased Property that may arise pursuant to any law now or hereafter in effect, or otherwise. However, such exclusion of representations and warranties by Landlord is not intended to impair any representations or warranties made by other parties, the benefit of which is to pass to Tenant during the Term because of the definition of Personal Property and Leased Property above.

11. Other Representations, Warranties and Covenants of Tenant. Tenant represents, warrants and covenants as follows:

(a) Financial Matters. Tenant is solvent and has no outstanding liens, suits, garnishments or court actions which could render Tenant insolvent. There has not been filed by or, to Tenant's knowledge, against Tenant a petition in bankruptcy or a petition or answer seeking an assignment for the benefit of creditors, the appointment of a receiver, trustee, custodian or liquidator with respect to Tenant or any significant portion of Tenant's property, reorganization, arrangement, rearrangement, composition, extension, liquidation or dissolution or similar relief under the federal Bankruptcy Code or any state law. The financial statements and all financial data heretofore delivered to Landlord relating to Tenant have been prepared in accordance with

GAAP in all material respects. No material adverse change has occurred in the financial position of Tenant as reflected in Tenant's financial statements covering the fiscal period ended March 31, 1995.

(b) Ground Lease. During the term of this Lease, Tenant shall satisfy all obligations of Landlord under the Ground Lease. Tenant agrees to indemnify, defend and hold Landlord harmless from and against any and all Losses imposed on or asserted against or incurred by Landlord at any time and from time to time by reason of, in connection with or arising out of any obligations imposed by the Ground Lease or the other agreements described therein. THE INDEMNITY SET OUT IN THIS SUBPARAGRAPH SHALL APPLY EVEN IF THE SUBJECT OF THE INDEMNIFICATION IS CAUSED BY OR ARISES OUT OF THE ORDINARY NEGLIGENCE (AS DEFINED ABOVE) OF LANDLORD; provided, such indemnity shall not apply to Losses proximately caused by (and attributed by any applicable principles of comparative fault to) the Active Negligence, gross negligence or willful misconduct of Landlord. Because Tenant hereby agrees to satisfy all obligations of Landlord under the Ground Lease and the other agreements described therein during the Term of this Lease, no failure by Landlord to take any action required by the Ground Lease or such other agreements during the Term of this Lease shall, for the purposes of this indemnity, be deemed to be caused by the Active Negligence, gross negligence or willful misconduct of Landlord. The foregoing indemnity is in addition to the

other indemnities set out herein and shall not terminate upon the closing of any sale of Landlord's interest in the Leased Property pursuant to the provisions of the Purchase Agreement or the termination of this Lease.

(c) No Default or Violation. The execution, delivery and performance by Tenant of this Lease, the Purchase Agreement, the Pledge Agreement and the Environmental Indemnity do not and will not constitute a breach or default under any other material agreement or contract to which Tenant is a party or by which Tenant is bound or which affects the Leased Property or Tenant's use, occupancy or operation of the Leased Property or any part thereof and do not, to the knowledge of Tenant, violate or contravene any law, order, decree, rule or regulation to which Tenant is subject, and such execution, delivery and performance by Tenant will not result in the creation or imposition of (or the obligation to create or impose) any lien, charge or encumbrance on, or security interest in, Tenant's property pursuant to the provisions of any of the foregoing.

(d) Compliance with Covenants and Laws. The intended use of the Leased Property by Tenant complies, or will comply after Tenant obtains readily available permits, in all material respects with all applicable restrictive covenants, zoning ordinances and building codes, flood disaster laws, applicable health, safety and environmental laws and regulations, the Americans with Disabilities Act and other laws pertaining to disabled persons, and all other applicable laws, statutes, ordinances, rules, permits, regulations, orders, determinations and court decisions (all of the foregoing are herein sometimes collectively called "APPLICABLE LAWS"). Tenant has obtained or will promptly obtain all utility, building, health and operating permits as may be required for Tenant's use of the Leased Property by any governmental authority or municipality having jurisdiction over the Leased Property.

(e) Environmental Representations. To Tenant's knowledge and except as otherwise disclosed in the Environmental Report, as of the date hereof: (i) no Hazardous Substances Activity has occurred prior to the date of this Lease; (iii) neither Tenant nor any prior owner or operator of the Leased Property or any surrounding property has reported or been required to report any release of any Hazardous Substances on or from the Leased Property or the surrounding property pursuant to any Environmental Law; (iv) neither Tenant nor any prior owner or operator of the Leased Property or any surrounding property has received any warning, citation, notice of violation or other communication regarding a suspected or known release or discharge of Hazardous Substances on or from the Leased Property or regarding a suspected or known violation of Environmental Laws concerning the Leased Property from any federal, state or local agency; and (v) none of the following are located on the Leased Property: asbestos; urea formaldehyde foam insulation; transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls in excess of fifty (50) parts per million; any other Hazardous Substances other than Permitted Hazardous Substances; or any underground storage tank or tanks. Further, Tenant represents that to its knowledge the Environmental Report is not misleading or inaccurate in any material respect.

(f) No Suits. There are no judicial or administrative actions, suits, proceedings or investigations pending or, to Tenant's knowledge, threatened that will affect Tenant's intended use of the Leased Property or the validity, enforceability or priority of this Lease, or Tenant's use, occupancy and operation of the Leased Property or any part thereof, and Tenant is not in default with respect to any order, writ, injunction, decree or demand of any court or other governmental or regulatory authority that could materially and adversely affect the business or assets of Tenant and its Subsidiaries taken as a whole or Tenant's use, occupancy or operation of the Leased Property. No

condemnation or other like proceedings are pending or, to Tenant's knowledge, threatened against the Leased Property.

(g) Condition of Property. The Land as described in Exhibit A is the same as the land shown on the plat included as part of the ALTA/ACSM Land Title Survey prepared by DES Architects Engineers, which was delivered to Landlord at the request of Tenant. When the Initial Improvements are completed in accordance with the requirements of this Lease, adequate provision will have been made for the Leased Property

to be served by electric, gas, storm and sanitary sewers, sanitary water supply, telephone and other utilities required for the use thereof. All streets, alleys and easements necessary to serve the Leased Property have been completed and are serviceable or will be so when the Initial Improvements are complete. The Leased Property will be, when the Initial Improvements are complete, in a condition satisfactory for its use and occupancy. Tenant is not aware of any latent or patent material defects or deficiencies in the Leased Property that, either individually or in the aggregate, could materially and adversely affect Tenant's use or occupancy or could reasonably be anticipated to endanger life or limb.

(h) Organization. Tenant is duly incorporated and legally existing under the laws of the State of Delaware. Tenant has all requisite power and has procured or will procure on a timely basis all governmental certificates of authority, licenses, permits, qualifications and other documentation required to lease and operate the Leased Property. Tenant has the corporate power and adequate authority, rights and franchises to own Tenant's property and to carry on Tenant's business as now conducted and is duly qualified and in good standing in each state in which the character of Tenant's business makes such qualification necessary (including, without limitation, the State of California) or, if it is not so qualified in a state other than California, such failure does not have a material adverse effect on the properties, assets, operations or businesses of Tenant and its Subsidiaries, taken as a whole.

(i) Enforceability. The execution, delivery and performance of this Lease, the Purchase Agreement, the Pledge Agreement and the Environmental Indemnity are duly authorized and do not require the consent or approval of any governmental body or other regulatory authority that has not heretofore been obtained and are not in contravention of or conflict with any Applicable Laws or any term or provision of Tenant's articles of incorporation or bylaws. This Lease, the Purchase Agreement, the Pledge Agreement and the Environmental Indemnity are valid, binding and legally enforceable obligations of Tenant in accordance with their terms, except as such enforcement is affected by bankruptcy, insolvency and similar laws affecting the rights of creditors, generally, and equitable principles of general application.

(j) Not a Foreign Person. Tenant is not a "foreign person" within the meaning Sections 1445 and 7701 of the Code (i.e., Tenant is not a non-resident alien, foreign corporation, foreign partnership, foreign trust or foreign estate as those terms are defined in the Code and regulations promulgated thereunder).

(k) Omissions. To Tenant's knowledge, none of Tenant's representations or warranties contained in this Lease or any document, certificate or written statement furnished to Landlord by or on behalf of Tenant contains any untrue statement of a material fact or omits a material fact necessary in order to make the statements contained herein or therein (when taken in their entireties) not misleading.

(l) Existence. Tenant shall continuously maintain its existence and its qualification to do business in the State of California.

(m) Tenant Taxes. Tenant shall comply with all applicable tax laws and pay before the same become delinquent all taxes imposed upon it or upon its property where the failure to so comply or so pay would have a material adverse effect on the financial condition or operations of Tenant; except that Tenant may in good faith by appropriate proceedings contest the validity, applicability or amount of any such taxes and pending such contest Tenant shall not be deemed in default under this subparagraph if (1) Tenant diligently prosecutes such contest to completion in an appropriate manner, and (2) Tenant promptly causes to be paid any tax adjudged by a court of competent jurisdiction to be due, with all costs, penalties, and interest thereon, promptly after such judgment becomes final; provided, however, in any event such contest shall be concluded and the tax, penalties, interest and costs shall be paid prior to the date any writ or order is issued under which any of Tenant's property that is material to the business of Tenant and its Subsidiaries taken as a whole may be seized or sold because of the nonpayment thereof.

(n) Operation of Property. Tenant shall operate the Leased Property in a good and workmanlike manner and in compliance with all Applicable Laws and will pay all fees or charges of any kind in connection therewith. Tenant shall not use or occupy, or allow the use or occupancy of, the Leased Property in any manner which violates any Applicable Law or which constitutes a public or private nuisance or which makes void, voidable or cancelable any insurance then in force with respect thereto. To the extent that any of the following would, individually or in the aggregate, materially and adversely affect the value of the Leased Property or Tenant's use, occupancy or operations on the Leased Property, Tenant shall not: (i) initiate or permit any zoning reclassification of the Leased Property; (ii) seek any variance under existing zoning ordinances applicable to the Leased Property; (iii) use or permit the use of the Leased Property in a manner that would result in such use becoming a nonconforming use under applicable zoning ordinances or similar laws, rules or regulations; (iv) execute or file any subdivision plat affecting the Leased Property; or (v) consent to the annexation of the Leased Property to any municipality. If a change in the zoning or other Applicable Laws affecting the permitted use or development of the Leased Property shall occur that Landlord determines will materially reduce the then-current market value of the Leased Property, and if after such reduction the Stipulated Loss Value shall substantially exceed the then-current market value of the Leased Property in the reasonable judgment of Landlord, then Tenant shall pay Landlord an amount equal to such excess for application as a Qualified Payment. Tenant shall make any payment required by the preceding sentence within one hundred eighty (180) days after it is requested by Landlord and in any event shall make any such payment before the end of the Term. Tenant shall not impose any restrictive covenants or encumbrances upon the Leased Property without the prior written consent of the Landlord; provided, that such consent shall not be unreasonably withheld for any encumbrance or restriction that is made expressly subject to this Lease, as modified from time to time, and subordinate to Landlord's interest in the Leased Property by an agreement in form satisfactory to Landlord. Tenant shall not cause or permit any drilling or exploration for, or extraction, removal or production of, minerals from the surface or subsurface of the Leased Property. Tenant shall not do any act whereby the market value of the Leased Property may be materially lessened. Tenant shall allow Landlord or its authorized representative to enter the Leased Property at any reasonable time to inspect the Leased Property and, after reasonable notice, to inspect Tenant's books and records pertaining thereto, and Tenant shall assist Landlord or Landlord's representative in whatever way reasonably necessary to make such inspections. If Tenant receives a written notice or claim from any federal, state or other governmental entity that the Leased Property is not in compliance in any material respect with any Applicable Law, or that any action may be taken against the owner or lessee of the Leased Property because the Leased Property does not comply with Applicable Law, Tenant shall promptly furnish a copy of such notice or claim to Landlord. Notwithstanding the foregoing, Tenant may in good faith, by appropriate proceedings, contest the validity and applicability of any Applicable Law with respect to the Leased Property, and pending such contest Tenant shall not be deemed in default hereunder because of a violation of such Applicable Law, if Tenant diligently prosecutes such contest to completion in a manner reasonably satisfactory to Landlord, and if Tenant promptly causes the Leased Property to comply with any such Applicable Law upon a final determination by a court of competent jurisdiction that the same is valid and applicable to the Leased Property; provided, that in any event such contest shall be concluded and the violation of such Applicable Law must be corrected and any claims asserted against Landlord or the Leased Property because of such violation must be paid by Tenant, all prior to the date that (i) any criminal charges may be brought against Landlord or any of its directors, officers or employees because of such violation or (ii) any action may be taken by any governmental authority against Landlord or any property owned or leased by Landlord (including the Leased Property) because of such violation.

(o) Debts for Construction. Tenant shall cause all debts and liabilities incurred in the construction, maintenance, operation and development of the Leased Property, including without limitation all debts and liabilities for labor, material and equipment and all debts and charges for utilities servicing the Leased Property, to be promptly paid. Notwithstanding the foregoing, Tenant may in good faith by appropriate proceedings contest the validity, applicability or amount of any asserted mechanic's or materialmen's lien and

pending such contest Tenant shall not be deemed in default under this subparagraph (or subparagraphs 10.(t) or 10.(u)) because of the contested lien if (1) within sixty (60) days after being asked to do so by Landlord, Tenant bonds over to Landlord's satisfaction any contested liens alleged to secure an amount in excess of \$500,000 (individually or in the aggregate) (2) Tenant diligently prosecutes such contest to completion in a manner reasonably satisfactory to Landlord, and (3) Tenant promptly causes to be paid any amount adjudged by a court of competent jurisdiction to be due, with all costs and interest thereon, promptly after such judgment becomes final; provided, however, that in any event each such contest shall be concluded and the lien, interest and costs shall be paid prior to the date (i) any criminal action may be

instituted against Landlord or its directors, officers or employees because of the nonpayment thereof or (ii) any writ or order is issued under which any property owned or leased by Landlord (including the Leased Property) may be seized or sold or any other action may be taken against Landlord or any property owned or leased by Landlord because of the nonpayment thereof.

(p) Impositions. Tenant shall reimburse Landlord for (or, if requested by Landlord, will pay or cause to be paid prior to delinquency) all sales, excise, ad valorem, gross receipts, business, transfer, stamp, occupancy, rental and other taxes, levies, fees, charges, surcharges, assessments or penalties which arise out of or are attributable to this Lease or which are imposed upon Landlord or the Leased Property because of the ownership, leasing, occupancy, sale or operation of the Leased Property, or any part thereof, or relating to or required to be paid by the terms of any of the Permitted Encumbrances (collectively, herein called the "IMPOSITIONS"), excluding only Excluded Taxes. If Landlord requires Tenant to pay any Impositions directly to the applicable taxing authority or other party entitled to collect the same, Tenant shall furnish Landlord with receipts showing payment of such Impositions and other amounts prior to delinquency; except that Tenant may in good faith by appropriate proceedings contest the validity, applicability or amount of any asserted Imposition, and pending such contest Tenant shall not be deemed in default of this subparagraph (or subparagraphs 10.(t) or 10.(u)) because of the contested Imposition if (1) within sixty (60) days after being asked to do so by Landlord, Tenant bonds over to the satisfaction of Landlord any lien asserted against the Leased Property and alleged to secure an amount in excess of \$500,000 because of the contested Imposition, (2) Tenant diligently prosecutes such contest to completion in a manner reasonably satisfactory to Landlord, and (3) Tenant promptly causes to be paid any amount adjudged by a court of competent jurisdiction to be due, with all costs, penalties and interest thereon, promptly after such judgment becomes final; provided, however, that in any event each such contest shall be concluded and the Impositions, penalties, interest and costs shall be paid prior to the date (i) any criminal action may be instituted against Landlord or its directors, officers or employees because of the nonpayment thereof or (ii) any writ or order is issued under which any property owned or leased by Landlord (including the Leased Property) may be seized or sold or any other action may be taken against Landlord or any property owned or leased by Landlord because of the nonpayment thereof.

(q) Repair, Maintenance, Alterations and Additions. Tenant shall keep the Leased Property in good order, repair, operating condition and appearance (ordinary wear and tear excepted), causing all necessary repairs, renewals, replacements, additions and improvements to be promptly made, and will not allow any of the Leased Property to be materially misused, abused or wasted or to deteriorate. Tenant shall promptly replace any worn-out fixtures included within the Leased Property with fixtures comparable to the replaced fixtures when new and repair any damage caused by the removal of such fixtures. Further, Tenant shall not, without the prior written consent of Landlord, (i) remove from the Leased Property any fixtures of significant value which were paid for with (or for which reimbursement was provided to Tenant by) a Construction Advance, except such as are replaced by Tenant by articles of equal value, free and clear of any Lien (and for purposes of this clause "significant value" will mean any fixture that has a value of more than \$100,000 or that, when considered together with all other fixtures removed and not replaced by Tenant by articles of equal suitability and value, has an aggregate value of \$500,000 or more) or (ii) make any alteration to any Improvements, after the Initial Improvements are constructed, which significantly reduces the fair market value or changes the general character of the Leased Property, taken as a whole, or which impairs in any significant manner the useful life or utility of the Improvements, taken as whole. Upon request of Landlord made at any time when an Event of Default shall

have occurred and be continuing, Tenant shall deliver to Landlord an inventory describing and showing the make, model, serial number and location of all fixtures and personalty, if any, included in the Initial Improvements with a certification by Tenant that such inventory is a true and complete schedule of all such fixtures and personalty and that all items specified in the inventory are covered hereby free and clear of any Lien other than the Permitted Encumbrances described in Exhibit B.

(r) Insurance and Casualty. Throughout the Term, Tenant will keep all Improvements (including all alterations, additions and changes made to the Improvements) which are located within the Leased Property insured under an all-risk property insurance policy (excluding from coverage damage by flood or earthquake, but not excluding other perils normally included within the definitions of extended coverage, vandalism and malicious mischief) in the amount of one hundred percent (100%) of the replacement value with endorsements for contingent liability from operation of building laws, increased cost of construction and demolition costs which may be necessary to comply with building laws. Tenant will be responsible for determining the amount of property insurance to be maintained, but such coverage will be on an agreed value basis to eliminate the effects of coinsurance. Such insurance shall be issued by an insurance company or companies rated by the A.M. Best Company of Oldwick, New

Jersey as having a policyholder's rating of A or better and a reported financial information rating of X or better. Any deductible applicable to such insurance shall not exceed \$500,000. Such insurance shall cover not only the value of Tenant's interest in the Improvements, but also the interest of Landlord, and such insurance shall include provisions that Landlord must be notified at least ten (10) days prior to any cancellation or reduction of insurance coverage. With this Lease Tenant shall deliver to Landlord a certificate from the applicable insurer or its authorized agent evidencing the insurance required by this subparagraph and any additional insurance which shall be taken out upon any part of the Leased Property. Thereafter, Tenant shall deliver to Landlord certificates from the applicable insurer or its authorized agent of renewals or replacements of all such policies of insurance at least five (5) days before any such insurance shall expire. Tenant further agrees that all such policies shall provide that proceeds thereunder will be payable to Landlord as Landlord's interest may appear. If Tenant fails to obtain any insurance required by this Lease or to provide confirmation of any such insurance as required by this Lease, Landlord shall be entitled (but not required) to obtain the insurance that Tenant has failed to obtain or for which Tenant has not provided the required confirmation and, without limiting Landlord's other remedies under the circumstances, Landlord may require Tenant to reimburse Landlord for the cost of such insurance and to pay interest thereon computed at the Default Rate from the date such cost was paid by Landlord until the date of reimbursement by Tenant. In the event any of the Leased Property is destroyed or damaged by fire, explosion, windstorm, hail or by any other casualty against which insurance shall have been required hereunder, (i) Landlord may, but shall not be obligated to, make proof of loss if not made promptly by Tenant, (ii) each insurance company concerned is hereby authorized and directed to make payment for such loss directly to Landlord for application as required by Paragraph 4, and (iii) Landlord's consent must be obtained for any settlement, adjustment or compromise of any claims for loss, damage or destruction under any policy or policies of insurance (provided, that if any such claim is for less than \$2,000,000 and no Event of Default shall have occurred and be continuing, Tenant alone shall have the right to settle, adjust or compromise the claim as Tenant deems appropriate; and, provided further, that any disagreement between Landlord and Tenant about the amount for which any such claim should be settled shall, at the request of either party, be resolved as provided in Exhibit I, unless an Event of Default shall have occurred and be continuing, in which case Landlord alone shall have the right to settle, adjust or compromise the claim as Landlord deems appropriate). If any casualty shall result in damage to or loss or destruction of the Leased Property in excess of \$1,000,000, Tenant shall give immediate notice thereof to Landlord and Paragraph 4 shall apply. Notwithstanding the foregoing provisions of this subparagraph, if insurance proceeds totaling not more than \$2,000,000 are to be recovered as a result of a fire or other casualty involving the Leased Property, Tenant shall be entitled to receive directly and hold such proceeds so long as no Event of Default shall have occurred and be continuing and so long as Tenant applies such proceeds towards the restoration, replacement and repair of the Leased Property as required by Paragraph 4.(b).

(s) Condemnation. Immediately upon obtaining knowledge of the institution of any proceedings for the condemnation of the Leased Property or any portion thereof, or any other similar governmental or quasi-governmental proceedings arising out of injury or damage to the Leased Property or any portion thereof, Tenant shall notify Landlord of the pendency of such proceedings. Tenant shall, at its expense, diligently prosecute any such proceedings and shall consult with Landlord, its attorneys and experts and cooperate with them as reasonably requested in the carrying on or defense of any such proceedings. All proceeds of condemnation awards or proceeds of sale in lieu of condemnation with respect to the Leased Property and all judgments, decrees and awards for injury or damage to the Leased Property shall be paid to Landlord and applied as provided in Paragraph 4 above. Landlord is hereby authorized, in the name of Tenant, to execute and deliver valid acquittances for, and to appeal from, any such judgment, decree or award concerning condemnation of any of the Leased Property. Landlord shall not be, in any event or circumstances, liable or responsible for failure to collect, or to exercise diligence in the collection of, any such proceeds, judgments, decrees or awards. Notwithstanding the foregoing provisions of this subparagraph, if condemnation proceeds totaling not more than \$2,000,000 are to be recovered as a result of a taking of less than all or substantially all of the Leased Property, Tenant may directly receive and hold such proceeds so long as no Event of Default shall have occurred and be continuing and so long as Tenant applies such proceeds towards the restoration, replacement and repair of the remainder of the Leased Property as required by Paragraph 4.(b).

(t) Protection and Defense of Title. If any encumbrance or title defect whatsoever affecting Landlord's leasehold under the Ground Lease or any other interest of Landlord in the Leased Property is claimed or discovered (excluding Permitted Encumbrances, this Lease and any other encumbrance which is claimed by Landlord or lawfully claimed through or under Landlord and which is not claimed by, through or under Tenant) or if any legal proceedings are instituted with respect to title to the Leased Property, Tenant shall give prompt written notice thereof to Landlord and at Tenant's own cost and expense will promptly cause the removal of any such encumbrance and cure any such defect and will take all necessary and proper steps for the defense of any such legal proceedings, including but not limited to the employment of counsel, the

prosecution or defense of litigation and the release or discharge of all adverse claims. If Tenant fails to promptly remove any such encumbrance or title defect (other than a Lien Tenant is contesting as expressly permitted by and in accordance with subparagraph 10.(o) or subparagraph 10.(p)), Landlord (whether or not named as a party to legal proceedings with respect thereto) shall be entitled to take such additional steps as in its judgment may be necessary or proper to remove such encumbrance or cure such defect or for the defense of any such attack or legal proceedings or the protection of Landlord's interest in the Leased Property, including but not limited to the employment of counsel, the prosecution or defense of litigation, the compromise or discharge of any adverse claims made with respect to the Leased Property, the removal of prior liens or security interests, and all expenses (including Attorneys' Fees) so incurred of every kind and character shall be a demand obligation owing by Tenant.

(u) No Liens on the Leased Property. Tenant shall not, without the prior written consent of Landlord, create, place or permit to be created or placed, or through any act or failure to act, acquiesce in the placing of, or allow to remain, any Lien (except the lien for property taxes or assessments assessed against the Leased Property which are not delinquent and any Lien Tenant is contesting as expressly permitted by and in accordance with subparagraph 10.(o) or subparagraph 10.(p)), against or covering the Leased Property or any part thereof (other than any Lien which is lawfully claimed through or under Landlord and which is not claimed by, through or under Tenant) regardless of whether the same are expressly or otherwise subordinate to this Lease or Landlord's interest in the Leased Property, and should any prohibited Lien exist or become attached hereafter in any manner to any part of the Leased Property without the prior written consent of Landlord, Tenant shall cause the same to be promptly discharged and released to the satisfaction of Landlord. All rights, interests, benefits and encumbrances arising under that certain Agreement dated August 1, 1990 between Tenant and NELO, a California general partnership, entitled Rights of First Refusal and Agreement to Share Profit on Sales,

a memorandum of which was recorded in the Official Records of Santa Clara County, Book 436, Page 1657 shall terminate on August 1, 1995.

(v) Books and Records. Tenant shall keep books and records that are accurate and complete in all material respects for the construction and maintenance of the Leased Property and will permit all such books and records (including without limitation all contracts, statements, invoices, bills and claims for labor, materials and services supplied for the construction and operation of any Improvements) to be inspected and copied by Landlord and its duly accredited representatives at all times during reasonable business hours; provided that so long as Tenant remains in possession of the Leased Property, Landlord or Landlord's representative will, before making any such inspection or copying any such documents, if then requested to do so by Tenant to maintain Tenant's security: (i) sign in at Tenant's security or information desk if Tenant has such a desk on the premises, (ii) wear a visitor's badge or other reasonable identification provided by Tenant when Landlord or Landlord's representative first arrives at the Leased Property, (iii) permit an employee of Tenant to observe such inspection or work, and (iv) comply with other similar reasonable nondiscriminatory security requirements of Tenant that do not, individually or in the aggregate, interfere with or delay inspections or copying by Landlord authorized by this subparagraph. This subparagraph shall not be construed as requiring Tenant to regularly maintain separate books and records relating exclusively to the Leased Property; provided, however, that if requested by Landlord at any time when an Event of Default shall have occurred and be continuing, Tenant shall construct or abstract from its regularly maintained books and records information required by this subparagraph relating to the Leased Property.

(w) Financial Statements; Required Notices; Certificates as to Default. Tenant shall deliver to Landlord and to each Participant of which Tenant has been notified:

(i) as soon as available and in any event within one hundred twenty (120) days after the end of each fiscal year of Tenant, a consolidated balance sheet of Tenant and its consolidated Subsidiaries as of the end of such fiscal year and a consolidated income statement and statement of cash flows of Tenant and its consolidated Subsidiaries for such fiscal year, all in reasonable detail and all prepared in accordance with GAAP and accompanied by a report and opinion of accountants of national standing selected by Tenant, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any qualifications or exceptions as to the scope of the audit nor to any qualification or exception which Landlord determines, in Landlord's reasonable discretion, is unacceptable; provided, that notwithstanding the foregoing, for so long as Tenant is a company subject to the periodic reporting requirements of Section 12 of the Securities Exchange Act of 1934, as amended, Tenant shall be deemed to have satisfied its obligations under this clause (i) so long as Tenant delivers to Landlord the same annual report and report and opinion of accountants that Tenant delivers to its shareholders;

(ii) as soon as available and in any event within sixty (60) days after the end of each of the first three quarters of each fiscal year of Tenant, the consolidated balance sheet of Tenant and its consolidated Subsidiaries as of the end of such quarter and the consolidated income statement and the consolidated statement of cash flows of Tenant and its consolidated Subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, all in reasonable detail and all prepared in accordance with GAAP and certified by a Responsible Financial Officer of Tenant (subject to year-end adjustments); provided, that notwithstanding the foregoing, for so long as Tenant is a company subject to the periodic reporting requirements of Section 12 of the Securities Exchange Act of 1934, as amended, Tenant shall be deemed to have satisfied its obligations under this clause (ii) so long as Tenant delivers to Landlord the same quarterly reports, certified by a Responsible Financial Officer of Tenant (subject to year-end adjustments), that Tenant delivers to its shareholders;

(iii) together with the financial statements furnished in accordance with subparagraph 10.(w)(ii) and 10.(w)(i), a certificate of a Responsible Financial Officer of Tenant in substantially the form attached hereto as Exhibit G: (i) certifying that to the knowledge of Tenant no Default or Event of Default under this Lease has occurred and is continuing or, if a Default or Event of Default has occurred and is continuing, a brief statement as to the nature thereof and the action which is proposed to be taken with respect thereto, (ii) certifying that the representations of Tenant set forth in Paragraph 10 of this Lease are true and correct in all material respects as of the date thereof as though made on and as of the date thereof or, if not then true and correct, a brief statement as to why such representations are no longer true and correct, and (iii) with computations demonstrating compliance with the following Sections of the Revolving Credit Agreement: Section 7.02 (which establishes a minimum tangible net worth requirement), Section 7.03 (which establishes a quick ratio requirement), Section 7.04 (which establishes a maximum permitted ratio of total liabilities to tangible net worth), Section 7.06 (which establishes a limit on permitted dividends as a percentage of earnings), and Section 7.10 (which establishes a limit on permitted losses);

(iv) promptly after the sending or filing thereof, copies of all proxy statements, financial statements and reports which Tenant sends to Tenant's stockholders, and copies of all regular, periodic and special reports, and all registration statements (other than registration statements on Form S-8 or any form substituted therefor) which Tenant files with the Securities and Exchange Commission or any governmental authority which may be substituted therefor, or with any national securities exchange;

(v) as soon as possible and in any event within five (5) Business Days after a Responsible Financial Officer of Tenant becomes aware of the occurrence of each Default or Event of Default, a statement of a Responsible Financial Officer of Tenant setting forth details of such Default or Event of Default and the action which Tenant has taken and proposes to take with respect thereto;

(vi) upon request by Landlord, a statement in writing certifying that this Lease is unmodified and in full effect (or, if there have been modifications, that this Lease is in full effect as modified, and setting forth such modifications) and the dates to which the Base Rent has been paid and either stating that to the knowledge of Tenant no Default or Event of Default under this Lease has occurred and is continuing or, if a Default or Event of Default under this Lease has occurred and is continuing, a brief statement as to the nature thereof; it being intended that any such statement by Tenant may be relied upon by any prospective purchaser or mortgagee of the Leased Property and by any Participant;

(vii) copies of all notices required by Sections 6.01 or 6.07 of the Revolving Credit Agreement; and

(viii) such other information respecting the condition or operations, financial or otherwise, of Tenant, of any of its Subsidiaries or of the Leased Property as Landlord or any Participant through Landlord may from time to time reasonably request.

Landlord is hereby authorized to deliver a copy of any information or certificate delivered to it pursuant to this subparagraph 10.(w) to any Participant and to any regulatory body having jurisdiction over Landlord that requires or requests it.

(x) Further Assurances. Tenant shall, on request of Landlord, (i) promptly correct any defect, error or omission which may be discovered in the contents of this Lease or in any other instrument executed in connection herewith or in the execution or acknowledgment thereof; (ii) execute,

acknowledge, deliver and record or file such further instruments and do such further acts as may be necessary, desirable or proper to carry out more effectively the purposes of this Lease and to subject to this Lease any property intended by the terms

hereof to be covered hereby including specifically, but without limitation, any renewals, additions, substitutions, replacements or appurtenances to the Leased Property; (iii) execute, acknowledge, deliver, procure and record or file any document or instrument deemed advisable by Landlord to protect its rights in and to the Leased Property against the rights or interests of third persons; and (iv) provide such certificates, documents, reports, information, affidavits and other instruments and do such further acts as may be necessary, desirable or proper in the reasonable determination of Landlord to enable Landlord, Landlord's Lender and any Participants to comply with the requirements or requests of the Federal Reserve Bank or any other bank regulatory agency or authority or any other governmental agency or authority having jurisdiction over them.

(y) Fees and Expenses; General Indemnification; Increased Costs; and Capital Adequacy Charges.

(i) Except for any costs paid by Landlord with the proceeds of the Initial Funding Advance as part of the Closing Costs, Tenant shall pay (and shall indemnify and hold harmless Landlord, Landlord's Lender and any Person claiming through Landlord by reason of a Permitted Transfer from and against) all Losses incurred by Landlord or Landlord's Lender or any Person claiming through Landlord through a Permitted Transfer in connection with or because of (A) the ownership of any interest in or operation of the Leased Property, (B) the negotiation or administration of this Lease, the Purchase Agreement, the Pledge Agreement, the Environmental Indemnity or any Participation Agreements with Participants which Tenant shall have approved, (C) the making of Funding Advances, including Attorneys' Fees or other costs incurred to evaluate lien releases and other information submitted by Tenant with requests for Construction Advances, or (D) the construction of the Initial Improvements, whether such Losses are incurred at the time of execution of this Lease or at any time during the Term. Costs and expenses included in such Losses may include, without limitation, all appraisal fees, filing and recording fees, inspection fees, survey fees, taxes (other than Excluded Taxes), brokerage fees and commissions, abstract fees, title policy fees, Uniform Commercial Code search fees, escrow fees, Attorneys' Fees and environmental consulting fees incurred by Landlord with respect to the Leased Property. If Landlord pays or reimburses Landlord's Lender for any such Losses, Tenant shall reimburse Landlord for the same notwithstanding that Landlord may have already received any payment from any Participant on account of such Losses, it being understood that the Participant may expect repayment from Landlord when Landlord does collect the required reimbursement from Tenant.

(ii) Tenant shall also pay (and indemnify and hold harmless Landlord, Landlord's Lender and any Person claiming through Landlord by reason of a Permitted Transfer from and against) all Losses, including Attorneys' Fees, incurred or expended by Landlord or Landlord's Lender or any Person claiming through Landlord through a Permitted Transfer or in connection with (A) the breach by Tenant of any covenant of Tenant herein or in any other instrument executed in connection herewith or (B) Landlord's exercise in a lawful manner of any of Landlord's remedies hereunder or under Applicable Law or Landlord's protection of the Leased Property and Landlord's interest therein as permitted hereunder or under Applicable Law. (However, the indemnity in the preceding sentence shall not be construed to make Tenant liable to both Landlord and any Participant or other party claiming through Landlord for the same damages. For example, so long as Landlord remains entitled to recover any past due Base Rent from Tenant, no Participant shall be entitled to collect a percentage of the same Base Rent from Tenant.) Tenant shall further indemnify and hold harmless Landlord and all other Indemnified Parties against, and reimburse them for, all Losses which may be imposed upon, asserted against or incurred or paid by them by reason of, on account of or in connection with any bodily injury or death or damage to the property of third parties occurring in or upon or in the vicinity of the Leased Property through any cause whatsoever.

THE FOREGOING INDEMNITY FOR INJURY, DEATH OR PROPERTY DAMAGE SHALL APPLY EVEN WHEN INJURY, DEATH OR PROPERTY DAMAGE IN, ON OR IN THE VICINITY OF THE LEASED PROPERTY RESULTS IN WHOLE OR IN PART FROM THE

ORDINARY NEGLIGENCE (AS DEFINED ABOVE) OF AN INDEMNIFIED PARTY; provided, such indemnity shall not apply to Losses suffered by an Indemnified Party that were proximately caused by (and attributed by any applicable principles of comparative fault to) the Active Negligence, gross negligence or wilful misconduct of such Indemnified Party.

(iii) If, after the date hereof, due to either (A) the

introduction of or any change (other than any change by way of imposition or increase of reserve requirements included in the Eurodollar Rate Reserve Percentage) in or in the interpretation of any law or regulation or (B) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law), there shall be any increase in the cost to Landlord's Lender or any Participant of agreeing to make or making, funding or maintaining advances to Landlord in connection with the Leased Property, then Tenant shall from time to time, upon demand by Landlord pay to Landlord for the account of Landlord's Lender or such Participant, as the case may be, additional amounts sufficient to compensate Landlord's Lender or the Participant for such increased cost. A certificate as to the amount of such increased cost, submitted to Landlord and Tenant by Landlord's Lender or the Participant, shall be conclusive and binding for all purposes, absent clear and demonstrable error.

(iv) Landlord's Lender or any Participant may demand additional payments (herein called "CAPITAL ADEQUACY CHARGES") if Landlord's Lender or the Participant determines that any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) affects the amount of capital to be maintained by it and that the amount of such capital is increased by or based upon the existence of advances made or to be made to Landlord to permit Landlord to maintain Landlord's investment in the Leased Property or to make Construction Advances. To the extent that Landlord's Lender or the Participant demands Capital Adequacy Charges as compensation for the additional capital requirements reasonably allocable to such advances, Tenant shall pay to Landlord for the account of the Landlord's Lender or the Participant, as the case may be, the amount so demanded.

(v) Any amount to be paid to Landlord, Landlord's Lender or any Indemnified Party under this subparagraph 10.(y) shall be a demand obligation owing by Tenant. Tenant's indemnities and obligations under this subparagraph 10.(y) shall survive the termination or expiration of this Lease with respect to any circumstance or event existing or occurring prior to such termination or expiration.

(z) Liability Insurance. Tenant shall maintain one or more policies of commercial general liability insurance against claims for bodily injury or death and property damage occurring or resulting from any occurrence in or upon the Leased Property, in standard form and with an insurance company or companies rated by the A.M. Best Company of Oldwick, New Jersey as having a policyholder's rating of A or better and a reported financial information rating of X or better, such insurance to afford immediate protection, to the aggregate limit of not less than \$10,000,000 combined single limit for bodily injury and property damage in respect of any one accident or occurrence, with not more than \$500,000 self-insured retention. Such commercial general liability insurance shall include blanket contractual liability coverage which insures contractual liability under the indemnifications set forth in this Lease (other than the indemnifications set forth in Paragraph 13 concerning environmental matters), but such coverage or the amount thereof shall in no way limit such indemnifications. The policy evidencing such insurance shall name as additional insureds Landlord and all Participants of which Tenant has been notified. Tenant shall maintain with respect to each policy or agreement evidencing such commercial general liability insurance such endorsements as may be reasonably required by Landlord and shall at all times deliver and maintain with Landlord written confirmation (in form satisfactory to Landlord) with respect to such insurance from the applicable insurer or its authorized agent, which confirmation must provide that insurance coverage will not be canceled or reduced without at least ten (10) days notice to Landlord. Not less than five (5) days prior to the expiration date of each policy of insurance required of Tenant

pursuant to this subparagraph, Tenant shall deliver to Landlord a certificate evidencing a paid renewal policy or policies.

(aa) Permitted Encumbrances. Except to the extent expressly required of Landlord by subparagraph 11.(b), Tenant shall comply with and will cause to be performed all of the covenants, agreements and obligations imposed upon the owner of any interest in the Leased Property in the Permitted Encumbrances in accordance with their respective terms and provisions. Tenant shall not modify or permit any modification of any Permitted Encumbrance without the prior written consent of Landlord. Such consent will not be unreasonably withheld for the modification of any Permitted Encumbrance that has been made expressly subject to this Lease, as modified from time to time, and subordinate to Landlord's interest in the Leased Property by agreement in form satisfactory to Landlord.

(bb) Environmental.

(i) Environmental Covenants. Tenant covenants:

a) not to cause or permit the Leased Property to be in violation of, or do anything or permit anything to be done which will subject the Leased Property to any remedial obligations under, any Environmental Laws, including without limitation CERCLA and RCRA, assuming disclosure to the applicable governmental authorities of all relevant facts, conditions and circumstances pertaining to the Leased Property;

b) not to conduct or authorize others to conduct Hazardous Substance Activities on the Leased Property, except Permitted Hazardous Substance Use;

c) to the extent required by Environmental Laws, to remove Hazardous Substances from the Leased Property (or if removal is prohibited by law, to take whatever action is required by law) promptly upon discovery; and

d) not to discharge or authorize the discharge of anything (including Permitted Hazardous Substances) from the Leased Property into groundwater or surface water that would require any permit under applicable Environmental Laws, other than storm water runoff.

If Tenant's failure to cure any breach of the covenants listed above in this subparagraph (i) continues beyond the Environmental Cure Period (as defined below), Landlord may, in addition to any other remedies available to it, after notifying Tenant of the remediation efforts Landlord believes are needed, cause the Leased Property to be freed from all Hazardous Substances (or if removal is prohibited by law, to take whatever action is required by law), and the cost of the removal shall be a demand obligation owing by Tenant to Landlord. Further, subject to the provisions of subparagraph 13.(c) below, Tenant agrees to indemnify Landlord against all Losses incurred by or asserted or proven against Landlord in connection therewith. As used in this subparagraph, "ENVIRONMENTAL CURE PERIOD" means the period ending on the earlier of: (1) one hundred and eighty days (180) after Tenant is notified of the breach which must be cured within such period, or such longer period as is reasonably required for any cure that Tenant pursues with diligence pursuant to and in accordance with an Approved Plan (as defined below), (2) the date any writ or order is issued for the levy or sale of any property owned or leased by Landlord (including the Leased Property) or any criminal action is instituted against Landlord or any of its directors, officers or employees because of the breach which must be cured within such period, (3) the end of the Term. As used in this subparagraph, an "APPROVED PLAN" means a plan of remediation of a violation of Environmental Laws for which Tenant has obtained, within one hundred and eighty days (180) after Tenant is notified of the applicable breach of the covenants listed above in this subparagraph (i), the

written approval of the governmental authority with primary jurisdiction over the violation and with respect to which no other governmental authority asserting jurisdiction has claimed such plan is inadequate.

(ii) Environmental Inspections and Reviews. Landlord reserves the right to retain an independent professional consultant to review any report prepared by Tenant or to conduct Landlord's own investigation to confirm whether Hazardous Substances Activities or the discharge of anything into groundwater or surface water has occurred in violation of the preceding subparagraph (i), but Landlord's right to reimbursement for the fees of such consultant shall be limited to the following circumstances: (1) an Event of Default shall have occurred; (2) Landlord shall have retained the consultant to establish the condition of the Leased Property just prior to any conveyance thereof pursuant to the Purchase Agreement or just prior to the expiration of this Lease; (3) Landlord shall have retained the consultant to satisfy any regulatory requirements applicable to Landlord or its Affiliates; or (4) Landlord shall have retained the consultant because Landlord has been notified of a violation of Environmental Laws concerning the Leased Property or Landlord otherwise reasonably believes that Tenant has not complied with the preceding subparagraph (i). Tenant grants to Landlord and to Landlord's agents, employees, consultants and contractors the right during reasonable business hours and after reasonable notice to enter upon the Leased Property to inspect the Leased Property and to perform such tests as are reasonably necessary or appropriate to conduct a review or investigation of Hazardous Substances on, or any discharge into groundwater or surface water from, the Leased Property. Without limiting the generality of the foregoing, Tenant agrees that Landlord will have the same right, power and authority to enter and inspect the Leased Property as is granted to a secured lender under Section 2929.5 of the California Civil Code. Tenant shall promptly reimburse Landlord for the cost of any such inspections and tests, but only when the inspections and tests are (1) ordered by Landlord after an Event of Default; (2) ordered by Landlord to establish the condition of the

Leased Property just prior to any conveyance thereof pursuant to the Purchase Agreement or just prior to the expiration of this Lease; (3) ordered by Landlord to satisfy any regulatory requirements applicable to Landlord or its Affiliates; or (4) ordered because Landlord has been notified of a violation of Environmental Laws concerning the Leased Property or Landlord otherwise reasonably believes that Tenant has not complied with the preceding subparagraph (i).

(iii) Notice of Environmental Problems. Tenant shall immediately advise Landlord of (i) any discovery of any event or circumstance which would render any of the representations contained in subparagraph 10.(e) inaccurate in any material respect if made at the time of such discovery, (ii) any remedial action taken by Tenant in response to any (A) discovery of any Hazardous Substances other than Permitted Hazardous Substances on, under or about the Leased Property or (B) any claim for damages resulting from Hazardous Substance Activities, (iii) Tenant's discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Leased Property which could cause the Leased Property or any part thereof to be subject to any ownership, occupancy, transferability or use restrictions under Environmental Laws, or (iv) any investigation or inquiry affecting the Leased Property by any governmental authority in connection with any Environmental Laws. In such event, Tenant shall deliver to Landlord within thirty (30) days after Landlord's request, a preliminary written environmental plan setting forth a general description of the action that Tenant proposes to take with respect thereto, if any, to bring the Leased Property into compliance with Environmental Laws or to correct any breach by Tenant of the covenants listed above in subparagraph (i), including, without limitation, any proposed corrective work, the estimated cost and time of completion, the name of the contractor and a copy of the construction contract, if any, and such additional data, instruments, documents, agreements or other materials or information as Landlord may reasonably request.

(cc) Compliance with Financial Covenants and Certain Other Requirements Established by the Revolving Credit Agreement. So long as Tenant shall continue to have any obligations under this Lease or the

Purchase Agreement, Tenant shall comply with each and every requirement set forth in Article VII of the Credit Agreement dated as of April 30, 1994, by and among Tenant, as borrower, and Bank of America National Trust and Savings Association, as lender, as amended by the First Amendment to Credit Agreement dated December 31, 1994 between Tenant and such lender and by the Second Amendment to Credit Agreement dated February 15, 1995 between Tenant and such lender (the "REVOLVING CREDIT AGREEMENT"). A true and correct copy of such Revolving Credit Agreement has been delivered by Tenant to Landlord. To the extent that any of the requirements set forth in other provisions of this Lease, in the Environmental Indemnity or in the Purchase Agreement are more stringent than the requirements set forth in the Revolving Credit Agreement (for example, more stringent requirements concerning Tenant's use of the Leased Property itself in compliance with Environmental Laws), the more stringent requirements set forth herein or in the Environmental Indemnity or in the Purchase Agreement shall control. Further, for purposes of determining Tenant's compliance with requirements established in this Lease by reference to the Revolving Credit Agreement, and for purposes of establishing the meaning of capitalized terms defined herein by reference to the Revolving Credit Agreement, such requirements and definitions shall be construed as if (1) the Revolving Credit Agreement were continuing after any expiration or termination thereof, (2) no modifications or waivers of the Revolving Credit Agreement were made or granted after the date of this Lease, and (3) no consents or approvals were given for anything requiring a consent or approval by the terms of the Revolving Credit Agreement, other than such consents or approvals as Landlord shall have itself approved in writing in its capacity as the landlord under this Lease. As used in the provisions of the Revolving Credit Agreement referenced herein, capitalized terms shall have the meanings assigned to them in the Revolving Credit Agreement itself.

(dd) ERISA.

(i) Each Plan is in compliance in all material respects with, and has been administered in all material respects in compliance with, the applicable provisions of ERISA, the Code and any other applicable Federal or state law, and as of the date hereof no event or condition is occurring or exists which would require a notice from Tenant under clause 10.(ad)(ii).

(ii) Tenant shall provide a notice to Landlord as soon as possible after, and in any event within ten (10) days after Tenant becomes aware that, any of the following has occurred, with respect to which the potential aggregate liability to Tenant relating thereto is \$2,000,000 or more, and such notice shall include a statement signed by a senior financial officer of Tenant setting forth details of the following and the response, if any, which Tenant or its ERISA Affiliate proposes to take with respect thereto (and a copy of any report or notice required to be filed with or given to Pension Benefit Guaranty

Corporation by Tenant or an ERISA Affiliate with respect to any of the following or the events or conditions leading up to it): (A) the assertion, to secure any Unfunded Benefit Liabilities, of any Lien against the assets of Tenant, against the assets of any Plan of Tenant or any ERISA Affiliate of Tenant or against any interest of Landlord or Tenant in the Leased Property or the collateral covered by the Pledge Agreement, or (B) the taking of any action by the Pension Benefit Guaranty Corporation or any other governmental authority action against Tenant to terminate any Plan of Tenant or any ERISA Affiliate of Tenant or to cause the appointment of a trustee or receiver to administer any such Plan.

12. Representations, Warranties and Covenants of Landlord. Landlord represents, warrants and covenants as follows:

(a) Title Claims By, Through or Under Landlord. Except by a Permitted Transfer, Landlord shall not assign, transfer, mortgage, pledge, encumber or hypothecate this Lease or any interest of Landlord in and to the Leased Property during the Term without the prior written consent of Tenant. Landlord further agrees that if any encumbrance or title defect affecting the Leased Property is lawfully claimed through or under Landlord, including any judgment lien lawfully filed against Landlord, Landlord will at its own cost and expense

remove any such encumbrance and cure any such defect; provided, however, Landlord shall not be responsible for (i) any Permitted Encumbrances (regardless of whether claimed through or under Landlord) or any other encumbrances not lawfully claimed through or under Landlord, (ii) any encumbrances or title defects claimed by, through or under Tenant or any Participant which Tenant shall have approved, or (iii) any encumbrance or title defect arising because of Landlord's compliance with subparagraph 11.(b) or any request made by Tenant.

(b) Actions Required of the Title Holder. So long as no Event of Default shall have occurred and be continuing, Landlord shall take any and all action required of Landlord by the Permitted Encumbrances or otherwise required of Landlord by Applicable Laws or reasonably requested by Tenant (including granting any utility easements required in connection with construction of Improvements); provided that (i) actions Tenant may require of Landlord under this subparagraph shall be limited to actions that can only be taken by Landlord as the owner of the leasehold estate created by the Ground Lease, as opposed to any action that can be taken by Tenant or any third party (and the payment of any monetary obligation shall not be an action required of Landlord under this subparagraph unless Landlord shall first have received funds from Tenant, in excess of any other amounts due from Tenant hereunder, sufficient to pay such monetary obligations), (ii) Tenant requests the action to be taken by Landlord (which request must be specific and in writing, if required by Landlord at the time the request is made) and (iii) the action to be taken will not constitute a violation of any Applicable Laws or compromise or constitute a waiver of Landlord's rights hereunder or under the Purchase Agreement, the Pledge Agreement or Environmental Indemnity or otherwise be reasonably objectionable to Landlord. Any Losses incurred by Landlord because of any action taken pursuant to this subparagraph shall be covered by the indemnification set forth in subparagraph 10.(y). Further, for purposes of such indemnification, any action taken by Landlord will be deemed to have been made at the request of Tenant if made pursuant to any request of Tenant's counsel or of any officer of Tenant (or with their knowledge, and without their objection) in connection with the Ground Lease or any Construction Document.

(c) No Default or Violation. The execution, delivery and performance of this Lease do not contravene, result in a breach of or constitute a default under any material contract or agreement to which Landlord is a party or by which Landlord is bound and do not, to the knowledge of Landlord, violate or contravene any law, order, decree, rule or regulation to which Landlord is subject.

(d) No Suits. To Landlord's knowledge there are no judicial or administrative actions, suits or proceedings involving the validity, enforceability or priority of this Lease, and to Landlord's knowledge no such suits or proceedings are threatened.

(e) Organization. Landlord is duly incorporated and legally existing under the laws of Delaware and is or, if necessary, will become duly qualified to do business in the State of California. Landlord has or will obtain, at Tenant's expense pursuant to the other provisions of this Lease, all requisite power and all material governmental certificates of authority, licenses, permits, qualifications and other documentation necessary to lease the Leased Property and to perform its obligations under this Lease.

(f) Enforceability. The execution, delivery and performance of this Lease, the Purchase Agreement and the Pledge Agreement by Landlord are duly authorized, are not in contravention of or conflict with any term or provision of Landlord's articles of incorporation or bylaws and do not, to Landlord's knowledge, require the consent or approval of any governmental body or other regulatory authority that has not heretofore been obtained or conflict

with any Applicable Laws. This Lease, the Purchase Agreement and the Pledge Agreement are valid, binding and legally enforceable obligations of Landlord except as such enforcement is affected by bankruptcy, insolvency and similar laws affecting the rights of creditors, generally, and equitable principles of general application; provided, Landlord makes no representation or warranty that conditions imposed by any state or local Applicable Laws to the purchase, ownership, lease or operation of the Leased Property have been satisfied.

(g) Existence. Landlord will continuously maintain its existence and, after qualifying to do business in the State of California if Landlord has not already done so, Landlord will continuously maintain its right to do business in that state to the extent necessary for the performance of Landlord's obligations hereunder.

(h) Not a Foreign Person. Landlord is not a "foreign person" within the meaning of the Sections 1445 and 7701 of the Code (i.e., Landlord is not a non-resident alien, foreign corporation, foreign partnership, foreign trust or foreign estate as those terms are defined in the Code and regulations promulgated thereunder), and Landlord is not subject to withholding under California Revenue and Taxation Code Sections 18805, 18815, and 26131.

13. Assignment and Subletting.

(a) Consent Required. During the term of this Lease, without the prior written consent of Landlord first had and received, Tenant shall not assign, transfer, mortgage, pledge or hypothecate this Lease or any interest of Tenant hereunder and shall not sublet all or any part of the Leased Property, by operation of law or otherwise; provided, that: (1) Tenant shall be entitled without Landlord's consent to sublet space in then existing and completed Improvements if (i) any sublease by Tenant is made expressly subject and subordinate to the terms hereof, (ii) such sublease has a term less than the remainder of the then effective term of this Lease, and (iii) the use permitted by such sublease is expressly limited to the uses permitted by Paragraph 9(a); and (2) Tenant shall be entitled to assign this Lease to an Affiliate of Tenant if both Tenant and its Affiliate confirm their joint and several liability hereunder by notice given to Landlord in accordance with Paragraph 20. (a) hereof.

(b) Standard for Landlord's Consent to Assignments and Certain Other Matters. Consents and approvals of Landlord which are required by the preceding subparagraph will not be unreasonably withheld, but Tenant acknowledges, without limiting the reasons why Landlord might reasonably withhold such consents or approvals, that Landlord's withholding of such consent or approval shall be reasonable if Landlord determines in good faith that giving the consent or approval may significantly increase Landlord's risk of liability for any existing or future environmental problem. Further, Tenant acknowledges that Landlord's withholding of such consent or approval shall be reasonable if Landlord determines in good faith that giving the consent or approval would negate Tenant's representations in this Lease regarding ERISA or cause this Lease, the Purchase Agreement or other documents described herein or therein (or any exercise of Landlord's rights hereunder or thereunder) to constitute a violation of any provision of ERISA or of any applicable state statute regulating a governmental plan.

(c) Consent Not a Waiver. No consent by Landlord to a sale, assignment, transfer, mortgage, pledge or hypothecation of this Lease or Tenant's interest hereunder, and no assignment or subletting of the Leased Property or any part thereof in accordance with this Lease or otherwise with Landlord's consent, shall release Tenant from liability hereunder; and any such consent shall apply only to the specific transaction thereby authorized and shall not relieve Tenant from any requirement of obtaining the prior written consent of Landlord to any further sale, assignment, transfer, mortgage, pledge or hypothecation of this Lease or any interest of Tenant hereunder.

(d) Landlord's Assignment. Landlord shall have the right to transfer, assign and convey, in whole or in part, the Leased Property and any and all of its rights under this Lease by any conveyance that constitutes a Permitted Transfer. (However, any Permitted Transfer shall be subject to all of the provisions of each and every agreement concerning the Leased Property then existing between Landlord and Tenant, including without limitation this Lease and the Purchase Agreement.) In the event Landlord sells or otherwise transfers the Leased Property and assigns its rights under this Lease, the Purchase Agreement and the Pledge Agreement, and if Landlord's successor in interest confirms its liability for the obligations imposed upon Landlord by this Lease,

the Purchase Agreement and the Pledge Agreement on and subject to the express terms and conditions set out herein and therein, then the original Landlord shall thereby be released from any obligations thereafter arising under this Lease, the Purchase Agreement and the Pledge Agreement, and Tenant agrees to look solely to each successor in interest of Landlord for performance of such obligations. However, notwithstanding anything to the contrary herein contained, if withholding taxes are imposed on the rents and other amounts payable to Landlord hereunder because of Landlord's assignment of this Lease to any citizen

of, or any corporation or other entity formed under the laws of, a country other than the United States, Tenant shall not be required to compensate such assignee for the withholding tax.

14. Environmental Indemnification.

(a) Indemnity. Tenant hereby agrees to assume liability for and to pay, indemnify, defend, and hold harmless each and every Indemnified Party from and against any and all Environmental Losses, subject only to the provisions of subparagraph 13.(c) below.

(b) Assumption of Defense.

(i) If an Indemnified Party notifies Tenant of any claim, demand, action, administrative or legal proceeding, investigation or allegation as to which the indemnity provided for in this Paragraph 13 applies, Tenant shall assume on behalf of the Indemnified Party and conduct with due diligence and in good faith the investigation and defense thereof and the response thereto with counsel selected by Tenant but reasonably satisfactory to the Indemnified Party; provided, that the Indemnified Party shall have the right to be represented by advisory counsel of its own selection and at its own expense; and provided further, that if any such claim, demand, action, proceeding, investigation or allegation involves both Tenant and the Indemnified Party and the Indemnified Party shall have been advised in writing by counsel that there may be legal defenses available to it which are inconsistent with those available to Tenant, then the Indemnified Party shall have the right to select separate counsel to participate in the investigation and defense of and response to such claim, demand, action, proceeding, investigation or allegation on its own behalf, and Tenant shall pay or reimburse the Indemnified Party for all Attorney's Fees incurred by the Indemnified Party because of the selection of such separate counsel.

(ii) If any claim, demand, action, proceeding, investigation or allegation arises as to which the indemnity provided for in this Paragraph 13 applies, and Tenant fails to assume promptly (and in any event within fifteen (15) days after being notified of the claim, demand, action, proceeding, investigation or allegation) the defense of the Indemnified Party, then the Indemnified Party may contest (or settle, with the prior written consent of Tenant, which consent will not be unreasonably withheld) the claim, demand, action, proceeding, investigation or allegation at Tenant's expense using counsel selected by the Indemnified Party; provided, that if any such failure by Tenant continues for thirty (30) days or more after Tenant is notified thereof, no such contest need be made by the Indemnified Party and settlement or full payment of any claim may be made by the Indemnified Party without Tenant's consent and without releasing Tenant from any obligations to the Indemnified Party under this Paragraph 13 so long as, in the written opinion of reputable counsel to the Indemnified Party, the settlement or payment in full is clearly advisable.

(c) Notice of Environmental Losses. If an Indemnified Party receives a written notice of Environmental Losses that such Indemnified Party believes are covered by this Paragraph 13, then such Indemnified Party will be expected to promptly furnish a copy of such notice to Tenant. The failure to so provide a copy of the notice to Tenant shall not excuse Tenant from its obligations under this Paragraph 13; provided, that if Tenant is unaware of the matters described in the notice and such failure renders unavailable defenses that Tenant might otherwise assert, or precludes actions that Tenant might otherwise take, to minimize

its obligations hereunder, then Tenant shall be excused from its obligation to indemnify such Indemnified Party (and any Affiliate of such Indemnified Party) against Environmental Losses, if any, which would not have been incurred but for such failure. For example, if Landlord fails to provide Tenant with a copy of a notice of an obligation covered by the indemnity set out in subparagraph 13.(a) and Tenant is not otherwise already aware of such obligation, and if as a result of such failure Landlord becomes liable for penalties and interest covered by the indemnity in excess of the penalties and interest that would have accrued if Tenant had been promptly provided with a copy of the notice, then Tenant will be excused from any obligation to Landlord (or any Affiliate of Landlord) to pay the excess.

(d) Rights Cumulative. The rights of each Indemnified Party under this Paragraph 13 shall be in addition to any other rights and remedies of such Indemnified Party against Tenant under the other provisions of this Lease or under any other document or instrument now or hereafter executed by Tenant, or at law or in equity (including, without limitation, any right of reimbursement or contribution pursuant to CERCLA).

(e) Survival of the Indemnity. Tenant's obligations under this Paragraph 13 shall survive the termination or expiration of this Lease. All obligations of Tenant under this Paragraph 13 shall be payable upon demand, and

any amount due upon demand to any Indemnified Party by Tenant which is not paid shall bear interest from the date of such demand at a floating interest rate equal to the Default Rate, but in no event in excess of the maximum rate permitted by law.

15. Landlord's Right of Access and Right to Perform.

(a) Landlord and Landlord's representatives may enter the Leased Property, after five (5) Business Days advance written notice to Tenant (except in the event of an emergency, when no advance notice will be required), for the purpose of making inspections or performing any work Landlord is authorized to undertake by the next subparagraph. So long as Tenant remains in possession of the Leased Property, Landlord or Landlord's representative will, before making any such inspection or performing any such work on the Leased Property, if then requested to do so by Tenant to maintain Tenant's security: (i) sign in at Tenant's security or information desk if Tenant has such a desk on the premises, (ii) wear a visitor's badge or other reasonable identification provided by Tenant when Landlord or Landlord's representative first arrives at the Leased Property, (iii) permit an employee of Tenant to observe such inspection or work, and (iv) comply with other similar reasonable nondiscriminatory security requirements of Tenant that do not, individually or in the aggregate, interfere with or delay inspections or work of Landlord authorized by this Lease.

(b) If Tenant fails to perform any act or to take any action which hereunder Tenant is required to perform or take, or to pay any money which hereunder Tenant is required to pay, and if such failure or action constitutes an Event of Default or renders Landlord or any director, officer, employee or Affiliate of Landlord at risk of criminal prosecution or renders Landlord's interest in the Leased Property or any part thereof at risk of forfeiture by forced sale or otherwise, then in addition to any other remedies specified herein or otherwise available, Landlord may, in Tenant's name or in Landlord's own name, perform or cause to be performed such act or take such action or pay such money. Any expenses so incurred by Landlord, and any money so paid by Landlord, shall be a demand obligation owing by Tenant to Landlord. Further, Landlord, upon making such payment, shall be subrogated to all of the rights of the person, corporation or body politic receiving such payment. But nothing herein shall imply any duty upon the part of Landlord to do any work which under any provision of this Lease Tenant may be required to perform, and the performance thereof by Landlord shall not constitute a waiver of Tenant's default. Landlord may during the progress of any such work permitted by Landlord hereunder on or in the Leased Property keep and store upon the Leased Property all necessary materials, tools, and equipment. Landlord shall not in any event be liable for inconvenience, annoyance, disturbance, loss of business, or other damage to Tenant or the subtenants of Tenant by reason of making such repairs or the performance of any such work on or in the Leased Property, or on account of bringing materials, supplies and equipment into or through

the Leased Property during the course of such work (except for liability in connection with death or injury or damage to the property of third parties caused by the Active Negligence, gross negligence or wilful misconduct of Landlord or its officers, employees, or agents in connection therewith), and the obligations of Tenant under this Lease shall not thereby be affected in any manner.

16. Events of Default.

(a) Definition of Event of Default. Each of the following events shall be deemed to be an "EVENT OF DEFAULT" by Tenant under this Lease:

(i) Tenant shall fail to pay when due any installment of Rent due hereunder and such failure shall continue for three (3) Business Days after Tenant is notified thereof.

(ii) Tenant shall fail to cause any representation or warranty of Tenant contained herein that is false or misleading in any material respect when made to be made true and not misleading (other than as described in the other clauses of this subparagraph 15.(a)), or Tenant shall fail to comply with any term, provision or covenant of this Lease (other than as described in the other clauses of this subparagraph 15.(a)), and in either case shall not cure such failure prior to the earlier of (A) thirty (30) days after written notice thereof is sent to Tenant or (B) the date any writ or order is issued for the levy or sale of any property owned or leased by Landlord (including the Leased Property) or any criminal action is instituted against Landlord or any of its directors, officers or employees because of such failure; provided, however, that so long as no such writ or order is issued and no such criminal action is instituted, if such failure is susceptible of cure but cannot with reasonable diligence be cured within such thirty day period, and if Tenant shall promptly have commenced to cure the same and shall thereafter prosecute the curing thereof with reasonable diligence, the period within which such failure may be cured shall be extended for such further period (not to exceed an additional sixty (60) days) as shall be necessary for the curing thereof with reasonable

diligence.

(iii) Tenant shall fail to comply with any term, provision or condition of the Purchase Agreement, the Pledge Agreement or the Environmental Indemnity and such failure shall continue after the last day of any applicable grace period provided for therein.

(iv) Tenant shall abandon any portion of the Leased Property.

(v) Tenant shall fail to make any payment or payments of principal, premium or interest, on any Debt of Tenant described in the next sentence when due (taking into consideration the time Tenant may have to cure such failure, if any, under the documents governing such Debt). As used in this clause 15.(a)(v), "Debt" shall mean only Debts of Tenant now existing or arising in the future (a) payable to Landlord or any Participant or any Affiliate of Landlord or any Participant, or (B) payable to any other Person and with respect to which \$3,000,000 or more is actually due and payable because of acceleration or otherwise.

(vi) Tenant or any of its Subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against Tenant or any of its Subsidiaries seeking to adjudicate it bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either

such proceeding shall remain undismissed or unstayed for a period of thirty (30) consecutive days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or Tenant or any of its Subsidiaries shall take any corporate action to authorize any of the actions set forth above in this clause (vi).

(vii) Any order, judgment or decree is entered in any proceedings against Tenant or any Subsidiary decreeing the dissolution of Tenant or such Subsidiary and such order, judgment or decree remains unstayed and in effect for more than sixty (60) days.

(viii) Any order, judgment or decree is entered in any proceedings against Tenant or any Subsidiary decreeing a split-up of Tenant or such Subsidiary which requires the divestiture of assets representing a substantial part, or the divestiture of the stock of a Subsidiary whose assets represent a substantial part, of the consolidated assets of Tenant and its Subsidiaries (determined in accordance with GAAP) or which requires the divestiture of assets, or stock of a Subsidiary, which shall have contributed a substantial part of the consolidated net income of Tenant and its Subsidiaries (determined in accordance with GAAP) for any of the three fiscal years then most recently ended, and such order, judgment or decree remains unstayed and in effect for more than sixty (60) days.

(ix) A final judgment or order for the payment of money in an amount (not covered by insurance) which exceeds \$3,000,000 shall be rendered against Tenant or any of its Subsidiaries and within sixty (60) days after the entry thereof, such judgment or order is not discharged or execution thereof stayed pending appeal, or within thirty (30) days after the expiration of any such stay, such judgment is not discharged.

(x) Any ERISA Termination Event that Landlord determines might constitute grounds for the termination of any Plan or for the appointment by the appropriate United States district court of a trustee to administer any Plan shall have occurred and be continuing thirty (30) days after written notice to such effect shall have been given to Tenant by Landlord, or any Plan shall be terminated, or a trustee shall be appointed by an appropriate United States district court to administer any Plan, or the Pension Benefit Guaranty Corporation shall institute proceedings to terminate any Plan or to appoint a trustee to administer any Plan.

(xi) A Change of Control Event not approved in advance by Landlord shall occur.

(xii) An "Event of Default" as defined in the Revolving Credit Agreement (taking into account any applicable notice and cure period set forth therein) by Tenant shall occur.

Notwithstanding the foregoing, any Default that could become an Event of Default under clause 15.(a)(ii) may be cured within the earlier of the periods described in clauses (A) and (B) thereof by Tenant's delivery to Landlord of a written notice irrevocably exercising Tenant's option under the Purchase Agreement to purchase Landlord's interest in the Leased Property and designating as the Designated Payment Date the next following date which is either an Advance Date or a Base Rent Date and which is at least ten (10) days after the date of such notice; provided, however, Tenant must, as a condition to the effectiveness of its cure, on the date so designated as the Designated Payment Date tender to Landlord the full purchase price required by the Purchase Agreement and all Rent and all other amounts then due or accrued and unpaid hereunder (including reimbursement for any costs incurred by Landlord in connection with the applicable Default hereunder, regardless of whether Landlord shall have been reimbursed for such costs in whole or in part by any Participants) and Tenant must also furnish written confirmation that all indemnities set forth herein (including specifically, but without limitation, the general indemnity set forth in subparagraph 10.(y) and the environmental indemnity set forth in Paragraph 13) shall

survive the payment of such amounts by Tenant to Landlord and the conveyance of Landlord's interest in the Leased Property to Tenant.

(b) Remedies. Upon the occurrence of an Event of Default which is not cured within any applicable period expressly permitted by subparagraph 15.(a), at Landlord's option and without limiting Landlord in the exercise of any other right or remedy Landlord may have on account of such default, and without any further demand or notice except as expressly described in this subparagraph 15.(b):

(i) By notice to Tenant, Landlord may terminate Tenant's right to possession of the Leased Property. A notice given in connection with unlawful detainer proceedings specifying a time within which to cure a default shall terminate Tenant's right to possession if Tenant fails to cure the default within the time specified in the notice.

(ii) Upon termination of Tenant's right to possession and without further demand or notice, Landlord may re-enter the Leased Property and take possession of all improvements, additions, alterations, equipment and fixtures thereon and remove any persons in possession thereof. Any property in the Leased Property may be removed and stored in a warehouse or elsewhere at the expense and risk of and for the account of Tenant.

(iii) Upon termination of Tenant's right to possession, this Lease shall terminate and Landlord may recover from Tenant:

a) The worth at the time of award of the unpaid Rent which had been earned at the time of termination;

b) The worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided;

c) The worth at the time of award of the amount by which the unpaid Rent for the balance of the scheduled Term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; and

d) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, the costs and expenses (including Attorneys' Fees, advertising costs and brokers' commissions) of recovering possession of the Leased Property, removing persons or property therefrom, placing the Leased Property in good order, condition, and repair, preparing and altering the Leased Property for reletting, all other costs and expenses of reletting, and any loss incurred by Landlord as a result of Tenant's failure to perform Tenant's obligations under the Purchase Agreement.

The "WORTH AT THE TIME OF AWARD" of the amounts referred to in subparagraph 15.(b)(iii)a) and subparagraph 15.(b)(iii)b) shall be computed by allowing interest at the Default Rate or such other rate as may be the maximum interest rate then permitted to be charged under California law at the time of computation. The "WORTH AT THE TIME OF AWARD" of the amount referred to in subparagraph 15.(b)(iii)c) shall be computed by discounting such

amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

e) Such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable California law.

(iv) The Landlord shall have the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in force even after lessee's breach and abandonment and recover rent as it becomes due, if lessee has right to sublet or assign, subject only to reasonable limitations). Accordingly, even though Tenant has breached this Lease and abandoned the Leased Property, this Lease shall continue in effect for so long as Landlord does not terminate Tenant's right to possession, and Landlord may enforce all of Landlord's rights and remedies under this Lease, including the right to recover the Rent as it becomes due under this Lease. Tenant's right to possession shall not be deemed to have been terminated by Landlord except pursuant to subparagraph 15.(b)(i) hereof. The following shall not constitute a termination of Tenant's right to possession:

a) Acts of maintenance or preservation or efforts to relet the Leased Property;

b) The appointment of a receiver upon the initiative of Landlord to protect Landlord's interest under this Lease; or

c) Reasonable withholding of consent to an assignment or subletting, or terminating a subletting or assignment by Tenant.

(c) Enforceability. This Paragraph 15 shall be enforceable to the maximum extent not prohibited by Applicable Law, and the unenforceability of any provision in this Paragraph shall not render any other provision unenforceable.

(d) Remedies Cumulative. No right or remedy herein conferred upon or reserved to Landlord is intended to be exclusive of any other right or remedy, and each and every right and remedy shall be cumulative and in addition to any other right or remedy given hereunder or now or hereafter existing under Applicable Law or in equity. In addition to other remedies provided in this Lease, Landlord shall be entitled, to the extent permitted by Applicable Law, to injunctive relief in case of the violation, or attempted or threatened violation, of any of the covenants, agreements, conditions or provisions of this Lease to be performed by Tenant, or to a decree compelling performance of any of the other covenants, agreements, conditions or provisions of this Lease to be performed by Tenant, or to any other remedy allowed to Landlord under Applicable Law or in equity. Nothing contained in this Lease shall limit or prejudice the right of Landlord to prove for and obtain in proceedings for bankruptcy or insolvency of Tenant by reason of the termination of this Lease, an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, the damages are to be proved, whether or not the amount be greater, equal to, or less than the amount of the loss or damages referred to above. Without limiting the generality of the foregoing, nothing contained herein shall modify, limit or impair any of the rights and remedies of Landlord under the Purchase Agreement, the Pledge Agreement or the Environmental Indemnity.

(e) Waiver by Tenant. To the extent permitted by law, Tenant hereby waives and surrenders for itself and all claiming through Tenant under this Lease, including creditors of all kinds, (i) any right and privilege which it or any of them may have under any present or future constitution, statute or rule of law to have a continuance of this Lease for the term hereby demised after termination of Tenant's right of occupancy by order or judgment of any court or by any legal process or writ, or under the terms of this Lease, or after the termination of this Lease as herein provided, and (ii) the benefits of any present or future constitution, or statute

or rule of law which exempts property from liability for debt or for distress for rent, and (iii) the provisions of law relating to notice and/or delay in levy of execution in case of eviction of a lessee for nonpayment of rent.

(f) No Implied Waiver. The failure of Landlord to insist at any time upon the strict performance of any covenant or agreement or to exercise any option, right, power or remedy contained in this Lease shall not be construed as a waiver or a relinquishment thereof for the future. The waiver of or redress for any violation by Tenant of any term, covenant, agreement or condition contained in this Lease shall not prevent a similar subsequent act from constituting a violation. Any express waiver shall affect only the term or condition specified in such waiver and only for the time and in the manner

specifically stated therein. A receipt by Landlord of any Base Rent or other payment hereunder with knowledge of the breach of any covenant or agreement contained in this Lease shall not be deemed a waiver of such breach, and no waiver by Landlord of any provision of this Lease shall be deemed to have been made unless expressed in writing and signed by Landlord.

17. Default by Landlord. If Landlord should default in the performance of any of its obligations under this Lease, Landlord shall have the time reasonably required, but in no event less than thirty (30) days, to cure such default after receipt of written notice from Tenant specifying such default and specifying what action Tenant believes is necessary to cure the default. If Tenant prevails in any litigation brought against Landlord because of Landlord's failure to cure a default within the time required by the preceding sentence, then Tenant shall be entitled to an award against Landlord for the damages proximately caused to Tenant by such default.

18. Quiet Enjoyment. Provided Tenant pays the Base Rent and all Additional Rent payable hereunder as and when due and payable and keeps and fulfills all of the terms, covenants, agreements and conditions to be performed by Tenant hereunder, Landlord shall not during the Term disturb Tenant's peaceable and quiet enjoyment of the Leased Property; however, such enjoyment shall be subject to the terms, provisions, covenants, agreements and conditions of this Lease and the Permitted Encumbrances and any other claims or encumbrances not lawfully made through or under Landlord, to which this Lease is subject and subordinate as hereinabove set forth. Any breach by Landlord of the foregoing covenant of quiet enjoyment shall, subject to the other provisions of this Lease, render Landlord liable to Tenant for any monetary damages proximately caused thereby, but as more specifically provided in Paragraph 5 above, no such breach shall entitle Tenant to terminate this Lease or excuse Tenant from its obligation to pay Base Rent and other amounts hereunder.

19. Surrender Upon Termination. Unless Tenant or an Applicable Purchaser purchases Landlord's entire interest in the Leased Property pursuant to the terms of the Purchase Agreement, Tenant shall, upon the termination of Tenant's right to occupancy, surrender to Landlord the Leased Property, including any buildings, alterations, improvements, replacements or additions constructed by Tenant, with all fixtures and furnishings included in the Initial Improvements, but not including movable furniture and movable personal property not covered by this Lease, free of all Hazardous Substances (including Permitted Hazardous Substances) and tenancies and, to the extent required by Landlord, with all Initial Improvements in the same condition as of the date the same were initially completed, excepting only (i) ordinary wear and tear (provided that the Leased Property shall have been maintained as required by the other provisions hereof) and (ii) alterations and additions which are expressly permitted by the terms of this Lease and which have been completed by Tenant in a good and workmanlike manner in accordance with all Applicable Laws. Any movable furniture or movable personal property belonging to Tenant or any party claiming under Tenant, if not removed at the time of such termination and if Landlord shall so elect, shall be deemed abandoned and become the property of Landlord without any payment or offset therefor. If Landlord shall not so elect, Landlord may remove such property from the Leased Property and store it at Tenant's risk and expense. Tenant shall bear the expense of repairing any damage to the Leased Property caused by such removal by Landlord or Tenant.

20. Holding Over by Tenant. Should Tenant not purchase Landlord's right, title and interest in the Leased Property as provided in the Purchase Agreement, but nonetheless continue to hold the Leased Property after the termination of this Lease without Landlord's written consent, whether such termination occurs by lapse of time or otherwise, such holding over shall constitute and be construed as a tenancy from day to day only, at a daily Base Rent equal to: (i) Stipulated Loss Value on the day in question, times (ii) (A) the Prime Rate in effect for such day so long as the holdover period does not extend beyond ninety (90) days and (B) for each such day beginning with the ninety-first day after the holdover commences, three percent (3%) above the Prime Rate; divided by (iii) 360; subject, however, to all of the terms, provisions, covenants and agreements on the part of Tenant hereunder. No payments of money by Tenant to Landlord after the termination of this Lease shall reinstate, continue or extend the Term of this Lease and no extension of this Lease after the termination thereof shall be valid unless and until the same shall be reduced to writing and signed by both Landlord and Tenant.

21. Miscellaneous.

(a) Notices. Each provision of this Lease, or of any Applicable Laws with reference to the sending, mailing or delivery of any notice or with reference to the making of any payment by Tenant to Landlord, shall be deemed to be complied with when and if the following steps are taken:

(i) All Rent required to be paid by Tenant to Landlord hereunder shall be paid to Landlord in immediately available funds by wire transfer to:

Federal Reserve Bank of San Francisco
Account: Banque Nationale de Paris

ABA #: 121027234

Reference: KLA Instruments Lease (Phase I).

or at such other place and in such other manner as Landlord may designate in a notice to Tenant (provided Landlord will not unreasonably designate a method of payment other than wire transfer). Time is of the essence as to all payments and other obligations of Tenant under this Lease.

(ii) All Construction Advances required to be paid to Tenant by Landlord hereunder shall be paid to Tenant in immediately available funds by wire transfer to:

Bank of America
Account Name: KLA Instruments Corporation
Account Number: 1483100220
ABA #: 121000358

Reference: Construction Advance

or at such other place and in such other manner as Tenant may designate in a notice to Landlord (provided Tenant will not unreasonably designate a method of payment other than wire transfer). Time is of the essence as to the payment of all Construction Advances required of Landlord under this Lease.

(iii) All notices, demands and other communications to be made hereunder to the parties hereto shall be in writing (at the addresses set forth below) and shall be given by any of the following means: (A) personal service, with proof of delivery or attempted delivery retained; (B) electronic communication, whether by telex, telegram or telecopying (if confirmed in writing sent by United States first class mail, return receipt requested); or (C) registered or certified first class mail, return receipt requested. Such addresses may be changed by notice to the other parties given in the same manner as provided above. Any notice or other communication sent pursuant to clause (A) or (C) hereof shall be deemed received (whether or not actually received) upon first attempted delivery at the proper notice address on any Business Day between 9:00 A.M. and 5:00 P.M., and any notice or other communication sent pursuant to clause (B) hereof shall be deemed received upon dispatch by electronic means.

Address of Landlord:

BNP Leasing Corporation
717 North Harwood Street
Suite 2630
Dallas, Texas 75201
Attention: Lloyd Cox
Telecopy: (214) 969-0060

With a copy to:

Banque Nationale de Paris, San Francisco
180 Montgomery Street
San Francisco, California 94104
Attention: Rafael C. Lumanlan or William J. La Herran
Telecopy: (415) 296-8954

And with a copy to:

Dorothy H. Bjorck
Thompson & Knight, P.C.
1700 Pacific Avenue
Suite 3300,
Dallas, Texas 75201
Telecopy: (214) 969-1550

Address of Tenant:

KLA Instruments Corporation
160 Rio Robles
San Jose, California 95134
Attn: Christopher Stoddart, Treasurer
Telecopy: (408) 434-4268

With a copy to:

Gray Cary Ware & Freidenrich
400 Hamilton Avenue
Palo Alto, California 94301
Attn: Jonathan E. Rattner, Esq.
Telecopy: (415) 328-3029

(b) Severability. If any term or provision of this Lease or the application thereof shall to any extent be held by a court of competent jurisdiction to be invalid and unenforceable, the remainder of this Lease, or the application of such term or provision other than to the extent to which it is invalid or unenforceable, shall not be affected thereby.

(c) No Merger. There shall be no merger of this Lease or of the leasehold estate hereby created with the fee or any other estate in the Leased Property or any part thereof by reason of the fact that the same person may acquire or hold, directly or indirectly, this Lease or the leasehold estate hereby created or any interest in this Lease or in such leasehold estate as well as the fee or any other estate in the Leased Property or any interest in such fee or other estate, unless all Persons with an interest in the Leased Property that would be adversely affected by any such merger specifically agree in writing that such a merger shall occur.

(d) NO IMPLIED REPRESENTATIONS BY LANDLORD. LANDLORD AND LANDLORD'S AGENTS HAVE MADE NO REPRESENTATIONS OR PROMISES WITH RESPECT TO THE LEASED PROPERTY EXCEPT AS EXPRESSLY SET FORTH HEREIN, AND NO RIGHTS, EASEMENTS OR LICENSES ARE ACQUIRED BY TENANT BY IMPLICATION OR OTHERWISE EXCEPT AS EXPRESSLY SET FORTH IN THE PROVISIONS OF THIS LEASE, THE PURCHASE AGREEMENT AND THE PLEDGE AGREEMENT.

(e) Entire Agreement. This Lease and the instruments referred to herein supersede any prior negotiations and agreements between the parties concerning the Leased Property and no amendment or modification of this Lease shall be binding or valid unless expressed in a writing executed by both parties hereto.

(f) Binding Effect. All of the covenants, agreements, terms and conditions to be observed and performed by the parties hereto shall be applicable to and binding upon their respective successors and, to the extent assignment is permitted hereunder, their respective assigns.

(g) Time is of the Essence. Time is of the essence as to all obligations of Tenant and all notices required of Tenant under this Lease, but this subparagraph shall not limit Tenant's opportunity to prevent an Event of Default by curing any breach within the cure period (if any) applicable under subparagraph 15.(a).

(h) Governing Law. This Lease shall be governed by and construed in accordance with the laws of the State of California.

(i) Waiver of a Jury Trial. LANDLORD AND TENANT EACH HEREBY WAIVES ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS LEASE OR ANY OTHER DOCUMENT OR DEALINGS BETWEEN THEM RELATING TO THIS LEASE OR THE LEASED PROPERTY. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including, without limitation, contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. Tenant and Landlord each acknowledge that this waiver is a material

inducement to enter into a business relationship, that each has already relied on the waiver in entering into this Lease and the other documents referred to herein, and that each will continue to rely on the waiver in their related future dealings. Tenant and Landlord each further warrants and represents that it has reviewed this waiver with its legal counsel, and that it knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS LEASE OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THIS LEASE OR THE LEASED PROPERTY. In the event of litigation, this Lease may be filed as a written consent to a trial by the court.

(j) Income Tax Reporting. Landlord and Tenant intend this Lease and the Purchase Agreement to have a form for income taxes which is different than the form of this Lease and the Purchase Agreement for other purposes, and thus the parties acknowledge and agree as follows:

a) FOR PURPOSES OF DETERMINING THEIR RESPECTIVE FEDERAL, STATE AND LOCAL INCOME TAX OBLIGATIONS, Landlord and Tenant believe and intend that this Lease and the Purchase Agreement constitute a financing arrangement or conditional sale. Both Landlord and Tenant agree to report this Lease and the Purchase Agreement as a financing arrangement or conditional sale on their respective income tax returns (the "REQUIRED REPORTING"), unless such Required Reporting is challenged in writing by the Internal Revenue Service or another governmental authority with jurisdiction (a "TAX CHALLENGE"). Consistent with the foregoing, Landlord and Tenant expect that Tenant (and not Landlord) shall be treated as the true owner of the Property for

income tax purposes, thereby entitling Tenant (and not Landlord) to take depreciation deductions and other tax benefits available to the owner. Tenant shall also report all interest earned on Escrowed Proceeds or the collateral covered by the Pledge Agreement as Tenant's income for federal, state and local income tax purposes. REFERENCES IN THIS LEASE OR IN THE PURCHASE AGREEMENT TO A "LEASE" OF THE "LEASED PROPERTY" ARE NOT INTENDED FOR INCOME TAX PURPOSES TO REFLECT THE INTENT OF LANDLORD OR TENANT AS TO THE FORM OF THE TRANSACTIONS COVERED BY, OR THE PROPER CHARACTERIZATION OF, THIS LEASE AND THE PURCHASE AGREEMENT.

b) FOR ALL OTHER PURPOSES, INCLUDING THE DETERMINATION OF THE APPROPRIATE FINANCIAL ACCOUNTING FOR THIS LEASE AND THE DETERMINATION OF THEIR RESPECTIVE RIGHTS AND REMEDIES UNDER STATE LAW, Landlord and Tenant believe and intend that (i) this Lease constitutes a true Lease, not a mere financing arrangement, enforceable in accordance with its express terms (and neither this subparagraph 20.(j) the provisions referencing this subparagraph on the title page of this Lease and in the Purchase Agreement are intended to affect the enforcement of any other provisions of this Lease or the Purchase Agreement) and (ii) the Purchase Agreement shall constitute a separate and independent contract, enforceable in accordance with the express terms and conditions set forth therein. In this regard, Tenant acknowledges that Tenant asked Landlord to participate in the transactions evidenced by this Lease and the Purchase Agreement as a landlord and owner of the Leased Property, not as a lender. Although other transactions might have been used to accomplish similar results, Tenant expects to receive certain material accounting and other advantages through the use of a lease transaction. Accordingly, and notwithstanding the Required Reporting for income tax purposes, Tenant cannot equitably deny that this Lease and the Purchase Agreement should be construed and enforced in accordance with their respective terms, rather than as a mortgage or other security device, in any action brought by Landlord to enforce this Lease or the Purchase Agreement.

In the event of a Tax Challenge, Landlord and Tenant shall each provide to the other copies of all notices from the Internal Revenue Service or any other governmental authority presenting the Tax Challenge. Further, before changing from the Required Reporting because of a Tax Challenge, Landlord and Tenant shall each consider in good faith any reasonable suggestions received from the other party to this Lease about an appropriate response to the Tax Challenge; provided, however, that the suggestions are set forth in a written notice delivered no later than thirty (30) days after the suggesting party is first notified of the Tax Challenge; and, provided further, that when presented with a Tax Challenge, Landlord and Tenant shall each have the right to change from the Required Reporting rather than participate in any litigation or other legal proceeding against the Internal Revenue Service or another governmental authority. In any event, Tenant must indemnify and hold harmless Landlord from and against all liabilities, costs, additional taxes and other expenses that may arise or become due because of any challenge to the Required Reporting or because of any resulting recharacterization of this Lease or the Purchase Agreement required by the Internal Revenue Service or another governmental authority, including any additional taxes that may become due upon any sale under the Purchase Agreement, to the extent (if any) that such liabilities, costs, additional taxes and other expenses are not offset by tax savings resulting from additional depreciation deductions or other tax benefits to Landlord of the recharacterization.

IN WITNESS WHEREOF, this Lease is hereby executed in multiple originals as of the effective date above set forth.

"Landlord"

BNP LEASING CORPORATION

By:

Name: Lloyd G. Cox
Title: Vice President

"Tenant"

KLA INSTRUMENTS CORPORATION

By: _____
Name: Christopher Stoddart
Title: Treasurer

STATE OF TEXAS)
)
COUNTY OF DALLAS)

On June 5, 1995, before me, _____, personally appeared Lloyd G. Cox, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

STATE OF CALIFORNIA)
)
COUNTY OF SANTA CLARA)

On June __, 1995, before me, _____, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

Exhibit A

PROPERTY DESCRIPTION

REAL PROPERTY in the City of San Jose, State of California, described as follows:

Exhibit B

PERMITTED ENCUMBRANCES

This conveyance is subject to the following matters, but only to the extent the same are still valid and in full force and effect:

Exhibit C

DESCRIPTION OF RENDERINGS OF THE INITIAL IMPROVEMENTS

Reference is made to the following, which are incorporated in Exhibit as if fully set forth here:

Exhibit C-1

Exhibit D

ESTOPPEL FROM CONTRACTORS

_____, 199__

BNP Leasing Corporation
717 North Harwood Street
Suite 2630
Dallas, Texas 75201

Attention: Lloyd Cox

Re: Assignment of Construction Contract

Ladies and Gentlemen:

The undersigned hereby confirms, warrants and represents to BNP Leasing Corporation, a Delaware corporation ("BNP"), and covenants with BNP as follows:

22. The undersigned has entered into that certain [Construction Contract] (the "CONSTRUCTION CONTRACT") by and between the undersigned and KLA Instruments Corporation ("TENANT") dated _____, 199__ for the construction of the multiuse complex to be constructed on the campus leased by Tenant (the "IMPROVEMENTS") located on the land described in Exhibit A attached hereto and made a part hereof for all purposes (the "LAND" and, together with the Improvements and any other improvements now on or constructed in the future on the Land, being herein collectively referred to as the "PROJECT").

23. The undersigned has been advised that BNP owns a leasehold estate in the Land under a long term ground lease.

24. The undersigned has also received a copy of the Lease Agreement dated as of June 5, 1995 (the "LEASE"), pursuant to which BNP is leasing the Project to Tenant, and BNP has agreed, subject to the terms and conditions of the Lease, to provide a construction allowance for Tenant's construction of the Improvements. The Lease also requires Tenant to fulfill all obligations of the ["Owner"] under the Construction Contract and related documents and to indemnify BNP against any liability arising thereunder, all as more particularly provided in the Lease, reference to which is hereby made for all purposes.

25. A complete and correct copy of the Construction Contract is attached to this letter. The Construction Contract is in full force and effect and has not been modified or amended.

26. The undersigned has not sent to Tenant or received from Tenant any notice of default or any other notice for the purpose of terminating the Construction Contract, nor is there any existing circumstance or event which, but for the elapse of time or otherwise, would constitute a default by the undersigned or the ["Owner"] under the Construction Contract.

The undersigned acknowledges and agrees that:

Exhibit D -1-

BNP Leasing Corporation
_____, 199__
Page 2

a) BNP shall not be held liable for, and the undersigned shall not assert, any claims, demands or liabilities against BNP or, except for statutory lien rights, against the Project arising under or in any way relating to the Construction Contract; provided, this paragraph will not prohibit the undersigned from asserting any claims or making demands under the Construction Contract if BNP elects in writing, pursuant to Paragraph b) below, to assume the Construction Contract in the event Tenant's right to possession of the Land is terminated, in which event BNP shall be liable thereunder for (but only for) any acts or omissions on the part of BNP occurring after the date on which BNP notifies the undersigned of BNP's election to assume the Construction Contract.

b) Upon any termination of Tenant's right to possession of the Project under the Lease, including but not limited to any eviction of Tenant resulting from an Event of Default (as defined in the Lease), BNP may, by notice to the undersigned and without the necessity of the execution of any other document, assume Tenant's rights and obligations under the Construction Contract, cure any defaults by Tenant thereunder and enforce the Construction Contract and all rights of the ["Owner"] thereunder. Within ten (10) days of receiving notice from BNP that Tenant's right to possession has been terminated, the undersigned shall send to BNP a written estoppel letter stating: (i) that the undersigned has not performed any act or executed any other instrument which invalidates or modifies the Construction Contract in whole or in part (or, if so, the nature of such modification); (ii) that the Construction Contract is valid and subsisting and in full force and effect; (iii) that there are no defaults or events of default then existing under the Construction Contract and no event has occurred which with the passage of time or the giving of notice, or both, would constitute such a default or event of default (or, if there is a

default, the nature of such default in detail); (iv) that the construction contemplated by the Construction Contract is proceeding in a satisfactory manner in all material respects (or if not, a detailed description of all significant problems with the progress of construction); (v) a reasonably detailed report of the then critical dates projected by the undersigned for work and deliveries required to complete the construction project; (vi) the total amount paid for construction through the date of the letter; (vii) the estimated total cost of completing such construction as of the date of the letter, together with a current draw schedule; and (viii) any other information BNP may request to allow it to decide whether to assume the Construction Contract. BNP shall have thirty (30) days from receipt of such written certificate containing all such requested information to decide whether to assume the Construction Contract. If BNP fails to assume the Construction Contract within such time, the undersigned agrees that BNP shall not be liable for (and the undersigned shall not assert or bring any action against BNP or, except for statutory lien rights not waived, against the Land or improvements thereon for) any damages or other amounts resulting from the breach or termination of the Construction Contract or under any other theory of liability of any kind or nature, but rather the undersigned shall look solely to Tenant and any statutory lien rights not waived for the recovery of any such damages or other amounts.

c) If BNP notifies the undersigned that BNP shall not assume the Construction Contract pursuant to the preceding paragraph following the termination of Tenant's right to possession of the Project under the Lease, the undersigned shall immediately discontinue the work under the Construction Contract and remove its personnel from the Project, and BNP shall be entitled to take exclusive possession of the Project and all or any part of the equipment and materials delivered or en route to the Project. The undersigned shall also, upon request by BNP, deliver and assign to BNP all plans and specifications and other contract documents previously delivered to the undersigned (except that the undersigned may keep an original set of the Construction Contract and other contract documents executed by Tenant), all other material relating to the work which belongs to BNP or Tenant, and all papers and documents relating to governmental permits, orders placed, bills and invoices, lien releases and financial management under the Construction Contract. Notwithstanding the undersigned's receipt of any notice from BNP that BNP declines to assume the Construction Contract, the undersigned shall for a period not to exceed fifteen (15) days after receipt of such notice

Exhibit D -2-

BNP Leasing Corporation
_____, 199____
Page 3

take such steps, at BNP's expense, as are reasonably necessary to preserve and protect work completed and in progress and to protect materials, equipment and supplies at the site or in transit.

d) No action taken by BNP or the undersigned with respect to the Construction Contract shall prejudice any other rights or remedies of BNP or the undersigned provided by law, by the Lease, by the Construction Contract or otherwise against Tenant.

e) The undersigned agrees promptly to notify BNP of any material default or claimed material default by Tenant under the Construction Contract, describing with particularity the default and the action the undersigned believes is necessary to cure the same. The undersigned will send any such notice to BNP prominently marked "URGENT - NOTICE OF TENANT'S DEFAULT UNDER CONSTRUCTION AGREEMENT WITH KLA INSTRUMENTS CORPORATION - SAN JOSE CALIFORNIA" at the address specified for notice below (or at such other addresses as BNP shall designate in notice sent to the undersigned), by certified or registered mail, return receipt requested. Following receipt of such notice, the undersigned will permit BNP or its designee to cure any such default within the time period reasonably required for such cure, but in no event less than thirty (30) days. If it is necessary or helpful to take possession of all or any portion of the Project to cure a default by Tenant under the Construction Contract, the time permitted by the undersigned for cure by BNP will include the time necessary to terminate Tenant's right to possession of the Project and evict Tenant, provided that BNP commences the steps required to exercise such right within sixty (60) days after it is entitled to do so under the terms of the Lease and applicable law. If the undersigned incurs additional costs due to the extension of the aforementioned cure period, the undersigned shall be entitled to an equitable adjustment to the price of the Construction Contract for such additional costs.

f) Any notice or communication required or permitted hereunder shall be given in writing, sent by (a) personal delivery or (b) expedited delivery service with proof of delivery or (c) United States mail, postage prepaid, registered or certified mail or (d) telegram, telex or telecopy, addressed as follows:

To the undersigned: _____

To BNP: BNP Leasing Corporation
717 North Harwood Street
Suite 2630
Dallas, Texas 75201

g) The undersigned acknowledges that it has all requisite authority to execute this letter. The undersigned further acknowledges that BNP has requested this letter, and is relying on the truth and accuracy of the representations made herein, in connection with BNP's decision to advance funds for construction under the Lease with Tenant.

Very truly yours,

Exhibit D -3-

BNP Leasing Corporation
_____, 199__
Page 4

By: _____
Name: _____
Title: _____

Tenant joins in the execution of this letter solely for the purpose of evidencing its consent hereto, including its consent to the provisions that would allow, but not require, BNP to assume the Construction Contract in the event Tenant is evicted from the Project.

KLA Instruments Corporation

By: _____
Name: _____
Title: _____

Exhibit D -4-

Exhibit E

ESTOPPEL FROM ARCHITECTS/ENGINEERS

_____, 199__

BNP Leasing Corporation
717 North Harwood Street
Suite 2630
Dallas, Texas 75201

Attention: Lloyd Cox

Re: Assignment of [Architect's/Engineer's Agreement]

Ladies and Gentlemen:

The undersigned hereby confirms, warrants and represents to BNP Leasing Corporation, a Delaware corporation ("BNP"), and covenants with BNP as follows:

27. The undersigned has entered into that certain

[Architects/Engineers Agreement] (the "AGREEMENT") by and between the undersigned and KLA Instruments Corporation ("TENANT") dated _____, 199__ for the [design] of the multiuse complex to be constructed on the San Jose campus leased by Tenant (the "IMPROVEMENTS") located on the land described in Exhibit A attached hereto and made a part hereof for all purposes (the "LAND" and, together with the Improvements and any other improvements now on or constructed in the future on the Land, being herein collectively referred to as the "PROJECT").

28. The undersigned has been advised that BNP owns a leasehold estate in the Land under a long term ground lease.

29. The undersigned has also received a copy of the Lease Agreement dated as of June 5, 1995 (the "LEASE"), pursuant to which BNP is leasing the Project to Tenant, and BNP has agreed, subject to the terms and conditions of the Lease, to provide a construction allowance for Tenant's construction of the Improvements. The Lease also requires Tenant to fulfill all obligations of the ["Owner"] under the Agreement and related documents and to indemnify BNP against any liability arising thereunder, all as more particularly provided in the Lease, reference to which is hereby made for all purposes.

30. A complete and correct copy of the Agreement is attached to this letter. The Agreement is in full force and effect and has not been modified or amended.

31. The undersigned has not sent to Tenant or received from Tenant any notice of default or any other notice for the purpose of terminating the Agreement, nor is there any existing circumstance or event which, but for the elapse of time or otherwise, would constitute a default by the undersigned or the ["Owner"] under the Agreement.

The undersigned acknowledges and agrees that:

BNP Leasing Corporation
_____, 199__

Page 2

a) BNP shall not be held liable for, and the undersigned shall not assert, any claims, demands or liabilities against BNP or, except for any statutory lien rights, against the Project arising under or in any way relating to the Agreement; provided, this paragraph will not prohibit the undersigned from asserting any claims or making demands under the Agreement if BNP elects in writing, pursuant to Paragraph b) below, to assume the Agreement in the event Tenant's right to possession of the Land is terminated, in which event BNP shall be liable thereunder for (but only for) any acts or omissions on the part of BNP occurring after the date on which BNP notifies the undersigned of BNP's election to assume the Agreement.

b) Upon any termination of Tenant's right to possession of the Project under the Lease, including but not limited to any eviction of Tenant resulting from an Event of Default (as defined in the Lease), BNP may, by notice to the undersigned and without the necessity of the execution of any other document, assume Tenant's rights and obligations under the Agreement, cure any defaults by Tenant thereunder and enforce the Agreement and all rights of the ["Owner"] thereunder. Within ten (10) days of receiving notice from BNP that Tenant's right to possession has been terminated, the undersigned shall send to BNP a written estoppel letter stating: (i) that the undersigned has not performed any act or executed any other instrument which invalidates or modifies the Agreement in whole or in part (or, if so, the nature of such modification); (ii) that the Agreement is valid and subsisting and in full force and effect; (iii) that there are no defaults or events of default then existing under the Agreement and no event has occurred which with the passage of time or the giving of notice, or both, would constitute such a default or event of default (or, if there is a default, the nature of such default in detail); (iv) that the construction contemplated by the Agreement is proceeding in a satisfactory manner in all material respects (or if not, a detailed description of all significant problems with the progress of construction); (v) a reasonably detailed report of the then critical dates projected by the undersigned for work and deliveries required to complete the Project; (vi) the total amount paid and due for services rendered under the Agreement through the date of the letter; (vii) the estimated total cost of completing services contemplated by the Agreement after the date of the letter, together with a projected payment schedule; and (viii) any other information BNP may request to allow it to decide whether to assume the Agreement. BNP shall have thirty (30) days from receipt of such written certificate containing all such requested information to decide whether to assume the Agreement. If BNP fails to assume the Agreement within such time, the undersigned agrees that BNP shall not be liable for (and the undersigned shall not assert or bring any action against BNP or, except for any statutory lien rights not waived, against the Land or improvements thereon for) any damages or other amounts resulting from the breach or termination of the Agreement or under any other theory of liability of any kind or nature, but rather the undersigned shall look solely to Tenant and any statutory lien rights not waived for the recovery of any such damages or other amounts.

c) If BNP notifies the undersigned that BNP shall not assume the Agreement pursuant to the preceding paragraph following the termination of Tenant's right to possession of the Project under the Lease, the undersigned shall immediately discontinue the work under the Agreement and remove its personnel from the Project, and BNP shall be entitled to obtain and use plans and specifications prepared under the Agreement with respect to the Project. The undersigned shall also, upon request by BNP, deliver to BNP all such plans and specifications, all other contract documents previously delivered to the undersigned (except that the undersigned may keep an original set of the Agreement and other contract documents executed by Tenant), all other material relating to the work which belongs to BNP or Tenant, and all papers and documents relating to governmental permits, orders placed, bills and invoices, lien releases and financial management under the Agreement.

d) No action taken by BNP or the undersigned with respect to the Agreement shall prejudice any other rights or remedies of BNP or the undersigned provided by law, by the Lease, by the Agreement or otherwise against Tenant.

Exhibit E -2-

BNP Leasing Corporation

_____, 199 ____

Page 3

e) The undersigned agrees promptly to notify BNP of any material default or claimed material default by Tenant under the Agreement, describing with particularity the default and the action the undersigned believes is necessary to cure the same. The undersigned will send any such notice to BNP prominently marked "URGENT NOTICE OF TENANT'S DEFAULT UNDER AGREEMENT WITH KLA INSTRUMENTS CORPORATION - SAN JOSE CALIFORNIA" at the address specified for notice below (or at such other addresses as BNP shall designate in notice sent to the undersigned), by certified or registered mail, return receipt requested. Following receipt of such notice, the undersigned will permit BNP or its designee to cure any such default within the time period reasonably required for such cure, but in no event less than thirty (30) days. If it is necessary or helpful to take possession of all or any portion of the Project to cure a default by Tenant under the Agreement, the time permitted by the undersigned for cure by BNP will include the time necessary to terminate Tenant's right to possession of the Project and evict Tenant, provided that BNP commences the steps required to exercise such right within sixty (60) days after it is entitled to do so under the terms of the Lease and applicable law.

f) Any notice or communication required or permitted hereunder shall be given in writing, sent by (a) personal delivery or (b) expedited delivery service with proof of delivery or (c) United States mail, postage prepaid, registered or certified mail or (d) telegram, telex or telecopy, addressed as follows:

To the undersigned: _____

To BNP: BNP Leasing Corporation
717 North Harwood Street
Suite 2630
Dallas, Texas 75201

g) The undersigned acknowledges that it has all requisite authority to execute this letter. The undersigned further acknowledges that BNP has requested this letter, and is relying on the truth and accuracy of the representations made herein, in connection with BNP's decision to advance funds for construction under the Lease with Tenant.

Very truly yours,

By: _____

Name: _____

Title: _____

Tenant joins in the execution of this letter solely for the purpose of evidencing its consent hereto, including its consent to the provisions that would allow, but not require, BNP to assume the Agreement in the event Tenant is evicted from the Project.

Exhibit E -3-

BNP Leasing Corporation
_____, 199____
Page 4

KLA Instruments Corporation

By: _____
Name: _____
Title: _____

Exhibit E -4-

Exhibit F

Draw Request Forms

_____, 199__

BNP Leasing Corporation
c/o Banque Nationale de Paris
180 Montgomery Street
San Francisco, California 94104

Attention: Rafael C. Lumanlan or William J. La Herran

Re: Construction Advance Request No. _____
by KLA Instruments Corporation

Ladies and Gentlemen:

Reference is made to the Lease Agreement between BNP Leasing Corporation, as landlord (herein "LANDLORD"), and KLA Instruments Corporation, as tenant (herein "TENANT"), dated as of June 5, 1995 (herein "THE LEASE"). Capitalized terms defined in the Lease and used but not defined in this letter are intended to have the meanings assigned to them in the Lease.

Tenant hereby makes request for a Construction Advance in the amount of \$ _____ (herein the "CURRENT ADVANCE"). Included herewith are:

1. An Application and Certificate for Payment based on AIA Form G702 (herein the "CONTRACTOR'S APPLICATION") from Tenant's general contractor, attached to which is a schedule of values listing all subcontractors, suppliers and other parties to whom the general contractor has or will make payments from the draw requested in the Contractor's Application. The Contractor's Application evidences an obligation incurred by (and previously paid by) Tenant for construction of Improvements and for which Tenant is entitled to reimbursement from the Current Advance.
2. A list of any costs paid by Tenant, other than to the general contractor, for which Tenant is entitled to reimbursement from the proceeds of the Current Advance (herein the "OTHER COSTS LIST").
3. Invoices and requests for payments from the subcontractors and others entitled to payment from the general contractor for construction and related work covered by the Contractor's Application; excluding, however, invoices or requests from some or all subcontractors and others that, according to the Contractor's Application, are to be paid less than \$300,000 from

BNP Leasing Corporation
_____, 199____
Page 2

Application. Such invoices and requests for payments are consistent with the detail shown in the schedule of values attached to the Contractor's Application.

- 4. Invoices or other evidence of the costs (if any) included in the Other Costs List.
- 5. A list of any "checks on hold" (i.e., payments withheld from subcontractors or suppliers by Tenant's general contractor because of some defect or deficiency in the payee's request for payment or in the work or materials provided by the payee) in excess of \$50,000.
- 6. An up-to-date list of the names and addresses of any subcontractors that have actually filed a claim of lien against the Leased Property, together with, to the extent not already provided with a prior request for a Construction Advance, a copy of the claim of lien filed.
- 7. A certification of an officer of Tenant as required by Paragraph 6.(c) (viii) of the Lease.

We hereby confirm that Landlord will not be responsible for the application of any funds advanced to Tenant or to any other party at our request.

Sincerely,

KLA Instruments Corporation

By: _____
Name: _____
Title: _____

cc: BNP Leasing Corporation
717 North Harwood Street
Suite 2630
Dallas, Texas 75201
Attention: Lloyd Cox

Dorothy H. Bjorck
Thompson & Knight,
a Professional Corporation
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201

CONSTRUCTION ADVANCE CERTIFICATE

Pursuant to Paragraph 6.(c)(viii) of the Lease dated as of June 5, 1995 (the "LEASE") between KLA Instruments Corporation ("TENANT") and BNP Leasing Corporation ("LANDLORD"), Tenant does hereby represent, warrant and certify to Landlord in connection with Tenant's request for Construction Advance No. _____ that:

- a) no Event of Default has occurred and is continuing,
- b) the representations and warranties of Tenant contained in the Lease are true and correct in all material respects on and as of the date hereof as though made on and as of the date hereof, subject only to the following

exceptions:

[LIST EXCEPTIONS HERE, OR IF THERE ARE NO EXCEPTIONS, INSERT "NONE"]

c) Construction of the Initial Improvements has commenced and is progressing without any significant continuing interruption in a good and workmanlike manner and substantially in accordance with the requirements of the Lease and all Applicable Laws and Tenant has corrected or is diligently pursuing the correction of any significant defect in such construction,

d) all costs and expenses for which Tenant is requesting reimbursement by the Construction Advance referenced above constitute actual costs and expenses incurred by Tenant for the Initial Improvements or for property taxes or assessments assessed against and paid with respect to the Leased Property, and

e) The amounts designated for payment to Potential Lien Claimants in prior Construction advance Requests have been paid to such Potential Lien Claimants, and the advance being requested hereby will not result in an excess of \$2,000,000 or more of (1) the total cost of work with respect to which Potential Lien Claimants could have asserted a lien against the Leased Property and for which Construction Advances have been advanced by Landlord, over (2) the cost of such work for which Tenant has provided to Landlord unconditional statutory lien releases from all Potential Lien Claimants.

Capitalized terms used herein which are defined in the Lease but not in this Certificate shall have the meanings assigned to them in the Lease.

In witness whereof, this Certificate is executed by an officer of KLA Instruments Corporation as of _____, 19__.

KLA Instruments Corporation

By: _____

Name: _____

Title: _____

Exhibit F -3-

LIST OF LIENS FOR WHICH A CLAIM OF LIEN HAS ACTUALLY BEEN FILED

(Construction Advance Request No. _____)

Liens for which a claim of lien has actually been filed are as follows:

1.

2.

3.

Exhibit F -4-

OTHER COSTS LIST

(Construction Advance Request No. _____)

Costs paid - other than to Tenant's general contractor - by Tenant and for which Tenant is entitled to reimbursement from the Current Advance being requested are as follows:

1.

2.

Exhibit F -5-

Exhibit G

FINANCIAL COVENANT COMPLIANCE CERTIFICATE

BNP Leasing Corporation
c/o Banque Nationale de Paris, San Francisco
180 Montgomery Street
San Francisco, California 94104
Attention: Rafael C. Lumanlan or William J. La Herran

Re: KLA Lease Agreement

Gentlemen:

I, the undersigned, the [chief financial officer, controller, treasurer or the assistant treasurer] of KLA Instruments Corporation, do hereby certify, represent and warrant that:

1. This Certificate is furnished pursuant to subparagraph 10.(w)(iii) of that certain Lease Agreement dated as of June 5, 1995 (the "LEASE AGREEMENT," the terms defined therein being used herein as therein defined) between KLA Instruments Corporation (the "TENANT"), and you.

2. Annex 1 attached hereto sets forth financial data and computations evidencing the Tenant's compliance with certain covenants of the Revolving Credit Agreement attached to the Lease Agreement, all of which data and computations are complete, true and correct.

3. To the knowledge of Tenant no Default or Event of Default under the Lease Agreement has occurred and is continuing.

4. The representations of Tenant set forth in the Lease Agreement are true and correct in all material respects as of the date hereof as though made on and as of the date hereof.

Executed this ____ day of _____, 19__.

KLA Instruments Corporation

Name: _____

Title: _____

[cc all Participants]

Exhibit G -1-

Annex 1 To Compliance Certificate

For the _____ Ended _____, 19__

[INSERT HERE COMPUTATIONS SHOWING COMPLIANCE WITH FINANCIAL COVENANTS]

Exhibit G -2-

Exhibit H

PERMITTED HAZARDOUS SUBSTANCES

(NOT a Comprehensive List)

It is anticipated that the following Hazardous Substances, and others necessary for the use, occupancy, and operation of the Leased Property in accordance with the terms and conditions of this Lease, will be used by Tenant at the Leased Property:

Description C.A.S.#

Exhibit I

RESOLUTION OF DISPUTED INSURANCE CLAIMS

If Landlord and Tenant cannot agree upon the amount for which any insurance claim against an insurer should be settled after damage to the Leased Property by fire or other casualty, and so long as neither Tenant nor Landlord is authorized to determine such amount without the consent of the other pursuant to subparagraph 10.(r), then either party may require that the amount be determined as follows:

(i) Landlord and Tenant shall each appoint an experienced architect who is familiar with construction costs for comparable properties in the vicinity of the Leased Property. Each party will make the appointment no later than 10 days after receipt of notice from the other party that the dispute resolution process described in this Exhibit has been invoked. The agreement of the two architects as to the appropriate amount of the insurance settlement will be binding upon Landlord and Tenant. If the two architects cannot agree upon the settlement amount within 30 days following their appointment, they shall within another 10 days agree upon a third architect. Immediately thereafter, each of the first two architects will submit his best estimate of the appropriate settlement amount (together with a written report supporting such estimate) to the third architect and the third architect will choose between the two estimates. The estimate chosen by the third architect as the closest to the amount needed to repair and restore the Leased Property will be binding upon Landlord and Tenant as the amount for which the applicable insurance claim should be settled. (However, no such estimate and nothing contained in this Exhibit will limit Tenant's liability under other provisions of this Lease for the repair and restoration of the Leased Property.) Notification in writing of the estimate chosen by the third architect shall be made to Landlord and Tenant within 15 days following the selection of the third architect.

(ii) If architects must be selected under the procedure set out above and either Tenant or Landlord fails to appoint an architect or fails to notify the other party of such appointment within 10 days after receipt of notice that the prescribed time for appointing the architects has passed, then the other party's architect will determine the appropriate settlement amount. All architects selected for the dispute resolution process set out in this Exhibit will be disinterested, reputable, qualified architects with at least 15 years experience designing and overseeing the construction of properties comparable to the Leased Property.

(iii) If a third architect must be chosen under the procedure set out above, he will be chosen on the basis of objectivity and competence, not on the basis of his relationship with the other architects or the parties to this Lease, and the first two architects will be so advised. Although the first two architects will be instructed to attempt in good faith to agree upon the third architect, if for any reason they cannot agree within the prescribed time, either Landlord or Tenant may require the first two architects to immediately submit its top choice for the third architect to the then highest ranking officer of the San Francisco Bar Association who will agree to help and who has no attorney/client or other significant relationship to either Landlord or Tenant. Such officer will have complete discretion to select the most objective and competent third architect from between the choice of each of the first two architects, and will do so within 20 days after such choices are submitted to him.

(iv) Either Landlord or Tenant may notify the architect selected by the other party to demand the submission of an estimate of the appropriate settlement amount or a choice of a third architect as required under the procedure described above; and if the submission of such an estimate or choice is required but the other party's architect fails to comply with the demand within 5 days after receipt of such notice, then the

settlement amount or choice of the third architect, as the case may be, selected by the other architect (i.e., the notifying party's architect) will be binding upon Landlord and Tenant.

(v) For the purposes of this Exhibit, "appropriate settlement amount" and words of like effect means the amount required to restore the Leased Property, less any insurance deductible that clearly applies under the policy of insurance which provides the coverage to be settled; and all architects and other persons involved in the determination of the settlement amount will be so advised.

Exhibit I -2-

Exhibit J

NOTICE OF LIBOR PERIOD ELECTION

BNP Leasing Corporation
c/o Banque Nationale de Paris, San Francisco
180 Montgomery Street
San Francisco, California 94104
Attention: Rafael C. Lumanlan or William J. La Herran

Re: Lease Agreement dated June 5, 1995, between KLA Instruments Corporation, as tenant, and BNP Leasing Corporation, as landlord

Gentlemen:

Capitalized terms used in this letter are intended to have the meanings assigned to them in the Lease referenced above. This letter constitutes notice to you that the LIBOR Period Election under the Lease shall be:

_____ month(s),

beginning with the first Base Rent Period that commences on or after:

_____, 199__.

NOTE: YOU SHALL BE ENTITLED TO DISREGARD THIS NOTICE IF THE NUMBER OF MONTHS SPECIFIED ABOVE IS NOT A PERMITTED NUMBER UNDER THE DEFINITION OF "LIBOR PERIOD ELECTION" SET FORTH AS PARAGRAPH 1.(BG) OF THE LEASE, OR IF THE DATE SPECIFIED ABOVE CONCERNING THE COMMENCEMENT OF THE LIBOR PERIOD ELECTION IS LESS THAN TEN (10) BUSINESS DAYS AFTER YOUR RECEIPT OF THIS NOTICE. HOWEVER, WE ASK THAT YOU NOTIFY US IMMEDIATELY IF FOR ANY REASON YOU BELIEVE THIS NOTICE IS DEFECTIVE.

Executed this ____ day of _____, 19__.

KLA Instruments Corporation

Name: _____

Title: _____

[cc all Participants]

GROUND LEASE AGREEMENT

BETWEEN

KLA INSTRUMENTS CORPORATION,

AS LESSOR

AND

BNP LEASING CORPORATION,

AS LESSEE

EFFECTIVE AS OF JUNE 5, 1995

TABLE OF CONTENTS

<TABLE>
<CAPTION>

<S>	Page

1. Definitions	<C>
	2

(a)	Event of Default	2
(b)	Fair Rental Value	2
(c)	FOCB Notice	2
(d)	Improvements	2
(e)	Leasehold Mortgage	2
(f)	Leasehold Mortgagee	2
(g)	Lessor's Termination Option	3
(h)	Lessor's Termination Notice	3
(i)	Permitted Encumbrances	3
(j)	Qualifying Termination Date	3
(k)	Rent	3
(l)	Rent Commencement Date	3
(m)	Term	3
(n)	Termination Fee	3
(o)	Other Terms and References	3
2.	Term and Early Termination	4
3.	Rent	4
4.	Receipt and Application of Insurance and Condemnation Proceeds	5
5.	No Lease Termination	5
6.	Purchase Agreement, Sublease and Environmental Indemnity	5
7.	Use of Leased Property	5
8.	Assignment and Subletting	5
9.	Estoppel Certificate	5
10.	Leasehold Mortgages	6
11.	Other Representations, Warranties and Covenants of Lessor	7
(a)	Title	7
(b)	No Default or Violation	7
(c)	No Suits	7
(d)	Enforceability	8
(e)	Insurance and Casualty	8
(f)	Condemnation	8
(g)	Further Assurances	8

</TABLE>

<TABLE>		
<S>		<C>
12.	Events of Default	8
(a)	Definition of Event of Default	8
(b)	Remedy	9
13.	Quiet Enjoyment	9
14.	Option to Purchase	9
15.	Miscellaneous	9
(a)	Notices	9
(b)	Severability	11
(c)	No Merger	11
(d)	Entire Agreement	11
(e)	Binding Effect	11
(f)	Governing Law	11
(g)	Waiver of a Jury Trial	11
(h)	Memorandum of Lease	11

</TABLE>

Exhibits

<TABLE>		
<S>		<C>
Exhibit A	Legal Description
Exhibit B	Encumbrance List
Exhibit C	Determination of Fair Rental Value
Exhibit D	Contingent Purchase Option

</TABLE>

GROUND LEASE AGREEMENT

This GROUND LEASE AGREEMENT (hereinafter called this "GROUND LEASE"), made to be effective as of June 5, 1995 (all references herein to the "DATE HEREOF" or words of like effect shall mean such effective date), by and between BNP LEASING CORPORATION, a Delaware corporation (hereinafter called "LESSEE"), and KLA INSTRUMENTS CORPORATION, a Delaware corporation (hereinafter called "LESSOR");

WITNESETH THAT:

WHEREAS, Lessor and Lessee have reached agreement as to the terms and conditions upon which Lessor is willing to lease the land described in Exhibit A attached hereto (hereinafter called the "LAND") and any existing improvements thereon to Lessee for a term of approximately 34 years, and by this Ground Lease Lessor and Lessee desire to evidence such agreement;

WHEREAS, pursuant to a Lease Agreement dated of even date herewith (hereinafter called the "SUBLEASE") from Lessee, as landlord, to Lessor as tenant, Lessee is subleasing back the Land and any existing improvements thereon to Lessor for a term scheduled to end on the Rent Commencement Date (as defined below) under this Ground Lease;

WHEREAS, pursuant to a Purchase Agreement dated of even date herewith (hereinafter called the "PURCHASE AGREEMENT") between Lessee and Lessor, Lessor is agreeing to purchase Lessee's interest under this Ground Lease or arrange for a purchase of such interest, on and subject to the terms and conditions set forth therein;

WHEREAS, pursuant to an Environmental Indemnity Agreement dated of even date herewith (hereinafter called the "ENVIRONMENTAL INDEMNITY") between Lessee and Lessor, Lessor is agreeing to indemnify Lessee against environmental problems that may arise concerning the Land, on and subject to the terms and conditions set forth therein;

NOW, THEREFORE, in consideration of the rent to be paid and the covenants and agreements to be performed by Lessee, as hereinafter set forth, Lessor does hereby LEASE, DEMISE and LET unto Lessee for the term hereinafter set forth the Land, together with:

(i) Lessor's interest in any and all buildings and improvements now or hereafter erected on the Land, including, but not limited to, the fixtures, attachments, appliances, equipment, machinery and other articles attached to such buildings and improvements (hereinafter called the "IMPROVEMENTS");

(ii) all easements and rights-of-way now owned or hereafter acquired by Lessor for use in connection with the Land or Improvements or as a means of access thereto;

(iii) all right, title and interest of Lessor, now owned or hereafter acquired, in and to (A) any land lying within the right-of-way of any street, open or proposed, adjoining the Land, (B) any and all sidewalks and alleys adjacent to the Land and (C) any strips and gores between the Land and abutting land (except strips and gores, if any, between the Land and abutting land owned by Lessor, with respect to which this Ground Lease shall cover only the portion thereof to the center line between the Land and the abutting land owned by Lessor).

The Land and all of the property described in items (i) through (iii) above are hereinafter referred to collectively as the "REAL PROPERTY".

In addition to leasing Real Property as described above, Lessor hereby grants and assigns to Lessee for the term of this Ground Lease the right to use and enjoy (and, to the extent the following consist of contract rights, to enforce) any interests or rights in, to or under the following, to the extent any such rights and interests are assignable and related to the Real Property: any general intangibles, permits, licenses, franchises, certificates, and other rights and privileges. All of the property, rights and privileges described in this paragraph are hereinafter collectively called the "PERSONAL PROPERTY". The Real Property and the Personal Property are hereinafter sometimes collectively called the "LEASED PROPERTY."

Provided, however, the leasehold estate conveyed hereby and Lessee's rights hereunder are expressly made subject and subordinate to the Permitted Encumbrances (as hereinafter defined). FURTHER, SO LONG AS THE SUBLEASE AND PURCHASE AGREEMENT REMAIN IN FORCE, THE RIGHTS AND OBLIGATIONS OF LESSOR AND LESSEE HEREUNDER SHALL BE SUBJECT TO ANY CONTRARY PROVISIONS THEREIN.

The Leased Property is leased by Lessor to Lessee and is accepted and is

to be used and possessed by Lessee upon and subject to the following terms, provisions, covenants, agreements and conditions:

2. Definitions. As used herein, the terms "Ground Lease," "Lessor," "Lessee," "Land," "Sublease," "Purchase Agreement," "Environmental Indemnity," "Improvements," "Real Property," "Personal Property" and "Leased Property" shall have the meanings indicated above and the terms listed immediately below shall have the following meanings:

(a) Event of Default. "EVENT OF DEFAULT" shall have the meaning assigned to it in subparagraph 12.(a) below.

(b) Fair Rental Value. "FAIR RENTAL VALUE" means the annual fair rental value of unimproved land of equivalent size and location to the Land, without considering any value added by the Improvements, as determined in accordance with Exhibit C.

(c) FOCB Notice. "FOCB NOTICE" shall have the meaning assigned to it in Paragraph 2 below.

(d) Improvements. "IMPROVEMENTS," as defined in the recitals at the beginning of this Ground Lease, shall include not only existing improvements to the Land as of the date hereof, if any, but also any new improvements or changes to existing improvements made during the term of this Ground Lease. Accordingly, any and all new improvements made to the Leased Property with the Construction Allowance contemplated in the Sublease shall constitute Improvements as that term is used herein.

(e) Leasehold Mortgage. "LEASEHOLD MORTGAGE" means any mortgage, deed of trust, security agreement or assignment executed by Lessee to secure an obligation to repay borrowed money or other voluntary obligations, which covers Lessee's leasehold estate hereunder or any part thereof or any rents or other charges to be paid to Lessee pursuant to any sublease.

(f) Leasehold Mortgagee. "LEASEHOLD MORTGAGEE" means any lender or other beneficiary of a Leasehold Mortgage that shall have notified Lessor in writing of the existence such Leasehold Mortgage and of its address to which notices should be delivered.

(g) Lessor's Termination Option. "LESSOR'S TERMINATION OPTION" shall have the meaning assigned to it in Paragraph 2 below.

(h) Lessor's Termination Notice. "LESSOR'S TERMINATION NOTICE" shall have the meaning assigned to it in Paragraph 2 below.

(i) Permitted Encumbrances. "PERMITTED ENCUMBRANCES" means the encumbrances and other matters affecting the Leased Property that are set forth in Exhibit B attached hereto and made a part hereof.

(j) Qualifying Termination Date. "QUALIFYING TERMINATION DATE" means any business day which is no sooner than thirty days after Lessee's receipt of the notice sent by Lessor pursuant to subparagraph 2.(a) specifying such date and which is no later than one hundred twenty days after Lessee's receipt of such notice; provided, however, that if Lessor provides such a notice to prevent the expiration of the Lessor's Termination Option in response to a FOCB Notice from Lessee, then "Qualifying Termination Date" for purposes of such notice will mean any business day within ten days after the date of such FOCB Notice.

(k) Rent. "RENT" means the rent payable by Lessee pursuant to Paragraph 3 below.

(l) Rent Commencement Date. "RENT COMMENCEMENT DATE" means July 1, 2000.

(m) Term. "TERM" shall have the meaning assigned to it in Paragraph 2 below.

(n) Termination Fee. "TERMINATION FEE" means an amount equal to Stipulated Loss Value under and as defined in the Sublease, including any Construction Advances and Carrying Costs (both as defined in the Sublease) which are added to Stipulated Loss Value on or before the date Stipulated Loss Value is computed for purposes of this definition, less any Escrowed Proceeds under and as defined in the Sublease which Lessee will retain after the termination of this Ground Lease. So long as the Sublease remains in effect, Stipulated Loss Value will be computed for purposes of this definition on the date when the Termination Fee is paid hereunder. After the Sublease has expired or been terminated, Stipulated Loss Value will be computed for purposes of this definition as of the date upon which the Sublease expired or terminated. Notwithstanding the foregoing, however, so long as the Purchase Agreement remains in effect, the "TERMINATION FEE" as used herein shall be no less than the full Purchase Price (as defined in the Purchase Agreement) and any other

amounts (including interest on past due amounts) that would be due on the date upon which the Termination Fee becomes payable hereunder if, pursuant to the Purchase Agreement, Lessor was purchasing Lessee's interest in the Leased Property.

(o) Other Terms and References. Words of any gender used in this Ground Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural and vice versa, unless the context otherwise requires. References herein to Paragraphs, subparagraphs or other subdivisions shall refer to the corresponding Paragraphs, subparagraphs or subdivisions of this Ground Lease, unless specific reference is made to another document or instrument. References herein to any Schedule or Exhibit shall refer to the corresponding Schedule or Exhibit attached hereto, which shall be made a part hereof by such reference. All capitalized terms used in this Ground Lease which refer to other documents shall be deemed to refer to such other documents as they may be renewed, extended, supplemented, amended or otherwise modified from time to time, provided such documents are not renewed, extended or modified in breach of any provision contained herein or therein or, in the case of any other document to which Lessee is a party or of which Lessee is an intended beneficiary, without the consent of Lessee. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles. The words "THIS GROUND LEASE", "HEREIN", "HEREOF", "HEREBY", "HEREUNDER" and words of similar import refer to this Ground Lease as a whole and not to any particular subdivision unless expressly so limited. The phrases "THIS PARAGRAPH" and "THIS SUBPARAGRAPH" and similar phrases refer only to

the Paragraphs or subparagraphs hereof in which the phrase occurs. The word "OR" is not exclusive. Other capitalized terms are defined in the provisions that follow.

3. Term and Early Termination. The term of this Ground Lease (herein called the "TERM") shall commence on and include the effective date hereof and end on July 1, 2029. However, subject to the prior approval of any Leasehold Mortgagee, Lessee shall have the right to terminate this Lease by giving a notice to Lessor stating that Lessee unequivocally elects to terminate effective as of a date specified in such notice, which may be any date more than thirty days after the notice and after the expiration or termination of the Sublease pursuant to its terms. Further, Lessor shall have an option (the "LESSOR'S TERMINATION OPTION") to terminate this Ground Lease on and subject to the following terms and conditions:

(a) To exercise the Lessor's Termination Option, Lessor must provide Lessee with an unconditional notice thereof (the "LESSOR'S TERMINATION NOTICE") which specifies a Qualifying Termination Date as the effective date of the termination and which sets forth Lessor's calculation of the Termination Fee and other payments required by the next subparagraph. Any notice purporting to establish an effective date of termination which is not a Qualifying Termination Date shall not be effective as a Lessor's Termination Notice hereunder. Any Lessor's Termination Notice will be irrevocable.

(b) After giving any Lessor's Termination Notice, Lessor must on or before the effective date of the termination specified therein, pay to Lessee in good funds the Termination Fee and any amounts then due or which have accrued under the Sublease, including but not limited to any accrued Base Rent, Commitment Fees and Breakage Costs, all as defined in the Sublease. Lessor's payment of the Termination Fee and all amounts due or accrued under the Sublease shall be conditions precedent to the effectiveness of any early termination of this Lease by Lessor. Time is of the essence as to such payment.

(c) At any time after the earlier of July 1, 2000 or any Designated Payment Date under and as defined in the Purchase Agreement, Lessee may provide a notice to Lessor (a "FOCB NOTICE") explaining that, unless Lessor provides a Lessor's Termination Notice within thirty days after the FOCB Notice is sent in accordance with the notice provisions hereof, the Lessor's Termination Option will expire. Unless Lessor does in fact provide an effective Lessor's Termination Notice within thirty days after any such FOCB Notice is sent to Lessor by Lessee in accordance with the notice provisions hereof, the Lessor's Termination Option will expire. Time is of the essence as to the giving of any Lessor's Termination Notice required to prevent an expiration of the Lessor's Termination Option; however, if during the thirty day period specified above in this subparagraph Lessor is delayed in providing any Lessor's Termination Notice because of any automatic stay or similar restraint imposed in any bankruptcy or insolvency proceedings wherein Lessee is the debtor, then such thirty day period will be extended by a time equal to such delay.

(d) Notwithstanding the foregoing, if Lessor loses its right to acquire Lessee's interest in the Leased Property under the Purchase Agreement before the effective date of any termination of this Ground Lease, and if Lessor would not have lost such right but for Lessor's failure to cure a breach by Lessor of the Purchase Agreement within any applicable grace period provided therein, then Lessor shall no longer have any right whatsoever to terminate this

Ground Lease pursuant to this Paragraph 2, and any prior Lessor's Termination Notice given by Lessor shall become ineffective for purposes of this Ground Lease.

4. Rent. Lessee has on the effective date paid to Lessor the sum of Ten and no/100 dollars (\$10.00) as prepaid rent for the period beginning on the effective date and ending on June 30, 2000. The receipt and sufficiency of such prepaid rent is hereby acknowledged by Lessor. On each anniversary of the Rent Commencement Date, Lessee shall pay Lessor an annual installment of rent in arrears (herein called "RENT"), in currency that at the time of payment is legal tender for public and private debts in the United States of America. Each such installment of Rent shall equal the Fair Rental Value, determined as provided in Exhibit C.

5. Receipt and Application of Insurance and Condemnation Proceeds. All insurance and condemnation proceeds payable with respect to any damage to or taking of the Leased Property shall be payable to and become the property of the Lessee; provided, however, Lessor shall be entitled to receive condemnation proceeds awarded for the value of Lessor's remainder interest in the Land exclusive of the Improvements. Lessee is authorized to take all action necessary on behalf of both Lessee and Lessor to collect insurance and condemnation proceeds.

6. No Lease Termination. Except as expressly provided herein, this Ground Lease shall not terminate, nor shall Lessor have any right to terminate this Ground Lease nor shall the obligations of Lessor under this Ground Lease be excused, for any reason whatsoever, including without limitation any of the following: (i) any damage to or the destruction of all or any part of the Leased Property from whatever cause, (ii) the taking of the Leased Property or any portion thereof by eminent domain or otherwise for any reason, (iii) any default on the part of Lessee under this Ground Lease or under any other agreement to which Lessor and Lessee are parties, (iv) any other cause whether similar or dissimilar to the foregoing, any existing or future law to the contrary notwithstanding. It is the intention of the parties hereto that the obligations of Lessor hereunder shall be separate and independent of the covenants and agreements of Lessee. However, nothing in this Paragraph shall be construed as a waiver by Lessor of any right Lessor may have at law or in equity to recover monetary damages for any default under this Ground Lease.

7. Purchase Agreement, Sublease and Environmental Indemnity. Nothing contained in this Ground Lease shall limit, modify or otherwise affect any of Lessor's or Lessee's respective rights and obligations under the Purchase Agreement, Sublease or Environmental Indemnity, which rights and obligations are intended to be separate, independent and in addition to, and not in lieu of, the obligations established by this Ground Lease; provided, however, that if Lessor exercises the Lessor's Termination Option, Lessee shall have no further obligations under the Purchase Agreement or the Sublease. In the event of any inconsistency between the terms and provisions of the Purchase Agreement, Sublease or Environmental Indemnity and the terms and provisions of this Ground Lease, the terms and provisions of the Purchase Agreement, Sublease or Environmental Indemnity (as the case may be) shall control.

8. Use of Leased Property. Subject to the Permitted Encumbrances and the terms hereof, Lessee may use and occupy the Leased Property for any lawful purpose. If a use of the Leased Property by Lessee for any lawful purpose or any new Improvements or removal or modification of Improvements proposed by Lessee would violate any Permitted Encumbrance unless Lessor, as an owner of adjacent property or otherwise, gave its consent or approval thereto or agreed to join in a modification of such Permitted Encumbrance, then Lessor shall give such consent or approval or join in such modification. Further, Lessor's obligation under the preceding sentence shall be binding upon any successor or assign of Lessor with respect to the Permitted Encumbrances. In any event, Lessee may at any time during the Term remove the Improvements from the Leased Property without the consent of Lessor and without obligation to compensate Lessor or construct other Improvements on the Land.

9. Assignment and Subletting. Lessor's consent shall not be required for any assignment or subletting by Lessee.

10. Estoppel Certificate. Lessor shall from time to time, within ten days after receipt of written request by Lessee, deliver a statement in writing certifying:

(a) that this Ground Lease is unmodified and in full force and effect (or if modified that this Ground Lease as so modified is in full force and effect);

(b) that to the knowledge of Lessor Lessee has not previously assigned or hypothecated its rights or interests under this Ground Lease, except as is described in such statement with as much specificity as Lessor is able to provide;

(c) the term of this Ground Lease and the Rent and any

additional charges;

(d) that Lessee is not in default under any provision of this Ground Lease (or if in default, the nature thereof in detail) and a statement as to any outstanding obligations on the part of Lessor or Lessee; and

(e) such other matters as are requested by Lessee.

Lessor's failure to deliver such statement within such time shall be conclusive upon Lessee (i) that this Ground Lease is in full force and effect, without modification except as may be represented by Lessee, (ii) that there are no uncured defaults in Lessee's performance hereunder.

11. Leasehold Mortgages.

(a) By Leasehold Mortgage Lessee may encumber Lessee's leasehold estate in the Leased Property created by this Ground Lease, as well as Lessee's rights and interests in buildings, fixtures, equipment and improvements situated thereon and rents, issues, profits, revenues and other income to be derived by Lessee therefrom. However, so long as the Sublease remains in effect, any Leasehold Mortgage will be permitted hereunder only if it constitutes a Permitted Transfer under and as defined in the Sublease.

(b) Any Leasehold Mortgagee or other party, including any corporation formed by a Leasehold Mortgagee, may become the legal owner and holder of the leasehold estate created by this Ground Lease, and of the improvements, equipment, fixtures and other property assigned as additional security pursuant to a Leasehold Mortgage, by foreclosure of a Leasehold Mortgage or as a result of the assignment or conveyance in lieu of foreclosure. Further, any such Leasehold Mortgagee or other party may itself, after becoming the legal owner and holder of the leasehold estate created by this Ground Lease, or of any improvements, equipment, fixtures and other property assigned as additional security pursuant to a Leasehold Mortgage, convey or pledge the same without the consent of Lessor.

(c) Lessor shall serve notice of any default by Lessee hereunder upon any Leasehold Mortgagee. No notice of a default by Lessee shall be deemed effective until it is so served. Any Leasehold Mortgagee shall have the right to correct or cure any such default within the same period of time after receipt of such notice as is given to Lessee under this Ground Lease to correct or cure defaults, plus an additional period of thirty days thereafter. Lessor will accept performance by any Leasehold Mortgagee of any covenant, condition or agreement on Lessee's part to be performed hereunder with the same force and effect as though performed by Lessee.

(d) If this Ground Lease should terminate by reason of a disaffirmance or rejection of this Ground Lease by Lessee or any receiver, liquidator or trustee for the property of Lessee, or by any department of the city, state or federal government which had taken possession of the business or property of Lessee by reason of the insolvency or alleged insolvency of Lessee, then:

(i) Lessor shall give notice thereof to each Leasehold Mortgagee; and upon request of any Leasehold Mortgagee made within sixty days after Lessor has given such notice, Lessor shall enter into a new ground lease of the Leased Property with such Leasehold Mortgagee for the remainder of the Term, at the same Rent and on the same terms and conditions as contained in this Ground Lease.

(ii) In connection with any such new ground lease, Lessor shall also convey to the Leasehold Mortgagee by quitclaim deed any interest of Lessor in and to the Improvements included in the Leased Property.

(iii) The estate of the Leasehold Mortgagee, as lessee under the new lease, shall have priority equal to the estate of Lessee hereunder. That is, there shall be no charge, lien or burden upon the

Leased Property prior to or superior to the estate granted by such new lease which was not prior to or superior to the estate of Lessee under this Ground Lease as of the date immediately preceding the termination of this Ground Lease. To the extent that the Sublease and or the Purchase Agreement are in effect at the time of execution of such new ground lease, such new ground lease shall be made subject to the Sublease and the Purchase Agreement.

(iv) Notwithstanding the foregoing, if Lessor shall receive requests to enter into a new ground lease from more

than one Leasehold Mortgagee, Lessor shall be required to enter into only one new ground lease, and the new ground lease shall be to the requesting Leasehold Mortgagee who holds the highest priority lien or interest in the Lessee's leasehold estate in the Land. If the liens or security interests of two or more such requesting Leasehold Mortgagees which shared the highest priority just prior to the termination of this Ground Lease, the new ground lease shall name all such Leasehold Mortgagees as co-tenants thereunder.

(e) If Lessee has agreed with any Leasehold Mortgagee that such Leasehold Mortgagee's consent will be required to any modification or early termination of this Lease by Lessee, and if Lessor has been notified of such agreement, such consent will be required.

(f) No Leasehold Mortgagee will assume any liability under this Ground Lease either by virtue of its Leasehold Mortgage or by any subsequent receipt or collection of rents or profits generated from the Leased Property, unless and until the Leasehold Mortgagee acquires Lessee's leasehold estate in the Leased Property at foreclosure or by deed in lieu of foreclosure.

(g) Although the foregoing provisions concerning Leasehold Mortgages and Leasehold Mortgagees will be self operative, Lessor agrees to include, in addition to the items specified in Paragraph 9, confirmation of the foregoing in any statement provided to a Leasehold Mortgagee or prospective Leasehold Mortgagee pursuant to Paragraph 9.

12. Other Representations, Warranties and Covenants of Lessor. Lessor represents, warrants and covenants as follows:

(a) Title. Lessor holds good and marketable title to the Land, free and clear of all liens and encumbrances, other than the Permitted Encumbrances.

(b) No Default or Violation. The execution, delivery and performance by Lessor of this Ground Lease and the Environmental Indemnity do not and will not constitute a breach or default under any other material agreement or contract to which Lessor is a party or by which Lessor is bound or which affects the Leased Property, and do not violate or contravene any law, order, decree, rule or regulation to which Lessor is subject, and such execution, delivery and performance by Lessor will not result in the creation or imposition of (or the obligation to create or impose) any lien, charge or encumbrance on, or security interest in, Lessor's property pursuant to the provisions of any of the foregoing.

(c) No Suits. There are no judicial or administrative actions, suits, proceedings or investigations pending or, to Lessor's knowledge, threatened that will adversely affect the Leased Property or the validity, enforceability or priority of this Ground Lease, and Lessor is not in default with respect to any order, writ, injunction, decree or demand of any court or other governmental or regulatory authority that could materially and adversely affect the use, occupancy or operation of the Leased Property. No condemnation or other like proceedings are pending or, to Lessor's knowledge, threatened against the Leased Property.

(d) Enforceability. The execution, delivery and performance of this Ground Lease are duly authorized and do not require the consent or approval of any governmental body or other regulatory authority that has

not heretofore been obtained and are not in contravention of or conflict with any applicable laws or any term or provision of Lessor's articles of incorporation or bylaws. This Ground Lease is a valid, binding and legally enforceable obligation of Lessor in accordance with its terms, except as such enforcement is affected by bankruptcy, insolvency and similar laws affecting the rights of creditors, generally, and equitable principles of general application.

(e) Insurance and Casualty. In the event any of the Leased Property is destroyed or damaged by fire, explosion, windstorm, hail or by any other casualty against which insurance shall have been required hereunder, (i) Lessee may make proof of loss, (ii) each insurance company concerned is hereby authorized and directed to make payment for such loss directly to Lessee for application as required by Paragraph 4, and (iii) Lessee's consent must be obtained for any settlement, adjustment or compromise of any claims for loss, damage or destruction under any policy or policies of insurance.

(f) Condemnation. All proceeds of condemnation awards or proceeds of sale in lieu of condemnation with respect to the Leased Property and all judgments, decrees and awards for injury or damage to the Leased Property shall be paid to Lessee and applied as provided in Paragraph 4 above. Lessee is hereby authorized, in the name of Lessor, to execute and deliver valid acquittances for, and to appeal from, any such judgment, decree or award concerning condemnation of any of the Leased Property. Lessee shall not be, in any event or circumstances, liable or responsible for failure to collect, or to exercise diligence in the collection of, any such proceeds, judgments, decrees

or awards.

(g) Further Assurances. Lessor shall, on request of Lessee, (i) promptly correct any defect, error or omission which may be discovered in the contents of this Ground Lease or in any other instrument executed in connection herewith or in the execution or acknowledgment thereof; (ii) execute, acknowledge, deliver and record or file such further instruments and do such further acts as may be necessary, desirable or proper to carry out more effectively the purposes of this Ground Lease and to subject to this Ground Lease any property intended by the terms hereof to be covered hereby including specifically, but without limitation, any renewals, additions, substitutions, replacements or appurtenances to the Leased Property; (iii) execute, acknowledge, deliver, procure and record or file any document or instrument deemed advisable by Lessee to protect its rights in and to the Leased Property against the rights or interests of third persons; and (iv) provide such certificates, documents, reports, information, affidavits and other instruments and do such further acts as may be necessary, desirable or proper in the reasonable determination of Lessee to enable Lessee or any Leasehold Mortgagee to comply with the requirements or requests of any agency or authority having jurisdiction over them.

13. Events of Default.

(a) Definition of Event of Default. Each of the following events shall be deemed to be an "EVENT OF DEFAULT" by Lessee under this Ground Lease:

(i) Lessee shall fail to pay when due any installment of Rent due hereunder and such failure shall continue for sixty days after Lessee receives written notice thereof.

(ii) Lessee shall fail to comply with any term, provision or covenant of this Ground Lease (other than as described in the other clauses of this subparagraph 12.(a)), and shall not cure such failure prior to the earlier of sixty days after written notice thereof is sent to Lessee if such failure is susceptible of cure but cannot with reasonable diligence be cured within such sixty day period, and if Lessee shall promptly have commenced to cure the same and shall thereafter prosecute the curing thereof with reasonable diligence, the period within which such failure may be cured shall be extended for such further period as shall be necessary for the curing thereof with reasonable diligence.

(b) Remedy. Upon the occurrence of an Event of Default which is not cured within any applicable period expressly permitted by subparagraph 12.(a), Lessor's sole and exclusive remedy shall be to sue Lessee for the collection of any amount due under this Ground Lease and to enjoin the continuation of the Event of Default. Lessor may not terminate this Ground Lease or Lessee's right to possession under this Ground Lease except as expressly provided herein. Any judgment which Lessor may obtain against Lessee for amounts due under this Ground Lease may be collected only through resort of a judgement lien against Lessee's interest in the Leased Property. Lessee shall have no personal liability for the payment amounts due under this or for the performance of any obligations of Lessee under this Ground Lease.

14. Quiet Enjoyment. Neither Lessor nor any third party lawfully claiming any right or interest in the Leased Property shall during the Term disturb Lessee's peaceable and quiet enjoyment of the Leased Property; however, such enjoyment shall be subject to the terms, provisions, covenants, agreements and conditions of this Ground Lease and the Permitted Encumbrances, to which this Ground Lease is subject and subordinate as hereinabove set forth.

15. Option to Purchase. Subject to the terms and conditions set forth in Exhibit D, including the condition specified therein that Lessor shall have breached the Purchase Agreement and failed to cure such breach within any time for cure expressly provided in the Purchase Agreement, Lessee (and any assignee of Lessee's entire interest in the Leased Property, but not any subtenant or assignee of a lesser interest) shall have the option to purchase the Lessor's interest in the Leased Property.

16. Miscellaneous.

(a) Notices. Each provision of this Ground Lease, or of any applicable laws with reference to the sending, mailing or delivery of any notice or with reference to the making of any payment by Lessee to Lessor, shall be deemed to be complied with when and if the following steps are taken:

(i) All Rent required to be paid by Lessee to Lessor hereunder shall be paid to Lessor in accordance with any reasonable written instruction provided from time to time by Lessor to Lessee, which may include payment by wire transfer.

(ii) All notices, demands and other communications to be made hereunder to the parties hereto shall be in writing (at the addresses set forth below) and shall be given by any of the following means: (A) personal service, with proof of delivery or attempted delivery retained; (B) electronic communication, whether by telex, telegram or telecopying (if confirmed in writing sent by United States first class mail, return receipt requested); or (C) registered or certified first class mail, return receipt requested. Such addresses may be changed by notice to the other parties given in the same manner as provided above. Any notice or other communication sent pursuant to clause (A) or (C) hereof shall be deemed received (whether or not actually received) upon first attempted delivery at the proper notice address on any business day between 9:00 A.M. and 5:00 P.M., and any notice or other communication sent pursuant to clause (B) hereof shall be deemed received upon dispatch by electronic means.

Address of Lessee:

BNP Leasing Corporation
717 North Harwood Street
Suite 2630
Dallas, Texas 75201
Attention: Lloyd Cox
Telecopy: (214) 969-0060

With a copy to:

Banque Nationale de Paris, San Francisco
180 Montgomery Street
San Francisco, California 94104
Attention: Rafael C. Lumanlan or William J. La Herran
Telecopy: (415) 296-8954

And with a copy to:

Clint Shouse
Thompson & Knight, P.C.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Telecopy: (214) 969-1550

Address of Lessor:

KLA Instruments Corporation
160 Rio Robles
San Jose, California 95134
Attn: Christopher Stoddart, Treasurer
Telecopy: (408) 434-4268

With a copy to:

Gray Cary Ware & Freidenrich
400 Hamilton Avenue
Palo Alto, California 94301

Attn: Jonathan E. Rattner, Esq.
Telecopy: (415) 328-3029

(b) Severability. If any term or provision of this Ground Lease or the application thereof shall to any extent be held by a court of competent jurisdiction to be invalid and unenforceable, the remainder of this Ground Lease, or the application of such term or provision other than to the extent to which it is invalid or unenforceable, shall not be affected thereby.

(c) No Merger. There shall be no merger of this Ground Lease or of the leasehold estate hereby created with the fee or any other estate in the Leased Property or any part thereof by reason of the fact that the same person may acquire or hold, directly or indirectly, this Ground Lease or the leasehold estate hereby created or any interest in this Ground Lease or in such leasehold estate as well as the fee or any other estate in the Leased Property or any interest in such fee or other estate, unless all parties with an interest

in the Leased Property that would be adversely affected by any such merger specifically agree in writing that such a merger shall occur.

(d) Entire Agreement. This Ground Lease, the agreements referred to herein, and the instruments referred to therein supersede any prior negotiations and agreements between the parties concerning the Leased Property and no amendment or modification of this Ground Lease shall be binding or valid unless expressed in a writing executed by both parties hereto.

(e) Binding Effect. All of the covenants, agreements, terms and conditions to be observed and performed by the parties hereto shall be applicable to and binding upon their respective successors and assigns.

(f) Governing Law. This Ground Lease shall be governed by and construed in accordance with the laws of the State of California.

(g) Waiver of a Jury Trial. LESSOR AND LESSEE EACH HEREBY WAIVES ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS GROUND LEASE OR ANY OTHER DOCUMENT OR DEALINGS BETWEEN THEM RELATING TO THIS GROUND LEASE OR THE LEASED PROPERTY. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including, without limitation, contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. Lessor and Lessee each acknowledge that this waiver is a material inducement to enter into a business relationship, that each has already relied on the waiver in entering into this Ground Lease and the other documents referred to herein, and that each will continue to rely on the waiver in their related future dealings. Lessee and Lessor each further warrants and represents that it has reviewed this waiver with its legal counsel, and that it knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS GROUND LEASE OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THIS GROUND LEASE OR THE LEASED PROPERTY. In the event of litigation, this Ground Lease may be filed as a written consent to a trial by the court.

(h) Memorandum of Lease. Lessor and Lessee shall execute a memorandum of this Ground Lease in recordable form which shall be filed in the real property records of Santa Clara County, California.

IN WITNESS WHEREOF, this Ground Lease is hereby executed in multiple originals as of the effective date above set forth.

"Lessor"

KLA INSTRUMENTS CORPORATION

By:

Name: Christopher Stoddart
Title: Treasurer

"Lessee"

BNP LEASING CORPORATION

By:

Name: Lloyd G. Cox
Title: Vice President

STATE OF TEXAS)
)
COUNTY OF DALLAS)

On June 5, 1995, before me, _____, personally appeared Lloyd G. Cox, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

STATE OF CALIFORNIA)
)

On June __, 1995, before me, _____, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

Exhibit A

PROPERTY DESCRIPTION

REAL PROPERTY in the City of San Jose, State of California, described as follows:

Exhibit B

PERMITTED ENCUMBRANCES

This conveyance is subject to the following matters, but only to the extent the same are still valid and in full force and effect:

Exhibit C

DETERMINATION OF FAIR RENTAL VALUE

Each annual installment of Rent will equal the Fair Rental Value as of the Rent Commencement Date, unless reduced to a lesser amount equal to the Fair Rental Value on a subsequent date selected by Lessee. By notice to Lessor, Lessee may from time to time (but no more often than once in any 12 month period), designate a new date within sixty days of the date of such notice as an alternative to the Rent Commencement Date for purposes of determining Fair Rental Value, in which case installments of Rent due after such alternative date shall equal the Fair Rental Value on such alternative date unless and until another alternative date is later designated. However, in no event will Rent ever be increased above the Fair Rental Value on the Rent Commencement Date.

If Lessor and Lessee have not agreed upon Fair Rental Value as of the Rent Commencement Date within 180 days after the Rent Commencement Date, or if they do not agree upon Fair Rental Value as of an alternative date within thirty days from the date of a notice from Lessee designating such alternative date as described above, then Fair Rental Value will be determined as follows (but, again, in no event shall Rent be adjusted above the Fair Rental Value on the Rent Commencement Date):

(i) Lessor and Lessee shall each appoint a real estate appraiser who is familiar with rental values for properties in the vicinity of the Land. Each party will make the appointment no later than 10 days after receipt of notice from the other party that the appraisal process described in this paragraph has been invoked. The agreement of the two appraisers as to Fair Rental Value will be binding upon Lessor and Lessee. If the two appraisers cannot agree upon the Fair Rental Value within 10 days following their appointment, they shall within another 10 days agree upon a third real estate appraiser. Immediately thereafter, each of the first two appraisers will submit his best estimate of the appropriate Fair Rental Value (together with a written report supporting such estimate) to the third appraiser and the third appraiser will choose between the two estimates. The estimate of Fair Rental Value chosen by the third appraiser as the closest to the prevailing monthly fair rental value will be binding upon Lessor and Lessee. Notification in writing of this estimate shall be made to Lessor and Lessee within 15 days following the selection of the third appraiser.

(ii) If appraisers must be selected under the procedure set out above and either Lessee or Lessor fails to appoint an appraiser or fails to notify the other party of such appointment within 7 days after receipt of notice that the prescribed time for appointing the appraisers has passed, then the other party's appraiser will determine the Fair Rental Value. All appraisers selected for the appraisal process set out in this paragraph will be disinterested, reputable, qualified real estate appraisers with the designation of MAI or equivalent and with at least 5 years experience in appraising properties comparable to the Land.

(iii) If a third appraiser must be chosen under the procedure set out above, he or she will be chosen on the basis of objectivity and competence, not on the basis of his relationship with the other appraisers or the parties to this Ground Lease, and the first two appraisers will be so advised. Although the first two appraisers will be instructed to attempt in good faith to agree upon the third appraiser, if for any reason they cannot agree within the prescribed time, either Lessor and Lessee may require the first two appraisers to immediately submit its top choice for the third appraiser to the then highest ranking officer of the San Francisco Bar Association who will agree to help and who has no attorney/client or other significant relationship to either Lessor or Lessee. Such officer will have complete discretion to select the most objective and competent third appraiser from between the choice of each of the first two appraisers, and will do so within 20 days after such choices are submitted to him.

Exhibit C -- Page 1

(iv) Either Lessor or Lessee may notify the appraiser selected by the other party to demand the submission of an estimate of Fair Rental Value or a choice of a third appraiser as required under the procedure described above; and if the submission of such an estimate or choice is required but the other party's appraiser fails to comply with the demand within 15 days after receipt of such notice, then the Fair Rental Value or choice of the third appraiser, as the case may be, selected by the other appraiser (i.e., the notifying party's appraiser) will be binding upon Lessor and Lessee.

(v) Lessor and Lessee shall each bear the expense of the appraiser appointed by it, and the expense of the third appraiser and of any officer of the San Francisco Bar Association who participates in the appraisal process described above will be shared equally by Lessor and Lessee.

Once determined in accordance with this Exhibit, the annual Rent shall remain the same until Lessee elects to change Rent to the Fair Rental Value as of a date other than the Rent Commencement Date as provided above.

Exhibit C -- Page 2

Exhibit D

CONTINGENT PURCHASE OPTION

Subject to the terms of this Exhibit, Lessee shall have an option (the "OPTION") to buy the Lessor's interest in the Leased Property at any time during the term of this Ground Lease after (but only after) any breach by Lessor under the Purchase Agreement, provided Lessor does not cure the breach within any time permitted for cure by the express provisions of the Purchase Agreement, for a purchase price (the "OPTION PRICE") to Lessor equal to fair market value.

For the purposes of this Exhibit, "fair market value" means (and all appraisers and other persons involved in the determination of the Option Price will be so advised) the price that would be agreed upon between a willing buyer, but under no compulsion to buy, and a willing seller, but under no compulsion to sell, for unimproved land comparable in size and location to the Land, exclusive of any Improvements, at the time of Lessee's exercise of the Option and taking into consideration the condition of the Land and the encumbrances affecting the title to the Land at the time of the exercise of the Option.

If Lessee exercises the Option, which Lessee may do by notifying Lessor that Lessee has elected to buy Lessor's interest in the Leased Property as provided herein, then:

(vi) Upon Lessee's tender of the Option Price to Lessor, Lessor will convey good and marketable title to the fee estate in the Leased Property to Lessee by general warranty deed subject only to the Permitted Encumbrances and, to the extent still in force, the Sublease and the Purchase Agreement.

(vii) Lessee's obligation to close the purchase shall be subject to the following terms and conditions, all of which are for the benefit of Lessee: (1) Lessee shall have been furnished with evidence satisfactory to Lessee that Lessor can convey title as required by the preceding subparagraph; (2) nothing shall have occurred or been discovered after Lessee exercised the Option that could significantly and adversely affect title to the Leased Property or the Lessee's use thereof, (3) all of the representations of Lessor in this Ground Lease shall continue to be true as if made effective on the date of the closing and, with respect to any such representations which may be limited to the knowledge of Lessor or any of Lessor's representatives,

would continue to be true on the date of the closing if all relevant facts and circumstances were known to Lessor and such representatives, and (4) Lessee shall have been tendered the deed and other documents which are described in this Exhibit as documents to be delivered to Lessee at the closing of Lessee's purchase.

(viii) Closing of the purchase will be scheduled on the first business day following thirty days after the Option Price is established in accordance with the terms and conditions of this Exhibit, and prior to closing Lessee's occupancy of the Leased Property shall continue to be subject to the terms and conditions of this Ground Lease, including the terms setting forth Lessee's obligation to pay rent. Closing shall take place at the offices of any title insurance company reasonably selected by Lessee to insure title under the title insurance policy described below.

(ix) Any transfer taxes or notices or registrations required by law in connection with the sale contemplated by this Exhibit will be the responsibility of Lessor.

(x) Lessor will deliver a certificate of nonforeign status to Lessee at closing as needed to comply with the provisions of the Foreign Investors Real Property Tax Act (FIRPTA) or any comparable federal, state or local law in effect at the time.

Exhibit D -- Page 1

(xi) Lessor will also pay for and deliver to Lessee at the closing an owner's title insurance policy in the full amount of the Option Price, issued by a title insurance company designated by Lessee (or written confirmation from the title company that it is then prepared to issue such a policy), and subject only to standard printed exceptions which the title insurance company refuses to delete or modify in a manner acceptable to Lessee and to Permitted Encumbrances.

(xii) Lessor shall also deliver at the closing all other documents or things reasonably required to be delivered to Lessee or by the title insurance company to evidence Lessor's ability to transfer the Leased Property to Lessee.

If Lessor and Lessee do not otherwise agree upon the amount of the Option Price within 20 days after Lessee exercises the Option, the Option Price shall be determined in accordance with the following procedure:

(a) Lessor and Lessee shall each appoint a real estate appraiser who is familiar with properties in the vicinity of the Land. Each party will make the appointment no later than 10 days after receipt of notice from the other party that the appraisal process described in this paragraph has been invoked. The agreement of the two appraisers as to the Option Price will be binding upon Lessor and Lessee. If the two appraisers cannot agree upon the Option Price within 10 days following their appointment, they shall within another 10 days agree upon a third real estate appraiser. Immediately thereafter, each of the first two appraisers will submit his best estimate of the appropriate Option Price (together with a written report supporting such estimate) to the third appraiser and the third appraiser will choose between the two estimates. The estimate of Option Price chosen by the third appraiser as the closest to the prevailing monthly fair market value will be binding upon Lessor and Lessee. Notification in writing of the Option Price shall be made to Lessor and Lessee within 15 days following the selection of the third appraiser.

(b) If appraisers must be selected under the procedure set out above and either Lessee or Lessor fails to appoint an appraiser or fails to notify the other party of such appointment within 7 days after receipt of notice that the prescribed time for appointing the appraisers has passed, then the other party's appraiser will determine the Option Price. All appraisers selected for the appraisal process set out in this paragraph will be disinterested, reputable, qualified real estate appraisers with the designation of MAI or equivalent and with at least 5 years experience in appraising properties comparable to the Land.

(c) If a third appraiser must be chosen under the procedure set out above, he will be chosen on the basis of objectivity and competence, not on the basis of his relationship with the other appraisers or the parties to this Ground Lease, and the first two appraisers will be so advised. Although the first two appraisers will be instructed to attempt in good faith to agree upon the third appraiser, if for any

reason they cannot agree within the prescribed time, either Lessor and Lessee may require the first two appraisers to immediately submit its top choice for the third appraiser to the then highest ranking officer of the San Francisco Bar Association who will agree to help and who has no attorney/client or other significant relationship to either Lessor or Lessee. Such officer will have complete discretion to select the most objective and competent third appraiser from between the choice of each of the first two appraisers, and will do so within 10 days after such choices are submitted to him.

(d) Either Lessor or Lessee may notify the appraiser selected by the other party to demand the submission of an estimate of Option Price or a choice of a third appraiser as required under the procedure described above; and if the submission of such an estimate or choice is required but the other party's appraiser fails to comply with the demand within 15 days after receipt of such notice, then the Option Price or choice of the third appraiser, as the case may be, selected by the other appraiser (i.e., the notifying party's appraiser) will be binding upon Lessor and Lessee.

(e) Lessor and Lessee shall each bear the expense of the appraiser appointed by it, and the expense of the third appraiser and of any officer of the San Francisco Bar Association who participates in the appraisal process described above will be shared equally by Lessor and Lessee.

Exhibit D -- Page 2
PURCHASE AGREEMENT

This PURCHASE AGREEMENT (this "AGREEMENT") is made as of June 5, 1995, by KLA INSTRUMENTS CORPORATION, a Delaware corporation ("KLA"), and BNP LEASING CORPORATION, a Delaware corporation ("BNP").

R E C I T A L S

A. BNP is acquiring from KLA a leasehold estate under a Ground Lease (the "GROUND LEASE") dated as of the date hereof, which covers the land described in Exhibit A attached hereto and any improvements and fixtures located thereon, and BNP is subleasing the same to KLA pursuant to a Lease Agreement (as from time to time supplemented, amended or restated, the "LEASE") dated as of the date hereof.

B. BNP is also concurrently herewith receiving a separate environmental indemnity from KLA pursuant to an Environmental Indemnity Agreement (as from time to time supplemented, amended or restated, the "ENVIRONMENTAL INDEMNITY") between KLA and BNP dated as of the date hereof.

C. BNP and KLA desire by this Agreement to evidence the terms and conditions upon which BNP will sell and KLA or a third party designated by KLA will purchase BNP's interest in the Land described in Exhibit A and in other property from time to time covered by the Lease.

NOW, THEREFORE, in consideration of the above recitals and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Definitions. As used herein, the terms "KLA", "BNP", "Ground Lease", "Lease" and "Environmental Indemnity" shall have the meanings indicated above; terms with initial capitals defined in the Lease and used but not defined herein shall have the meanings assigned to them in the Lease; and the terms listed immediately below shall have the following meanings:

(a) Applicable Purchaser. "Applicable Purchaser" means any third party designated by KLA to purchase the Property in satisfaction of the Remarketing Requirements.

(b) Designated Payment Date. "Designated Payment Date" means the earlier of:

(1) the effective date of any termination of the Lease by Tenant pursuant to Paragraph 2 thereof;

(2) any Advance Date or Base Rent Date designated by KLA in a written notice given by KLA to BNP, provided the notice of the date so designated is given by KLA at least thirty (30) days before the date so designated; or

(3) any date designated by BNP in a written notice given by BNP to KLA when an Event of Default by KLA is continuing, provided

the notice of the date so designated is given by BNP at least thirty (30) days before the date so designated; or

(4) July 1, 2000, or if July 1, 2000 is not a Business Day, then the next following Business Day.

(c) Fair Market Value. "Fair Market Value" means with respect to any property or interest therein, the fair market value of such property or interest on or about the Designated Payment Date (calculated under the assumptions, whether or not then accurate, that KLA has maintained the Property in compliance with all Applicable Laws [including Environmental Laws]; that KLA has completed all construction which was commenced prior to the Designated Payment Date; that KLA has repaired and restored the Property after any damage following fire or other casualty; that KLA has restored the remainder of the Property after any partial taking by eminent domain; that KLA has completed any contests of and paid any taxes due [other than Excluded Taxes] or other amounts secured by or allegedly secured by a lien against the Property other than Prohibited Encumbrances; that KLA has complied with all Permitted Encumbrances and cured any title defects affecting the Property other than Prohibited Encumbrances, all in accordance with the standards and requirements of the Lease as though the Lease were continuing in force; and that the Lessor's Termination Option under and as defined in the Ground Lease has expired or otherwise been terminated) as determined by an independent MAI appraiser selected by BNP, which appraiser must have five (5) years or more experience appraising similar properties in northern California.

(d) KLA's Fee Interest. "KLA's Fee Interest" means KLA's remainder interest in the Land and rights as lessor under the Ground Lease.

(e) Property. "Property" means BNP's leasehold estate under the Ground Lease, together with BNP's interest in any and all other real or personal property from time to time covered by the Lease and included within the "LEASED PROPERTY" as defined therein, together with BNP's interest in any funds held as Escrowed Proceeds from time to time. The term "Property" does not include KLA's Fee Interest or any other right, title or interest in the Leased Property which, for any reason other than a Prohibited Encumbrance, may be superior to the interest of BNP.

(f) Purchase Price. "Purchase Price" means an amount equal to Stipulated Loss Value outstanding on the Designated Payment Date, plus all costs and expenses (including appraisal costs, withholding taxes (if any) and reasonable Attorneys' Fees, as defined in the Lease) incurred in connection with any sale of the Property by BNP hereunder or in connection with collecting sales proceeds due hereunder.

(g) Prohibited Encumbrance. "Prohibited Encumbrance" means any lien or other title defect encumbering the Property that is claimed by BNP itself or lawfully claimed by a third party through or under BNP, including any judgment lien lawfully filed against BNP and including any tax lien assessed because of BNP's failure to pay Excluded Taxes, but excluding the Lease and any lien or other title defect that (i) is a Permitted Encumbrance (as defined in the Lease), regardless of whether claimed by, through or under BNP, (ii) is claimed by, through or under KLA or any Participant approved by Tenant, or (iii) exists because of any breach by KLA of the Lease, because of anything done or not done by BNP in an effort to satisfy subparagraph 10(b) of the Lease, or because of anything done or not done by BNP at the request of KLA.

(h) Remarketing Notice. "Remarketing Notice" shall have the meaning assigned to it in Paragraph 2(b)(1) below.

-2-

(i) Remarketing Requirements. "Remarketing Requirements" means the requirements that KLA must satisfy if it elects, in accordance with terms and conditions of this Agreement, not to itself acquire the Property pursuant to Paragraph 2(a)(i) below. Such requirements will be as specified in one (but not both) of the following subparagraphs:

(1) KLA shall cause the Applicable Purchaser to purchase the Property for a net cash price not less than the lesser of (a) the Fair Market Value of the Property or (b) fourteen percent (14%) of Stipulated Loss Value outstanding immediately prior to the purchase.

(2) KLA shall cause the Applicable Purchaser to purchase not only the Property, but also KLA's Fee Interest, all for a net cash price of no less than the Fair Market Value of the Land and all Improvements, determined without any reduction in value because of the

severance of BNP's leasehold estate under the Ground Lease from KLA's Fee Interest.

BNP may designate the requirements specified in the preceding subparagraph (2) as "Remarketing Requirements" for purposes of this Agreement if, but only if, KLA sends BNP a Remarketing Notice and BNP responds within 60 days after BNP receives the Remarketing Notice with a notice to KLA so designating the requirements in subparagraph (2). Absent an effective designation by BNP of the requirements specified in subparagraph (2) as the Remarketing Requirements, the "Remarketing Requirements" for purposes of this Agreement will be as specified in the preceding subparagraph (1). However, if BNP does effectively designate the requirements specified in the preceding subparagraph (2) as the Remarketing Requirements, BNP will receive, as the price for the Property, a fraction of the total net cash proceeds payable by the Applicable Purchaser, the numerator of which fraction equals the Fair Market Value of the Property, and the denominator of which fraction equals the sum of the Fair Market Value of the Property (determined as if only the Property were to be sold), plus the Fair Market Value of the KLA's Fee Interest (determined as if only KLA's Fee Interest were to be sold); and the remainder of such net cash proceeds shall go to KLA as the price for KLA's Fee Interest.

(j) Required Documents. "Required Documents" means the grant deed and other documents that BNP must tender pursuant to Paragraph 3 below.

(k) Shortage Amount. "Shortage Amount" means any amount payable to BNP by KLA, rather than by the Applicable Purchaser, pursuant to clause 2(b)(3) below.

2. KLA's Options and Obligations on the Designated Payment Date.

(a) Choices. On the Designated Payment Date KLA shall have the right and the obligation to either:

(i) purchase the Property for a net cash price equal to the Purchase Price; or

(ii) satisfy the Remarketing Requirements.

(b) Election by KLA. KLA shall have the right to elect whether it will satisfy the obligations set out in clause (i) or (ii) of the preceding Paragraph 2(a); provided, however, that:

-3-

(1) To give BNP the opportunity before the Designated Payment Date to designate Remarketing Requirements (as provided above in the definition of Remarketing Requirements) and to have the Fair Market Value of the Property and of KLA's Fee Interest determined by an appraiser (as provided above in the definition of Fair Market Value), KLA must provide BNP with a Remarketing Notice, unless KLA agrees that Fair Market Value of the Property will not be less than fourteen percent (14%) of Stipulated Loss Value on the Designated Payment Date.

"REMARKETING NOTICE" means a notice given by KLA to BNP (and to each of the Participants) no earlier than one hundred eighty (180) days before the Designated Payment Date and no later than ninety (90) days before the Designated Payment Date, specifying that KLA does not concede that the Fair Market Value of the Property is equal to or greater than fourteen percent (14%) of the Stipulated Loss Value. A Remarketing Notice will be required only if KLA does not concede that Fair Market Value of the Property will equal or exceed fourteen percent (14%) of Stipulated Loss Value on the Designated Payment Date. But if for any reason (including but not limited to any acceleration of the Designated Payment Date pursuant to clause (2) of the definition of Designated Payment Date above) KLA fails to provide a Remarketing Notice within the time periods specified in the definition of Remarketing Notice above, Fair Market Value of the Property shall, for purposes of this Agreement, be deemed to be no less than fourteen percent (14%) of Stipulated Loss Value on the Designated Payment Date.

(2) To give BNP the opportunity to prepare the Required Documents before the Designated Payment Date, KLA must, if KLA intends to satisfy the Remarketing Requirements rather than itself purchase the Property, irrevocably specify the Applicable Purchaser in a notice to BNP given at least seven (7) days prior to the Designated Payment Date. If for any reason KLA fails to so specify an Applicable Purchaser, KLA shall be deemed to have irrevocably elected to purchase the Property as provided in clause (i) of Paragraph 2(a).

(3) If KLA elects to satisfy the Remarketing Requirements, rather than purchase the Property pursuant to Paragraph 2(a)(i) above, KLA must make a supplemental cash payment to BNP on the Designated Payment Date equal to the excess (if any) of the Purchase Price over the net cash price for the Property actually paid to BNP on the

Designated Payment Date by the Applicable Purchaser. However, provided no Event of Default has occurred and is continuing under the Lease, and provided further that neither KLA nor any Applicable Purchaser has failed to pay any amount required to be paid by this Agreement on the date such amount first became due, any supplemental cash payment required by the preceding sentence shall not exceed eighty-six percent (86%) of Stipulated Loss Value on the Designated Payment Date. Any supplemental cash payment payable to BNP by KLA, rather than by the Applicable Purchaser, pursuant to this clause (3) is hereinafter referred to as the "SHORTAGE AMOUNT." If the net cash price for the Property actually paid by the Applicable Purchaser to BNP exceeds the Purchase Price and all other sums that are then due from KLA to BNP, KLA shall be entitled to such excess.

(4) Notwithstanding any effective election by KLA to satisfy the Remarketing Requirements, if the sum of the net cash price for the Property to be paid to BNP by the Applicable Purchaser plus any Shortage Amount is less than Stipulated Loss Value, BNP may elect to keep the Property rather than sell to the Applicable Purchaser, in which case KLA shall pay to BNP on the Designated Payment Date an amount equal to (A) eighty-six percent (86%)

-4-

of Stipulated Loss Value, less (B) any Escrowed Proceeds then held and to be retained by BNP.

(c) Termination of KLA's Option To Purchase. Without limiting BNP's right to require KLA to satisfy the obligations imposed by Paragraph 2(a), KLA shall have no further option hereunder to purchase the Property if either:

(1) KLA shall have elected to satisfy the Remarketing Requirements under clause (ii) of Paragraph 2(a) on a Designated Payment Date and BNP shall have elected to keep the Property on such Designated Payment Date in accordance with subparagraph (4) of Paragraph 2(b); or

(2) KLA shall have failed on a Designated Payment Date to make or cause to be made all payments to BNP required by this Agreement or by the Lease and such failure shall have continued beyond the thirty (30) day period for tender specified in the next sentence.

If BNP does not receive all payments due under the Lease and all payments required hereunder on a Designated Payment Date, KLA may nonetheless tender to BNP the full Purchase Price and all amounts then due under the Lease, together with interest on the total Purchase Price computed at the Default Rate from the Designated Payment Date to the date of tender, and if presented with such a tender within thirty (30) days after the applicable Designated Payment Date, BNP must accept it and promptly thereafter deliver any Escrowed Proceeds and a deed and all other Required Documents listed in Paragraph 3.

(d) Payment to BNP. All amounts payable under the preceding Paragraphs 2(a), 2(b) or 2(c) by KLA and, if applicable, by the Applicable Purchaser must be paid directly to BNP, and no payment to any other party shall be effective for the purposes of this Agreement. In addition to the payments required hereunder, on the Designated Payment Date KLA must pay all amounts then due to BNP under the Lease. BNP will remit any excess amounts due KLA pursuant to the last sentence of the definition of Remarketing Requirements or pursuant to the last sentence of clause (3) of Paragraph 2(b) promptly after (and no later than 30 days after) BNP's receipt of the same.

(e) Effect of Options on Subsequent Title Encumbrances. It is the intent of BNP and KLA that any conveyance of the Property to KLA or any Applicable Purchaser pursuant to this Agreement shall cut off and terminate any interest in the Property claimed by, through or under BNP (but not any unsatisfied obligations to BNP under the Lease, the Environmental Indemnity or this Agreement). Such interests cut off and terminated will include but not be limited to any interests in the Property claimed by Participants or any holder of a Leasehold Mortgage, any leasehold or other interests in the Property conveyed by BNP in the ordinary course of BNP's business and any other Prohibited Encumbrances. Anyone accepting or taking any interest in the Property by or through BNP after the date of this Agreement shall acquire such interest subject to the rights and options granted KLA hereby. Further, KLA and any Applicable Purchaser shall be entitled to pay any payment required by this Agreement for the purchase of the Property directly to BNP notwithstanding any prior conveyance or assignment by BNP, voluntary or otherwise, of any right or interest in this Agreement or the Property, and neither KLA nor any Applicable Purchaser shall be responsible for the proper distribution or application of any such payments by BNP.

3. Terms of Conveyance Upon Purchase. Immediately after receipt of all payments to BNP required pursuant to the preceding Paragraph 2, BNP must, unless it is to keep the Property as

permitted by clause (4) of Paragraph 2(b), deliver Escrowed Proceeds, if any, and convey all of its right, title and interest in the Property by Assignment of Ground Lease and Sublease to KLA or the Applicable Purchaser, as the case may be, subject only to the Permitted Encumbrances (as defined in the Lease) and any other encumbrances that do not constitute Prohibited Encumbrances. However, such conveyance shall not include the right to receive any payment under the Lease then due BNP or that may become due thereafter because of any expense or liability incurred by BNP resulting in whole or in part from events or circumstances occurring before such conveyance. All costs of such purchase and conveyance of every kind whatsoever, both foreseen and unforeseen, shall be the responsibility of the purchaser, and the form of Assignment of Ground Lease and Sublease used to accomplish such conveyance shall be substantially in the form attached as Exhibit B. With such Assignment of Ground Lease and Sublease, BNP shall also tender to KLA or the Applicable Purchaser, as the case may be, the following, each fully executed and, where appropriate, acknowledged on BNP's behalf by an officer of BNP: (1) a Preliminary Change of Ownership Report in the form attached as Exhibit C, (2) a Bill of Sale and Assignment of Ground Lease, Contract Rights and Intangible Assets in the form attached as Exhibit D, (3) an Acknowledgment of Disclaimer of Representations and Warranties, in the form attached as Exhibit E, which KLA or the Applicable Purchaser must execute and return to BNP, (5) a Documentary Transfer Tax Request in the form attached as Exhibit F, (6) a Secretary's Certificate in the form attached as Exhibit G, (7) a letter to the title insurance company insuring title to the Property in the form attached as Exhibit H, and (8) a certificate concerning tax withholding in the form attached as Exhibit I.

4. Survival of KLA's Obligations.

(a) Status of this Agreement. Except as expressly provided in the last sentence of this subparagraph and elsewhere herein, this Agreement shall not terminate, nor shall KLA have any right to terminate this Agreement, nor shall KLA be entitled to any reduction of the Purchase Price hereunder, nor shall the obligations of KLA to BNP under Paragraph 2 be affected by reason of (i) any damage to or the destruction of all or any part of the Property from whatever cause, (ii) the taking of or damage to the Property or any portion thereof under the power of eminent domain or otherwise for any reason, (iii) the prohibition, limitation or restriction of KLA's use of all or any portion of the Property or any interference with such use by governmental action or otherwise, (iv) any eviction of KLA or any party claiming under KLA by paramount title or otherwise, (v) KLA's prior acquisition or ownership of any interest in the Property, (vi) any default on the part of BNP under this Agreement, the Lease or any other agreement to which BNP is a party, or (vii) any other cause, whether similar or dissimilar to the foregoing, any existing or future law to the contrary notwithstanding. It is the intention of the parties hereto that the obligations of KLA hereunder (including KLA's obligation to make payments under and, if applicable, to cause the Applicable Purchaser to make payments under - Paragraph 2) shall be separate and independent of the covenants and agreements of BNP. Accordingly, the Purchase Price and the Shortage Amount, as the case may be under Paragraph 2, shall continue to be payable in all events, and the obligations of KLA hereunder shall continue unaffected by any breach of this Agreement by BNP. However, nothing in this subparagraph, nor the performance without objection by KLA of its obligations hereunder, shall be construed as a waiver by KLA of any right KLA may have at law or in equity, following any failure by BNP to tender an Assignment of Ground Lease and Sublease and the other Required Documents as required by Paragraph 3 upon the tender by KLA and/or the Applicable Purchaser of the payments required by Paragraph 2 and of the other documents to be executed in favor of BNP at the closing of the sale hereunder, to (i) recover monetary damages proximately caused by such failure of BNP if BNP does not cure the failure within thirty (30) days after Tenant demands a cure by written notice to BNP, or (ii) a decree compelling performance of BNP's obligation to so tender an Assignment of Ground Lease and Sublease and the Required Documents.

(b) Remedies Under the Ground Lease, the Lease and the Environmental Indemnity. No repossession of or re-entering upon the Property or exercise of any other remedies available under the Ground Lease, the Lease or the Environmental Indemnity shall relieve KLA of its liabilities and obligations hereunder, all of which shall survive the exercise of remedies under the Ground Lease, the Lease and Environmental Indemnity. KLA acknowledges that the consideration for this Agreement is separate and independent of the consideration for the Ground Lease, the Lease and the Environmental Indemnity, and KLA's obligations hereunder shall not be affected or impaired by any event or circumstance that would excuse KLA from performance of its obligations under the Ground Lease, the Lease or the Environmental Indemnity.

5. Remedies Cumulative. No right or remedy herein conferred upon or reserved to BNP is intended to be exclusive of any other right or remedy BNP

has with respect to the Property, and each and every such right and remedy shall be cumulative and in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity or by statute. In addition to other remedies available under this Agreement, either party shall be entitled, to the extent permitted by applicable law, to a decree compelling performance of any of the other party's agreements hereunder.

6. No Implied Waiver. The failure of either party to this Agreement to insist at any time upon the strict performance of any covenant or agreement of the other party or to exercise any remedy

-7-

contained in this Agreement shall not be construed as a waiver or a relinquishment thereof for the future. The waiver by either party of or redress for any violation of any term, covenant, agreement or condition contained in this Agreement shall not prevent a subsequent act, which would have originally constituted a violation, from having all the force and effect of an original violation. No express waiver granted by either party shall affect any condition other than the one specified in such waiver and that one only for the time and in the manner specifically stated. A receipt by BNP of any payment hereunder with knowledge of the breach of this Agreement shall not be deemed a waiver of such breach, and no waiver by either party of any provision of this Agreement shall be deemed to have been made unless expressed in writing and signed by the waiving party.

7. Attorneys' Fees and Legal Expenses. If either party commences any legal action or other proceeding to enforce any of the terms of this Agreement or the documents and agreements referred to herein, or because of any breach by the other party or dispute hereunder or thereunder, the successful or prevailing party, shall be entitled to recover from the nonprevailing party all Attorneys' Fees incurred in connection therewith, whether or not such controversy, claim or dispute is prosecuted to a final judgment. Any such Attorneys' Fees incurred by either party in enforcing a judgment in its favor under this Agreement shall be recoverable separately from such judgment, and the obligation for such Attorneys' Fees is intended to be severable from other provisions of this Agreement and not to be merged into any such judgment.

8. Estoppel Certificate. KLA and BNP will each, upon not less than twenty (20) days' prior written request by the other, execute, acknowledge and deliver to the requesting party a written statement certifying that this Agreement is unmodified and in full effect (or, if there have been modifications, that this Agreement is in full effect as modified, and setting forth such modification) and either stating that no default exists hereunder or specifying each such default of which the signer may have knowledge. Any such statement may be relied upon by any Participant or prospective purchaser or assignee of BNP with respect to the Property. Neither KLA nor BNP shall be required to provide such a certificate more frequently than once in any six month period; provided, however, that if either party determines that there is a significant business reason for requiring a current certificate, including, without limitation, the need to provide such a certificate to a prospective purchaser or assignee, the other shall provide a certificate upon request whether or not it had provided a certificate within the prior six month period.

9. Notices. Each provision of this Agreement referring to the sending, mailing or delivery of any notice or referring to the making of any payment to BNP, shall be deemed to be complied with when and if the following steps are taken:

-8-

(a) All payments required to be made by KLA or the Applicable Purchaser to BNP hereunder shall be paid to BNP in immediately available funds by wire transfer to:

Federal Reserve Bank of San Francisco
Account: Banque Nationale de Paris
ABA #: 121027234
Reference: KLA Instruments.

or at such other place and in such other manner as BNP may designate in a notice to KLA (provided BNP will not unreasonably designate a method of payment other than wire transfer). Time is of the essence as to all payments to BNP under this Agreement. Any payments required to be made by BNP to KLA pursuant to the last sentence of clause (i) of Paragraph 2(a) or the last sentence of subparagraph 3 of Paragraph 3(b) shall be paid to KLA in immediately available funds by wire transfer to the account of Tenant designated in writing by Tenant or as KLA may otherwise direct by written notice sent in accordance herewith.

-9-

(b) All notices, demands and other communications to be made hereunder to the parties hereto shall be in writing (at the addresses set forth below) and shall be given by any of the following means: (A) personal service, with proof of delivery or attempted delivery retained; (B) electronic communication, whether by telex, telegram or telecopying (if confirmed in writing sent by United States first class mail, return receipt requested); or (C) registered or certified first class mail, return receipt requested. Such addresses may be changed by notice to the other parties given in the same manner as provided above. Any notice or other communication sent pursuant to clause (A) or (C) hereof shall be deemed received (whether or not actually received) upon first attempted delivery at the proper notice address on any Business Day between 9:00 A.M. and 5:00 P.M., and any notice or other communication sent pursuant to clause (B) hereof shall be deemed received upon dispatch by electronic means.

Address of BNP:

BNP Leasing Corporation
717 North Harwood Street
Suite 2630
Dallas, Texas 75201
Attention: Lloyd Cox
Telecopy: (214) 969-0060

With a copy to:

Banque Nationale de Paris, San Francisco
180 Montgomery Street
San Francisco, California 94104
Attention: Rafael Lumanlan or William J. La Herran
Telecopy: (415) 296-8954

And with a copy to:

Dorothy H. Bjorck
Thompson & Knight, P.C.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Telecopy: (214) 969-1550

Address of KLA:

KLA Instruments Corporation
160 Rio Robles
San Jose, California 95134
Attn: Christopher Stoddart, Treasurer
Telecopy: (408) 434-4268

-10-

With a copy to:

Gray Cary Ware & Freidenrich
400 Hamilton Avenue
Palo Alto, California 94301
Attn: Jonathan Rattner, Esq.
Telecopy: (415) 328-3029

10. Severability. Each and every covenant and agreement of KLA contained in this Agreement is, and shall be construed to be, a separate and independent covenant and agreement. If any term or provision of this Agreement or the application thereof to any person or circumstances shall to any extent be invalid and unenforceable, the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby. Further, the obligations of KLA hereunder, to the maximum extent possible, shall be deemed to be separate, independent and in addition to, not in lieu of, the obligations of KLA under the Lease and other documents referenced herein. In the event of any inconsistency between the express terms of this Agreement and the express terms and provisions of the Lease or other documents referenced herein, the terms and provisions of this Agreement shall control.

11. Entire Agreement. This Agreement and the documents and agreements referred to herein set forth the entire agreement between the parties concerning the subject matter hereof and no amendment or modification of this Agreement shall be binding or valid unless expressed in a writing executed by both parties hereto.

12. Paragraph Headings. The paragraph headings contained in this Agreement are for convenience only and shall in no way enlarge or limit the

scope or meaning of the various and several paragraphs hereof.

13. Gender and Number. Within this Agreement, words of any gender shall be held and construed to include any other gender and words in the singular number shall be held and construed to include the plural, unless the context otherwise requires.

14. GOVERNING LAW. THIS AGREEMENT SHALL BE DEEMED TO HAVE BEEN MADE UNDER AND SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

15. Successors and Assigns. The terms, provisions, covenants and conditions hereof shall be binding upon KLA and BNP and their respective permitted successors and assigns and shall inure to the benefit of KLA and BNP and all permitted transferees, mortgagees, successors and assignees of KLA and BNP with respect to the Property; provided, that the rights of BNP hereunder shall not pass to KLA or any Applicable Purchaser or any subsequent owner claiming through them. Prior to the Designated Payment Date BNP may transfer, assign and convey, in whole or in part, the Property and any and all of its rights under this Agreement (subject to the terms of this Agreement) by any conveyance that constitutes a Permitted Transfer, but not otherwise. If BNP sells or otherwise transfers the Property and assigns its rights under this Agreement and the Lease pursuant to a Permitted Transfer, and if BNP's successor in interest confirms its liability for the obligations imposed upon BNP by this Agreement and the Lease on and subject to the express terms set out herein and therein, then BNP shall thereby be released from any further obligations thereafter arising under this Agreement and the Lease, and KLA agrees to look solely to each successor in interest of BNP for performance of such obligations.

16. WAIVER OF JURY TRIAL. BNP AND KLA EACH HEREBY WAIVES ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF

-11-

THE LEASE, THIS AGREEMENT OR ANY OTHER DOCUMENT OR ANY DEALINGS BETWEEN THEM RELATING TO THE SUBJECT MATTER OF THIS TRANSACTION AND THE RELATIONSHIP THAT IS BEING ESTABLISHED. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including without limitation, contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. KLA and BNP each acknowledge that this waiver is a material inducement to enter into a business relationship, that each has already relied on the waiver in entering into this Agreement and the other documents referred to herein, and that each will continue to rely on the waiver in their related future dealings. KLA and BNP each further warrant and represent that it has reviewed this waiver with its legal counsel, and that it knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THE LEASE, THIS AGREEMENT OR THE ENVIRONMENTAL INDEMNITY. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court.

17. Security. KLA's obligations under this Agreement are secured by the Pledge Agreement, reference to which is hereby made for a description of the Collateral (as defined in the Pledge Agreement) covered thereby and the rights and remedies provided to BNP thereby. Although BNP shall be entitled to hold all Collateral as security for the full and faithful performance by KLA of KLA's covenants and obligations under this Agreement, the Collateral shall not be considered an advance payment of the Purchase Price or any Shortage Amount or a measure of BNP's damages should KLA breach this Agreement. If KLA does breach this Agreement and fails to cure the same within any time specified herein for the cure, BNP may, from time to time, without prejudice to any other remedy and without notice to KLA, immediately apply the proceeds of any disposition of the Collateral (and any cash included in the Collateral) to amounts then due hereunder from KLA. If BNP assigns its interest in the Leased Property before the Designated Payment Date, BNP may also assign BNP's interest in the Collateral to the assignee.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

"BNP"

BNP LEASING CORPORATION, a Delaware corporation

By: _____

Lloyd G. Cox, Vice President

"KLA"

KLA INSTRUMENTS CORPORATION, a Delaware corporation

By: _____
Name: Christopher Stoddart, Treasurer
Title: Treasurer

-12-

EXHIBIT A

Legal Description

REAL PROPERTY in the City of San Jose, State of California, described as follows:

A-1

EXHIBIT B

[Use printed form assignment provided by California counsel, but expressly subject to encumbrances described in Annex B]

B-1

ANNEX A
(to Deed)

Legal Description

REAL PROPERTY in the City of San Jose, State of California, described as follows:

B-2

Exhibit B
(to Assignment of Ground Lease and Sublease)

PERMITTED ENCUMBRANCES

This conveyance is subject to the matters described in the attached pages and to the following matters to the extent the same are still valid and in force:

[IF THE CONVEYANCE IS TO AN APPLICABLE PURCHASER:

___. Lease Agreement dated as of June 5, 1995 by and between BNP Leasing Corporation, as lessor, and KLA Instruments Corporation, as lessee.

___. Any encumbrances claimed by, through or under KLA Instruments Corporation]

[ADD A LIST OF ANY OTHER KNOWN ENCUMBRANCES FOR WHICH BNP IS NOT RESPONSIBLE UNDER PARAGRAPH 10(A) OF THE LEASE.]

B-3

EXHIBIT C

[PRINTED FORM OF CHANGE OF OWNERSHIP REPORT TO BE ATTACHED]

C-1

EXHIBIT D

BILL OF SALE, ASSIGNMENT OF GROUND LEASE, CONTRACT
RIGHTS AND INTANGIBLE ASSETS

Reference is made to that certain Ground Lease dated June 5, 1995 (the "GROUND LEASE") from KLA Instruments Corporation to BNP LEASING CORPORATION ("ASSIGNOR"), pursuant to which Assignor was conveyed a leasehold estate for a term of 34 years in the real property described in Annex A attached hereto (the "Property").

Assignor hereby sells, transfers and assigns unto [KLA OR THE APPLICABLE PURCHASER, AS THE CASE MAY BE], a _____ ("ASSIGNEE"), all of Assignor's right, title and interest in and to the following property, if any, to the extent such property is assignable:

- (a) the interest of the lessee in and to the Ground Lease, together with any warranties, guaranties, indemnities and claims Assignor may have under the Ground Lease or under any document delivered by the lessor thereunder to the extent related to the Property;
- (b) all licenses, permits or similar consents (excluding any prepaid utility reservations) from third parties to the extent related to the Property;
- (c) any pending or future award made because of any condemnation affecting the Property or because of any conveyance to be made in lieu thereof, and any unpaid award for damage to the Property and any unpaid proceeds of insurance or claim or cause of action for damage, loss or injury to the Property;
- (d) any goods, equipment, furnishings, furniture, chattels and personal property of whatever nature that are located on or about the Property; and
- (e) any general intangibles, permits, licenses, franchises, certificates, and other rights and privileges owned by Assignor and used solely in connection with, or relating solely to, the Property, including any such rights and privileges conveyed to Assignor pursuant to the Ground Lease; but excluding any rights or privileges of Assignor under (i) the Environmental Indemnity, as defined in that certain Purchase Agreement between Assignor and KLA Instruments Corporation dated as of June 5, 1995 (the "PURCHASE AGREEMENT") (pursuant to which this document is being delivered), (ii) the Lease, as defined in the Purchase Agreement, to the extent rights under the Lease relate to the period ending on the date hereof, whether such rights are presently known or unknown, including rights of the Assignor to be indemnified against claims of third parties as provided in the Lease which may not presently be known, and including rights to recover any accrued unpaid rent under the Lease which may be outstanding as of the date hereof, (iii) agreements between Assignor and Participants, as defined in the Lease, or any modification or extension thereof, and (iv) any other instrument being delivered to Assignor contemporaneously herewith pursuant to the Purchase Agreement.

Assignor does for itself and its heirs, executors and administrators, covenant and agree to warrant and defend the title to the property assigned herein against the just and lawful claims and demands of any person claiming under or through Assignor, but not otherwise; excluding, however, any claim or demand arising by, through or under [KLA].

Assignee hereby assumes and agrees to keep, perform and fulfill Assignor's obligations, if any, relating to any permits or contracts, under which Assignor has rights being assigned herein.

D-1

Executed: _____, 199__.

ASSIGNOR:

BNP LEASING CORPORATION
a Delaware corporation

By: _____
Its: _____

ASSIGNEE:

[KLA, OR THE APPLICABLE PURCHASER], a
_____ corporation

By: _____
Its: _____

D-2

ANNEX A

Legal Description

REAL PROPERTY in the City of San Jose, State of California, described as follows:

D-3

EXHIBIT E

ACKNOWLEDGMENT OF DISCLAIMER OF REPRESENTATIONS AND WARRANTIES

THIS ACKNOWLEDGMENT OF DISCLAIMER OF REPRESENTATIONS AND WARRANTIES (this "CERTIFICATE") is made as of _____, 199____, by [KLA or the Applicable Purchaser, as the case may be], a _____ ("GRANTEE").

Contemporaneously with the execution of this Certificate, BNP Leasing Corporation, a Delaware corporation ("BNP"), is executing and delivering to Grantee (1) an Assignment of Ground Lease and Sublease covering a leasehold estate under a ground lease and (2) a Bill of Sale, Assignment of Contract Rights and Intangible Assets (the foregoing documents and any other documents to be executed in connection therewith are herein called the "Conveyancing Documents" and any of the properties, rights or other matters assigned, transferred or conveyed pursuant thereto are herein collectively called the "SUBJECT PROPERTY").

NOTWITHSTANDING ANY PROVISION CONTAINED IN THE CONVEYANCING DOCUMENTS TO THE CONTRARY, GRANTEE ACKNOWLEDGES THAT BNP MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY NATURE OR KIND, WHETHER STATUTORY, EXPRESS OR IMPLIED, WITH RESPECT TO ENVIRONMENTAL MATTERS OR THE PHYSICAL CONDITION OF THE SUBJECT PROPERTY, AND GRANTEE, BY ACCEPTANCE OF THE CONVEYANCING DOCUMENTS, ACCEPTS THE SUBJECT PROPERTY "AS IS," "WHERE IS," "WITH ALL FAULTS" AND WITHOUT ANY SUCH REPRESENTATION OR WARRANTY BY GRANTOR AS TO ENVIRONMENTAL MATTERS, THE PHYSICAL CONDITION OF THE SUBJECT PROPERTY, COMPLIANCE WITH SUBDIVISION OR PLATTING REQUIREMENTS OR CONSTRUCTION OF ANY IMPROVEMENTS. Without limiting the generality of the foregoing, Grantee hereby further acknowledges and agrees that warranties of merchantability and fitness for a particular purpose are excluded from the transaction contemplated by the Conveyancing Documents, as are any warranties arising from a course of dealing or usage of trade. Grantee hereby assumes all risk and liability (and agrees that BNP shall not be liable for any special, direct, indirect, consequential, or other damages resulting or arising from or relating to the ownership, use, condition, location, maintenance, repair, or operation of the Subject Property, except for damages proximately caused by (and attributed by any applicable principles of comparative fault to) the wilful misconduct, Active Negligence or gross negligence of BNP, its agents or employees. As used in the preceding sentence, "Active Negligence" of a party means, and is limited to, the negligent conduct of activities actually on or about the Property by that party in a manner that proximately causes actual bodily injury or property damage to be incurred. "Active negligence" shall not include (1) any negligent failure of BNP to act when the duty to act would not have been imposed but for BNP's status as owner of any interest in the Subject Property or as a party to the transactions pursuant to which BNP is delivering this instrument (the "APPLICABLE TRANSACTIONS"), (2) any negligent failure of any other party to act when the duty to act would not have been imposed but for such party's contractual or other relationship to BNP or participation or facilitation in any manner, directly or indirectly, of the Applicable Transactions, or (3) the exercise in a lawful manner by BNP (or any party lawfully claiming through or under BNP) of any remedy provided in connection with the Applicable Transactions.

The provisions of this Certificate shall be binding on Grantee, its successors and assigns and any other party claiming through Grantee. Grantee hereby acknowledges that BNP is entitled to rely and is relying on this Certificate.

E-1

EXECUTED as of _____, 199____.

_____, a _____

By: _____
Name: _____
Title: _____

E-2

EXHIBIT F

DOCUMENTARY TRANSFER TAX REQUEST

ACCOUNTABLE FORM # _____

DATE: _____

To: _____ County Recorder

Subject: REQUEST THAT DOCUMENTARY TRANSFER TAX DECLARATION BE MADE
IN ACCORDANCE WITH REVENUE CODE 11932.

Re: Instrument Title: Assignment of Ground Lease and Sublease
Name of Party Conveying Title: BNP Leasing Corporation

The Documentary Transfer Tax is declared to be in the amount of \$ _____
for the referenced instrument and is:

// Computed on full value of property conveyed.

// Computed on full value less liens/encumbrances
remaining thereon at time of sale.

This separate declaration is made in accordance with
_____. It is requested that the amount paid not be
indicated on the face of the document after the permanent copy has been made.

Sincerely,

Individual (or his agent) who made, signed or issued
instrument

PART I

RECORDING REFERENCE DATA:

Serial # _____ Date Recorded _____

SEPARATE PAPER AFFIXED TO INSTRUMENT:

"Tax paid" indicated on the face of instrument and the separate request
(DRA 3-A) was affixed for Recorder by:

_____ Date _____
Documentary Transfer Tax Collector

Witnessed by: _____ Date _____

F-1

Mail Clerk

(Note: Prepare photo for Recorder file.)

PART II ACCOUNTABLE FORM # _____

REFERENCE DATA: Title: _____

Serial: _____ Date: _____

INSTRUCTIONS:

1. This slip must accompany document.

2. Mail Clerk hand carry document to Tax Collector to indicate the amount of tax paid.

F-2

EXHIBIT G

SECRETARY'S CERTIFICATE

The undersigned, _____ Secretary of BNP Leasing Corporation, a Delaware corporation (the "CORPORATION"), hereby certifies as follows:

1. That he is the duly, elected, qualified and acting Secretary [or Assistant Secretary] of the Corporation and has custody of the corporate records, minutes and corporate seal.

2. That the following named persons have been properly designated, elected and assigned to the office in the Corporation as indicated below; that such persons hold such office at this time and that the specimen signature appearing beside the name of such officer is his or her true and correct signature.

[THE FOLLOWING BLANKS MUST BE COMPLETED WITH THE NAMES AND SIGNATURES OF THE OFFICERS WHO WILL BE SIGNING THE DEED AND OTHER REQUIRED DOCUMENTS ON BEHALF OF THE CORPORATION.]

Name	Title	Signature
_____	_____	_____
_____	_____	_____

3. That the resolutions attached hereto and made a part hereof were duly adopted by the Board of Directors of the Corporation in accordance with the Corporation's Articles of Incorporation and Bylaws, as evidenced by the signatures of all directors of the Corporation affixed thereto. Such resolutions have not been amended, modified or rescinded and remain in full force and effect.

IN WITNESS WHEREOF, I have hereunto signed my name and affixed the seal of the Corporation on this , day of , 199 .

[signature]

G-1

CORPORATE RESOLUTIONS OF
BNP LEASING CORPORATION

WHEREAS, pursuant to that certain Purchase Agreement (herein called the "PURCHASE AGREEMENT") dated as of June 5, 1995, by and between BNP Leasing Corporation (the "CORPORATION") and [KLA OR THE APPLICABLE PURCHASER AS THE CASE MAY BE] ("PURCHASER"), the Corporation agreed to sell and Purchaser agreed to purchase or cause the Applicable Purchaser (as defined in the Purchase Agreement) to purchase the Corporation's interest in the property (the "PROPERTY") located in San Jose, California more particularly described therein.

NOW THEREFORE, BE IT RESOLVED, that the Board of Directors of the Corporation, in its best business judgment, deems it in the best interest of the Corporation and its shareholders that the Corporation convey the Property to Purchaser or the Applicable Purchaser pursuant to and in accordance with the terms of the Purchase Agreement.

RESOLVED FURTHER, that the proper officers of the Corporation, and each of them, are hereby authorized and directed in the name and on behalf of the Corporation to cause the Corporation to fulfill its obligations under the Purchase Agreement.

RESOLVED FURTHER, that the proper officers of the Corporation, and each of them, are hereby authorized and directed to take or cause to be taken any and all actions and to prepare or cause to be prepared and to execute and deliver any and all deeds and other documents, instruments and agreements that shall be necessary, advisable or appropriate, in such officer's sole and absolute

discretion, to carry out the intent and to accomplish the purposes of the foregoing resolutions.

IN WITNESS WHEREOF, we, being all the directors of the Corporation, have hereunto signed our names as of the dates indicated by our signatures.

date] _____ [signature and
date] _____ [signature and
date] _____ [signature and

G-2

EXHIBIT H

BNP LEASING CORPORATION
717 N. HARWOOD
SUITE 2630
DALLAS, TEXAS 75201

_____, 199_

[Title Insurance Company]

Re: Recording of Assignment of Ground Lease and Sublease to [KLA or the Applicable Purchaser] ("PURCHASER")

Ladies and Gentlemen:

BNP Leasing Corporation has executed and delivered to Purchaser an Assignment of Ground Lease and Sublease in the form attached to this letter. You are hereby authorized and directed to record the Assignment of Ground Lease and Sublease at the request of Purchaser.

Sincerely,

H-1

EXHIBIT I

FIRPTA STATEMENT

Section 1445 of the Internal Revenue Code of 1986, as amended, provides that a transferee of a U.S. real property interest must withhold tax if the transferor is a foreign person. Sections 18805, 18815 and 26131 of the California Revenue and Taxation Code, as amended, provide that a transferee of a California real property interest must withhold income tax if the transferor is a nonresident seller.

To inform [_____ OR THE APPLICABLE PURCHASER, AS THE CASE MAY BE] (the "TRANSFEE") that withholding of tax is not required upon the disposition of a California real property interest by transferor, BNP Leasing Corporation (the "SELLER"), the undersigned hereby certifies the following on behalf of the Seller:

1. The Seller is not a foreign corporation, foreign partnership, foreign trust, or foreign estate (as those terms are defined in the Internal Revenue Code and Income Tax Regulations);
2. The United States employer identification number for the Seller is _____;
3. The office address of the Seller is _____.

[NOTE: BNP MUST INCLUDE EITHER ONE, BUT ONLY ONE, OF THE FOLLOWING REPRESENTATIONS IN THE FIRPTA STATEMENT, BUT IF THE ONE INCLUDED STATES THAT BNP IS DEEMED EXEMPT FROM CALIFORNIA INCOME AND FRANCHISE TAX, THEN BNP MUST ALSO ATTACH A WITHHOLDING CERTIFICATE FROM THE CALIFORNIA FRANCHISE TAX BOARD

EVIDENCING THE SAME:

4. THE SELLER IS QUALIFIED TO DO BUSINESS IN CALIFORNIA.

OR

4. THE SELLER IS DEEMED TO BE EXEMPT FROM THE WITHHOLDING REQUIREMENT OF CALIFORNIA REVENUE AND TAXATION CODE SECTION 26131(E), AS EVIDENCED BY THE WITHHOLDING CERTIFICATE FROM THE CALIFORNIA FRANCHISE TAX BOARD WHICH IS ATTACHED.]

The Seller understands that this certification may be disclosed to the Internal Revenue Service and/or to the California Franchise Tax Board by the Transferee and that any false statement contained herein could be punished by fine, imprisonment, or both.

The Seller understands that the Transferee is relying on this affidavit in determining whether withholding is required upon said transfer. The Seller hereby agrees to indemnify and hold the Transferee harmless from and against any and all obligations, liabilities, claims, losses, actions, causes of action, demands, rights, damages, costs, and expenses (including but not limited to court costs and attorneys' fees) incurred by the Transferee as a result of any false misleading statement contained herein.

I-1

Under penalties of perjury I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct and complete, and I further declare that I have authority to sign this document on behalf of the Seller.

Dated: _____, 199__.

By: _____
Name: _____
Title: _____

I-2

\$15,400,000

LEASE AGREEMENT

BETWEEN

BNP LEASING CORPORATION,

AS LANDLORD

AND

KLA INSTRUMENTS CORPORATION,

AS TENANT

EFFECTIVE AS OF AUGUST 10, 1995

PURSUANT TO AND AS MORE PARTICULARLY PROVIDED IN SUBPARAGRAPH 20.(j) OF THIS LEASE, THIS LEASE AND THE PURCHASE AGREEMENT REFERENCED HEREIN ARE TO CONSTITUTE, FOR INCOME TAX PURPOSES ONLY, A FINANCING ARRANGEMENT OR CONDITIONAL SALE. AS PROVIDED IN SUBPARAGRAPH 20.(j) OF THIS LEASE, LANDLORD AND TENANT EXPECT THAT TENANT (AND NOT LANDLORD) SHALL BE TREATED AS THE TRUE OWNER OF THE PROPERTY FOR INCOME TAX PURPOSES, THEREBY ENTITLING TENANT (AND NOT LANDLORD) TO TAKE DEPRECIATION DEDUCTIONS AND OTHER TAX BENEFITS AVAILABLE TO THE OWNER.

TABLE OF CONTENTS

<TABLE>
<CAPTION>

Page
<S>
<C>

1.	Definitions.....	2
	(a) Administrative Fee.....	2
	(b) Active Negligence.....	2
	(c) Additional Rent.....	2
	(d) Advance Date.....	2
	(e) Affiliate.....	2
	(f) Applicable Laws.....	3
	(g) Applicable Purchaser.....	3
	(h) Attorneys' Fees.....	3
	(i) Base Rent.....	3
	(j) Base Rent Commencement Date.....	3
	(k) Base Rent Date.....	3
	(l) Base Rent Period.....	4
	(m) Breakage Costs.....	5
	(n) Business Day.....	5
	(o) Capital Adequacy Charges.....	5
	(p) Carrying Costs.....	5
	(q) Closing Costs.....	5
	(r) Change of Control Event.....	5
	(s) Code.....	5
	(t) Commitment Fee.....	5
	(u) Completion Notice.....	5
	(v) Completion Deadline.....	6
	(w) Construction Advances.....	6
	(x) Construction Allowance.....	6
	(y) Construction Periods.....	6
	(z) Custodial Agreement.....	6
	(aa) Debt.....	6
	(ab) Default.....	6
	(ac) Default Rate.....	6
	(ad) Defaulting Participant.....	6
	(ae) Designated Payment Date.....	7
	(af) Effective Rate.....	7
	(ag) Environmental Indemnity.....	7
	(ah) Environmental Laws.....	7
	(ai) Environmental Losses.....	7
	(aj) Environmental Report.....	8
	(ak) ERISA.....	8
	(al) ERISA Affiliate.....	8

(am)	ERISA Termination Event.....	8
(an)	Escrowed Proceeds.....	8
(ao)	Eurocurrency Liabilities.....	9
(ap)	Eurodollar Rate Reserve Percentage.....	9
(aq)	Event of Default.....	9
(ar)	Excluded Taxes.....	9
(as)	Fair Market Value.....	9
(at)	Fed Funds Rate.....	9

</TABLE>

<TABLE>
<S>
<C>

(au)	Funding Advances.....	10
(av)	GAAP.....	10
(aw)	Hazardous Substance.....	10
(ax)	Hazardous Substance Activity.....	10
(ay)	Impositions.....	10
(az)	Improvements.....	10
(ba)	Indemnified Party.....	10
(bb)	Initial Funding Advances.....	11
(bc)	Initial Improvements.....	11
(bd)	Landlord's Lender.....	11
(be)	Last Advance Date.....	11
(bf)	LIBOR.....	11
(bg)	LIBOR Period Election.....	12
(bh)	Lien.....	12
(bi)	Losses.....	12
(bj)	Maximum Construction Allowance.....	12
(bk)	Notice of Last Advance.....	12
(bl)	Ordinary Negligence.....	13
(bm)	Outstanding Construction Allowance.....	13
(bn)	Participant.....	13
(bo)	Participation Agreements.....	13
(bp)	Permitted Encumbrances.....	13
(bq)	Permitted Hazardous Substance Use.....	13
(br)	Permitted Hazardous Substances.....	14
(bs)	Permitted Transfer.....	14
(bt)	Person.....	14
(bu)	Plan.....	14
(bv)	Pledge Agreement.....	14
(bw)	Potential Lien Claimants.....	14
(bx)	Prime Rate.....	14
(by)	Purchase Agreement.....	15
(bz)	Qualified Payments.....	15
(ca)	Remaining Proceeds.....	15
(cb)	Rent.....	15
(cc)	Responsible Financial Officer.....	15
(cd)	Revolving Credit Agreement.....	15
(ce)	Scope Change.....	15
(cf)	Spread.....	16
(cg)	Stipulated Loss Value.....	16
(ch)	Subsidiary.....	16
(ci)	Tenant's Knowledge.....	16
(cj)	Term.....	17
(ck)	Unfunded Benefit Liabilities.....	17
(cl)	Upfront Fee.....	17
(cm)	Other Terms and References.....	17

2.	Term.....	17
----	-----------	----

3.	Rent.....	18
----	-----------	----

</TABLE>

(ii)

<TABLE>
<S>
<C>

(a)	Base Rent Generally.....	18
(b)	Calculation of Base Rent.....	18
(c)	Upfront Fee.....	19
(d)	Administrative Agency Fees.....	19
(e)	Commitment Fees.....	19
(f)	Additional Rent.....	19
(g)	Interest and Order of Application.....	19
(h)	Net Lease.....	19
(i)	No Demand or Setoff.....	19

4.	Insurance and Condemnation Proceeds.....	20
----	--	----

5.	No Lease Termination.....	21
	(a) Status of Lease.....	21
	(b) Waiver By Tenant.....	22
6.	Advances for the Purchase of the Land-51 Rio Robles and for Construction.....	22
	(a) Purchase Price of the Land-51 Rio Robles.....	22
	(iv) No Event of Default or Change of Control Event.....	22
	(v) No Sale of Landlord's Interest.....	22
	(c) Initial Improvements.....	23
	(i) Responsibility for Construction.....	23
	(ii) Scope Changes.....	24
	(iii) Value Added.....	24
	(iv) Estoppel Letters Required.....	24
	(v) Advances Not a Waiver.....	24
	(d) Conditions to Construction Advances.....	24
	(i) Prior Notice.....	24
	(ii) Amount of the Advances.....	25
	(iii) Insurance.....	25
	a) Title Insurance.....	25
	b) Builder's Risk Insurance.....	25
	(iv) Progress of Construction.....	25
	(v) Evidence of Costs to be Reimbursed.....	26
	(vi) No Event of Default or Change of Control Event.....	26
	(vii) No Sale of Landlord's Interest.....	26
	(viii) Construction Advance Certificate.....	26
	(ix) Payments by Participants.....	26
	(e) Completion Notice.....	27
7.	Purchase Agreement, Pledge Agreement and Environmental Indemnity Agreement.....	27
8.	Use and Condition of Leased Property.....	27
	(a) Use.....	27
	(b) Condition.....	27
	(c) Consideration of and Scope of Waiver.....	28
9.	Other Representations, Warranties and Covenants of Tenant.....	28
	(a) Financial Matters.....	28

</TABLE>

(iii)

<TABLE>		
<S>		
<C>		
	(b) Existing Contract.....	28
	(c) No Default or Violation.....	28
	(d) Compliance with Covenants and Laws.....	29
	(e) Environmental Representations.....	29
	(f) No Suits.....	29
	(g) Condition of Property.....	29
	(h) Organization.....	29
	(i) Enforceability.....	30
	(j) Not a Foreign Person.....	30
	(k) Omissions.....	30
	(l) Existence.....	30
	(m) Tenant Taxes.....	30
	(n) Operation of Property.....	30
	(o) Debts for Construction.....	31
	(p) Impositions.....	32
	(q) Repair, Maintenance, Alterations and Additions.....	32
	(r) Insurance and Casualty.....	32
	(s) Condemnation.....	33
	(t) Protection and Defense of Title.....	34
	(u) No Liens on the Leased Property.....	34
	(v) Books and Records.....	34
	(w) Financial Statements; Required Notices; Certificates as to Default.....	35
	(x) Further Assurances.....	36
	(y) Fees and Expenses; General Indemnification; Increased Costs; and Capital Adequacy Charges.....	36
	(z) Liability Insurance.....	38
	(aa) Permitted Encumbrances.....	38
	(ab) Environmental.....	39
	(ac) Compliance with Financial Covenants and Certain Other Requirements Established by the Revolving Credit Agreement.....	40
	(ad) ERISA.....	41
10.	Representations, Warranties and Covenants of Landlord.....	41
	(a) Title Claims By, Through or Under Landlord.....	41
	(b) Actions Required of the Title Holder.....	41
	(c) No Default or Violation.....	42
	(d) No Suits.....	42

(e)	Organization.....	42
(f)	Enforceability.....	42
(g)	Existence.....	42
(h)	Not a Foreign Person.....	43
11.	Assignment and Subletting.....	43
(a)	Consent Required.....	43
(b)	Standard for Landlord's Consent to Assignments and Certain Other Matters.....	43
(c)	Consent Not a Waiver.....	43
(d)	Landlord's Assignment.....	43
12.	Environmental Indemnification.....	44

(iv)

(a)	Indemnity.....	44
(b)	Assumption of Defense.....	44
(c)	Notice of Environmental Losses.....	44
(d)	Rights Cumulative.....	45
(e)	Survival of the Indemnity.....	45
13.	Landlord's Right of Access and Right to Perform.....	45
14.	Events of Default.....	46
(a)	Definition of Event of Default.....	46
(b)	Remedies.....	48
(c)	Enforceability.....	49
(d)	Remedies Cumulative.....	49
(e)	Waiver by Tenant.....	49
(f)	No Implied Waiver.....	50
15.	Default by Landlord.....	50
16.	Quiet Enjoyment.....	50
17.	Surrender Upon Termination.....	50
18.	Holding Over by Tenant.....	50
19.	Miscellaneous.....	51
(a)	Notices.....	51
(b)	Severability.....	53
(c)	No Merger.....	53
(d)	NO IMPLIED REPRESENTATIONS BY LANDLORD.....	53
(e)	Entire Agreement.....	53
(f)	Binding Effect.....	53
(g)	Time is of the Essence.....	53
(h)	Governing Law.....	53
(i)	Waiver of a Jury Trial.....	53
(j)	Income Tax Reporting.....	54

Exhibits

Exhibit A.....	Legal Description
Exhibit B.....	Encumbrance List
Exhibit C.....	Intentionally Omitted
Exhibit D.....	Contractor's Estoppel Letter
Exhibit E.....	Architect's Estoppel Letter
Exhibit F.....	Draw Request Forms
Exhibit G.....	Covenant Compliance Certificate
Exhibit H.....	Permitted Hazardous Substances
Exhibit I.....	Resolution of Disputed Insurance Claims
Exhibit J.....	LIBOR Period Election Notice

(v)

LEASE AGREEMENT

This LEASE AGREEMENT (hereinafter called this "LEASE"), made to be effective as of August 10, 1995 (all references herein to the "DATE HEREOF" or words of like effect shall mean such effective date), by and between BNP LEASING CORPORATION, a Delaware corporation (hereinafter called "LANDLORD"), and KLA INSTRUMENTS CORPORATION, a Delaware corporation (hereinafter called "TENANT");

W I T N E S E T H T H A T:

WHEREAS, pursuant to a Purchase and Sale Agreement dated as of July 26, 1995 (hereinafter called the "Existing Contract") covering (i) the land described in Part I of Exhibit A attached hereto (hereinafter called the "Land-77 Rio Robles") and any improvements thereon, and (ii) the land described in Part II of Exhibit A attached hereto (hereinafter called the "Land-51 Rio Robles" and the Land-77 Rio Robles and the Land-51 Rio Robles are hereinafter collectively called the "Land") and any improvements thereon, Landlord is acquiring the Land-77 Rio Robles and any improvements thereon from Amdahl Corporation (hereinafter called "Seller") contemporaneously with the execution of this Lease and Landlord anticipates acquiring the Land-51 Rio Robles and any improvements thereon;

WHEREAS, in anticipation of Landlord's acquisition of the Land and other property hereinafter described, Landlord and Tenant have reached agreement as to the terms and conditions upon which Landlord is willing to lease the same to Tenant, and by this Lease Landlord and Tenant desire to evidence such agreement;

NOW, THEREFORE, in consideration of the rent to be paid and the covenants and agreements to be performed by Tenant, as hereinafter set forth, Landlord does hereby LEASE, DEMISE and LET unto Tenant for the term hereinafter set forth the Land, together with:

(i) Landlord's interest in any and all buildings and improvements now or hereafter erected on the Land, including, but not limited to, the fixtures, attachments, appliances, equipment, machinery and other articles attached to said buildings and improvements (hereinafter called the "Improvements");

(ii) all easements and rights-of-way now owned or hereafter acquired by Landlord for use in connection with the Land or Improvements or as a means of access thereto;

(iii) all right, title and interest of Landlord, now owned or hereafter acquired, in and to (A) any land lying within the right-of-way of any street, open or proposed, adjoining the Land, (B) any and all sidewalks and alleys adjacent to the Land and (C) any strips and gores between the Land and abutting land (except strips and gores, if any, between the Land and abutting land owned or leased by Landlord, with respect to which this Lease shall cover only the portion thereof to the center line between the Land and the abutting land owned or leased by Landlord).

The Land and all of the property described in items (i) through (iii) above are hereinafter referred to collectively as the "REAL PROPERTY".

In addition to the leasehold in the Real Property described above, Landlord hereby grants and assigns to Tenant for the term of this Lease the right to use and enjoy (and, to the extent the following consist of contract

rights, to enforce) any interests or rights in, to or under the following that have been transferred to Landlord by Seller under the Existing Contract, to the extent any such rights and interests are assignable and related to the Real Property: (a) any goods, equipment, furnishings, furniture, chattels and personal property of whatever nature that are located on the Real Property and all renewals or replacements of or substitutions for any of the foregoing; and (b) any general intangibles, permits, licenses, franchises, certificates, and other rights and privileges. All of the property, rights and privileges described above in this paragraph, together with all furniture, furnishings and other personalty included in the Initial Improvements (as hereinafter defined) because of Tenant's purchase thereof with the Construction Allowance (as hereinafter defined), are hereinafter collectively called the "PERSONAL PROPERTY". The Real Property and the Personal Property are hereinafter sometimes collectively called the "LEASED PROPERTY".

Provided, however, the leasehold estate conveyed hereby and Tenant's rights hereunder are expressly made subject and subordinate to the Permitted Encumbrances (as hereinafter defined) and to any other claims or encumbrances not asserted by Landlord itself or by third parties lawfully claiming through or under Landlord.

The Leased Property is leased by Landlord to Tenant and is accepted and is to be used and possessed by Tenant upon and subject to the following terms, provisions, covenants, agreements and conditions:

2. Definitions. As used herein, the terms "Landlord," "Tenant," "Existing Contract," "Seller," "Land," "Improvements," "Real Property," "Personal Property" and "Leased Property" shall have the meanings indicated above and the terms listed immediately below shall have the following

meanings:

(a) Administrative Fee. "ADMINISTRATIVE FEE" shall have the meaning assigned to it in subparagraph 3.(d) below.

(b) Active Negligence. "ACTIVE NEGLIGENCE" of an Indemnified Party means, and is limited to, the negligent conduct of activities on the Leased Property by the Indemnified Party in a manner that proximately causes actual bodily injury or property damage to occur. "ACTIVE NEGLIGENCE" shall not include (1) any negligent failure of Landlord to act when the duty to act would not have been imposed but for Landlord's status as owner of any interest in the Leased Property or as a party to the transactions described in this Lease, (2) any negligent failure of any other Indemnified Party to act when the duty to act would not have been imposed but for such party's contractual or other relationship to Landlord or participation or facilitation in any manner, directly or indirectly, of the transactions described in this Lease, or (3) the exercise in a lawful manner by Landlord (or any party lawfully claiming through or under Landlord) of any remedy provided herein or in the Purchase Agreement.

(c) Additional Rent. "ADDITIONAL RENT" shall have the meaning assigned to it in subparagraph 3.(f) below.

(d) Advance Date. "ADVANCE DATE" means, regardless of whether any Construction Advance shall actually be made thereon, the first Business Day of every calendar month, beginning with September 1, 1995 and continuing regularly thereafter to and including the Base Rent Commencement Date. If the Base Rent Commencement Date occurs before the Last Advance Date, then each Base Rent Date through and including the Last Advance Date shall also constitute an "ADVANCE DATE" hereunder. In any event, the Last Advance Date shall be the final Advance Date.

(e) Affiliate. "AFFILIATE" of any Person means any other Person controlling, controlled by or under common control with such Person. For purposes of this definition, the term "CONTROL" when used with respect to any Person means the power to direct the management of policies of such Person, directly or

indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "CONTROLLING" and "CONTROLLED" have meanings correlative to the foregoing.

(f) Applicable Laws. "APPLICABLE LAWS" shall have the meaning assigned to it in subparagraph 9.(d) below.

(g) Applicable Purchaser. "APPLICABLE PURCHASER" means any third party designated by Tenant to purchase the Landlord's interest in the Leased Property and in any Escrowed Proceeds as provided in the Purchase Agreement.

(h) Attorneys' Fees. "ATTORNEYS' FEES" means the reasonable fees and expenses of counsel to the parties incurring the same, which may include fairly allocated costs of in-house counsel, printing, photostating, duplicating and other expenses, air freight charges, and fees billed for law clerks, paralegals, librarians and others not admitted to the bar but performing services under the supervision of an attorney. Such terms shall also include, without limitation, all such fees and expenses incurred with respect to appeals, arbitrations and bankruptcy proceedings, and whether or not any manner or proceeding is brought with respect to the matter for which such fees and expenses were incurred.

(i) Base Rent. "BASE RENT" means the rent payable by Tenant pursuant to subparagraph 3.(a) below.

(j) Base Rent Commencement Date. "BASE RENT COMMENCEMENT DATE" means the earlier of (1) the Last Advance Date, or (2) the first Business Day of any calendar month that occurs at least ten (10) days after Landlord has received a notice from Tenant stating that Tenant irrevocably elects to have Base Rent begin to accrue as soon as possible under this Lease. It is understood that Tenant may, but shall not be required, to give such a notice at any time Tenant would prefer to commence payment of Base Rent rather than have Carrying Costs continue to accrue.

(k) Base Rent Date. "BASE RENT DATE" means a date upon which Base Rent must be paid under this Lease, all of which dates shall be the first Business Day of a calendar month. The first Base Rent Date shall be determined as follows:

a) If a LIBOR Period Election of one month is in effect on the Base Rent Commencement Date, then the first Business Day of the first calendar month following the Base Rent Commencement Date shall be the first Base Rent Date.

b) If the LIBOR Period Election in effect on the Base Rent Commencement Date is three months or longer, then the first Business Day of the third calendar month following the Base Rent Commencement Date shall be the first Base Rent Date.

Each successive Base Rent Date after the first Base Rent Date shall be the first Business Day of the first or third calendar month following the calendar month which includes the preceding Base Rent Date, determined as follows:

a) If a LIBOR Period Election of one month is in effect on a Base Rent Date, then the first Business Day of the first calendar month following such Base Rent Date shall be the next following Base Rent Date.

b) If a LIBOR Period Election of three months or longer is in effect on a Base Rent Date, then the first Business Day of the third calendar month following such Base Rent Date shall be the next following Base Rent Date.

Thus, for example, if the Base Rent Commencement Date falls on June 2, 1997 and a LIBOR Period Election of six months commences on the Base Rent Commencement Date, then the first Base Rent Date shall be the first Business Day of September, 1997, and the second Base Rent Date shall be the first Business Day of December, 1997.

(1) Base Rent Period. "BASE RENT PERIOD" means a period for which Base Rent must be paid under this Lease, each of which periods shall correspond to the LIBOR Period Election for such period. The first Base Rent Period shall begin on and include the Base Rent Commencement Date, and each successive Base Rent Period shall begin on and include the Base Rent Date upon which the preceding Base Rent Period ends. Each Base Rent Period, including the first Base Rent Period, shall end on but not include the first, second, third or fourth Base Rent Date after the Base Rent Date upon which such period began, determined as follows:

a) If the LIBOR Period Election for a Base Rent Period is one month or three months, then such Base Rent Period shall end on the first Base Rent Date after the Base Rent Date upon which such period began.

b) If the LIBOR Period Election for a Base Rent Period is six months, then such Base Rent Period shall end on the second Base Rent Date after the Base Rent Date upon which such period began.

c) If the LIBOR Period Election for a Base Rent Period is nine months, then such Base Rent Period shall end on the third Base Rent Date after the Base Rent Date upon which such period began.

d) If the LIBOR Period Election for a Base Rent Period is twelve months, then such Base Rent Period shall end on the fourth Base Rent Date after the Base Rent Date upon which such period began.

The determination of Base Rent Periods can be illustrated by two examples:

1) If Tenant makes a LIBOR Period Election of three months for a hypothetical Base Rent Period beginning on June 2, 1997, then such Base Rent Period will end on but not include the first Base Rent Date after June 1, 1997; that is, such Base Rent Period will end on September 1, 1997, the first Business Day of the third calendar month after June 2, 1997.

2) If, however, Tenant makes a LIBOR Period Election of six months for the hypothetical Base Rent Period beginning June 2, 1997, then such Base Rent Period will end on but not include the second Base Rent Date after June 2, 1997; that is, December 1, 1997.

If the Base Rent Commencement Date occurs before the Last Advance Date, then because of the interplay of the definitions in this Lease: (1) the last day of each Base Rent Period shall also constitute an Advance Date hereunder through and including the Last Advance Date; (2) Base Rent Periods ending on or prior to the Last Advance Date shall also constitute Construction Periods hereunder; and (3) the LIBOR Period Election for any Base Rent Period ending on or prior to the Last Advance Date shall, under the definition of LIBOR Period Election in subparagraph 1.(bg) below, be one month, thus causing each such Base Rent Period to be only one month.

(m) Breakage Costs. "BREAKAGE COSTS" means any and all costs, losses or expenses incurred or sustained by Landlord's Lender or any Participant, for which Landlord's Lender or the Participant shall expect reimbursement from Landlord, because of the resulting liquidation or redeployment of deposits or other funds used to make Funding Advances upon any termination of this Lease by Tenant pursuant to Paragraph 2 below, if such termination is effective as of any day other than the last day of a Construction Period or Base Rent Period. Breakage Costs will include losses attributable to any decline in LIBOR as of the effective date of termination as compared to LIBOR used to determine the Effective Rate then in effect. (However, if Landlord's Lender or a Participant actually receives a profit upon the liquidation or redeployment of deposits or other funds used to make Funding Advances, because of any increase in LIBOR, then such profit will be offset against costs or expenses that would otherwise be charged as Breakage Costs under this Lease.) Each determination by Landlord's Lender of Breakage Costs shall, in the absence of clear and demonstrable error, be conclusive and binding upon Landlord and Tenant.

(n) Business Day. "BUSINESS DAY" means any day that is (1) not a Saturday, Sunday or day on which commercial banks are generally closed or required to be closed in New York City, New York or San Francisco, California, and (2) a day on which dealings in deposits of dollars are transacted in the London interbank market; provided that if such dealings are suspended indefinitely for any reason, "BUSINESS DAY" shall mean any day described in clause (1).

(o) Capital Adequacy Charges. "CAPITAL ADEQUACY CHARGES" means any additional amounts Landlord's Lender or any Participant requires Landlord to pay as compensation for an increase in required capital as provided in subparagraph 9.(y) (iv).

(p) Carrying Costs. "CARRYING COSTS" means the charges (accruing at the Effective Rate) added to and made a part of the Outstanding Construction Allowance from time to time on and before the Base Rent Commencement Date pursuant to and as more particularly described in subparagraph 6.(b) (ii) below.

(q) Closing Costs. "CLOSING COSTS" means the costs paid from the Initial Funding Advances in connection with the preparation and negotiation of this Lease, the Existing Contract, the Purchase Agreement, the Pledge Agreement, the Environmental Indemnity and related documents. To the extent that Landlord does not itself use the entire Initial Funding Advance remaining after payment of the purchase price for the Leased Property to pay expenses incurred by Landlord in connection with the preparation and negotiation of such documents, the remainder thereof will be advanced to Tenant for payment of expenses incurred by Tenant in connection therewith, or title insurance premiums.

(r) Change of Control Event. "CHANGE OF CONTROL EVENT" means the occurrence of any merger or consolidation or sale of assets involving Tenant that would constitute an "Event of Default" as defined in the Revolving Credit Agreement.

(s) Code. "CODE" means the Internal Revenue Code of 1986, as amended from time to time.

(t) Commitment Fee. "COMMITMENT FEE" shall have the meaning assigned to it in subparagraph 3.(e) below.

(u) Completion Notice. "COMPLETION NOTICE" shall have the meaning assigned to it in subparagraph 6.(e) below.

(v) Completion Deadline. "COMPLETION DEADLINE" means March 1, 1996.

(w) Construction Advances. "CONSTRUCTION ADVANCES" means actual advances of funds made by or on behalf of Landlord pursuant to Paragraph 6.(b) (i) below for costs incurred to construct the Initial Improvements or for property taxes and assessments assessed against the Leased Property and paid prior to the Last Advance Date.

(x) Construction Allowance. "CONSTRUCTION ALLOWANCE" means the allowance, consisting of all Construction Advances and Carrying Costs, which is to be provided by Landlord for the construction of the Initial Improvements as more particularly described in Paragraph 6.(b) below.

(y) Construction Periods. "Construction Period" means each successive period of approximately one (1) month, except that the first

Construction Period shall be a short period beginning on and including the effective date hereof and ending on but not including the first Advance Date. Each successive Construction Period after the first Construction Period shall begin on and include the day on which the preceding Construction Period ends and shall end on but not include the next following Advance Date, until the last Construction Period, which shall end on but not include the Completion Date. "Construction Periods" means all Construction Periods collectively; that is, the period from and including the effective date hereof to but not including the Completion Date.

(z) Custodial Agreement. "CUSTODIAL AGREEMENT" means the Custodial Agreement dated as of the date hereof, between Banque Nationale de Paris, New York Branch (or any successor or replacement custodian), and Tenant pursuant to which such bank will hold securities pledged by Tenant as collateral for Tenant's obligations under the Purchase Agreement, as such Custodial Agreement may be extended, supplemented, amended, restated or otherwise modified from time to time in accordance with its terms.

(aa) Debt. "DEBT" of any Person means (i) indebtedness of such Person for borrowed money, (ii) obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) obligations of such Person to pay the deferred purchase price of property or services, (iv) obligations of such Person as lessee under leases which shall have been or should be, in accordance with GAAP, recorded as capital leases, (v) obligations under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of others of the kinds referred to in clauses (i) through (iv) above, (vi) liabilities of another Person secured by a Lien on, or payable out of the proceeds of production from, property of such Person even though such obligation shall not be assumed by such Person (but in the case of such liabilities not assumed by such Person, the liabilities shall constitute Debt of such Person only to the extent of the value of such Person's property encumbered by the Lien securing such liabilities) and (vii) Unfunded Benefit Liabilities.

(bb) Default. "DEFAULT" means any event which, with the passage of time or the giving of notice or both, would (if not cured within any applicable cure period) constitute an Event of Default.

(cc) Default Rate. "DEFAULT RATE" means a floating per annum rate equal to three percent (3%) above the Prime Rate. However, in no event will the Default Rate exceed the maximum interest rate permitted by law.

(dd) Defaulting Participant. "DEFAULTING PARTICIPANT" means any Participant that shall have breached its Participation Agreement with Landlord by failing to provide to Landlord Participant's percentage of the purchase price for the Land-51 Rio Robles and the related Leased Property or any Construction Advance requested by Tenant. (For purposes of this Lease a "PARTICIPANT'S PERCENTAGE" shall mean the percentage that, under such Participant's Participation Agreement with Landlord, is to be multiplied against Construction Advances to compute the amount the Participant must advance to Landlord for (or equal to) a percentage of Construction Advances requested hereunder.) Notwithstanding the foregoing, however, in no event will any

Participant be a Defaulting Participant unless its Participation Agreement with Landlord expressly makes Tenant a third party beneficiary of the applicable Participant's promise to fund advances for (or equal to) its percentage share of Construction Advances hereunder.

(ee) Designated Payment Date. "DESIGNATED PAYMENT DATE" shall have the meaning assigned to it in the Purchase Agreement.

(ff) Effective Rate. "EFFECTIVE RATE" means:

(i) for each day during the first short Construction Period ending September 1, 1995 the per annum rate which equals the Spread plus the rate which is fifty basis points (50/100 of 1%) above the Fed Funds Rate for that day; and

(ii) for each subsequent Construction Period and for each Base Rent Period, the per annum rate which equals the Spread for such Construction Period or Base Rent Period plus the per annum rate determined by dividing (A) LIBOR for such Construction Period or Base Rent Period, as the case may be, by (B) 100% minus the Eurodollar Rate Reserve Percentage for such Construction Period or Base Rent Period.

If LIBOR or the Eurodollar Rate Reserve Percentage changes from Construction Period to Construction Period or from Base Rent Period to Base Rent Period, then the Effective Rate shall be automatically increased or decreased as of the date of such change, as the case may be. If for any reason Landlord determines that it is impossible or unreasonably difficult to determine the Effective Rate with

respect to a given Construction Period or Base Rent Period in accordance with the preceding sentences, then the "EFFECTIVE RATE" for that Construction Period or Base Rent Period shall equal the Spread plus any published index or per annum interest rate determined reasonably and in good faith by Landlord's Lender to be comparable to LIBOR at the beginning of the first day of that period. A comparable interest rate might be, for example, the then existing yield on short term United States Treasury obligations (as compiled by and published in the then most recently published United States Federal Reserve Statistical Release H.15(519) or its successor publication), plus or minus a fixed adjustment based on Landlord's Lender's comparison of past eurodollar market rates to past yields on such Treasury obligations. Any determination by Landlord of the Effective Rate hereunder shall, in the absence of clear and demonstrable error, be conclusive and binding.

(gg) Environmental Indemnity. "ENVIRONMENTAL INDEMNITY" means the separate Environmental Indemnity Agreement dated as of the date hereof executed by Tenant in favor of Landlord covering the Land and certain other property described therein, as such agreement may be extended, supplemented, amended, restated or otherwise modified from time to time in accordance with its terms.

(hh) Environmental Laws. "ENVIRONMENTAL LAWS" means any and all existing and future Applicable Laws pertaining to safety, health or the environment, or to Hazardous Substances or Hazardous Substance Activities, including without limitation the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 (as amended, hereinafter called "CERCLA"), and the Resource Conservation and Recovery Act of 1976, as amended by the Used Oil Recycling Act of 1980, the Solid Waste Disposal Act Amendments of 1980, and the Hazardous and Solid Waste Amendments of 1984 (as amended, hereinafter called "RCRA").

(ii) Environmental Losses. "ENVIRONMENTAL LOSSES" means Losses suffered or incurred by any Indemnified Party, directly or indirectly, relating to or arising out of, based on or as a result of: (i) any Hazardous Substance Activity; (ii) any violation of Environmental Laws relating to the Leased Property or to the ownership, use, occupancy or operation thereof; (iii) any investigation, inquiry, order, hearing, action, or other

proceeding by or before any governmental or quasi-governmental agency or authority in connection with any Hazardous Substance Activity; or (iv) any claim, demand, cause of action or investigation, or any action or other proceeding, whether meritorious or not, brought or asserted against any Indemnified Party which directly or indirectly relates to, arises from, is based on, or results from any of the matters described in clauses (i), (ii), or (iii) of this subparagraph 1.(ai), or any allegation of any such matters. ENVIRONMENTAL LOSSES INCURRED BY OR ASSERTED AGAINST A PARTICULAR INDEMNIFIED PARTY SHALL INCLUDE LOSSES RELATING TO OR ARISING OUT OF OR AS A RESULT OF ANY MATTERS LISTED IN THE PRECEDING SENTENCE EVEN WHEN SUCH MATTERS ARE CAUSED BY THE ORDINARY NEGLIGENCE (AS DEFINED BELOW) OF THAT PARTICULAR OR ANY OTHER INDEMNIFIED PARTY. However, Losses incurred by or asserted against a particular Indemnified Party and proximately caused by (and attributed by any applicable principles of comparative fault to) the wilful misconduct, Active Negligence or gross negligence of any Indemnified Party will not constitute Environmental Losses of such Indemnified Party for purposes of this Lease.

(jj) Environmental Report. "ENVIRONMENTAL REPORT" means, collectively, the following reports prepared by Tetra Tech, Inc, Inc. for Lund Financial Corporation: Phase I Environmental Site Assessment for Amdahl/Fujitsu Property, 51 and 77 Rio Robles Drive, San Jose, California and Letter Dated July 5, 1995 to Ms. Lisbeth Ward, Banque Nationale de Paris regarding Subsurface Soil Investigation, Amdahl/Fujitsu Buildings, 51 and 71 Rio Robles, San Jose, and all tables, figures, certificates, appendices and other attachments to such reports.

(kk) ERISA. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, together with all rules and regulations promulgated with respect thereto.

(ll) ERISA Affiliate. "ERISA AFFILIATE" means any Person who for purposes of Title IV of ERISA is a member of Tenant's controlled group, or under common control with Tenant, within the meaning of Section 414 of the Code, and the regulations promulgated and rulings issued thereunder.

(mm) ERISA Termination Event. "ERISA TERMINATION EVENT" means (i) the occurrence with respect to any Plan of a) a reportable event described in Sections 4043(b)(5) or (6) of ERISA or b) any other reportable event described in Section 4043(b) of ERISA other than a reportable event not subject to the provision for 30-day notice to the Pension Benefit Guaranty Corporation pursuant to a waiver by such corporation under Section 4043(a) of ERISA, or (ii) the withdrawal of Tenant or any Affiliate of Tenant from a Plan during a plan

year in which it was a "SUBSTANTIAL EMPLOYER" as defined in Section 4001(a)(2) of ERISA, or (iii) the filing of a notice of intent to terminate any Plan or the treatment of any Plan amendment as a termination under Section 4041 of ERISA, or (iv) the institution of proceedings to terminate any Plan by the Pension Benefit Guaranty Corporation under Section 4042 of ERISA, or (v) any other event or condition which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan.

(nn) Escrowed Proceeds. "ESCROWED PROCEEDS" shall mean any proceeds that are received by Landlord from time to time during the Term (and any interest earned thereon), which Landlord is holding for the purposes specified in the next sentence, from any party (1) under any casualty insurance policy as a result of damage to the Leased Property, (2) as compensation for any restriction placed upon the use or development of the Leased Property or for the condemnation of the Leased Property or any portion thereof, (3) because of any judgment, decree or award for injury or damage to the Leased Property or (4) under any title insurance policy or otherwise as a result of any title defect or claimed title defect with respect to the Leased Property; provided, however, in determining "ESCROWED PROCEEDS" there shall be deducted all expenses and costs of every type, kind and nature (including Attorneys' Fees) incurred by Landlord to collect such proceeds; and provided, further, "ESCROWED PROCEEDS" shall not include any payment to Landlord by a Participant or an Affiliate of Landlord that is made to compensate Landlord for the Participant's or Affiliate's share of any Losses Landlord

may incur as a result of any of the events described in the preceding clauses (1) through (4). "ESCROWED PROCEEDS" shall include only such proceeds as are held by Landlord (A) pursuant to Paragraph 4 for the payment to Tenant for the restoration or repair of the Leased Property or (B) for application (generally, on the next following Advance Date or Base Rent Date which is at least three (3) Business Days following Landlord's receipt of such proceeds) as a Qualified Payment or as reimbursement of costs incurred in connection with a Qualified Payment. "ESCROWED PROCEEDS" shall not include any proceeds that have been applied as a Qualified Payment or to pay any costs incurred in connection with a Qualified Payment. Until Escrowed Proceeds are paid to Tenant pursuant to Paragraph 4 below or applied as a Qualified Payment or as reimbursement for costs incurred in connection with a Qualified Payment, Landlord shall keep the same deposited in an interest bearing account established in Landlord's name, and all interest earned on such account shall be added to and made a part of Escrowed Proceeds.

(oo) Eurocurrency Liabilities. "EUROCURRENCY LIABILITIES" has the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

(pp) Eurodollar Rate Reserve Percentage. "EURODOLLAR RATE RESERVE PERCENTAGE" means, for purposes of determining the Effective Rate for any Construction Period or Base Rent Period, the reserve percentage applicable two Business Days before the first day of such Construction Period or Base Rent Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for a member bank of the Federal Reserve System in New York City with deposits exceeding One Billion Dollars with respect to liabilities or deposits consisting of or including Eurocurrency Liabilities (or with respect to any other category or liabilities by reference to which LIBOR is determined) having a term comparable to such Construction Period or Base Rent Period.

(qq) Event of Default. "EVENT OF DEFAULT" shall have the meaning assigned to it in subparagraph 14.(a) below.

(rr) Excluded Taxes. "EXCLUDED TAXES" shall mean (1) all federal, state and local income taxes upon the Base Rent, the Upfront Fee, Administrative Fees, Commitment Fees and any interest paid to Landlord pursuant to subparagraph 3.(g), (2) any taxes imposed by any governmental authority outside the United States, and (3) any transfer or change of ownership taxes assessed because of Landlord's transfer or conveyance to any third party of any rights or interest in the Lease, the Purchase Agreement or the Leased Property, but excluding any such taxes assessed because of any Permitted Transfer to a Participant or because of any Permitted Transfer described in clause (4) of the definition of Permitted Transfer below.

(ss) Fair Market Value. "FAIR MARKET VALUE" shall have the meaning assigned to it in the Purchase Agreement.

(tt) Fed Funds Rate. "FED FUNDS RATE" means, for any period, a fluctuating interest rate (expressed as a per annum rate and rounded upwards, if necessary, to the next 1/16 of 1%) equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as

published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rates are not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Landlord's Lender from three Federal funds brokers of recognized standing selected by Landlord's Lender. All determinations of the Fed Funds Rate by Landlord's Lender shall, in the absence of clear and demonstrable error, be binding and conclusive upon Landlord and Tenant.

(uu) Funding Advances. "FUNDING ADVANCES" means (1) the Initial Funding Advances and (2) all future advances (which, together with Initial Funding Advances, are expected to total \$15,400,000) made by Landlord's Lender or any Participant to or on behalf of Landlord to allow Landlord to provide the Construction Allowance hereunder.

(vv) GAAP. "GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time, applied on a basis consistent with those used in the preparation of the financial statements referred to in subparagraph 9.(w) (except for changes concurred in by Tenant's independent public accountants).

(ww) Hazardous Substance. "HAZARDOUS SUBSTANCE" means (i) any chemical, compound, material, mixture or substance that is now or hereafter defined or listed in, regulated under, or otherwise classified pursuant to, any Environmental Laws as a "hazardous substance," "hazardous material," "hazardous waste," "extremely hazardous waste," "infectious waste," "toxic substance," "toxic pollutant," or any other formulation intended to define, list or classify substances by reason of deleterious properties, including, without limitation, ignitability, corrosiveness, reactivity, carcinogenicity, toxicity or reproductive toxicity; (ii) petroleum, any fraction of petroleum, natural gas, natural gas liquids, liquified natural gas, synthetic gas usable for fuel (or mixtures of natural gas and such synthetic gas), and ash produced by a resource recovery facility utilizing a municipal solid waste stream, and drilling fluids, produced waters and other wastes associated with the exploration, development or production of crude oil, natural gas or geothermal resources; (iii) asbestos and any asbestos containing material; (iv) "waste" as defined in section 13050(d) of the California Water Code; and (v) any other material that, because of its quantity, concentration or physical or chemical characteristics, poses a significant present or potential hazard to human health or safety or to the environment if released into the workplace or the environment.

(xx) Hazardous Substance Activity. "HAZARDOUS SUBSTANCE ACTIVITY" means any actual, proposed or threatened use, storage, holding, existence, location, release (including, without limitation, any spilling, leaking, leaching, pumping, pouring, emitting, emptying, dumping, disposing into the environment, and the continuing migration into or through soil, surface water, groundwater or any body of water), discharge, deposit, placement, generation, processing, construction, treatment, abatement, removal, disposal, disposition, handling or transportation of any Hazardous Substance from, under, in, into or on the Leased Property, including, without limitation, the movement or migration of any Hazardous Substance from surrounding property, surface water, groundwater or any body of water under, in, into or onto the Leased Property and any residual Hazardous Substance contamination in, on or under the Leased Property.

(yy) Impositions. "IMPOSITIONS" shall have the meaning assigned to it in subparagraph 9.(p) below.

(zz) Improvements. "IMPROVEMENTS," as defined in the recitals at the beginning of this Lease, shall include not only existing improvements to the Land as of the effective date of this Lease, if any, but also any new improvements or changes to existing improvements made by Tenant. Accordingly, any and all new improvements made to the Leased Property by Tenant using the Construction Allowance as contemplated in this Lease shall constitute Improvements as that term is used herein.

(aaa) Indemnified Party. "INDEMNIFIED PARTY" means each of (1) Landlord, any of Landlord's successors and any of Landlord's assigns to the extent that the transfer to such assigns was permitted hereunder, as to all or any portion of the Leased Property or any interest therein (but excluding Tenant or any Applicable Purchaser under the Purchase Agreement or any Person that claims its interest in the Leased Property through or under Tenant or such Applicable Purchaser), (2) any Participants, and (3) any Affiliate, officer, agent, director, employee or servant of any of the parties described in clause (1) or (2) preceding.

(bbb) Initial Funding Advances. "INITIAL FUNDING ADVANCES" means the Initial Funding Allowance-77 Rio Robles, which has been advanced on or before the effective date of this Lease, and the Initial Funding Advance-51 Rio

Robles, which is expected to be advanced on or before the date Landlord acquires the Land-51 Rio Robles. "INITIAL FUNDING ADVANCE-77 RIO ROBLES" means the advance in the amount of \$5,977,000 made by Landlord's Lender to finance the cost of Landlord's acquisition of the Land-77 Rio Robles and related Leased Property and certain Closing Costs incurred in connection therewith. "INITIAL FUNDING ADVANCE-51 RIO ROBLES" means the advance (expected to be in the amount of \$4,825,000 plus related Closing Costs) which Landlord will obtain from Landlord's Lender to finance the cost of Landlord's acquisition of the Land-51 Rio Robles and related Leased Property and certain Closing Costs which may be incurred in connection therewith. As used in this Lease, the "INITIAL FUNDING ADVANCES OUTSTANDING" or words of like effect shall mean (1) the Initial Funding Advance-77 Rio Robles until Landlord acquires the Land-51 Rio Robles, and (2) the sum of the Initial Funding Advance-77 Rio Robles plus the Funding Advance-51 Rio Robles after Landlord acquires the Land-51 Rio Robles.

(ccc) Initial Improvements. "INITIAL IMPROVEMENTS" shall mean the improvements on the Land and any furnishings for such improvements which are to be constructed and installed by Tenant using the Construction Allowances described in Paragraph 6. (b) below.

(ddd) Landlord's Lender. "LANDLORD'S LENDER" means Landlord's Affiliate, Banque Nationale de Paris, a bank organized and existing under the laws of France, together with any Affiliates of such bank that directly or indirectly provided or hereafter during the Term provide or maintain any of the Funding Advances, and any successors of such bank and such Affiliates.

(eee) Last Advance Date. "LAST ADVANCE DATE" means the earlier of (1) the Completion Deadline, or (2) the Designated Payment Date under the Purchase Agreement, or (3) the first Business Day of any calendar month that occurs at least ten (10) days after Landlord has received a Completion Notice or Notice of Last Advance from Tenant.

(fff) LIBOR. "LIBOR" means, for purposes of determining the Effective Rate for each Construction Period and Base Rent Period, the rate determined by Landlord's Lender to be the average rate of interest per annum (rounded upwards, if necessary, to the next 1/16 of 1%) of the rates at which deposits of dollars are offered or available to Landlord's Lender in the London interbank market at approximately 11:00 a.m. (London time) on the second Business Day preceding the first day of such Construction Period or Base Rent Period, as the case may be. Landlord shall instruct Landlord's Lender to consider deposits, for purposes of making the determination described in the preceding sentence, that are offered: (i) for delivery on the first day of such Construction Period or Base Rent Period, (ii) in an amount equal or comparable to the total (projected on the applicable date of determination by Landlord's Lender) Stipulated Loss Value on the first day of such Construction Period or Base Rent Period, and (iii) for a period of time equal or comparable to the length of such Construction Period or Base Rent Period. If Landlord's Lender so chooses, it may determine LIBOR for any period by reference to the rate reported by the British Banker's Association on Page 3750 of the Telerate Service at approximately 11:00 a.m. (London time) on the second Business Day preceding the first day of such period; provided, however, Tenant may notify Landlord that Tenant objects to any future determination of LIBOR in the manner provided by this sentence, in which case any determination of LIBOR required more than three Business Days after Landlord's receipt of such notice shall be made as if this sentence had been struck from this Lease. If for any reason Landlord's Lender determines that it is impossible or unreasonably difficult to determine LIBOR with respect to a given Construction Period or Base Rent Period in accordance with the preceding sentences, or if Landlord's Lender shall determine that it is unlawful (or any central bank or governmental authority shall assert that it is unlawful) for Landlord, Landlord's Lender or any Participant to provide Funding Advances hereunder during any Base Rent Period for which Base Rent is computed by reference to LIBOR, then "LIBOR"

for that Construction Period or Base Rent Period shall equal the rate which is fifty basis points (50/100 of 1%) above the Fed Funds Rate for that period. All determinations of LIBOR by Landlord's Lender shall, in the absence of clear and demonstrable error, be binding and conclusive upon Landlord and Tenant.

(ggg) LIBOR Period Election. The "LIBOR PERIOD ELECTION" for any Base Rent Period means a period of one month, three months, six months, nine months or twelve months as designated by Tenant at least ten (10) Business Days prior to the commencement of such Base Rent Period by a written notice given to Landlord in the form of Exhibit J attached hereto. (For purposes of this Lease a LIBOR Period Election for any Base Rent Period shall also be considered the LIBOR Period Election in effect on (1) the Base Rent Commencement Date or Base Rent Date upon which such Base Rent Period begins and (2) subsequent Base Rent Dates, if any, which occur before the date upon which such Base Rent Period ends.) Any Libor Period Election so designated by Tenant shall remain in effect for the entire Base Rent Period specified in Tenant's notice to Landlord (provided such Base Rent Period commences at least ten (10) Business Days after Landlord's receipt of the notice) and for all subsequent Base Rent Periods until

a new designation becomes effective in accordance with the provisions set forth in this paragraph. Notwithstanding the foregoing, however: (1) Tenant shall not be entitled to designate a LIBOR Period Election that would cause a Base Rent Period to extend beyond the end of the scheduled Term; (2) changes in the LIBOR Period Election shall become effective only upon the commencement of a new Base Rent Period; (3) if Tenant fails to make a LIBOR Period Election in accordance with the foregoing requirements for any Base Rent Period, or if an Event of Default shall have occurred and be continuing on the third Business Day preceding the commencement of any Base Rent Period, the LIBOR Period Election for such Base Rent Period shall be deemed to be one month; and (4) for any Base Rent Period which ends on or prior to the Last Advance Date, the LIBOR Period Election shall be deemed to be one month.

(hhh) Lien. "LIEN" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any agreement to sell receivables with recourse, any lease in the nature thereof, and the filing of or agreement to give any financing statement under the Uniform Commercial Code of any jurisdiction). Customary bankers' rights of set-off arising by operation of law or by contract (however styled, if the contract grants rights no greater than those arising by operation of law) in connection with working capital facilities, lines of credit, term loans and letter of credit facilities and other contractual arrangements entered into with banks in the ordinary course of business are not "Liens" for the purposes of this Lease.

(iii) Losses. "LOSSES" means any and all losses, liabilities, damages (whether actual, consequential, punitive or otherwise denominated), demands, claims, actions, judgments, causes of action, assessments, fines, penalties, costs, and out-of-pocket expenses (including, without limitation, Attorneys' Fees and the fees of outside accountants and environmental consultants), of any and every kind or character, foreseeable and unforeseeable, liquidated and contingent, proximate and remote, known and unknown.

(jjj) Maximum Construction Allowance. "MAXIMUM CONSTRUCTION ALLOWANCE" means (i) until Landlord acquires the Land-51 Rio Robles, an amount equal to \$8,309,500 less the Initial Funding Advance-77 Rio Robles, and (ii) thereafter, \$15,400,000.00, less the Initial Funding Advances.

(kkk) Notice of Last Advance. "NOTICE OF LAST ADVANCE" means any notice given by Tenant to Landlord stating that Tenant irrevocably elects not to request or accept any further Construction Advances which Tenant might be entitled to but for such election. It is understood that Tenant may, but shall not be required, to give a Notice of Last Advance in order to accelerate the Last Advance Date and to thereby accelerate the date upon which Commitment Fees shall cease to accrue.

(lll) Ordinary Negligence. "ORDINARY NEGLIGENCE" of an Indemnified Party means any negligent acts or omissions of such party that does not for any reason constitute Active Negligence as defined in this Lease.

(mmm) Outstanding Construction Allowance. "OUTSTANDING CONSTRUCTION ALLOWANCE" shall have the meaning assigned to it in subparagraph 6. (b) (i).

(nnn) Participant. "PARTICIPANT" means any Person other than Landlord that agrees with Landlord or another Participant to participate in all or some of the risks and rewards to Landlord of this Lease and the Purchase Agreement. As of the effective date hereof, there are no Participants, but Landlord may through a Permitted Transfer (and only through a Permitted Transfer) share in risks and rewards of this Lease and the Purchase Agreement with Participants in the future.

(ooo) Participation Agreements. "PARTICIPATION AGREEMENTS" means participation agreements between Landlord and one or more third parties, pursuant to which the third party or parties become Participants by agreeing to participate in all or some of the risks and rewards to Landlord of this Lease and the Purchase Agreement, as such Participation Agreements may be extended, supplemented, amended, restated or otherwise modified from time to time.

(ppp) Permitted Encumbrances. "PERMITTED ENCUMBRANCES" means (i) the encumbrances and other matters affecting the Leased Property that are set forth in Exhibit B attached hereto and made a part hereof, and (ii) any provisions of the Existing Contract that survive closing thereunder, and (iii) any easement agreement or other document affecting title to the Leased Property executed by Landlord pursuant to the Existing Contract or otherwise executed by Landlord at the request of or with the consent of Tenant.

(qqq) Permitted Hazardous Substance Use. "PERMITTED HAZARDOUS SUBSTANCE USE" means the use, storage and offsite disposal of Permitted Hazardous Substances in strict accordance with applicable Environmental Laws and

with due care given the nature of the Hazardous Substances involved; provided, the scope and nature of such use, storage and disposal shall not include the use of underground storage tanks for any purpose other than the storage of water for fire control, nor shall such scope and nature:

(1) exceed that reasonably required for the construction of the Initial Improvements and any other Improvements permitted by this Lease and for the operation of the Leased Property for the purposes expressly permitted under subparagraph 8.(a); or

(2) include any disposal, discharge or other release of Hazardous Substances from operations on the Leased Property in any manner that might allow such substances to reach the San Francisco Bay, surface water or groundwater, except (i) through a lawful and properly authorized discharge (A) to a publicly owned treatment works or (B) with rainwater or storm water runoff in accordance with Applicable Laws and any permits obtained by Tenant that govern such runoff; or (ii) any such disposal, discharge or other release of Hazardous Substances for which no permits are required and which are not otherwise regulated under applicable Environmental Laws.

Further, notwithstanding anything to the contrary herein contained, Permitted Hazardous Substance Use shall not include any use of the Leased Property as a treatment, storage or disposal facility (as defined by federal Environmental Laws) for Hazardous Substances, including but not limited to a landfill, incinerator or other waste disposal facility.

(rrr) Permitted Hazardous Substances. "PERMITTED HAZARDOUS SUBSTANCES" means Hazardous Substances used and reasonably required for the construction of the Initial Improvements or for Tenant's

operation of the Leased Property for the purposes expressly permitted by subparagraph 8.(a), in either case in strict compliance with all Environmental Laws and with due care given the nature of the Hazardous Substances involved. Without limiting the generality of the foregoing, Permitted Hazardous Substances shall include, without limitation, usual and customary office and janitorial products, and the materials listed on Exhibit H attached hereto.

(sss) Permitted Transfer. "PERMITTED TRANSFER" means any one or more of the following: (1) any assignment or conveyance by Landlord of any lien or security interest against the Leased Property (in contrast to a conveyance of Landlord's fee estate in the Leased Property) or of any of Landlord's interest in Rent, payments required by the Purchase Agreement or payments to be generated from the Leased Property after the Term, to any Person not an Affiliate of Landlord that is approved in advance by Tenant as a Participant (which approval shall not be unreasonably withheld for any proposed Participant that is a commercial bank operating in the United States of America having capital and surplus in excess of \$500,000,000 or for any Affiliate of such a bank) or to any Person that is an Affiliate of Landlord but is not classified as a special purpose entity under GAAP as it pertains to the characterization of this Lease as an operating lease; (2) any agreement to exercise or refrain from exercising rights or remedies hereunder or under the Purchase Agreement, the Pledge Agreement or the Environmental Indemnity made by Landlord with any Participant or Affiliate of Landlord; (3) any assignment or conveyance by Landlord requested by Tenant or required by any Permitted Encumbrance, by the Existing Contract, by the Purchase Agreement or by Applicable Laws; (4) any assignment or conveyance by Landlord when an Event of Default shall have occurred and be continuing; or (5) any assignment or conveyance by Landlord after the Designated Payment Date.

(ttt) Person. "PERSON" means an individual, a corporation, a partnership, an unincorporated organization, an association, a joint stock company, a joint venture, a trust, an estate, a government or agency or political subdivision thereof or other entity, whether acting in an individual, fiduciary or other capacity.

(uuu) Plan. "PLAN" means at any time an employee pension benefit plan which is covered under Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code and is either (i) maintained by Tenant or any Subsidiary for employees of Tenant or any Subsidiary or (ii) maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which Tenant or any Subsidiary is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

(vvv) Pledge Agreement. "PLEDGE AGREEMENT" means the Pledge Agreement dated as of the date hereof between Landlord and Tenant pursuant to which Tenant may pledge securities as collateral for Tenant's obligations under the Purchase Agreement, as such Pledge Agreement may be extended, supplemented, amended, restated or otherwise modified from time to time.

(www) Potential Lien Claimants. "POTENTIAL LIEN CLAIMANTS" shall have the meaning assigned to it in subparagraph 6.(d)(v).

(xxx) Prime Rate. "PRIME RATE" means the prime interest rate or equivalent charged by Landlord's Lender in the United States as announced or published by Landlord's Lender from time to time, which need not be the lowest interest rate charged by Landlord's Lender. If for any reason Landlord's Lender does not announce or publish a prime rate or equivalent, the prime rate or equivalent announced or published by either Citibank, N.A. or Credit Commercial de France as selected by Landlord shall be used as the Prime Rate. The prime rate or equivalent announced or published by such bank need not be the lowest rate charged by it. The Prime Rate may change from time to time after the date hereof without notice to Tenant as of the effective time of each change in rates described in this definition.

(yyy) Purchase Agreement. "PURCHASE AGREEMENT" means the Purchase Agreement dated as of the date hereof between Landlord and Tenant pursuant to which Tenant has agreed to purchase or to arrange for the purchase by a third party of the Leased Property, as such Purchase Agreement may be extended, supplemented, amended, restated or otherwise modified from time to time in accordance with its terms.

(zzz) Qualified Payments. "QUALIFIED PAYMENTS" means all payments received by Landlord from time to time during the Term from any party (1) under any casualty insurance policy as a result of damage to the Leased Property, (2) as compensation for any restriction placed upon the use or development of the Leased Property or for the condemnation of the Leased Property or any portion thereof, (3) because of any judgment, decree or award for injury or damage to the Leased Property or (4) under any title insurance policy or otherwise as a result of any title defect or claimed title defect with respect to the Leased Property; provided, however, that (x) in determining Qualified Payments, there shall be deducted all expenses and costs of every kind, type and nature (including taxes and Attorneys' Fees) incurred by Landlord with respect to the collection of such payments, (y) Qualified Payments shall not include any payment to Landlord by a Participant or an Affiliate of Landlord that is made to compensate Landlord for the Participant's or Affiliate's share of any Losses Landlord may incur as a result of any of the events described in the preceding clauses (1) through (4) and (z) Qualified Payments shall not include any payments received by Landlord that Landlord has paid to Tenant for the restoration or repair of the Leased Property or that Landlord is holding as Escrowed Proceeds. For purposes of computing the total Qualified Payments (and other amounts dependent upon Qualified Payments, such as Stipulated Loss Value and the Outstanding Construction Allowance) paid to or received by Landlord as of any date, payments described in the preceding clauses (1) through (4) will be considered as Escrowed Proceeds, not Qualified Payments, until they are actually applied as Qualified Payments by Landlord, which Landlord will do upon the first Advance Date or Base Rent Date which is at least three (3) Business Days after Landlord's receipt of the same unless postponement of such application is required by other provisions of this Lease or consented to by Tenant in writing. Thus, for example, condemnation proceeds actually received by Landlord in the middle of a Base Rent Period will not be considered as having been received by Landlord for purposes of computing the total Qualified Payments unless and until actually applied by Landlord as a Qualified Payment on a subsequent Base Rent Date in accordance with Paragraph 4 below.

(aaaa) Remaining Proceeds. "REMAINING PROCEEDS" shall have the meaning assigned to it in subparagraph 4.(a)(ii).

(bbbb) Rent. "RENT" means the Base Rent and all Additional Rent.

(cccc) Responsible Financial Officer. "RESPONSIBLE FINANCIAL OFFICER" means the chief financial officer, the controller, the treasurer or the assistant treasurer of Tenant.

(dddd) Revolving Credit Agreement. "REVOLVING CREDIT AGREEMENT" shall have the meaning assigned to it in subparagraph 9.(ac) below.

(eeee) Scope Change. A "SCOPE CHANGE" means a material addition to, deletion from or other modification to the quality, function or capacity of the Initial Improvements as delineated in any plans and specifications therefor previously approved by Landlord, but shall not include refinement, correction and detailing by Tenant or Tenant's architects or contractors from time to time. As used in this definition, a "MATERIAL" change includes any change that (a) is reasonably likely to substantially reduce the fair market value of the Leased Property (after completion of the Initial Improvements), or (b) will change the general character of the Initial Improvements from that described in any plans or specifications approved by Landlord.

(ffff) Spread. "SPREAD" means, for purposes of determining the Effective Rate for each Construction Period and Base Rent Period, the difference

between (1) eighty-seven and one-half basis points

(87.5/100 of 1%), less (2) the product of (a) sixty-two and one-half basis points (62.5/100 of 1%) times (b) the Collateral Percentage (as defined below) in effect for such Construction Period or Base Rent Period. As used in this Lease, "COLLATERAL PERCENTAGE" means the Collateral Percentage determined under (and as defined in) the Pledge Agreement; provided, however, for purposes of this Lease, the Collateral Percentage for any Construction Period or Base Rent Period shall not exceed a fraction; the numerator of which fraction shall equal the Market Value (as defined below) of all collateral (a) that is, on the first day of such Construction Period or Base Rent Period, held by the Custodian under the Custodial Agreement subject to a Qualifying Security Interest (as defined below), (b) that is free from claims or security interests held or asserted by any third party, and (c) with respect to which Tenant shall have satisfied the requirements of Section 2.3 of the Pledge Agreement; and the denominator of which fraction shall equal the Stipulated Loss Value on the first day of such Construction Period or Base Rent Period (computed after the addition of any Construction Advance made on such first day, after the addition of all Carrying Costs for prior Construction Periods, and after the subtraction of any Qualified Payments applied on such first day), but in no event shall such fraction exceed 1.0/1.0. As used in this paragraph, "MARKET VALUE" means, for purposes of determining the Collateral Percentage for each Construction Period and Base Rent Period, the Market Value determined in accordance with (and as defined in) the Pledge Agreement on the Valuation Date (as defined in the Custodial Agreement) upon which such Construction Period or Base Rent Period commences or, if such Construction Period or Base Rent Period does not commence upon a Valuation Date, on the most recent Valuation Date prior to the commencement of such period. As used in this paragraph, "QUALIFYING SECURITY INTEREST" means a first priority perfected security interest under the Pledge Agreement which is sufficient, for purposes of the laws and regulations which govern minimum amounts of capital that Landlord and Participants or their affiliates must maintain, to permit them to assign a twenty percent risk weighting to a portion of their collective investment in the Property equal to the Market Value of the collateral encumbered by such an interest.

(gggg) Stipulated Loss Value. "STIPULATED LOSS VALUE" means the amount computed from time to time in accordance with the formula specified in this definition. Such amount shall equal the Initial Funding Advances outstanding as of the relevant date, PLUS the Outstanding Construction Allowance as of such date, LESS the amount (if any) of Qualified Payments paid to Landlord on or prior to such date that have not been deducted in calculating the Outstanding Construction Allowance. Thus, for example, if a determination of Stipulated Loss Value is required under subparagraph 3.(b) on the first day of the applicable Base Rent Period, and if the Initial Funding Advances have been made and Tenant has used the entire Construction Allowance to make the Initial Improvements to the Leased Property, but the Leased Property has been damaged by fire or other casualty with the result that \$5,000,000 of net insurance proceeds have been paid to Landlord and retained by Landlord as Qualified Payments, then the Stipulated Loss Value as of the date of the required determination shall be \$10,400,000. Under no circumstances will any payment of Base Rent or the Upfront Fee, Administrative Fees or Commitment Fees reduce Stipulated Loss Value.

(hhhh) Subsidiary. "SUBSIDIARY" means any corporation of which Tenant and/or its other Subsidiaries own, directly or indirectly, such number of outstanding shares as have more than 50% of the ordinary voting power for the election of directors.

(iiii) Tenant's Knowledge. "TENANT'S KNOWLEDGE," "TO THE KNOWLEDGE OF TENANT" and words of like effect means the actual knowledge (with due investigation) of any of the following employees of Tenant: Christopher Stoddart, Treasurer; Robert Boehlke, Chief Financial Officer; and Gerald B. Campbell, Facilities Manager. However, to the extent Tenant's knowledge after the date hereof may become relevant hereunder or under any certificate or other notice provided by Tenant to Landlord in connection with this Lease, "Tenant's knowledge" and words of like effect shall include the then actual knowledge of other employees of Tenant (if any) that have assumed responsibilities of the current employees listed in the preceding sentence or that have replaced such current employees. But none of the employees of Tenant whose knowledge is now or may hereafter be relevant shall be personally liable for the representations of Tenant made herein.

(jjjj) Term. "TERM" shall have the meaning assigned to it in Paragraph 2 below.

(kkkk) Unfunded Benefit Liabilities. "UNFUNDED BENEFIT LIABILITIES" means, with respect to any Plan, the amount (if any) by which the present value of all benefit liabilities (within the meaning of Section 4001(a)(16) of ERISA) under the Plan exceeds the fair market value of all Plan assets allocable to such benefit liabilities, as determined on the most recent

valuation date of the Plan and in accordance with the provisions of ERISA for calculating the potential liability of Tenant or any ERISA Affiliate of Tenant under Title IV of ERISA.

(llll) Upfront Fee. "UPFRONT FEE" shall have the meaning assigned to it in subparagraph 3.(c) below.

(mmmm) Other Terms and References. Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural and vice versa, unless the context otherwise requires. References herein to Paragraphs, subparagraphs or other subdivisions shall refer to the corresponding Paragraphs, subparagraphs or subdivisions of this Lease, unless specific reference is made to another document or instrument. References herein to any Schedule or Exhibit shall refer to the corresponding Schedule or Exhibit attached hereto, which shall be made a part hereof by such reference. All capitalized terms used in this Lease which refer to other documents shall be deemed to refer to such other documents as they may be renewed, extended, supplemented, amended or otherwise modified from time to time, provided such documents are not renewed, extended or modified in breach of any provision contained herein or therein or, in the case of any other document to which Landlord is a party or of which Landlord is an intended beneficiary, without the consent of Landlord. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. The words "THIS LEASE", "HEREIN", "HEREOF", "HEREBY", "HEREUNDER" and words of similar import refer to this Lease as a whole and not to any particular subdivision unless expressly so limited. The phrases "THIS PARAGRAPH" and "THIS SUBPARAGRAPH" and similar phrases refer only to the Paragraphs or subparagraphs hereof in which the phrase occurs. The word "OR" is not exclusive. Other capitalized terms are defined in the provisions that follow.

3. Term. The term of this Lease (herein called the "TERM") shall commence on and include (i) with respect to the Land-77 Rio Robles and the related Leased Property, the date hereof, and (ii) with respect to the Land-51 Rio Robles and the related Leased Property, the date of Landlord's acquisition thereof. The Term shall end with respect to all Leased Property at 8:00 A.M. on August 1, 2000 (or the next following Business Day if August 1, 2000 is not a Business Day), unless extended or sooner terminated as herein provided. Notwithstanding any other provision of this Lease which may expressly restrict the early termination hereof, and provided that Tenant is still in possession of the Leased Property and has not breached its obligation to make or have made any payment required by Paragraph 2 of the Purchase Agreement on any prior Designated Payment Date, Tenant may notify Landlord of Tenant's election to terminate this Lease by giving Landlord an irrevocable notice of such election and of the effective date of the termination, which notice must be given (if at all) at least sixty (60) days prior to the effective date of the termination. If Tenant elects to so terminate this Lease, then on the date on which this Lease is to be terminated, not only must Tenant pay all unpaid Rent, Tenant must also pay any Breakage Costs resulting from the termination and must satisfy its obligations under the Purchase Agreement. The payment of any unpaid Rent and Breakage Costs and the satisfaction of Tenant's obligations under the Purchase Agreement shall be conditions precedent to the effectiveness of any early termination of this Lease by Tenant. All provisions of this Lease which by the terms hereof survive the termination of this Lease, shall continue in full force and effect and shall be unaffected by the early termination provided for in this Paragraph.

4. Rent.

(a) Base Rent Generally. Tenant shall pay Landlord rent (herein called "BASE RENT") in arrears, in currency that at the time of payment is legal tender for public and private debts in the United States of America, in installments on each Base Rent Date through the end of the Term. Each payment of Base Rent must be received by Landlord no later than 12:00 noon (San Francisco time) on the date it becomes due; if received after 12:00 noon it will be considered for purposes of this Lease as received on the next following Business Day. The Base Rent payable on the first Base Rent Date shall represent rent for the period from the Base Rent Commencement Date to the first Base Rent Date. Each subsequent installment of Base Rent shall represent rent allocable to the period ending on the Base Rent Date on which the installment is due and beginning on the preceding Base Rent Date. After the Base Rent Commencement Date, Landlord shall notify Tenant in writing of the Base Rent payable for each Base Rent Period or portion thereof at least fifteen (15) days prior to the Base Rent Date on which such Base Rent is actually due. Any failure by Landlord to so notify Tenant shall not constitute a waiver of Landlord's right to payment, but absent such notice Tenant shall not be in default for any underpayment resulting therefrom if Tenant, in good faith, reasonably estimates the payment required, makes a timely payment of the amount so estimated and corrects any underpayment within three (3) Business Days after being notified by Landlord of the underpayment. If Tenant or any other Applicable Purchaser purchases Landlord's interest in the Leased Property after the Base Rent Commencement Date pursuant to the Purchase Agreement, any Base Rent for the period ending on the date of purchase (including, if the date of Purchase is not a Base Rent Date, a pro

rated portion of the Base Rent which would become due on the next Base Rent Date but for the purchase) and all outstanding Additional Rent shall be due on the Designated Payment Date in addition to the purchase price and other sums due Landlord under the Purchase Agreement.

(b) Calculation of Base Rent. Payments of Base Rent shall be calculated and become due as follows:

(i) For all Base Rent Periods subject to a LIBOR Period Election of one month or three months, all Base Rent shall be due on the Base Rent Date upon which the Base Rent Period ends. The Base Rent for each such Base Rent Period shall equal (A) Stipulated Loss Value on the first day of such Base Rent Period, times (B) the Effective Rate with respect to such Base Rent Period, times (C) the number of days in such Base Rent Period, divided by (D) three hundred sixty (360).

(ii) For Base Rent Periods subject to a LIBOR Period Election of greater than three months, Base Rent shall be payable in more than one installment, with an installment becoming due on (1) each Base Rent Date that occurs during the Base Rent Period (other than the Base Rent Date upon which the Base Rent Period begins) and (2) the Base Rent Date upon which the Base Rent Period ends. The amount of each installment shall equal (A) Stipulated Loss Value on the first day of such Base Rent Period, times (B) the Effective Rate with respect to such Base Rent Period, times (C) the number of days in the period from and including the preceding Base Rent Date to but not including the Base Rent Date upon which the installment is due, divided by (D) three hundred sixty (360).

Assume, only for the purpose of illustration: that the Initial Funding Advances were made in the amount of \$11,000,000; that a hypothetical Base Rent Period contains exactly ninety (90) days; that on the first day of such Base Rent Period, after considering total Construction Advances and Carrying Costs of \$4,400,000 and deducting a total of \$1,000,000 of Qualified Payments received by Landlord, the resulting Stipulated Loss Value is \$14,400,000; and that the Effective Rate computed with respect to the applicable Base Rent Period is 4%. Under such assumptions, the Base Rent for the hypothetical Base Rent Period will equal:

$\$14,400,000 \times 4\% \times 90/360$, or \$144,000.

(c) Upfront Fee. Contemporaneously with the execution and delivery of this Lease by Landlord, Tenant is paying Landlord an upfront fee (the "UPFRONT FEE"), which represents Additional Rent for the first Construction Period, as agreed pursuant to a Letter Agreement dated June 5, 1995.

(d) Administrative Agency Fees. Upon execution and delivery of this Lease by Landlord, and again on each anniversary of the date hereof until the Base Rent Commencement Date, Tenant shall pay Landlord an administrative fee (the "ADMINISTRATIVE FEE") equal to \$4,500. Each Administrative Fee shall represent Additional Rent Construction Period during which it is paid. In the event that the Construction Period ends after the first anniversary of the date hereof and Landlord has received payment of the Administrative Fee due on such anniversary date, Landlord shall refund to Lessee the pro rata portion of such Administrative Fee allocable to the period from the end of the Construction Period until the second anniversary of the date hereof.

(e) Commitment Fees. For each Construction Period Tenant shall pay Landlord a fee (herein called a "COMMITMENT FEE") equal to (1) twenty-five basis points (25/100 of 1%), times (2) the difference at the end of the first day of such Construction Period between (A) \$15,400,000.00 and (B) the sum (computed without deduction for any Qualified Payments) of the Initial Funding Advances outstanding and all Construction Advances made by or on behalf of Landlord and all Carrying Costs added to and made a part of the Construction Allowance, times (3) the number of days in such Construction Period, divided by (4) three hundred sixty (360). Tenant shall pay Commitment Fees in arrears on January 1, April 1, July 1, and October 1 of each calendar year, beginning with October 1, 1995 and continuing regularly thereafter to and including the first of such dates to fall on or after the Last Advance Date; provided that if any of such dates does not fall on a Business Day, the payment of Commitment Fees otherwise then due shall become due on the next following Business Day; and provided, further, if any Commitment Fees shall have accrued and remain unpaid on the Designated Payment Date, such accrued unpaid Commitment Fees shall be due on the Designated Payment Date.

(f) Additional Rent. All amounts which Tenant is required to pay to or on behalf of Landlord pursuant to this Lease, together with every charge, premium, interest and cost set forth herein which may be added for nonpayment or late payment thereof, shall constitute rent (all such amounts, other than Base Rent, are herein called "ADDITIONAL RENT").

(g) Interest and Order of Application. All Rent shall bear interest, if not paid when first due, at the Default Rate in effect from time to time from the date due until paid; provided, that nothing herein contained will be construed as permitting the charging or collection of interest at a rate exceeding the maximum rate permitted under Applicable Laws. Landlord shall be entitled to apply any amounts paid by or on behalf of Tenant hereunder against any Rent then past due in the order the same became due or in such other order as Landlord may elect.

(h) Net Lease. It is the intention of Landlord and Tenant that the Base Rent and all other payments herein specified shall be absolutely net to Landlord. Tenant shall pay all costs, expenses and obligations of every kind relating to the Leased Property or this Lease which may arise or become due, including, without limitation: (i) Impositions, including any taxes payable by virtue of Landlord's receipt of amounts paid to or on behalf of Landlord in accordance with this subparagraph 3.(h), but not including any Excluded Taxes; (ii) any Capital Adequacy Charges; (iii) any amount for which Landlord is or becomes liable with respect to the Permitted Encumbrances; and (iv) any costs incurred by Landlord (including Attorneys' Fees) because of this Lease or the transactions contemplated herein.

(i) No Demand or Setoff. The Base Rent and all Additional Rent shall be paid without notice or demand and without abatement, counterclaim, deduction, setoff or defense, except as expressly provided herein.

5. Insurance and Condemnation Proceeds.

(a) Subject to Landlord's rights under this Paragraph 4, and so long as no Event of Default shall have occurred and be continuing, Tenant shall be entitled to use all casualty insurance and condemnation proceeds payable with respect to the Leased Property during the Term for the restoration and repair of the Leased Property or any remaining portion thereof. Except as provided in the last sentence of subparagraph 9.(r) and the last sentence of subparagraph 9.(s), all insurance and condemnation proceeds received with respect to the Leased Property (including proceeds payable under any insurance policy covering the Leased Property which is maintained by Tenant) shall be paid to Landlord and then applied as follows:

(i) First, such proceeds shall be used to reimburse Landlord for any costs and expenses, including Attorneys' Fees, incurred in connection with the collection of such proceeds.

(ii) Second, the remainder of such proceeds (the "REMAINING PROCEEDS"), shall be held by Landlord as Escrowed Proceeds and applied to reimburse Tenant for the actual cost of the repair, restoration or replacement of the Leased Property. However, any Remaining Proceeds not needed for such purpose shall be applied by Landlord as Qualified Payments after Tenant notifies Landlord that they are not needed for repairs, restoration or replacement.

Notwithstanding the foregoing, if an Event of Default shall have occurred and be continuing, then Landlord shall be entitled to receive and collect insurance or condemnation proceeds payable with respect to the Leased Property, and either, at the discretion of Landlord, (A) hold such proceeds as Escrowed Proceeds until paid to Tenant as reimbursement for the actual and reasonable cost of repairing, restoring or replacing the Leased Property when Tenant has completed such repair, restoration or replacement, or (B) retain such proceeds (net of the deductions described in clause (i) above) as Qualified Payments.

(b) Any Remaining Proceeds held by Landlord as Escrowed Proceeds shall be deposited by Landlord in an interest bearing account as provided in the definition of Escrowed Proceeds and shall be paid to Tenant upon completion of the applicable repair, restoration or replacement and upon compliance by Tenant with such terms, conditions and requirements as may be reasonably imposed by Landlord, but in no event shall Landlord

be required to pay any Escrowed Proceeds to Tenant in excess of the actual cost to Tenant of the applicable repair, restoration or replacement, it being understood that Landlord may retain any such excess as a Qualified Payment. In any event, Tenant will not be entitled to any abatement or reduction of the Base Rent or any other amount due hereunder except to the extent that such excess Remaining Proceeds result in Qualified Payments which reduce Stipulated Loss Value (and thus payments computed on the basis of Stipulated Loss Value) as provided in the definitions set out above. Further, notwithstanding the inadequacy of the Remaining Proceeds held by Landlord as Escrowed Proceeds, if any, or anything herein to the contrary, Tenant must, after any taking of less than all or substantially all of the Leased Property by condemnation and after

any damage to the Leased Property by fire or other casualty, restore or improve the Leased Property or the remainder thereof to a value no less than fifty percent (50%) of Stipulated Loss Value (computed after the application of any Remaining Proceeds as a Qualified Payment) and to a safe and slightly condition. Any taking of so much of the Leased Property as, in Landlord's reasonable judgment, makes it impracticable to restore or improve the remainder thereof as required by the preceding sentence shall be considered a taking of substantially all the Leased Property for purposes of this Paragraph 4.

(c) In the event of any taking of all or substantially all of the Leased Property, Landlord shall be entitled to apply all Remaining Proceeds as a Qualified Payment, notwithstanding the foregoing. In addition, if Stipulated Loss Value immediately prior to any taking of all or substantially all of the Leased Property by condemnation exceeds the sum of the Remaining Proceeds resulting from such condemnation, then Landlord shall be entitled to recover the excess from Tenant upon demand as an additional Qualified Payment, whereupon this Lease shall terminate.

(d) Nothing herein contained shall be construed to prevent Tenant from obtaining and applying as it deems appropriate any separate award from any condemning authority or from any insurer for a taking of or damage to Tenant's personal property not included in the Leased Property or for moving expenses or business interruption, provided, such award is not combined with and does not reduce the award for any taking of the Leased Property, including Tenant's interest therein. Further, notwithstanding anything to the contrary herein contained, if Remaining Proceeds held by Landlord during the term of this Lease shall exceed Stipulated Loss Value and any Rent payable by Tenant, then Tenant may obtain the excess by terminating this Lease in accordance with Paragraph 2 and purchasing any remaining interest of Landlord in the Leased Property and the Escrowed Proceeds, pursuant to the Purchase Agreement.

(e) Landlord and Tenant each waive any right of recovery against the other, and the other's agents, officers or employees, for any damage to the Leased Property or to the personal property situated from time to time in or on the Leased Property resulting from fire or other casualty covered by a valid and collectible insurance policy; provided, however, that the waiver set forth in this subparagraph 4.(e) shall be effective insofar, but only insofar, as compensation for such damage or loss is actually recovered by the waiving party (net of costs of collection) under the policy notwithstanding the waivers set out in this paragraph. Tenant shall cause the insurance policies required of Tenant by this Lease to be properly endorsed, if necessary, to prevent any loss of coverage because of the waivers set forth in this paragraph. If such endorsements are not available, the waivers set forth in this paragraph shall be ineffective to the extent that such waivers would cause required insurance with respect to the Leased Property to be impaired.

6. No Lease Termination.

(a) Status of Lease. Except as expressly provided herein, this Lease shall not terminate, nor shall Tenant have any right to terminate this Lease, nor shall Tenant be entitled to any abatement of the Rent, nor shall the obligations of Tenant under this Lease be excused, for any reason whatsoever, including without limitation any of the following: (i) any damage to or the destruction of all or any part of the Leased Property from whatever cause, (ii) the taking of the Leased Property or any portion thereof by eminent domain or

otherwise for any reason, (iii) the prohibition, limitation or restriction of Tenant's use of all or any portion of the Leased Property or any interference with such use by governmental action or otherwise, (iv) any eviction of Tenant or of anyone claiming through or under Tenant by paramount title or otherwise (provided, if Tenant is wrongfully evicted by Landlord or by any third party lawfully claiming through or under Landlord, other than Tenant or a third party claiming through or under Tenant, then Tenant will have the remedies described in Paragraph 15 below), (v) any default on the part of Landlord under this Lease or under any other agreement to which Landlord and Tenant are parties, (vi) the inadequacy in any way whatsoever of the design or construction of any improvements included in the Leased Property, it being understood that Landlord has not made and will not make any representation express or implied as to the adequacy thereof, or (vii) any other cause whether similar or dissimilar to the foregoing, any existing or future law to the contrary notwithstanding. It is the intention of the parties hereto that the obligations of Tenant hereunder shall be separate and independent of the covenants and agreements of Landlord, that the Base Rent and all other sums payable by Tenant hereunder shall continue to be payable in all events and that the obligations of Tenant hereunder shall continue unaffected, unless the requirement to pay or perform the same shall have been terminated or limited pursuant to an express provision of this Lease. However, nothing in this Paragraph shall be construed as a waiver by Tenant of any right Tenant may have at law or in equity to (i) recover monetary damages for any default under this Lease by Landlord that Landlord fails to cure within the period provided in Paragraph 15, (ii) injunctive relief in case of the

violation, or attempted or threatened violation, by Landlord of any of the express covenants, agreements, conditions or provisions of this Lease, or (iii) a decree compelling performance of any of the express covenants, agreements, conditions or provisions of this Lease.

(b) Waiver By Tenant. Without limiting the foregoing, Tenant waives to the extent permitted by Applicable Laws, except as otherwise expressly provided herein, all rights to which Tenant may now or hereafter be entitled by law (including any such rights arising because of any implied "warranty of suitability" or other warranty under Applicable Laws) (i) to quit, terminate or surrender this Lease or the Leased Property or any part thereof or (ii) to any abatement, suspension, deferment or reduction of the Base Rent or any other sums payable under this Lease.

7. Advances for the Purchase of the Land-51 Rio Robles and for Construction.

(a) Purchase Price of the Land-51 Rio Robles. This Lease will become effective as to the Land-51 Rio Robles any Improvements thereon and any Personal Property on or pertaining thereto only when and to the extent the same are acquired by Landlord, and any delay in such acquisition shall not extend the expiration of the Term. Landlord shall have no obligation to pay for or accept title to the Land- 51 Rio Robles if the title thereto or condition thereof is not then acceptable to Landlord in Landlord's sole discretion. Further, any obligation of Landlord to acquire the Land-51 Rio Robles and any Improvements thereon and any Personal Property thereof or relating thereto shall be subject to the following conditions:

(i) Purchase Price and Other Contract Terms. The purchase price for the Land-51 Rio Robles and related Leased Property shall not exceed \$4,825,000, and the Existing Contract as it pertains to the Land-51 Rio Robles shall be in form and substance satisfactory to Landlord in its sole discretion.

(ii) Representations, Ratification of this Lease, and Confirmation of the Initial Funding Advances. All representations of Tenant in this Lease relating to the Leased Property are and will continue to be true after the acquisition, and Tenant shall provide a certificate to Landlord contemporaneously with the acquisition confirming such representations, ratifying this Lease, the Purchase Agreement and the Environmental Indemnity Agreement, and confirming the amount of the Initial Funding Advance-51 Rio Robles. Further, this Lease and other agreements referenced herein between Landlord and Tenant shall be, upon request therefor by Landlord, modified after

the date hereof by written amendments to add a revised description of the Land-51 Rio Robles and to make any other modifications deemed necessary to further subject such Land to this Lease and the other agreements referenced herein.

(iii) Title Insurance. Landlord shall receive title insurance in connection with its acquisition satisfactory to Landlord in its sole discretion.

(iv) No Event of Default or Change of Control Event. No Event of Default shall have occurred and be continuing under this Lease and no Change of Control Event shall have occurred.

(v) No Sale of Landlord's Interest. No sale of Landlord's interest in the Leased Property shall have occurred pursuant to the Purchase Agreement.

(b) Advances; Outstanding Construction Allowance.

(i) Subject to the conditions set forth below, Landlord shall make advances (herein called "CONSTRUCTION ADVANCES") on Advance Dates from time to time as requested by Tenant to reimburse Tenant for the actual cost of making the Initial Improvements to the Leased Property and for any property taxes or assessments payable prior to the Last Advance Date with respect to the Leased Property. In no event will the total of all Construction Advances which may be required of Landlord, when added to Carrying Costs accrued or projected by Landlord to accrue prior to the Base Rent Commencement Date as described below, exceed the Maximum Construction Allowance. As used herein, references to the "OUTSTANDING CONSTRUCTION ALLOWANCE" shall mean the difference on the date in question (but not less than zero) of (A) the total Construction Advances made by Landlord and all Carrying Costs added thereto under subparagraph 6. (b) (ii) on or prior to the date in

question, less (B) any Qualified Payments received on or prior to the date in question. (Landlord will not be under any obligation to readvance any portion of the Construction Allowance repaid by Qualified Payments.) Notwithstanding the foregoing, if for any reason Stipulated Loss Value (and thus the Outstanding Construction Allowance included as a component thereof) must be determined under this Lease as of any date between Advance Dates, the Outstanding Construction Allowance determined on such date shall equal the Outstanding Construction Allowance on the immediately preceding Advance Date computed in accordance with the preceding sentence, plus Carrying Costs accruing on and after such preceding Advance Date to but not including the date in question.

(ii) Charges accruing at the Effective Rate (herein collectively called "CARRYING COSTS") for each Construction Period prior to or ending on the Base Rent Commencement Date will be added to (and thereafter be included in) the Outstanding Construction Allowance on the last day of such Construction Period (i.e., generally on the Advance Date upon which such Construction Period ends). Carrying Costs shall be calculated as follows:

a) The total Carrying Costs for the first short Construction Period ending September 1, 1995 shall be equal to the sum of the Carrying Costs computed for each day included in such period, and the Carrying Costs for each such day shall equal (A) the Initial Funding Advances outstanding on such day, times (B) the per annum Effective Rate for such day, divided by (C) 360 equal.

b) The amount of Carrying Costs for each subsequent Construction Period shall be equal to (A) Stipulated Loss Value (including Carrying Costs added with respect to every previous Construction Period, if any) as of the first day of such Construction Period, times (B) the Effective

Rate with respect to such Construction Period, times (C) the number of days in such Construction Period, divided by (D) 360.

(c) Initial Improvements.

(i) Responsibility for Construction. Tenant shall construct all Initial Improvements in a good and workmanlike manner, in accordance with (1) plans and specifications approved by Landlord in writing, (2) Applicable Laws, and (3) the other provisions of this Lease. Further, except for building foundations, driveways, parking lots, sidewalks and other improvements which would not suffer damage by being submerged under flood waters, all existing Improvements are and all Initial Improvements shall be constructed above the elevation that the U.S. Army Corp of Engineers or any other governmental authority estimates as the highest elevation that 100 year flood waters could be expected to reach. Tenant shall have sole responsibility for contracting for and administering the construction of Initial Improvements, it being understood that Landlord's obligation with respect to the Initial Improvements shall be limited to the making of advances under and subject to the conditions set forth in Paragraph 6.(d). No contractor or other third party shall be entitled to enforce Landlord's obligations to make advances as a third party beneficiary. Notwithstanding delays beyond Tenant's control, and even if the Construction Allowance is not sufficient to pay for completion of Initial Improvements, Tenant warrants that it shall cause all Initial Improvements with respect to which it receives any Construction Advances to be completed on or prior to the Completion Deadline.

(ii) Scope Changes. Before making any Scope Change to the Initial Improvements, Tenant shall provide to Landlord a reasonably detailed written description of the Scope Change and a revised construction budget, all of which must be approved in writing by Landlord (or by any construction representative appointed by Landlord from time to time) before the Scope Change is implemented.

(iii) Value Added. The Initial Improvements, upon completion and taken as a whole, must enhance the value of the Leased Property by an amount commensurate with the total Construction Allowance used by Tenant; however, this requirement will not preclude Tenant from obtaining Construction Advances for soft costs (such as architectural fees), demolition costs or other costs that do not, individually, add value to the Leased Property but that are incurred in connection with the construction of Initial Improvements which will in the aggregate satisfy this requirement. For purposes hereof, the Initial Improvements will be deemed to have added value "commensurate" with the Construction Allowance used by Tenant if, when the Initial Improvements are substantially complete, the Leased Property has a fair market value with

the Initial Improvements that exceeds the fair market value which the Leased Property would have without the Initial Improvements by an amount equal to no less than fifty percent (50%) of the then Outstanding Construction Allowance.

(iv) Estoppel Letters Required. If requested by Landlord prior to the substantial completion of the Initial Improvements, Tenant shall cause the contractor under each significant general construction contract for the Initial Improvements to execute and deliver to Landlord an estoppel letter in the form of Exhibit D attached hereto. Similarly, if requested by Landlord prior to the substantial completion of the Initial Improvements, Tenant shall also cause the architect and engineer under any material architectural or engineering contract for the Initial Improvements to execute and deliver to Landlord an estoppel letter in the form of Exhibit E attached hereto; provided, that no such estoppel letter shall be required from any architect or engineer who has assigned his plans and specifications for the Initial Improvements to Tenant without restricting Tenant's right to further assign or allow another to use the same. Tenant hereby grants to Landlord (and Landlord's successors and assigns through any Permitted Transfer) a license to copy and use any such plans and specifications as Landlord shall deem appropriate.

(v) Advances Not a Waiver. No funding of Construction Advances and no failure of Landlord to object to Initial Improvements proposed or constructed by Tenant shall constitute a waiver by Landlord of the requirements contained in this subparagraph 6.(c).

(d) Conditions to Construction Advances. Landlord's obligation to make Construction Advances from time to time under Paragraph 6.(b) shall be subject to the following terms and conditions, all of which are intended for the sole benefit of Landlord:

(i) Prior Notice. Tenant must make a request in substantially the form attached to this Lease as Exhibit F for any Construction Advance at least ten (10) Business Days prior to the Advance Date upon which the advance is to be paid, except in the case of any Construction Advance requested on the first Advance Date, for which only five (5) Business Days shall be required. Landlord shall consider in good faith any changes to the Construction Advance request forms attached hereto that Tenant may reasonably request, provided the requested changes do not impair Landlord's rights or create or increase any liability Landlord may have in connection with the Initial Improvements.

(ii) Amount of the Advances. No Construction Advance shall exceed the lesser of:

a) the Maximum Construction Allowance, less (1) all prior Construction Advances and all Carrying Costs accruing through the date of such advance, and (2) the Carrying Costs then projected by Landlord to be added to the Construction Allowance on and after the date of the advance; or

b) (1) the actual costs and expenses previously incurred and paid by Tenant for the Initial Improvements, including "soft costs," and for property taxes or assessments assessed against the Leased Property after the date hereof and prior to the Last Advance Date, less (2) the sum of all previous Construction Advances made under Paragraph 6.(b) to Tenant as reimbursement for such costs and expenses.

Further, no Construction Advance shall be required that would cause the cost of completing all Initial Improvements then contemplated as estimated by Landlord to exceed the difference computed by subtracting (1) the Carrying Costs then projected by Landlord to be added to the Outstanding Construction Allowance, from (2) the Construction Allowance remaining to be advanced.

Further, Tenant shall not request any Construction Advance (other than the final Construction Advance) for an amount less than \$250,000.

(iii) Insurance. Tenant shall have obtained and provided certificates (or, in the case of clause a) below, title policies or binders) reasonably satisfactory to Landlord evidencing insurance covering the Leased Property as follows (in addition to the liability insurance required under subparagraph 9.(z) below):

a) Title Insurance. An owner's title insurance policy (or binder committing the applicable title insurer to issue an owner's title insurance policy, without the payment of further premiums) in an amount, form and substance and written by Santa Clara Land Title Company or one or more other title insurance companies reasonably satisfactory to Landlord and insuring

Landlord's interest in the Leased Property, including Landlord's interest in any new Improvements constructed by Tenant, in the amount no less than Stipulated Loss Value plus any remaining portion of the Construction Allowance to be advanced under this Lease; and

b) Builder's Risk Insurance. Builder's Completed Value Risk and such other hazard insurance as Landlord may reasonably require against all risks of physical loss (including collapse and transit coverage, but not including earthquake or flood coverage) with deductibles not to exceed \$500,000, such insurance to be in amounts sufficient to cover the total value of any Improvements under construction and to be maintained in full force and effect at all times until completion of the Initial Improvements.

(iv) Progress of Construction. Construction of the Initial Improvements shall be progressing in a good and workmanlike manner and in accordance with the requirements of this Lease without any continuing significant interruption, other than interruptions beyond the reasonable control of Tenant that are not likely to cause the cost of such construction (and Carrying Costs and construction period ad property taxes and assessments) to exceed the Maximum Construction Allowance. Also, Tenant shall have corrected or caused the correction promptly of any significant defect in such construction.

(v) Evidence of Costs to be Reimbursed. To the extent contemplated by the Construction Advance request forms attached as Exhibit F and described in subparagraph 6.(d)(i), or otherwise required by Landlord at the time a Construction Advance is to be made, Tenant shall have submitted invoices, requests for payment from contractors, certifications from Tenant's architect or construction manager, lien releases and other evidence satisfactory to Landlord that (A) all costs for which Tenant requests reimbursement constitute actual costs incurred by Tenant for the construction of the Initial Improvements or constitute property taxes or assessments assessed against the Leased Property and paid by Tenant prior to the Last Advance Date with respect to the Leased Property and (B) general contractors and all parties that have filed a statutory Preliminary Notice which would give them the right to assert a mechanic's or materialman's lien against the Leased Property (collectively, "POTENTIAL LIEN CLAIMANTS") have been paid all sums for which prior Construction Advances have been advanced. Without limiting the foregoing, Landlord may decline to advance any amount that would result in an excess of \$2,000,000 or more of (1) the total cost of work with respect to which Potential Lien Claimants could have asserted a lien against the Leased Property and for which Construction Advances have been advanced by Landlord, over (2) the cost of such work for which Tenant has provided to Landlord unconditional statutory lien releases from all Potential Lien Claimants in form and substance reasonably satisfactory to Landlord.

(vi) No Event of Default or Change of Control Event. No Event of Default shall have occurred and be continuing under this Lease and no Change of Control Event shall have occurred.

(vii) No Sale of Landlord's Interest. No sale of Landlord's interest in the Leased Property shall have occurred pursuant to the Purchase Agreement.

(viii) Construction Advance Certificate. Landlord shall have received, together with the notice requesting the Construction Advance described in clause (i) above, a current Construction Advance Certificate executed by a Responsible Financial Officer of Tenant in the form attached to Exhibit F.

(ix) Payments by Participants. No Participant or its successor under its Participation Agreement with Landlord shall have failed to advance to Landlord its Participant's percentage of the purchase price for the Land-51 Rio Robles and related Leased Property or for the Construction Advance being requested. However, any such failure of a Participant to fund its Participant's percentage of any Construction Advance being requested shall excuse Landlord's obligation to provide such Construction Advance only to the extent of the funds that the applicable Participant or Participants should have advanced (but did not advance) to Landlord, provided that any such failure of a Participant to fund its Participant's percentage of such purchase price shall excuse Landlord's obligation to lease the Land-51 Rio Robles and related Leased Property to Tenant. In the event of any such failure:

a) Landlord will immediately notify Tenant if any Participant refuses or fails to advance its Participant's percentage of such purchase price or any Construction Advance, but Landlord will not in any event be liable to Tenant for Landlord's failure to do so.

b) Landlord will, to the extent possible, postpone reductions of Construction Advances because of the failure by any one or more Defaulting Participants to make required advances under their Participation Agreements with Landlord (a "Participant Default") by adjusting (and readjusting from time to time, as required) the funding "Percentages" of other Participants, and by requesting the other Participants to make advances to Landlord on the basis of such adjusted Percentages, in each case as provided in the Participation Agreements between the Participants and Landlord; however, so long as a Participant Default continues, no Construction Advance shall be required that would cause the Outstanding Construction Allowance to exceed (a) the Maximum Construction Allowance available under this Lease, less (b) all amounts that should have been, but because of a continuing Participant Default have not been, advanced by any one or more of the Participants to Landlord under their Participation Agreements with Landlord with respect to Construction Advances.

(e) Completion Notice. Tenant shall provide a notice to Landlord (the "COMPLETION NOTICE") promptly after construction of the Initial Improvements is substantially complete and more than fifty percent (50%) of the Initial Improvements are being occupied by Tenant.

8. Purchase Agreement, Pledge Agreement and Environmental Indemnity Agreement. Tenant acknowledges and agrees that nothing contained in this Lease shall limit, modify or otherwise affect any of Tenant's obligations under the Purchase Agreement, Pledge Agreement or Environmental Indemnity, which obligations are intended to be separate, independent and in addition to, and not in lieu of, the obligations established by this Lease. In the event of any inconsistency between the terms and provisions of the Purchase Agreement, Pledge Agreement or Environmental Indemnity and the terms and provisions of this Lease, the terms and provisions of the Purchase Agreement, Pledge Agreement or Environmental Indemnity (as the case may be) shall control.

9. Use and Condition of Leased Property.

(a) Use. Subject to the Permitted Encumbrances and the terms hereof, Tenant may use and occupy the Leased Property so long as no Event of Default occurs hereunder, but only for the following purposes and other lawful purposes incidental thereto:

(i) administrative and office space; and

(ii) distribution and warehouse storage of semiconductor-related and other electronic products; and

(iii) assembly of semiconductor-related and other electronic products using components manufactured elsewhere; and

(iv) cafeteria, library, fitness center and other support function uses that Tenant may provide to its employees.

Although the term "electronic products" in this subparagraph may include products designed to detect, monitor, neutralize, handle or process Hazardous Substances, the use of the Leased Property by Tenant shall not include

bringing Hazardous Substances onto the Leased Property for the purpose of researching, testing or demonstrating any such products.

(b) Condition. Tenant accepts the Leased Property (and will accept the same upon any purchase of the Landlord's interest therein) in its present state, AS IS, and without any representation or warranty, express or implied, as to the condition of such property or as to the use which may be made thereof. Tenant also accepts the Leased Property without any representation or warranty, express or implied, by Landlord regarding the title thereto or the rights of any parties in possession of any part thereof, except as set forth in subparagraph 10.(a). Landlord shall not be responsible for any latent or other defect or change of condition in the Land, Improvements, fixtures and personal property forming a part of the Leased Property, and the Rent hereunder shall in no case be withheld or diminished because of any latent or other defect in such property, any change in the condition thereof or the existence with respect

thereto of any violations of Applicable Laws. Nor shall Landlord be required to furnish to Tenant any facilities or service of any kind, such as, but not limited to, water, steam, heat, gas, hot water, electricity, light or power.

(c) Consideration of and Scope of Waiver. The provisions of subparagraph 8.(b) above have been negotiated by the Landlord and Tenant after due consideration for the Rent payable hereunder and are intended to be a complete exclusion and negation of any representations or warranties of the Landlord, express or implied, with respect to the Leased Property that may arise pursuant to any law now or hereafter in effect, or otherwise. However, such exclusion of representations and warranties by Landlord is not intended to impair any representations or warranties made by other parties, the benefit of which is to pass to Tenant during the Term because of the definition of Personal Property and Leased Property above.

10. Other Representations, Warranties and Covenants of Tenant. Tenant represents, warrants and covenants as follows:

(a) Financial Matters. Tenant is solvent and has no outstanding liens, suits, garnishments or court actions which could render Tenant insolvent. There has not been filed by or, to Tenant's knowledge, against Tenant a petition in bankruptcy or a petition or answer seeking an assignment for the benefit of creditors, the appointment of a receiver, trustee, custodian or liquidator with respect to Tenant or any significant portion of Tenant's property, reorganization, arrangement, rearrangement, composition, extension, liquidation or dissolution or similar relief under the federal Bankruptcy Code or any state law. The financial statements and all financial data heretofore delivered to Landlord relating to Tenant have been prepared in accordance with GAAP in all material respects. No material adverse change has occurred in the financial position of Tenant as reflected in Tenant's financial statements covering the fiscal period ended March 31, 1995.

(b) Existing Contract. Tenant shall satisfy all surviving obligations of the "Buyer" (as the term "Buyer" is used in the Existing Contract) under the Existing Contract and under all other documents, the execution of which is required by or in connection with the Existing Contract. Tenant agrees to indemnify, defend and hold Landlord harmless from and against any and all Losses of any and every kind or character, known or unknown, fixed or contingent, imposed on or asserted against or incurred by Landlord at any time and from time to time by reason of, in connection with or arising out of any obligations imposed by the Existing Contract. THE INDEMNITY SET OUT IN THIS SUBPARAGRAPH SHALL APPLY EVEN IF THE SUBJECT OF THE INDEMNIFICATION IS CAUSED BY OR ARISES OUT OF THE ORDINARY NEGLIGENCE (AS DEFINED ABOVE) OF LANDLORD; provided, such indemnity shall not apply to Losses proximately caused by (and attributed by any applicable principles of comparative fault to) the Active Negligence, gross negligence or willful misconduct of Landlord. Because Tenant hereby assumes and agrees to satisfy all surviving obligations of the Buyer under the Existing Contract, no failure by Landlord to take any action required by the Existing Contract shall, for the purposes of this indemnity, be deemed to be caused by the willful misconduct of Landlord. The foregoing indemnity is in addition to the other indemnities set out herein

and shall not terminate upon the closing of any sale of Landlord's interest in the Leased Property pursuant to the provisions of the Purchase Agreement or the termination of this Lease.

(c) No Default or Violation. The execution, delivery and performance by Tenant of this Lease, the Purchase Agreement, the Pledge Agreement and the Environmental Indemnity do not and will not constitute a breach or default under any other material agreement or contract to which Tenant is a party or by which Tenant is bound or which affects the Leased Property or Tenant's use, occupancy or operation of the Leased Property or any part thereof and do not, to the knowledge of Tenant, violate or contravene any law, order, decree, rule or regulation to which Tenant is subject, and such execution, delivery and performance by Tenant will not result in the creation or imposition of (or the obligation to create or impose) any lien, charge or encumbrance on, or security interest in, Tenant's property pursuant to the provisions of any of the foregoing.

(d) Compliance with Covenants and Laws. The intended use of the Leased Property by Tenant complies, or will comply after Tenant obtains readily available permits, in all material respects with all applicable restrictive covenants, zoning ordinances and building codes, flood disaster laws, applicable health, safety and environmental laws and regulations, the Americans with Disabilities Act and other laws pertaining to disabled persons, and all other applicable laws, statutes, ordinances, rules, permits, regulations, orders, determinations and court decisions (all of the foregoing are herein sometimes collectively called "APPLICABLE LAWS"). Tenant has obtained or will promptly obtain all utility, building, health and operating permits as may be required for Tenant's use of the Leased Property by any governmental authority or municipality having jurisdiction over the Leased Property.

(e) Environmental Representations. To Tenant's knowledge and except as otherwise disclosed in the Environmental Report, as of the date hereof: (i) no Hazardous Substances Activity has occurred prior to the date of this Lease; (iii) neither Tenant nor any prior owner or operator of the Leased Property or any surrounding property has reported or been required to report any release of any Hazardous Substances on or from the Leased Property or the surrounding property pursuant to any Environmental Law; (iv) neither Tenant nor any prior owner or operator of the Leased Property or any surrounding property has received any warning, citation, notice of violation or other communication regarding a suspected or known release or discharge of Hazardous Substances on or from the Leased Property or regarding a suspected or known violation of Environmental Laws concerning the Leased Property from any federal, state or local agency; and (v) none of the following are located on the Leased Property: asbestos; urea formaldehyde foam insulation; transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls in excess of fifty (50) parts per million; any other Hazardous Substances other than Permitted Hazardous Substances; or any underground storage tank or tanks. Further, Tenant represents that to its knowledge the Environmental Report is not misleading or inaccurate in any material respect.

(f) No Suits. There are no judicial or administrative actions, suits, proceedings or investigations pending or, to Tenant's knowledge, threatened that will affect Tenant's intended use of the Leased Property or the validity, enforceability or priority of this Lease, or Tenant's use, occupancy and operation of the Leased Property or any part thereof, and Tenant is not in default with respect to any order, writ, injunction, decree or demand of any court or other governmental or regulatory authority that could materially and adversely affect the business or assets of Tenant and its Subsidiaries taken as a whole or Tenant's use, occupancy or operation of the Leased Property. No condemnation or other like proceedings are pending or, to Tenant's knowledge, threatened against the Leased Property.

(g) Condition of Property. The Land as described in Exhibit A is the same as the land shown on the plat included as part of the ALTA/ACSM Land Title Survey prepared by Kier & Wright, Civil Engineers & Surveyors, Inc., which was delivered to Landlord at the request of Tenant. When the Initial Improvements are completed in accordance with the requirements of this Lease, adequate provision will have been made for the

Leased Property to be served by electric, gas, storm and sanitary sewers, sanitary water supply, telephone and other utilities required for the use thereof. All streets, alleys and easements necessary to serve the Leased Property have been completed and are serviceable or will be so when the Initial Improvements are complete. The Leased Property will be, when the Initial Improvements are complete, in a condition satisfactory for its use and occupancy. Tenant is not aware of any latent or patent material defects or deficiencies in the Leased Property that, either individually or in the aggregate, could materially and adversely affect Tenant's use or occupancy or could reasonably be anticipated to endanger life or limb.

(h) Organization. Tenant is duly incorporated and legally existing under the laws of the State of Delaware. Tenant has all requisite power and has procured or will procure on a timely basis all governmental certificates of authority, licenses, permits, qualifications and other documentation required to lease and operate the Leased Property. Tenant has the corporate power and adequate authority, rights and franchises to own Tenant's property and to carry on Tenant's business as now conducted and is duly qualified and in good standing in each state in which the character of Tenant's business makes such qualification necessary (including, without limitation, the State of California) or, if it is not so qualified in a state other than California, such failure does not have a material adverse effect on the properties, assets, operations or businesses of Tenant and its Subsidiaries, taken as a whole.

(i) Enforceability. The execution, delivery and performance of this Lease, the Purchase Agreement, the Pledge Agreement and the Environmental Indemnity are duly authorized and do not require the consent or approval of any governmental body or other regulatory authority that has not heretofore been obtained and are not in contravention of or conflict with any Applicable Laws or any term or provision of Tenant's articles of incorporation or bylaws. This Lease, the Purchase Agreement, the Pledge Agreement and the Environmental Indemnity are valid, binding and legally enforceable obligations of Tenant in accordance with their terms, except as such enforcement is affected by bankruptcy, insolvency and similar laws affecting the rights of creditors, generally, and equitable principles of general application.

(j) Not a Foreign Person. Tenant is not a "foreign person" within the meaning Sections 1445 and 7701 of the Code (i.e., Tenant is not a non-resident alien, foreign corporation, foreign partnership, foreign trust or foreign estate as those terms are defined in the Code and regulations promulgated thereunder).

(k) Omissions. To Tenant's knowledge, none of Tenant's representations or warranties contained in this Lease or any document, certificate or written statement furnished to Landlord by or on behalf of Tenant contains any untrue statement of a material fact or omits a material fact necessary in order to make the statements contained herein or therein (when taken in their entirety) not misleading.

(l) Existence. Tenant shall continuously maintain its existence and its qualification to do business in the State of California.

(m) Tenant Taxes. Tenant shall comply with all applicable tax laws and pay before the same become delinquent all taxes imposed upon it or upon its property where the failure to so comply or so pay would have a material adverse effect on the financial condition or operations of Tenant; except that Tenant may in good faith by appropriate proceedings contest the validity, applicability or amount of any such taxes and pending such contest Tenant shall not be deemed in default under this subparagraph if (1) Tenant diligently prosecutes such contest to completion in an appropriate manner, and (2) Tenant promptly causes to be paid any tax adjudged by a court of competent jurisdiction to be due, with all costs, penalties, and interest thereon, promptly after such judgment becomes final; provided, however, in any event such contest shall be concluded and the tax, penalties, interest and costs shall be paid prior to the date any writ or order is issued under which any of Tenant's property that is material to the business of Tenant and its Subsidiaries taken as a whole may be seized or sold because of the nonpayment thereof.

(n) Operation of Property. Tenant shall operate the Leased Property in a good and workmanlike manner and in compliance with all Applicable Laws and will pay all fees or charges of any kind in connection therewith. Tenant shall not use or occupy, or allow the use or occupancy of, the Leased Property in any manner which violates any Applicable Law or which constitutes a public or private nuisance or which makes void, voidable or cancelable any insurance then in force with respect thereto. To the extent that any of the following would, individually or in the aggregate, materially and adversely affect the value of the Leased Property or Tenant's use, occupancy or operations on the Leased Property, Tenant shall not: (i) initiate or permit any zoning reclassification of the Leased Property; (ii) seek any variance under existing zoning ordinances applicable to the Leased Property; (iii) use or permit the use of the Leased Property in a manner that would result in such use becoming a nonconforming use under applicable zoning ordinances or similar laws, rules or regulations; (iv) execute or file any subdivision plat affecting the Leased Property; or (v) consent to the annexation of the Leased Property to any municipality. If a change in the zoning or other Applicable Laws affecting the permitted use or development of the Leased Property shall occur that Landlord determines will materially reduce the then-current market value of the Leased Property, and if after such reduction the Stipulated Loss Value shall substantially exceed the then-current market value of the Leased Property in the reasonable judgment of Landlord, then Tenant shall pay Landlord an amount equal to such excess for application as a Qualified Payment. Tenant shall make any payment required by the preceding sentence within one hundred eighty (180) days after it is requested by Landlord and in any event shall make any such payment before the end of the Term. Tenant shall not impose any restrictive covenants or encumbrances upon the Leased Property without the prior written consent of the Landlord; provided, that such consent shall not be unreasonably withheld for any encumbrance or restriction that is made expressly subject to this Lease, as modified from time to time, and subordinate to Landlord's interest in the Leased Property by an agreement in form satisfactory to Landlord.

Tenant shall not cause or permit any drilling or exploration for, or extraction, removal or production of, minerals from the surface or subsurface of the Leased Property. Tenant shall not do any act whereby the market value of the Leased Property may be materially lessened. Tenant shall allow Landlord or its authorized representative to enter the Leased Property at any reasonable time to inspect the Leased Property and, after reasonable notice, to inspect Tenant's books and records pertaining thereto, and Tenant shall assist Landlord or Landlord's representative in whatever way reasonably necessary to make such inspections. If Tenant receives a written notice or claim from any federal, state or other governmental entity that the Leased Property is not in compliance in any material respect with any Applicable Law, or that any action may be taken against the owner or lessee of the Leased Property because the Leased Property does not comply with Applicable Law, Tenant shall promptly furnish a copy of such notice or claim to Landlord. Notwithstanding the foregoing, Tenant may in good faith, by appropriate proceedings, contest the validity and applicability of any Applicable Law with respect to the Leased Property, and pending such contest Tenant shall not be deemed in default hereunder because of a violation of such Applicable Law, if Tenant diligently prosecutes such contest to completion in a manner reasonably satisfactory to Landlord, and if Tenant promptly causes the Leased Property to comply with any such Applicable Law upon a final determination by a court of competent jurisdiction that the same is

valid and applicable to the Leased Property; provided, that in any event such contest shall be concluded and the violation of such Applicable Law must be corrected and any claims asserted against Landlord or the Leased Property because of such violation must be paid by Tenant, all prior to the date that (i) any criminal charges may be brought against Landlord or any of its directors, officers or employees because of such violation or (ii) any action may be taken by any governmental authority against Landlord or any property owned or leased by Landlord (including the Leased Property) because of such violation.

(o) Debts for Construction. Tenant shall cause all debts and liabilities incurred in the construction, maintenance, operation and development of the Leased Property, including without limitation all debts and liabilities for labor, material and equipment and all debts and charges for utilities servicing the Leased Property, to be promptly paid. Notwithstanding the foregoing, Tenant may in good faith by appropriate proceedings contest the validity, applicability or amount of any asserted mechanic's or materialmen's lien and

pending such contest Tenant shall not be deemed in default under this subparagraph (or subparagraphs 9.(t) or 9.(u)) because of the contested lien if (1) within sixty (60) days after being asked to do so by Landlord, Tenant bonds over to Landlord's satisfaction any contested liens alleged to secure an amount in excess of \$500,000 (individually or in the aggregate) (2) Tenant diligently prosecutes such contest to completion in a manner reasonably satisfactory to Landlord, and (3) Tenant promptly causes to be paid any amount adjudged by a court of competent jurisdiction to be due, with all costs and interest thereon, promptly after such judgment becomes final; provided, however, that in any event each such contest shall be concluded and the lien, interest and costs shall be paid prior to the date (i) any criminal action may be instituted against Landlord or its directors, officers or employees because of the nonpayment thereof or (ii) any writ or order is issued under which any property owned or leased by Landlord (including the Leased Property) may be seized or sold or any other action may be taken against Landlord or any property owned or leased by Landlord because of the nonpayment thereof.

(p) Impositions. Tenant shall reimburse Landlord for (or, if requested by Landlord, will pay or cause to be paid prior to delinquency) all sales, excise, ad valorem, gross receipts, business, transfer, stamp, occupancy, rental and other taxes, levies, fees, charges, surcharges, assessments or penalties which arise out of or are attributable to this Lease or which are imposed upon Landlord or the Leased Property because of the ownership, leasing, occupancy, sale or operation of the Leased Property, or any part thereof, or relating to or required to be paid by the terms of any of the Permitted Encumbrances (collectively, herein called the "IMPOSITIONS"), excluding only Excluded Taxes. If Landlord requires Tenant to pay any Impositions directly to the applicable taxing authority or other party entitled to collect the same, Tenant shall furnish Landlord with receipts showing payment of such Impositions and other amounts prior to delinquency; except that Tenant may in good faith by appropriate proceedings contest the validity, applicability or amount of any asserted Imposition, and pending such contest Tenant shall not be deemed in default of this subparagraph (or subparagraphs 9.(t) or 9.(u)) because of the contested Imposition if (1) within sixty (60) days after being asked to do so by Landlord, Tenant bonds over to the satisfaction of Landlord any lien asserted against the Leased Property and alleged to secure an amount in excess of \$500,000 because of the contested Imposition, (2) Tenant diligently prosecutes such contest to completion in a manner reasonably satisfactory to Landlord, and (3) Tenant promptly causes to be paid any amount adjudged by a court of competent jurisdiction to be due, with all costs, penalties and interest thereon, promptly after such judgment becomes final; provided, however, that in any event each such contest shall be concluded and the Impositions, penalties, interest and costs shall be paid prior to the date (i) any criminal action may be instituted against Landlord or its directors, officers or employees because of the nonpayment thereof or (ii) any writ or order is issued under which any property owned or leased by Landlord (including the Leased Property) may be seized or sold or any other action may be taken against Landlord or any property owned or leased by Landlord because of the nonpayment thereof.

(q) Repair, Maintenance, Alterations and Additions. Tenant shall keep the Leased Property in good order, repair, operating condition and appearance (ordinary wear and tear excepted), causing all necessary repairs, renewals, replacements, additions and improvements to be promptly made, and will not allow any of the Leased Property to be materially misused, abused or wasted or to deteriorate. Tenant shall promptly replace any worn-out fixtures included within the Leased Property with fixtures comparable to the replaced fixtures when new and repair any damage caused by the removal of such fixtures. Further, Tenant shall not, without the prior written consent of Landlord, (i) remove from the Leased Property any fixtures of significant value which were paid for with (or for which reimbursement was provided to Tenant by) a Construction Advance, except such as are replaced by Tenant by articles of equal value, free and clear of any Lien (and for purposes of this clause "significant value" will mean any fixture that has a value of more than \$100,000 or that, when considered together

with all other fixtures removed and not replaced by Tenant by articles of equal suitability and value, has an aggregate value of \$500,000 or more) or (ii) make any alteration to any Improvements, after the Initial Improvements are constructed, which significantly reduces the fair market value or changes the general character of the Leased Property, taken as a whole, or which impairs in any significant manner the useful life or utility of the Improvements, taken as whole. Upon request of Landlord made at any time when an Event of Default shall

have occurred and be continuing, Tenant shall deliver to Landlord an inventory describing and showing the make, model, serial number and location of all fixtures and personalty, if any, included in the Initial Improvements with a certification by Tenant that such inventory is a true and complete schedule of all such fixtures and personalty and that all items specified in the inventory are covered hereby free and clear of any Lien other than the Permitted Encumbrances described in Exhibit B.

(r) Insurance and Casualty. Throughout the Term, Tenant will keep all Improvements (including all alterations, additions and changes made to the Improvements) which are located within the Leased Property insured under an all-risk property insurance policy (excluding from coverage damage by flood or earthquake, but not excluding other perils normally included within the definitions of extended coverage, vandalism and malicious mischief) in the amount of one hundred percent (100%) of the replacement value with endorsements for contingent liability from operation of building laws, increased cost of construction and demolition costs which may be necessary to comply with building laws. Tenant will be responsible for determining the amount of property insurance to be maintained, but such coverage will be on an agreed value basis to eliminate the effects of coinsurance. Such insurance shall be issued by an insurance company or companies rated by the A.M. Best Company of Oldwick, New Jersey as having a policyholder's rating of A or better and a reported financial information rating of X or better. Any deductible applicable to such insurance shall not exceed \$500,000. Such insurance shall cover not only the value of Tenant's interest in the Improvements, but also the interest of Landlord, and such insurance shall include provisions that Landlord must be notified at least ten (10) days prior to any cancellation or reduction of insurance coverage. With this Lease Tenant shall deliver to Landlord a certificate from the applicable insurer or its authorized agent evidencing the insurance required by this subparagraph and any additional insurance which shall be taken out upon any part of the Leased Property. Thereafter, Tenant shall deliver to Landlord certificates from the applicable insurer or its authorized agent of renewals or replacements of all such policies of insurance at least five (5) days before any such insurance shall expire. Tenant further agrees that all such policies shall provide that proceeds thereunder will be payable to Landlord as Landlord's interest may appear. If Tenant fails to obtain any insurance required by this Lease or to provide confirmation of any such insurance as required by this Lease, Landlord shall be entitled (but not required) to obtain the insurance that Tenant has failed to obtain or for which Tenant has not provided the required confirmation and, without limiting Landlord's other remedies under the circumstances, Landlord may require Tenant to reimburse Landlord for the cost of such insurance and to pay interest thereon computed at the Default Rate from the date such cost was paid by Landlord until the date of reimbursement by Tenant. In the event any of the Leased Property is destroyed or damaged by fire, explosion, windstorm, hail or by any other casualty against which insurance shall have been required hereunder, (i) Landlord may, but shall not be obligated to, make proof of loss if not made promptly by Tenant, (ii) each insurance company concerned is hereby authorized and directed to make payment for such loss directly to Landlord for application as required by Paragraph 4, and (iii) Landlord's consent must be obtained for any settlement, adjustment or compromise of any claims for loss, damage or destruction under any policy or policies of insurance (provided, that if any such claim is for less than \$2,000,000 and no Event of Default shall have occurred and be continuing, Tenant alone shall have the right to settle, adjust or compromise the claim as Tenant deems appropriate; and, provided further, that any disagreement between Landlord and Tenant about the amount for which any such claim should be settled shall, at the request of either party, be resolved as provided in Exhibit I, unless an Event of Default shall have occurred and be continuing, in which case Landlord alone shall have the right to settle, adjust or compromise the claim as Landlord deems appropriate). If any casualty shall result in damage to or loss or destruction of the Leased Property in excess of \$1,000,000, Tenant shall give immediate notice thereof to Landlord and Paragraph 4 shall apply. Notwithstanding the foregoing provisions of this subparagraph, if insurance proceeds totaling not more than \$2,000,000 are to be recovered as a result of a fire or other casualty involving the Leased Property, Tenant shall be entitled to receive directly and hold such proceeds so long as no Event of Default shall have occurred and be continuing and so long as Tenant applies such proceeds towards the restoration, replacement and repair of the Leased Property as required by Paragraph 4.(b).

(s) Condemnation. Immediately upon obtaining knowledge of the institution of any proceedings for the condemnation of the Leased Property

or any portion thereof, or any other similar governmental or quasi-governmental proceedings arising out of injury or damage to the Leased Property or any portion thereof, Tenant shall notify Landlord of the pendency of such proceedings. Tenant shall, at its expense, diligently prosecute any such proceedings and shall consult with Landlord, its attorneys and experts and cooperate with them as reasonably requested in the carrying on or defense of any such proceedings. All proceeds of condemnation awards or proceeds of sale in lieu of condemnation with respect to the Leased Property and all judgments, decrees and awards for injury or damage to the Leased Property shall be paid to Landlord and applied as provided in Paragraph 4 above. Landlord is hereby authorized, in the name of Tenant, to execute and deliver valid acquittances for, and to appeal from, any such judgment, decree or award concerning condemnation of any of the Leased Property. Landlord shall not be, in any event or circumstances, liable or responsible for failure to collect, or to exercise diligence in the collection of, any such proceeds, judgments, decrees or awards. Notwithstanding the foregoing provisions of this subparagraph, if condemnation proceeds totaling not more than \$2,000,000 are to be recovered as a result of a taking of less than all or substantially all of the Leased Property, Tenant may directly receive and hold such proceeds so long as no Event of Default shall have occurred and be continuing and so long as Tenant applies such proceeds towards the restoration, replacement and repair of the remainder of the Leased Property as required by Paragraph 4.(b).

(t) Protection and Defense of Title. If any encumbrance or title defect whatsoever affecting Landlord's fee interest in the Leased Property is claimed or discovered (excluding Permitted Encumbrances, this Lease and any other encumbrance which is claimed by Landlord or lawfully claimed through or under Landlord and which is not claimed by, through or under Tenant) or if any legal proceedings are instituted with respect to title to the Leased Property, Tenant shall give prompt written notice thereof to Landlord and at Tenant's own cost and expense will promptly cause the removal of any such encumbrance and cure any such defect and will take all necessary and proper steps for the defense of any such legal proceedings, including but not limited to the employment of counsel, the prosecution or defense of litigation and the release or discharge of all adverse claims. If Tenant fails to promptly remove any such encumbrance or title defect (other than a Lien Tenant is contesting as expressly permitted by and in accordance with subparagraph 9.(o) or subparagraph 9.(p)), Landlord (whether or not named as a party to legal proceedings with respect thereto) shall be entitled to take such additional steps as in its judgment may be necessary or proper to remove such encumbrance or cure such defect or for the defense of any such attack or legal proceedings or the protection of Landlord's interest in the Leased Property, including but not limited to the employment of counsel, the prosecution or defense of litigation, the compromise or discharge of any adverse claims made with respect to the Leased Property, the removal of prior liens or security interests, and all expenses (including Attorneys' Fees) so incurred of every kind and character shall be a demand obligation owing by Tenant.

(u) No Liens on the Leased Property. Tenant shall not, without the prior written consent of Landlord, create, place or permit to be created or placed, or through any act or failure to act, acquiesce in the placing of, or allow to remain, any Lien (except the lien for property taxes or assessments assessed against the Leased Property which are not delinquent and any Lien Tenant is contesting as expressly permitted by and in accordance with subparagraph 9.(o) or subparagraph 9.(p)), against or covering the Leased Property or any part thereof (other than any Lien which is lawfully claimed through or under Landlord and which is not claimed by, through or under Tenant) regardless of whether the same are expressly or otherwise subordinate to this Lease or Landlord's interest in the Leased Property, and should any prohibited Lien exist or become attached hereafter in any manner to any part of the Leased Property without the prior written consent of Landlord, Tenant shall cause the same to be promptly discharged and released to the satisfaction of Landlord.

(v) Books and Records. Tenant shall keep books and records that are accurate and complete in all material respects for the construction and maintenance of the Leased Property and will permit all such books and records (including without limitation all contracts, statements, invoices, bills and claims for labor,

materials and services supplied for the construction and operation of any Improvements) to be inspected and copied by Landlord and its duly accredited representatives at all times during reasonable business hours; provided that so long as Tenant remains in possession of the Leased Property, Landlord or Landlord's representative will, before making any such inspection or copying any such documents, if then requested to do so by Tenant to maintain Tenant's security: (i) sign in at Tenant's security or information desk if Tenant has such a desk on the premises, (ii) wear a visitor's badge or other reasonable identification provided by Tenant when Landlord or Landlord's representative first arrives at the Leased Property, (iii) permit an employee of Tenant to observe such inspection or work, and (iv) comply with other similar reasonable nondiscriminatory security requirements of Tenant that do not, individually or

in the aggregate, interfere with or delay inspections or copying by Landlord authorized by this subparagraph. This subparagraph shall not be construed as requiring Tenant to regularly maintain separate books and records relating exclusively to the Leased Property; provided, however, that if requested by Landlord at any time when an Event of Default shall have occurred and be continuing, Tenant shall construct or abstract from its regularly maintained books and records information required by this subparagraph relating to the Leased Property.

(w) Financial Statements; Required Notices; Certificates as to Default. Tenant shall deliver to Landlord and to each Participant of which Tenant has been notified:

(i) as soon as available and in any event within one hundred twenty (120) days after the end of each fiscal year of Tenant, a consolidated balance sheet of Tenant and its consolidated Subsidiaries as of the end of such fiscal year and a consolidated income statement and statement of cash flows of Tenant and its consolidated Subsidiaries for such fiscal year, all in reasonable detail and all prepared in accordance with GAAP and accompanied by a report and opinion of accountants of national standing selected by Tenant, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any qualifications or exceptions as to the scope of the audit nor to any qualification or exception which Landlord determines, in Landlord's reasonable discretion, is unacceptable; provided, that notwithstanding the foregoing, for so long as Tenant is a company subject to the periodic reporting requirements of Section 12 of the Securities Exchange Act of 1934, as amended, Tenant shall be deemed to have satisfied its obligations under this clause (i) so long as Tenant delivers to Landlord the same annual report and report and opinion of accountants that Tenant delivers to its shareholders;

(ii) as soon as available and in any event within sixty (60) days after the end of each of the first three quarters of each fiscal year of Tenant, the consolidated balance sheet of Tenant and its consolidated Subsidiaries as of the end of such quarter and the consolidated income statement and the consolidated statement of cash flows of Tenant and its consolidated Subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, all in reasonable detail and all prepared in accordance with GAAP and certified by a Responsible Financial Officer of Tenant (subject to year-end adjustments); provided, that notwithstanding the foregoing, for so long as Tenant is a company subject to the periodic reporting requirements of Section 12 of the Securities Exchange Act of 1934, as amended, Tenant shall be deemed to have satisfied its obligations under this clause (ii) so long as Tenant delivers to Landlord the same quarterly reports, certified by a Responsible Financial Officer of Tenant (subject to year-end adjustments), that Tenant delivers to its shareholders;

(iii) together with the financial statements furnished in accordance with subparagraph 9.(w)(ii) and 9.(w)(i), a certificate of a Responsible Financial Officer of Tenant in substantially the form attached hereto as Exhibit G: (i) certifying that to the knowledge of Tenant no Default or Event of Default under this Lease has occurred and is continuing or, if a Default or Event of Default has occurred and is continuing, a brief statement as to the nature thereof and the action which is proposed to be taken with respect thereto, (ii) certifying that the representations of Tenant set forth in Paragraph 9 of this Lease are true and correct

in all material respects as of the date thereof as though made on and as of the date thereof or, if not then true and correct, a brief statement as to why such representations are no longer true and correct, and (iii) with computations demonstrating compliance with the following Sections of the Revolving Credit Agreement: Section 7.02 (which establishes a minimum tangible net worth requirement), Section 7.03 (which establishes a quick ratio requirement), Section 7.04 (which establishes a maximum permitted ratio of total liabilities to tangible net worth), Section 7.06 (which establishes a limit on permitted dividends as a percentage of earnings), and Section 7.10 (which establishes a limit on permitted losses);

(iv) promptly after the sending or filing thereof, copies of all proxy statements, financial statements and reports which Tenant sends to Tenant's stockholders, and copies of all regular, periodic and special reports, and all registration statements (other than registration statements on Form S-8 or any form substituted therefor) which Tenant files with the Securities and Exchange Commission or any governmental authority which may be substituted therefor, or with any national securities exchange;

(v) as soon as possible and in any event within five (5) Business Days after a Responsible Financial Officer of Tenant becomes aware of the occurrence of each Default or Event of Default, a statement of a Responsible Financial Officer of Tenant setting forth details of such Default or Event of Default and the action which Tenant has taken and proposes to take with respect thereto;

(vi) upon request by Landlord, a statement in writing certifying that this Lease is unmodified and in full effect (or, if there have been modifications, that this Lease is in full effect as modified, and setting forth such modifications) and the dates to which the Base Rent has been paid and either stating that to the knowledge of Tenant no Default or Event of Default under this Lease has occurred and is continuing or, if a Default or Event of Default under this Lease has occurred and is continuing, a brief statement as to the nature thereof; it being intended that any such statement by Tenant may be relied upon by any prospective purchaser or mortgagee of the Leased Property and by any Participant;

(vii) copies of all notices required by Sections 6.01 or 6.07 of the Revolving Credit Agreement; and

(viii) such other information respecting the condition or operations, financial or otherwise, of Tenant, of any of its Subsidiaries or of the Leased Property as Landlord or any Participant through Landlord may from time to time reasonably request.

Landlord is hereby authorized to deliver a copy of any information or certificate delivered to it pursuant to this subparagraph 9.(w) to any Participant and to any regulatory body having jurisdiction over Landlord that requires or requests it.

(x) Further Assurances. Tenant shall, on request of Landlord, (i) promptly correct any defect, error or omission which may be discovered in the contents of this Lease or in any other instrument executed in connection herewith or in the execution or acknowledgment thereof; (ii) execute, acknowledge, deliver and record or file such further instruments and do such further acts as may be necessary, desirable or proper to carry out more effectively the purposes of this Lease and to subject to this Lease any property intended by the terms hereof to be covered hereby including specifically, but without limitation, any renewals, additions, substitutions, replacements or appurtenances to the Leased Property; (iii) execute, acknowledge, deliver, procure and record or file any document or instrument deemed advisable by Landlord to protect its rights in and to the Leased Property against the rights or interests of third persons; and (iv) provide such certificates, documents, reports, information, affidavits and other instruments and do such further acts as may be necessary, desirable or proper in the reasonable determination of Landlord to enable Landlord, Landlord's Lender and any Participants to comply

with the requirements or requests of the Federal Reserve Bank or any other bank regulatory agency or authority or any other governmental agency or authority having jurisdiction over them.

(y) Fees and Expenses; General Indemnification; Increased Costs; and Capital Adequacy Charges.

(i) Except for any costs paid by Landlord with the proceeds of the Initial Funding Advances as part of the Closing Costs, Tenant shall pay (and shall indemnify and hold harmless Landlord, Landlord's Lender and any Person claiming through Landlord by reason of a Permitted Transfer from and against) all Losses incurred by Landlord or Landlord's Lender or any Person claiming through Landlord through a Permitted Transfer in connection with or because of (A) the ownership of any interest in or operation of the Leased Property, (B) the negotiation or administration of this Lease, the Purchase Agreement, the Pledge Agreement, the Environmental Indemnity or any Participation Agreements with Participants which Tenant shall have approved, (C) the making of Funding Advances, including Attorneys' Fees or other costs incurred to evaluate lien releases and other information submitted by Tenant with requests for Construction Advances, or (D) the construction of the Initial Improvements, whether such Losses are incurred at the time of execution of this Lease or at any time during the Term. Costs and expenses included in such Losses may include, without limitation, all appraisal fees, filing and recording fees, inspection fees, survey fees, taxes (other than Excluded Taxes), brokerage fees and commissions, abstract fees, title policy fees, Uniform Commercial Code search fees, escrow fees, Attorneys' Fees and environmental consulting fees incurred by Landlord with respect to the Leased Property. If Landlord pays or reimburses Landlord's Lender for any such Losses, Tenant shall reimburse Landlord for the same notwithstanding that Landlord may have already

received any payment from any Participant on account of such Losses, it being understood that the Participant may expect repayment from Landlord when Landlord does collect the required reimbursement from Tenant.

(ii) Tenant shall also pay (and indemnify and hold harmless Landlord, Landlord's Lender and any Person claiming through Landlord by reason of a Permitted Transfer from and against) all Losses, including Attorneys' Fees, incurred or expended by Landlord or Landlord's Lender or any Person claiming through Landlord through a Permitted Transfer or in connection with (A) the breach by Tenant of any covenant of Tenant herein or in any other instrument executed in connection herewith or (B) Landlord's exercise in a lawful manner of any of Landlord's remedies hereunder or under Applicable Law or Landlord's protection of the Leased Property and Landlord's interest therein as permitted hereunder or under Applicable Law. (However, the indemnity in the preceding sentence shall not be construed to make Tenant liable to both Landlord and any Participant or other party claiming through Landlord for the same damages. For example, so long as Landlord remains entitled to recover any past due Base Rent from Tenant, no Participant shall be entitled to collect a percentage of the same Base Rent from Tenant.) Tenant shall further indemnify and hold harmless Landlord and all other Indemnified Parties against, and reimburse them for, all Losses which may be imposed upon, asserted against or incurred or paid by them by reason of, on account of or in connection with any bodily injury or death or damage to the property of third parties occurring in or upon or in the vicinity of the Leased Property through any cause whatsoever. THE FOREGOING INDEMNITY FOR INJURY, DEATH OR PROPERTY DAMAGE SHALL APPLY EVEN WHEN INJURY, DEATH OR PROPERTY DAMAGE IN, ON OR IN THE VICINITY OF THE LEASED PROPERTY RESULTS IN WHOLE OR IN PART FROM THE ORDINARY NEGLIGENCE (AS DEFINED ABOVE) OF AN INDEMNIFIED PARTY; provided, such indemnity shall not apply to Losses suffered by an Indemnified Party that were proximately caused by (and attributed by any applicable principles of comparative fault to) the Active Negligence, gross negligence or wilful misconduct of such Indemnified Party.

(iii) If, after the date hereof, due to either (A) the introduction of or any change (other than any change by way of imposition or increase of reserve requirements included in the Eurodollar Rate Reserve Percentage) in or in the interpretation of any law or regulation or (B) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law), there shall be any increase in the cost to Landlord's Lender or any Participant of agreeing to make or making, funding or maintaining advances to Landlord in connection with the Leased Property, then Tenant shall from time to time, upon demand by Landlord pay to Landlord for the account of Landlord's Lender or such Participant, as the case may be, additional amounts sufficient to compensate Landlord's Lender or the Participant for such increased cost. A certificate as to the amount of such increased cost, submitted to Landlord and Tenant by Landlord's Lender or the Participant, shall be conclusive and binding for all purposes, absent clear and demonstrable error.

(iv) Landlord's Lender or any Participant may demand additional payments (herein called "CAPITAL ADEQUACY CHARGES") if Landlord's Lender or the Participant determines that any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) affects the amount of capital to be maintained by it and that the amount of such capital is increased by or based upon the existence of advances made or to be made to Landlord to permit Landlord to maintain Landlord's investment in the Leased Property or to make Construction Advances. To the extent that Landlord's Lender or the Participant demands Capital Adequacy Charges as compensation for the additional capital requirements reasonably allocable to such advances, Tenant shall pay to Landlord for the account of the Landlord's Lender or the Participant, as the case may be, the amount so demanded.

(v) Any amount to be paid to Landlord, Landlord's Lender or any Indemnified Party under this subparagraph 9.(y) shall be a demand obligation owing by Tenant. Tenant's indemnities and obligations under this subparagraph 9.(y) shall survive the termination or expiration of this Lease with respect to any circumstance or event existing or occurring prior to such termination or expiration.

(z) Liability Insurance. Tenant shall maintain one or more policies of commercial general liability insurance against claims for bodily injury or death and property damage occurring or resulting from any occurrence in or upon the Leased Property, in standard form and with an insurance company or companies rated by the A.M. Best Company of Oldwick, New Jersey as having a policyholder's rating of A or better and a reported financial information rating

of X or better, such insurance to afford immediate protection, to the aggregate limit of not less than \$10,000,000 combined single limit for bodily injury and property damage in respect of any one accident or occurrence, with not more than \$500,000 self-insured retention. Such commercial general liability insurance shall include blanket contractual liability coverage which insures contractual liability under the indemnifications set forth in this Lease (other than the indemnifications set forth in Paragraph 12 concerning environmental matters), but such coverage or the amount thereof shall in no way limit such indemnifications. The policy evidencing such insurance shall name as additional insureds Landlord and all Participants of which Tenant has been notified. Tenant shall maintain with respect to each policy or agreement evidencing such commercial general liability insurance such endorsements as may be reasonably required by Landlord and shall at all times deliver and maintain with Landlord written confirmation (in form satisfactory to Landlord) with respect to such insurance from the applicable insurer or its authorized agent, which confirmation must provide that insurance coverage will not be canceled or reduced without at least ten (10) days notice to Landlord. Not less than five (5) days prior to the expiration date of each policy of insurance required of Tenant pursuant to this subparagraph, Tenant shall deliver to Landlord a certificate evidencing a paid renewal policy or policies.

(aa) Permitted Encumbrances. Except to the extent expressly required of Landlord by subparagraph 10.(b), Tenant shall comply with and will cause to be performed all of the covenants, agreements and obligations imposed upon the owner of any interest in the Leased Property in the Permitted Encumbrances in

accordance with their respective terms and provisions. Tenant shall not modify or permit any modification of any Permitted Encumbrance without the prior written consent of Landlord. Such consent will not be unreasonably withheld for the modification of any Permitted Encumbrance that has been made expressly subject to this Lease, as modified from time to time, and subordinate to Landlord's interest in the Leased Property by agreement in form satisfactory to Landlord.

(bb) Environmental.

(i) Environmental Covenants. Tenant covenants:

a) not to cause or permit the Leased Property to be in violation of, or do anything or permit anything to be done which will subject the Leased Property to any remedial obligations under, any Environmental Laws, including without limitation CERCLA and RCRA, assuming disclosure to the applicable governmental authorities of all relevant facts, conditions and circumstances pertaining to the Leased Property;

b) not to conduct or authorize others to conduct Hazardous Substance Activities on the Leased Property, except Permitted Hazardous Substance Use;

c) to the extent required by Environmental Laws, to remove Hazardous Substances from the Leased Property (or if removal is prohibited by law, to take whatever action is required by law) promptly upon discovery; and

d) not to discharge or authorize the discharge of anything (including Permitted Hazardous Substances) from the Leased Property into groundwater or surface water that would require any permit under applicable Environmental Laws, other than storm water runoff.

If Tenant's failure to cure any breach of the covenants listed above in this subparagraph (i) continues beyond the Environmental Cure Period (as defined below), Landlord may, in addition to any other remedies available to it, after notifying Tenant of the remediation efforts Landlord believes are needed, cause the Leased Property to be freed from all Hazardous Substances (or if removal is prohibited by law, to take whatever action is required by law), and the cost of the removal shall be a demand obligation owing by Tenant to Landlord. Further, subject to the provisions of subparagraph 12.(c) below, Tenant agrees to indemnify Landlord against all Losses incurred by or asserted or proven against Landlord in connection therewith. As used in this subparagraph, "ENVIRONMENTAL CURE PERIOD" means the period ending on the earlier of: (1) one hundred and eighty days (180) after Tenant is notified of the breach which must be cured within such period, or such longer period as is reasonably required for any cure that Tenant pursues with diligence pursuant to and in accordance with an Approved Plan (as defined below), (2) the date any writ or order is issued for the levy or sale of any property owned or leased by Landlord (including the Leased Property) or any criminal action is instituted against Landlord or any of its directors, officers or employees because of the breach which must be

cured within such period, (3) the end of the Term. As used in this subparagraph, an "APPROVED PLAN" means a plan of remediation of a violation of Environmental Laws for which Tenant has obtained, within one hundred and eighty days (180) after Tenant is notified of the applicable breach of the covenants listed above in this subparagraph (i), the written approval of the governmental authority with primary jurisdiction over the violation and with respect to which no other governmental authority asserting jurisdiction has claimed such plan is inadequate.

(ii) Environmental Inspections and Reviews. Landlord reserves the right to retain an independent professional consultant to review any report prepared by Tenant or to conduct Landlord's own

investigation to confirm whether Hazardous Substances Activities or the discharge of anything into groundwater or surface water has occurred in violation of the preceding subparagraph (i), but Landlord's right to reimbursement for the fees of such consultant shall be limited to the following circumstances: (1) an Event of Default shall have occurred; (2) Landlord shall have retained the consultant to establish the condition of the Leased Property just prior to any conveyance thereof pursuant to the Purchase Agreement or just prior to the expiration of this Lease; (3) Landlord shall have retained the consultant to satisfy any regulatory requirements applicable to Landlord or its Affiliates; or (4) Landlord shall have retained the consultant because Landlord has been notified of a violation of Environmental Laws concerning the Leased Property or Landlord otherwise reasonably believes that Tenant has not complied with the preceding subparagraph (i). Tenant grants to Landlord and to Landlord's agents, employees, consultants and contractors the right during reasonable business hours and after reasonable notice to enter upon the Leased Property to inspect the Leased Property and to perform such tests as are reasonably necessary or appropriate to conduct a review or investigation of Hazardous Substances on, or any discharge into groundwater or surface water from, the Leased Property. Without limiting the generality of the foregoing, Tenant agrees that Landlord will have the same right, power and authority to enter and inspect the Leased Property as is granted to a secured lender under Section 2929.5 of the California Civil Code. Tenant shall promptly reimburse Landlord for the cost of any such inspections and tests, but only when the inspections and tests are (1) ordered by Landlord after an Event of Default; (2) ordered by Landlord to establish the condition of the Leased Property just prior to any conveyance thereof pursuant to the Purchase Agreement or just prior to the expiration of this Lease; (3) ordered by Landlord to satisfy any regulatory requirements applicable to Landlord or its Affiliates; or (4) ordered because Landlord has been notified of a violation of Environmental Laws concerning the Leased Property or Landlord otherwise reasonably believes that Tenant has not complied with the preceding subparagraph (i).

(iii) Notice of Environmental Problems. Tenant shall immediately advise Landlord of (i) any discovery of any event or circumstance which would render any of the representations contained in subparagraph 9.(e) inaccurate in any material respect if made at the time of such discovery, (ii) any remedial action taken by Tenant in response to any (A) discovery of any Hazardous Substances other than Permitted Hazardous Substances on, under or about the Leased Property or (B) any claim for damages resulting from Hazardous Substance Activities, (iii) Tenant's discovery of any occurrence or condition on any real property adjoining or in the vicinity of the Leased Property which could cause the Leased Property or any part thereof to be subject to any ownership, occupancy, transferability or use restrictions under Environmental Laws, or (iv) any investigation or inquiry affecting the Leased Property by any governmental authority in connection with any Environmental Laws. In such event, Tenant shall deliver to Landlord within thirty (30) days after Landlord's request, a preliminary written environmental plan setting forth a general description of the action that Tenant proposes to take with respect thereto, if any, to bring the Leased Property into compliance with Environmental Laws or to correct any breach by Tenant of the covenants listed above in subparagraph (i), including, without limitation, any proposed corrective work, the estimated cost and time of completion, the name of the contractor and a copy of the construction contract, if any, and such additional data, instruments, documents, agreements or other materials or information as Landlord may reasonably request.

(cc) Compliance with Financial Covenants and Certain Other Requirements Established by the Revolving Credit Agreement. So long as Tenant shall continue to have any obligations under this Lease or the Purchase Agreement, Tenant shall comply with each and every requirement set forth in Article VII of the Credit Agreement dated as of April 30, 1994, by and among Tenant, as borrower, and Bank of America National Trust and Savings Association,

as lender, as amended by the First Amendment to Credit Agreement dated December 31, 1994 between Tenant and such lender and by the Second Amendment to Credit Agreement dated February 15, 1995 between Tenant and such lender (the "REVOLVING CREDIT AGREEMENT"). A true and correct copy of such Revolving Credit Agreement has been delivered by Tenant to Landlord. To the extent that any of the

requirements set forth in other provisions of this Lease, in the Environmental Indemnity or in the Purchase Agreement are more stringent than the requirements set forth in the Revolving Credit Agreement (for example, more stringent requirements concerning Tenant's use of the Leased Property itself in compliance with Environmental Laws), the more stringent requirements set forth herein or in the Environmental Indemnity or in the Purchase Agreement shall control. Further, for purposes of determining Tenant's compliance with requirements established in this Lease by reference to the Revolving Credit Agreement, and for purposes of establishing the meaning of capitalized terms defined herein by reference to the Revolving Credit Agreement, such requirements and definitions shall be construed as if (1) the Revolving Credit Agreement were continuing after any expiration or termination thereof, (2) no modifications or waivers of the Revolving Credit Agreement were made or granted after the date of this Lease, and (3) no consents or approvals were given for anything requiring a consent or approval by the terms of the Revolving Credit Agreement, other than such consents or approvals as Landlord shall have itself approved in writing in its capacity as the landlord under this Lease. As used in the provisions of the Revolving Credit Agreement referenced herein, capitalized terms shall have the meanings assigned to them in the Revolving Credit Agreement itself.

(dd) ERISA.

(i) Each Plan is in compliance in all material respects with, and has been administered in all material respects in compliance with, the applicable provisions of ERISA, the Code and any other applicable Federal or state law, and as of the date hereof no event or condition is occurring or exists which would require a notice from Tenant under clause 9.(ad)(ii).

(ii) Tenant shall provide a notice to Landlord as soon as possible after, and in any event within ten (10) days after Tenant becomes aware that, any of the following has occurred, with respect to which the potential aggregate liability to Tenant relating thereto is \$2,000,000 or more, and such notice shall include a statement signed by a senior financial officer of Tenant setting forth details of the following and the response, if any, which Tenant or its ERISA Affiliate proposes to take with respect thereto (and a copy of any report or notice required to be filed with or given to Pension Benefit Guaranty Corporation by Tenant or an ERISA Affiliate with respect to any of the following or the events or conditions leading up to it): (A) the assertion, to secure any Unfunded Benefit Liabilities, of any Lien against the assets of Tenant, against the assets of any Plan of Tenant or any ERISA Affiliate of Tenant or against any interest of Landlord or Tenant in the Leased Property or the collateral covered by the Pledge Agreement, or (B) the taking of any action by the Pension Benefit Guaranty Corporation or any other governmental authority action against Tenant to terminate any Plan of Tenant or any ERISA Affiliate of Tenant or to cause the appointment of a trustee or receiver to administer any such Plan.

11. Representations, Warranties and Covenants of Landlord. Landlord represents, warrants and covenants as follows:

(a) Title Claims By, Through or Under Landlord. Except by a Permitted Transfer, Landlord shall not assign, transfer, mortgage, pledge, encumber or hypothecate this Lease or any interest of Landlord in and to the Leased Property during the Term without the prior written consent of Tenant. Landlord further agrees that if any encumbrance or title defect affecting the Leased Property is lawfully claimed through or under Landlord, including any judgment lien lawfully filed against Landlord, Landlord will at its own cost and expense remove any such encumbrance and cure any such defect; provided, however, Landlord shall not be responsible for (i) any Permitted Encumbrances (regardless of whether claimed through or under Landlord) or any other encumbrances not lawfully claimed through or under Landlord, (ii) any encumbrances or title defects claimed by, through or under Tenant or any Participant which Tenant shall have approved, or (iii) any encumbrance or title defect arising because of Landlord's compliance with subparagraph 10.(b) or any request made by Tenant.

(b) Actions Required of the Title Holder. So long as no Event of Default shall have occurred and be continuing, Landlord shall take any and all action required of Landlord by the Permitted Encumbrances or otherwise required of Landlord by Applicable Laws or reasonably requested by Tenant

(including granting any utility easements required in connection with construction of Improvements); provided that (i) actions Tenant may require of Landlord under this subparagraph shall be limited to actions that can only be taken by Landlord as the owner of the fee interest in the Leased Property, as opposed to any action that can be taken by Tenant or any third party (and the payment of any monetary obligation shall not be an action required of Landlord under this subparagraph unless Landlord shall first have received funds from Tenant, in excess of any other amounts due from Tenant hereunder, sufficient to pay such monetary obligations), (ii) Tenant requests the action to be taken by Landlord (which request must be specific and in writing, if required by Landlord at the time the request is made) and (iii) the action to be taken will not constitute a violation of any Applicable Laws or compromise or constitute a waiver of Landlord's rights hereunder or under the Purchase Agreement, the Pledge Agreement or Environmental Indemnity or otherwise be reasonably objectionable to Landlord. Any Losses incurred by Landlord because of any action taken pursuant to this subparagraph shall be covered by the indemnification set forth in subparagraph 9.(y). Further, for purposes of such indemnification, any action taken by Landlord will be deemed to have been made at the request of Tenant if made pursuant to any request of Tenant's counsel or of any officer of Tenant (or with their knowledge, and without their objection) in connection with the Existing Contract or any Construction Document.

(c) No Default or Violation. The execution, delivery and performance of this Lease do not contravene, result in a breach of or constitute a default under any material contract or agreement to which Landlord is a party or by which Landlord is bound and do not, to the knowledge of Landlord, violate or contravene any law, order, decree, rule or regulation to which Landlord is subject.

(d) No Suits. To Landlord's knowledge there are no judicial or administrative actions, suits or proceedings involving the validity, enforceability or priority of this Lease, and to Landlord's knowledge no such suits or proceedings are threatened.

(e) Organization. Landlord is duly incorporated and legally existing under the laws of Delaware and is or, if necessary, will become duly qualified to do business in the State of California. Landlord has or will obtain, at Tenant's expense pursuant to the other provisions of this Lease, all requisite power and all material governmental certificates of authority, licenses, permits, qualifications and other documentation necessary to lease the Leased Property and to perform its obligations under this Lease.

(f) Enforceability. The execution, delivery and performance of this Lease, the Purchase Agreement and the Pledge Agreement by Landlord are duly authorized, are not in contravention of or conflict with any term or provision of Landlord's articles of incorporation or bylaws and do not, to Landlord's knowledge, require the consent or approval of any governmental body or other regulatory authority that has not heretofore been obtained or conflict with any Applicable Laws. This Lease, the Purchase Agreement and the Pledge Agreement are valid, binding and legally enforceable obligations of Landlord except as such enforcement is affected by bankruptcy, insolvency and similar laws affecting the rights of creditors, generally, and equitable principles of general application; provided, Landlord makes no representation or warranty that conditions imposed by any state or local Applicable Laws to the purchase, ownership, lease or operation of the Leased Property have been satisfied.

(g) Existence. Landlord will continuously maintain its existence and, after qualifying to do business in the State of California if Landlord has not already done so, Landlord will continuously maintain its right to do business in that state to the extent necessary for the performance of Landlord's obligations hereunder.

(h) Not a Foreign Person. Landlord is not a "foreign person" within the meaning of the Sections 1445 and 7701 of the Code (i.e., Landlord is not a non-resident alien, foreign corporation, foreign partnership, foreign trust or foreign estate as those terms are defined in the Code and regulations promulgated thereunder), and Landlord is not subject to withholding under California Revenue and Taxation Code Sections 18805, 18815, and 26131.

12. Assignment and Subletting.

(a) Consent Required. During the term of this Lease, without the prior written consent of Landlord first had and received, Tenant shall not assign, transfer, mortgage, pledge or hypothecate this Lease or any interest of Tenant hereunder and shall not sublet all or any part of the Leased Property, by operation of law or otherwise; provided, that : (1) Tenant shall be entitled without Landlord's consent to sublet space in then existing and completed Improvements if (i) any sublease by Tenant is made expressly subject and subordinate to the terms hereof, (ii) such sublease has a term less than the remainder of the then effective term of this Lease, and (iii) the use permitted by such sublease is expressly limited to the uses permitted by Paragraph 9(a);

and (2) Tenant shall be entitled to assign this Lease to an Affiliate of Tenant if both Tenant and its Affiliate confirm their joint and several liability hereunder by notice given to Landlord in accordance with Paragraph 19. (a) hereof.

(b) Standard for Landlord's Consent to Assignments and Certain Other Matters. Consents and approvals of Landlord which are required by the preceding subparagraph will not be unreasonably withheld, but Tenant acknowledges, without limiting the reasons why Landlord might reasonably withhold such consents or approvals, that Landlord's withholding of such consent or approval shall be reasonable if Landlord determines in good faith that giving the consent or approval may significantly increase Landlord's risk of liability for any existing or future environmental problem. Further, Tenant acknowledges that Landlord's withholding of such consent or approval shall be reasonable if Landlord determines in good faith that giving the consent or approval would negate Tenant's representations in this Lease regarding ERISA or cause this Lease, the Purchase Agreement or other documents described herein or therein (or any exercise of Landlord's rights hereunder or thereunder) to constitute a violation of any provision of ERISA or of any applicable state statute regulating a governmental plan.

(c) Consent Not a Waiver. No consent by Landlord to a sale, assignment, transfer, mortgage, pledge or hypothecation of this Lease or Tenant's interest hereunder, and no assignment or subletting of the Leased Property or any part thereof in accordance with this Lease or otherwise with Landlord's consent, shall release Tenant from liability hereunder; and any such consent shall apply only to the specific transaction thereby authorized and shall not relieve Tenant from any requirement of obtaining the prior written consent of Landlord to any further sale, assignment, transfer, mortgage, pledge or hypothecation of this Lease or any interest of Tenant hereunder.

(d) Landlord's Assignment. Landlord shall have the right to transfer, assign and convey, in whole or in part, the Leased Property and any and all of its rights under this Lease by any conveyance that constitutes a Permitted Transfer. (However, any Permitted Transfer shall be subject to all of the provisions of each and every agreement concerning the Leased Property then existing between Landlord and Tenant, including without limitation this Lease and the Purchase Agreement.) In the event Landlord sells or otherwise transfers the Leased Property and assigns its rights under this Lease, the Purchase Agreement and the Pledge Agreement, and if Landlord's successor in interest confirms its liability for the obligations imposed upon Landlord by this Lease, the Purchase Agreement and the Pledge Agreement on and subject to the express terms and conditions set out herein and therein, then the original Landlord shall thereby be released from any obligations thereafter arising under this Lease, the Purchase Agreement and the Pledge Agreement, and Tenant agrees to look solely to each successor in interest of Landlord for performance of such obligations. However, notwithstanding anything to the contrary herein contained, if withholding taxes are imposed on the rents and other amounts payable to Landlord

hereunder because of Landlord's assignment of this Lease to any citizen of, or any corporation or other entity formed under the laws of, a country other than the United States, Tenant shall not be required to compensate such assignee for the withholding tax.

13 Environmental Indemnification.

(a) Indemnity. Tenant hereby agrees to assume liability for and to pay, indemnify, defend, and hold harmless each and every Indemnified Party from and against any and all Environmental Losses, subject only to the provisions of subparagraph 12. (c) below.

(b) Assumption of Defense.

(i) If an Indemnified Party notifies Tenant of any claim, demand, action, administrative or legal proceeding, investigation or allegation as to which the indemnity provided for in this Paragraph 12 applies, Tenant shall assume on behalf of the Indemnified Party and conduct with due diligence and in good faith the investigation and defense thereof and the response thereto with counsel selected by Tenant but reasonably satisfactory to the Indemnified Party; provided, that the Indemnified Party shall have the right to be represented by advisory counsel of its own selection and at its own expense; and provided further, that if any such claim, demand, action, proceeding, investigation or allegation involves both Tenant and the Indemnified Party and the Indemnified Party shall have been advised in writing by counsel that there may be legal defenses available to it which are inconsistent with those available to Tenant, then the Indemnified Party shall have the right to select separate counsel to participate in the investigation and defense of and response to such claim, demand, action, proceeding, investigation or allegation on its own behalf, and Tenant shall pay or reimburse the Indemnified Party for all Attorney's Fees incurred by the Indemnified Party because of the selection of such

separate counsel.

(ii) If any claim, demand, action, proceeding, investigation or allegation arises as to which the indemnity provided for in this Paragraph 12 applies, and Tenant fails to assume promptly (and in any event within fifteen (15) days after being notified of the claim, demand, action, proceeding, investigation or allegation) the defense of the Indemnified Party, then the Indemnified Party may contest (or settle, with the prior written consent of Tenant, which consent will not be unreasonably withheld) the claim, demand, action, proceeding, investigation or allegation at Tenant's expense using counsel selected by the Indemnified Party; provided, that if any such failure by Tenant continues for thirty (30) days or more after Tenant is notified thereof, no such contest need be made by the Indemnified Party and settlement or full payment of any claim may be made by the Indemnified Party without Tenant's consent and without releasing Tenant from any obligations to the Indemnified Party under this Paragraph 12 so long as, in the written opinion of reputable counsel to the Indemnified Party, the settlement or payment in full is clearly advisable.

(c) Notice of Environmental Losses. If an Indemnified Party receives a written notice of Environmental Losses that such Indemnified Party believes are covered by this Paragraph 12, then such Indemnified Party will be expected to promptly furnish a copy of such notice to Tenant. The failure to so provide a copy of the notice to Tenant shall not excuse Tenant from its obligations under this Paragraph 12; provided, that if Tenant is unaware of the matters described in the notice and such failure renders unavailable defenses that Tenant might otherwise assert, or precludes actions that Tenant might otherwise take, to minimize its obligations hereunder, then Tenant shall be excused from its obligation to indemnify such Indemnified Party (and any Affiliate of such Indemnified Party) against Environmental Losses, if any, which would not have been incurred but for such failure. For example, if Landlord fails to provide Tenant with a copy of a notice of an obligation covered by the indemnity set out in subparagraph 12.(a) and Tenant is not otherwise already aware of such obligation, and if as a result of such failure Landlord becomes liable for penalties and interest covered by

the indemnity in excess of the penalties and interest that would have accrued if Tenant had been promptly provided with a copy of the notice, then Tenant will be excused from any obligation to Landlord (or any Affiliate of Landlord) to pay the excess.

(d) Rights Cumulative. The rights of each Indemnified Party under this Paragraph 12 shall be in addition to any other rights and remedies of such Indemnified Party against Tenant under the other provisions of this Lease or under any other document or instrument now or hereafter executed by Tenant, or at law or in equity (including, without limitation, any right of reimbursement or contribution pursuant to CERCLA).

(e) Survival of the Indemnity. Tenant's obligations under this Paragraph 12 shall survive the termination or expiration of this Lease. All obligations of Tenant under this Paragraph 12 shall be payable upon demand, and any amount due upon demand to any Indemnified Party by Tenant which is not paid shall bear interest from the date of such demand at a floating interest rate equal to the Default Rate, but in no event in excess of the maximum rate permitted by law.

14. Landlord's Right of Access and Right to Perform.

(a) Landlord and Landlord's representatives may enter the Leased Property, after five (5) Business Days advance written notice to Tenant (except in the event of an emergency, when no advance notice will be required), for the purpose of making inspections or performing any work Landlord is authorized to undertake by the next subparagraph. So long as Tenant remains in possession of the Leased Property, Landlord or Landlord's representative will, before making any such inspection or performing any such work on the Leased Property, if then requested to do so by Tenant to maintain Tenant's security: (i) sign in at Tenant's security or information desk if Tenant has such a desk on the premises, (ii) wear a visitor's badge or other reasonable identification provided by Tenant when Landlord or Landlord's representative first arrives at the Leased Property, (iii) permit an employee of Tenant to observe such inspection or work, and (iv) comply with other similar reasonable nondiscriminatory security requirements of Tenant that do not, individually or in the aggregate, interfere with or delay inspections or work of Landlord authorized by this Lease.

(b) If Tenant fails to perform any act or to take any action which hereunder Tenant is required to perform or take, or to pay any money which hereunder Tenant is required to pay, and if such failure or action constitutes an Event of Default or renders Landlord or any director, officer, employee or Affiliate of Landlord at risk of criminal prosecution or renders Landlord's interest in the Leased Property or any part thereof at risk of forfeiture by forced sale or otherwise, then in addition to any other remedies specified

herein or otherwise available, Landlord may, in Tenant's name or in Landlord's own name, perform or cause to be performed such act or take such action or pay such money. Any expenses so incurred by Landlord, and any money so paid by Landlord, shall be a demand obligation owing by Tenant to Landlord. Further, Landlord, upon making such payment, shall be subrogated to all of the rights of the person, corporation or body politic receiving such payment. But nothing herein shall imply any duty upon the part of Landlord to do any work which under any provision of this Lease Tenant may be required to perform, and the performance thereof by Landlord shall not constitute a waiver of Tenant's default. Landlord may during the progress of any such work permitted by Landlord hereunder on or in the Leased Property keep and store upon the Leased Property all necessary materials, tools, and equipment. Landlord shall not in any event be liable for inconvenience, annoyance, disturbance, loss of business, or other damage to Tenant or the subtenants of Tenant by reason of making such repairs or the performance of any such work on or in the Leased Property, or on account of bringing materials, supplies and equipment into or through the Leased Property during the course of such work (except for liability in connection with death or injury or damage to the property of third parties caused by the Active Negligence, gross negligence or wilful misconduct of Landlord or its officers, employees, or agents in connection therewith), and the obligations of Tenant under this Lease shall not thereby be affected in any manner.

15. Events of Default.

(a) Definition of Event of Default. Each of the following events shall be deemed to be an "EVENT OF DEFAULT" by Tenant under this Lease:

(i) Tenant shall fail to pay when due any installment of Rent due hereunder and such failure shall continue for three (3) Business Days after Tenant is notified thereof.

(ii) Tenant shall fail to cause any representation or warranty of Tenant contained herein that is false or misleading in any material respect when made to be made true and not misleading (other than as described in the other clauses of this subparagraph 14.(a)), or Tenant shall fail to comply with any term, provision or covenant of this Lease (other than as described in the other clauses of this subparagraph 14.(a)), and in either case shall not cure such failure prior to the earlier of (A) thirty (30) days after written notice thereof is sent to Tenant or (B) the date any writ or order is issued for the levy or sale of any property owned or leased by Landlord (including the Leased Property) or any criminal action is instituted against Landlord or any of its directors, officers or employees because of such failure; provided, however, that so long as no such writ or order is issued and no such criminal action is instituted, if such failure is susceptible of cure but cannot with reasonable diligence be cured within such thirty day period, and if Tenant shall promptly have commenced to cure the same and shall thereafter prosecute the curing thereof with reasonable diligence, the period within which such failure may be cured shall be extended for such further period (not to exceed an additional sixty (60) days) as shall be necessary for the curing thereof with reasonable diligence.

(iii) Tenant shall fail to comply with any term, provision or condition of the Purchase Agreement, the Pledge Agreement or the Environmental Indemnity and such failure shall continue after the last day of any applicable grace period provided for therein.

(iv) Tenant shall abandon any portion of the Leased Property.

(v) Tenant shall fail to make any payment or payments of principal, premium or interest, on any Debt of Tenant described in the next sentence when due (taking into consideration the time Tenant may have to cure such failure, if any, under the documents governing such Debt). As used in this clause 14.(a) (v), "Debt" shall mean only Debts of Tenant now existing or arising in the future (a) payable to Landlord or any Participant or any Affiliate of Landlord or any Participant, or (B) payable to any other Person and with respect to which \$3,000,000 or more is actually due and payable because of acceleration or otherwise.

(vi) Tenant or any of its Subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors;

or any proceeding shall be instituted by or against Tenant or any of its Subsidiaries seeking to adjudicate it bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of thirty (30) consecutive days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or Tenant or any of its Subsidiaries shall take any corporate action to authorize any of the actions set forth above in this clause (vi).

(vii) Any order, judgment or decree is entered in any proceedings against Tenant or any Subsidiary decreeing the dissolution of Tenant or such Subsidiary and such order, judgment or decree remains unstayed and in effect for more than sixty (60) days.

(viii) Any order, judgment or decree is entered in any proceedings against Tenant or any Subsidiary decreeing a split-up of Tenant or such Subsidiary which requires the divestiture of assets representing a substantial part, or the divestiture of the stock of a Subsidiary whose assets represent a substantial part, of the consolidated assets of Tenant and its Subsidiaries (determined in accordance with GAAP) or which requires the divestiture of assets, or stock of a Subsidiary, which shall have contributed a substantial part of the consolidated net income of Tenant and its Subsidiaries (determined in accordance with GAAP) for any of the three fiscal years then most recently ended, and such order, judgment or decree remains unstayed and in effect for more than sixty (60) days.

(ix) A final judgment or order for the payment of money in an amount (not covered by insurance) which exceeds \$3,000,000 shall be rendered against Tenant or any of its Subsidiaries and within sixty (60) days after the entry thereof, such judgment or order is not discharged or execution thereof stayed pending appeal, or within thirty (30) days after the expiration of any such stay, such judgment is not discharged.

(x) Any ERISA Termination Event that Landlord determines might constitute grounds for the termination of any Plan or for the appointment by the appropriate United States district court of a trustee to administer any Plan shall have occurred and be continuing thirty (30) days after written notice to such effect shall have been given to Tenant by Landlord, or any Plan shall be terminated, or a trustee shall be appointed by an appropriate United States district court to administer any Plan, or the Pension Benefit Guaranty Corporation shall institute proceedings to terminate any Plan or to appoint a trustee to administer any Plan.

(xi) A Change of Control Event not approved in advance by Landlord shall occur.

(xii) An "Event of Default" as defined in the Revolving Credit Agreement (taking into account any applicable notice and cure period set forth therein) by Tenant shall occur.

Notwithstanding the foregoing, any Default that could become an Event of Default under clause 14.(a)(ii) may be cured within the earlier of the periods described in clauses (A) and (B) thereof by Tenant's delivery to Landlord of a written notice irrevocably exercising Tenant's option under the Purchase Agreement to purchase Landlord's interest in the Leased Property and designating as the Designated Payment Date the next following date which is either an Advance Date or a Base Rent Date and which is at least ten (10) days after the date of such notice; provided, however, Tenant must, as a condition to the effectiveness of its cure, on the date so designated as the Designated Payment Date tender to Landlord the full purchase price required by the Purchase Agreement and all Rent and all other amounts then due or accrued and unpaid hereunder (including reimbursement for any costs incurred by Landlord in connection with the

applicable Default hereunder, regardless of whether Landlord shall have been reimbursed for such costs in whole or in part by any Participants) and Tenant must also furnish written confirmation that all indemnities set forth herein (including specifically, but without limitation, the general indemnity set forth in subparagraph 9.(y) and the environmental indemnity set forth in Paragraph 12) shall survive the payment of such amounts by Tenant to Landlord and the conveyance of Landlord's interest in the Leased Property to Tenant.

(b) Remedies. Upon the occurrence of an Event of Default which is not cured within any applicable period expressly permitted by subparagraph 14.(a), at Landlord's option and without limiting

Landlord in the exercise of any other right or remedy Landlord may have on account of such default, and without any further demand or notice except as expressly described in this subparagraph 14.(b):

(i) By notice to Tenant, Landlord may terminate Tenant's right to possession of the Leased Property. A notice given in connection with unlawful detainer proceedings specifying a time within which to cure a default shall terminate Tenant's right to possession if Tenant fails to cure the default within the time specified in the notice.

(ii) Upon termination of Tenant's right to possession and without further demand or notice, Landlord may re-enter the Leased Property and take possession of all improvements, additions, alterations, equipment and fixtures thereon and remove any persons in possession thereof. Any property in the Leased Property may be removed and stored in a warehouse or elsewhere at the expense and risk of and for the account of Tenant.

(iii) Upon termination of Tenant's right to possession, this Lease shall terminate and Landlord may recover from Tenant:

a) The worth at the time of award of the unpaid Rent which had been earned at the time of termination;

b) The worth at the time of award of the amount by which the unpaid Rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided;

c) The worth at the time of award of the amount by which the unpaid Rent for the balance of the scheduled Term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; and

d) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, the costs and expenses (including Attorneys' Fees, advertising costs and brokers' commissions) of recovering possession of the Leased Property, removing persons or property therefrom, placing the Leased Property in good order, condition, and repair, preparing and altering the Leased Property for reletting, all other costs and expenses of reletting, and any loss incurred by Landlord as a result of Tenant's failure to perform Tenant's obligations under the Purchase Agreement.

The "WORTH AT THE TIME OF AWARD" of the amounts referred to in subparagraph 14.(b)(iii)a) and subparagraph 14.(b)(iii)b) shall be computed by allowing interest at the Default Rate or such other rate as may be the maximum interest rate then permitted to be charged under California law at the time of computation. The "WORTH AT THE TIME OF AWARD" of the amount referred to in subparagraph 14.(b)(iii)c) shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

e) Such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable California law.

(iv) The Landlord shall have the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in force even after lessee's breach and abandonment and recover rent as it becomes due, if lessee has right to sublet or assign, subject only to reasonable limitations).

Accordingly, even though Tenant has breached this Lease and abandoned the Leased Property, this Lease shall continue in effect for so long as Landlord does not terminate Tenant's right to possession, and Landlord may enforce all of Landlord's rights and remedies under this Lease, including the right to recover the Rent as it becomes due under this Lease. Tenant's right to possession shall not be deemed to have been terminated by Landlord except pursuant to subparagraph 14.(b)(i) hereof. The following shall not constitute a termination of Tenant's right to possession:

a) Acts of maintenance or preservation or efforts to relet the Leased Property;

b) The appointment of a receiver upon the initiative of Landlord to protect Landlord's interest under this Lease; or

c) Reasonable withholding of consent to an assignment or subletting, or terminating a subletting or assignment by Tenant.

(c) Enforceability. This Paragraph 14 shall be enforceable to the maximum extent not prohibited by Applicable Law, and the unenforceability of any provision in this Paragraph shall not render any other provision unenforceable.

(d) Remedies Cumulative. No right or remedy herein conferred upon or reserved to Landlord is intended to be exclusive of any other right or remedy, and each and every right and remedy shall be cumulative and in addition to any other right or remedy given hereunder or now or hereafter existing under Applicable Law or in equity. In addition to other remedies provided in this Lease, Landlord shall be entitled, to the extent permitted by Applicable Law, to injunctive relief in case of the violation, or attempted or threatened violation, of any of the covenants, agreements, conditions or provisions of this Lease to be performed by Tenant, or to a decree compelling performance of any of the other covenants, agreements, conditions or provisions of this Lease to be performed by Tenant, or to any other remedy allowed to Landlord under Applicable Law or in equity. Nothing contained in this Lease shall limit or prejudice the right of Landlord to prove for and obtain in proceedings for bankruptcy or insolvency of Tenant by reason of the termination of this Lease, an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the proceedings in which, the damages are to be proved, whether or not the amount be greater, equal to, or less than the amount of the loss or damages referred to above. Without limiting the generality of the foregoing, nothing contained herein shall modify, limit or impair any of the rights and remedies of Landlord under the Purchase Agreement, the Pledge Agreement or the Environmental Indemnity.

(e) Waiver by Tenant. To the extent permitted by law, Tenant hereby waives and surrenders for itself and all claiming through Tenant under this Lease, including creditors of all kinds, (i) any right and privilege which it or any of them may have under any present or future constitution, statute or rule of law to have a continuance of this Lease for the term hereby demised after termination of Tenant's right of occupancy by order or judgment of any court or by any legal process or writ, or under the terms of this Lease, or after the termination of this Lease as herein provided, and (ii) the benefits of any present or future constitution, or statute or rule of law which exempts property from liability for debt or for distress for rent, and (iii) the provisions of law relating to notice and/or delay in levy of execution in case of eviction of a lessee for nonpayment of rent.

(f) No Implied Waiver. The failure of Landlord to insist at any time upon the strict performance of any covenant or agreement or to exercise any option, right, power or remedy contained in this Lease shall not be construed as a waiver or a relinquishment thereof for the future. The waiver of or redress for any violation by Tenant of any term, covenant, agreement or condition contained in this Lease shall not prevent a

similar subsequent act from constituting a violation. Any express waiver shall affect only the term or condition specified in such waiver and only for the time and in the manner specifically stated therein. A receipt by Landlord of any Base Rent or other payment hereunder with knowledge of the breach of any covenant or agreement contained in this Lease shall not be deemed a waiver of such breach, and no waiver by Landlord of any provision of this Lease shall be deemed to have been made unless expressed in writing and signed by Landlord.

16. Default by Landlord. If Landlord should default in the performance of any of its obligations under this Lease, Landlord shall have the

time reasonably required, but in no event less than thirty (30) days, to cure such default after receipt of written notice from Tenant specifying such default and specifying what action Tenant believes is necessary to cure the default. If Tenant prevails in any litigation brought against Landlord because of Landlord's failure to cure a default within the time required by the preceding sentence, then Tenant shall be entitled to an award against Landlord for the damages proximately caused to Tenant by such default.

17. Quiet Enjoyment. Provided Tenant pays the Base Rent and all Additional Rent payable hereunder as and when due and payable and keeps and fulfills all of the terms, covenants, agreements and conditions to be performed by Tenant hereunder, Landlord shall not during the Term disturb Tenant's peaceable and quiet enjoyment of the Leased Property; however, such enjoyment shall be subject to the terms, provisions, covenants, agreements and conditions of this Lease and the Permitted Encumbrances and any other claims or encumbrances not lawfully made through or under Landlord, to which this Lease is subject and subordinate as hereinabove set forth. Any breach by Landlord of the foregoing covenant of quiet enjoyment shall, subject to the other provisions of this Lease, render Landlord liable to Tenant for any monetary damages proximately caused thereby, but as more specifically provided in Paragraph 5 above, no such breach shall entitle Tenant to terminate this Lease or excuse Tenant from its obligation to pay Base Rent and other amounts hereunder.

18. Surrender Upon Termination. Unless Tenant or an Applicable Purchaser purchases Landlord's entire interest in the Leased Property pursuant to the terms of the Purchase Agreement, Tenant shall, upon the termination of Tenant's right to occupancy, surrender to Landlord the Leased Property, including any buildings, alterations, improvements, replacements or additions constructed by Tenant, with all fixtures and furnishings included in the Initial Improvements, but not including movable furniture and movable personal property not covered by this Lease, free of all Hazardous Substances (including Permitted Hazardous Substances) and tenancies and, to the extent required by Landlord, with all Initial Improvements in the same condition as of the date the same were initially completed, excepting only (i) ordinary wear and tear (provided that the Leased Property shall have been maintained as required by the other provisions hereof) and (ii) alterations and additions which are expressly permitted by the terms of this Lease and which have been completed by Tenant in a good and workmanlike manner in accordance with all Applicable Laws. Any movable furniture or movable personal property belonging to Tenant or any party claiming under Tenant, if not removed at the time of such termination and if Landlord shall so elect, shall be deemed abandoned and become the property of Landlord without any payment or offset therefor. If Landlord shall not so elect, Landlord may remove such property from the Leased Property and store it at Tenant's risk and expense. Tenant shall bear the expense of repairing any damage to the Leased Property caused by such removal by Landlord or Tenant.

19. Holding Over by Tenant. Should Tenant not purchase Landlord's right, title and interest in the Leased Property as provided in the Purchase Agreement, but nonetheless continue to hold the Leased Property after the termination of this Lease without Landlord's written consent, whether such termination occurs by lapse of time or otherwise, such holding over shall constitute and be construed as a tenancy from day to day only, at a daily Base Rent equal to: (i) Stipulated Loss Value on the day in question, times (ii) (A) the Prime Rate in effect for such day so long as the holdover period does not extend beyond ninety (90) days and (B) for each such day beginning with the ninety-first day after the holdover commences, three percent (3%) above the Prime Rate; divided by (iii) 360; subject, however, to all of the terms, provisions, covenants and agreements on the part of

Tenant hereunder. No payments of money by Tenant to Landlord after the termination of this Lease shall reinstate, continue or extend the Term of this Lease and no extension of this Lease after the termination thereof shall be valid unless and until the same shall be reduced to writing and signed by both Landlord and Tenant.

20. Miscellaneous.

(a) Notices. Each provision of this Lease, or of any Applicable Laws with reference to the sending, mailing or delivery of any notice or with reference to the making of any payment by Tenant to Landlord, shall be deemed to be complied with when and if the following steps are taken:

(i) All Rent required to be paid by Tenant to Landlord hereunder shall be paid to Landlord in immediately available funds by wire transfer to:

Federal Reserve Bank of San Francisco
Account: Banque Nationale de Paris
ABA #: 121027234

Reference: KIA Instruments Lease (Phase III).

or at such other place and in such other manner as Landlord may

designate in a notice to Tenant (provided Landlord will not unreasonably designate a method of payment other than wire transfer). Time is of the essence as to all payments and other obligations of Tenant under this Lease.

(ii) All Construction Advances required to be paid to Tenant by Landlord hereunder shall be paid to Tenant in immediately available funds by wire transfer to:

Bank of America
Account Name: KLA Instruments Corporation
Account Number: 1483100220
ABA #: 121000358

Reference: Construction Advance

or at such other place and in such other manner as Tenant may designate in a notice to Landlord (provided Tenant will not unreasonably designate a method of payment other than wire transfer). Time is of the essence as to the payment of all Construction Advances required of Landlord under this Lease.

(iii) All notices, demands and other communications to be made hereunder to the parties hereto shall be in writing (at the addresses set forth below) and shall be given by any of the following means: (A) personal service, with proof of delivery or attempted delivery retained; (B) electronic communication, whether by telex, telegram or telecopying (if confirmed in writing sent by United States first class mail, return receipt requested); or (C) registered or certified first class mail, return receipt requested. Such addresses may be changed by notice to the other parties given in the same manner as provided above. Any notice or other communication sent pursuant to clause (A) or (C) hereof shall be deemed received (whether or not actually received) upon first attempted delivery at the proper notice address on any Business Day between 9:00 A.M. and 5:00 P.M., and any notice or other communication sent pursuant to clause (B) hereof shall be deemed received upon dispatch by electronic means.

Address of Landlord:

BNP Leasing Corporation
717 North Harwood Street
Suite 2630
Dallas, Texas 75201
Attention: Lloyd Cox
Telecopy: (214) 969-0060

With a copy to:

Banque Nationale de Paris
180 Montgomery Street
San Francisco, California 94104
Attention: Rafael C. Lumanlan
Telecopy: (415) 296-8954

And with a copy to:

Dorothy H. Bjorck
Thompson & Knight, P.C.
1700 Pacific Avenue
Suite 3300,
Dallas, Texas 75201
Telecopy: (214) 969-1550

Address of Tenant:

KLA Instruments Corporation
160 Rio Robles
San Jose, California 95134
Attn: Christopher Stoddart, Treasurer
Telecopy: (408) 434-4268

With a copy to:

Gray Cary Ware & Freidenrich
400 Hamilton Avenue
Palo Alto, California 94301
Attn: Jonathan E. Rattner, Esq.
Telecopy: (415) 328-3029

(b) Severability. If any term or provision of this Lease or the application thereof shall to any extent be held by a court of competent jurisdiction to be invalid and unenforceable, the remainder of this Lease, or the application of such term or provision other than to the extent to which it is invalid or unenforceable, shall not be affected thereby.

(c) No Merger. There shall be no merger of this Lease or of the leasehold estate hereby created with the fee or any other estate in the Leased Property or any part thereof by reason of the fact that the same person may acquire or hold, directly or indirectly, this Lease or the leasehold estate hereby created or any interest in this Lease or in such leasehold estate as well as the fee or any other estate in the Leased Property or any interest in such fee or other estate, unless all Persons with an interest in the Leased Property that would be adversely affected by any such merger specifically agree in writing that such a merger shall occur.

(d) NO IMPLIED REPRESENTATIONS BY LANDLORD. LANDLORD AND LANDLORD'S AGENTS HAVE MADE NO REPRESENTATIONS OR PROMISES WITH RESPECT TO THE LEASED PROPERTY EXCEPT AS EXPRESSLY SET FORTH HEREIN, AND NO RIGHTS, EASEMENTS OR LICENSES ARE ACQUIRED BY TENANT BY IMPLICATION OR OTHERWISE EXCEPT AS EXPRESSLY SET FORTH IN THE PROVISIONS OF THIS LEASE, THE PURCHASE AGREEMENT AND THE PLEDGE AGREEMENT.

(e) Entire Agreement. This Lease and the instruments referred to herein supersede any prior negotiations and agreements between the parties concerning the Leased Property and no amendment or modification of this Lease shall be binding or valid unless expressed in a writing executed by both parties hereto.

(f) Binding Effect. All of the covenants, agreements, terms and conditions to be observed and performed by the parties hereto shall be applicable to and binding upon their respective successors and, to the extent assignment is permitted hereunder, their respective assigns.

(g) Time is of the Essence. Time is of the essence as to all obligations of Tenant and all notices required of Tenant under this Lease, but this subparagraph shall not limit Tenant's opportunity to prevent an Event of Default by curing any breach within the cure period (if any) applicable under subparagraph 14.(a).

(h) Governing Law. This Lease shall be governed by and construed in accordance with the laws of the State of California.

(i) Waiver of a Jury Trial. LANDLORD AND TENANT EACH HEREBY WAIVES ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS LEASE OR ANY OTHER DOCUMENT OR DEALINGS BETWEEN THEM RELATING TO THIS LEASE OR THE LEASED PROPERTY. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including, without limitation, contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. Tenant and Landlord each acknowledge that this waiver is a material

inducement to enter into a business relationship, that each has already relied on the waiver in entering into this Lease and the other documents referred to herein, and that each will continue to rely on the waiver in their related future dealings. Tenant and Landlord each further warrants and represents that it has reviewed this waiver with its legal counsel, and that it knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS LEASE OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THIS LEASE OR THE LEASED PROPERTY. In the event of litigation, this Lease may be filed as a written consent to a trial by the court.

(j) Income Tax Reporting. Landlord and Tenant intend this Lease and the Purchase Agreement to have a form for income taxes which is different than the form of this Lease and the Purchase Agreement for other purposes, and thus the parties acknowledge and agree as follows:

a) FOR PURPOSES OF DETERMINING THEIR RESPECTIVE FEDERAL, STATE AND LOCAL INCOME TAX OBLIGATIONS, Landlord and Tenant believe and intend that this Lease and the Purchase Agreement constitute a financing arrangement or conditional sale. Both Landlord and Tenant agree to report this Lease and the Purchase Agreement as a financing arrangement or conditional sale on their respective income tax returns (the "REQUIRED REPORTING"), unless such Required Reporting is challenged in writing by the Internal Revenue Service or another governmental authority with jurisdiction (a "TAX CHALLENGE"). Consistent with the foregoing, Landlord and Tenant expect that Tenant (and not Landlord) shall be treated as the true owner of the Property for income tax

purposes, thereby entitling Tenant (and not Landlord) to take depreciation deductions and other tax benefits available to the owner. Tenant shall also report all interest earned on Escrowed Proceeds or the collateral covered by the Pledge Agreement as Tenant's income for federal, state and local income tax purposes. REFERENCES IN THIS LEASE OR IN THE PURCHASE AGREEMENT TO A "LEASE" OF THE "LEASED PROPERTY" ARE NOT INTENDED FOR INCOME TAX PURPOSES TO REFLECT THE INTENT OF LANDLORD OR TENANT AS TO THE FORM OF THE TRANSACTIONS COVERED BY, OR THE PROPER CHARACTERIZATION OF, THIS LEASE AND THE PURCHASE AGREEMENT.

b) FOR ALL OTHER PURPOSES, INCLUDING THE DETERMINATION OF THE APPROPRIATE FINANCIAL ACCOUNTING FOR THIS LEASE AND THE DETERMINATION OF THEIR RESPECTIVE RIGHTS AND REMEDIES UNDER STATE LAW, Landlord and Tenant believe and intend that (i) this Lease constitutes a true Lease, not a mere financing arrangement, enforceable in accordance with its express terms (and neither this subparagraph 20.(j) the provisions referencing this subparagraph on the title page of this Lease and in the Purchase Agreement are intended to affect the enforcement of any other provisions of this Lease or the Purchase Agreement) and (ii) the Purchase Agreement shall constitute a separate and independent contract, enforceable in accordance with the express terms and conditions set forth therein. In this regard, Tenant acknowledges that Tenant asked Landlord to participate in the transactions evidenced by this Lease and the Purchase Agreement as a landlord and owner of the Leased Property, not as a lender. Although other transactions might have been used to accomplish similar results, Tenant expects to receive certain material accounting and other advantages through the use of a lease transaction. Accordingly, and notwithstanding the Required Reporting for income tax purposes, Tenant cannot equitably deny that this Lease and the Purchase Agreement should be construed and enforced in accordance with their respective terms, rather than as a mortgage or other security device, in any action brought by Landlord to enforce this Lease or the Purchase Agreement.

In the event of a Tax Challenge, Landlord and Tenant shall each provide to the other copies of all notices from the Internal Revenue Service or any other governmental authority presenting the Tax Challenge. Further, before changing from the Required Reporting because of a Tax Challenge, Landlord and Tenant shall each consider in good faith any reasonable suggestions received from the other party to this Lease about an appropriate response to the Tax Challenge; provided, however, that the suggestions are set forth in a written notice delivered no later than thirty (30) days after the suggesting party is first notified of the Tax Challenge; and, provided further, that when presented with a Tax Challenge, Landlord and Tenant shall each have the right to change from the Required Reporting rather than participate in any litigation or other legal proceeding against the Internal Revenue Service or another governmental authority. In any event, Tenant must indemnify and hold harmless Landlord from and against all liabilities, costs, additional taxes and other expenses that may arise or become due because of any challenge to the Required Reporting or because of any resulting recharacterization of this Lease or the Purchase Agreement required by the Internal Revenue Service or another governmental authority, including any additional taxes that may become due upon any sale under the Purchase Agreement, to the extent (if any) that such liabilities, costs, additional taxes and other expenses are not offset by tax savings resulting from additional depreciation deductions or other tax benefits to Landlord of the recharacterization.

IN WITNESS WHEREOF, this Lease is hereby executed in multiple originals as of the effective date above set forth.

"Landlord"

BNP LEASING CORPORATION

By:

Name: Lloyd G. Cox
Title: Vice President

"Tenant"

KLA INSTRUMENTS CORPORATION

By:

Name: Christopher Stoddart
Title: Treasurer

STATE OF TEXAS)
)
COUNTY OF DALLAS)

On August 10, 1995, before me, _____, personally appeared Lloyd G. Cox, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

STATE OF CALIFORNIA)
)
COUNTY OF SANTA CLARA)

On August 10, 1995, before me, _____, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.

Signature _____

Exhibit A

PROPERTY DESCRIPTION

REAL PROPERTY in the City of San Jose, State of California, described as follows:

Exhibit B

PERMITTED ENCUMBRANCES

This conveyance is subject to the following matters, but only to the extent the same are still valid and in full force and effect:

Exhibit C

DESCRIPTION OF RENDERINGS OF THE INITIAL IMPROVEMENTS

Intentionally omitted.

Exhibit C-1-

Exhibit D

[KLA Instruments Lease Phase III]

ESTOPPEL FROM CONTRACTORS

BNP Leasing Corporation
717 North Harwood Street
Suite 2630
Dallas, Texas 75201

Attention: Lloyd Cox

Re: Assignment of Construction Contract

Ladies and Gentlemen:

The undersigned hereby confirms, warrants and represents to BNP Leasing Corporation, a Delaware corporation ("BNP"), and covenants with BNP as follows:

21. The undersigned has entered into that certain [Construction Contract] (the "CONSTRUCTION CONTRACT") by and between the undersigned and KLA Instruments Corporation ("TENANT") dated , 199__ for the construction of the multiuse complex to be constructed on the campus leased by Tenant (the "IMPROVEMENTS") located on the land described in Exhibit A attached hereto and made a part hereof for all purposes (the "LAND" and, together with the Improvements and any other improvements now on or constructed in the future on the Land, being herein collectively referred to as the "PROJECT").

22. The undersigned has been advised that BNP owns the Land.

23. The undersigned has also received a copy of the Lease Agreement dated as of August 10, 1995 (the "LEASE"), pursuant to which BNP is leasing the Project to Tenant, and BNP has agreed, subject to the terms and conditions of the Lease, to provide a construction allowance for Tenant's construction of the Improvements. The Lease also requires Tenant to fulfill all obligations of the ["Owner"] under the Construction Contract and related documents and to indemnify BNP against any liability arising thereunder, all as more particularly provided in the Lease, reference to which is hereby made for all purposes.

24. A complete and correct copy of the Construction Contract is attached to this letter. The Construction Contract is in full force and effect and has not been modified or amended.

25. The undersigned has not sent to Tenant or received from Tenant any notice of default or any other notice for the purpose of terminating the Construction Contract, nor is there any existing circumstance or event which, but for the elapse of time or otherwise, would constitute a default by the undersigned or the ["Owner"] under the Construction Contract.

The undersigned acknowledges and agrees that:

BNP Leasing Corporation

_____, 199__

Page 2

a) BNP shall not be held liable for, and the undersigned shall not assert, any claims, demands or liabilities against BNP or, except for statutory lien rights, against the Project arising under or in any way relating to the Construction Contract; provided, this paragraph will not prohibit the undersigned from asserting any claims or making demands under the Construction Contract if BNP elects in writing, pursuant to Paragraph b) below, to assume the Construction Contract in the event Tenant's right to possession of the Land is terminated, in which event BNP shall be liable thereunder for (but only for) any acts or omissions on the part of BNP occurring after the date on which BNP notifies the undersigned of BNP's election to assume the Construction Contract.

b) Upon any termination of Tenant's right to possession of the Project under the Lease, including but not limited to any eviction of Tenant resulting from an Event of Default (as defined in the Lease), BNP may, by notice to the undersigned and without the necessity of the execution of any other document, assume Tenant's rights and obligations under the Construction Contract, cure any defaults by Tenant thereunder and enforce the Construction Contract and all rights of the ["Owner"] thereunder. Within ten (10) days of receiving notice from BNP that Tenant's right to possession has been terminated, the undersigned shall send to BNP a written estoppel letter stating: (i) that the undersigned has not performed any act or executed any other instrument which invalidates or modifies the Construction Contract in whole or in part (or, if so, the nature of such modification); (ii) that the Construction Contract is valid and subsisting and in full force and effect; (iii) that there are no defaults or events of default then existing under the Construction Contract and no event has occurred which with the passage of time or the giving of notice, or both, would constitute such a default or event of default (or, if there is a default, the nature of such default in detail); (iv) that the construction contemplated by the Construction Contract is proceeding in a satisfactory manner in all material respects (or if not, a detailed description of all significant problems with the progress of construction); (v) a reasonably detailed report of

the then critical dates projected by the undersigned for work and deliveries required to complete the construction project; (vi) the total amount paid for construction through the date of the letter; (vii) the estimated total cost of completing such construction as of the date of the letter, together with a current draw schedule; and (viii) any other information BNP may request to allow it to decide whether to assume the Construction Contract. BNP shall have thirty (30) days from receipt of such written certificate containing all such requested information to decide whether to assume the Construction Contract. If BNP fails to assume the Construction Contract within such time, the undersigned agrees that BNP shall not be liable for (and the undersigned shall not assert or bring any action against BNP or, except for statutory lien rights not waived, against the Land or improvements thereon for) any damages or other amounts resulting from the breach or termination of the Construction Contract or under any other theory of liability of any kind or nature, but rather the undersigned shall look solely to Tenant and any statutory lien rights not waived for the recovery of any such damages or other amounts.

c) If BNP notifies the undersigned that BNP shall not assume the Construction Contract pursuant to the preceding paragraph following the termination of Tenant's right to possession of the Project under the Lease, the undersigned shall immediately discontinue the work under the Construction Contract and remove its personnel from the Project, and BNP shall be entitled to take exclusive possession of the Project and all or any part of the equipment and materials delivered or en route to the Project. The undersigned shall also, upon request by BNP, deliver and assign to BNP all plans and specifications and other contract documents previously delivered to the undersigned (except that the undersigned may keep an original set of the Construction Contract and other contract documents executed by Tenant), all other material relating to the work which belongs to BNP or Tenant, and all papers and documents relating to governmental permits, orders placed, bills and invoices, lien releases and financial management under the Construction Contract. Notwithstanding the undersigned's receipt of any notice from BNP that BNP declines to assume the Construction Contract, the undersigned shall for a period not to exceed fifteen (15) days after receipt of such notice

Exhibit D-2-

BNP Leasing Corporation
_____, 199____

Page 3

take such steps, at BNP's expense, as are reasonably necessary to preserve and protect work completed and in progress and to protect materials, equipment and supplies at the site or in transit.

d) No action taken by BNP or the undersigned with respect to the Construction Contract shall prejudice any other rights or remedies of BNP or the undersigned provided by law, by the Lease, by the Construction Contract or otherwise against Tenant.

e) The undersigned agrees promptly to notify BNP of any material default or claimed material default by Tenant under the Construction Contract, describing with particularity the default and the action the undersigned believes is necessary to cure the same. The undersigned will send any such notice to BNP prominently marked "URGENT - NOTICE OF TENANT'S DEFAULT UNDER CONSTRUCTION AGREEMENT WITH KLA INSTRUMENTS CORPORATION - SAN JOSE CALIFORNIA" at the address specified for notice below (or at such other addresses as BNP shall designate in notice sent to the undersigned), by certified or registered mail, return receipt requested. Following receipt of such notice, the undersigned will permit BNP or its designee to cure any such default within the time period reasonably required for such cure, but in no event less than thirty (30) days. If it is necessary or helpful to take possession of all or any portion of the Project to cure a default by Tenant under the Construction Contract, the time permitted by the undersigned for cure by BNP will include the time necessary to terminate Tenant's right to possession of the Project and evict Tenant, provided that BNP commences the steps required to exercise such right within sixty (60) days after it is entitled to do so under the terms of the Lease and applicable law. If the undersigned incurs additional costs due to the extension of the aforementioned cure period, the undersigned shall be entitled to an equitable adjustment to the price of the Construction Contract for such additional costs.

f) Any notice or communication required or permitted hereunder shall be given in writing, sent by (a) personal delivery or (b) expedited delivery service with proof of delivery or (c) United States mail, postage prepaid, registered or certified mail or (d) telegram, telex or telecopy, addressed as follows:

To the undersigned: _____

To BNP:

BNP Leasing Corporation

717 North Harwood Street
Suite 2630
Dallas, Texas 75201

g) The undersigned acknowledges that it has all requisite authority to execute this letter. The undersigned further acknowledges that BNP has requested this letter, and is relying on the truth and accuracy of the representations made herein, in connection with BNP's decision to advance funds for construction under the Lease with Tenant.

Very truly yours,

Exhibit D-3-

BNP Leasing Corporation
_____, 199__
Page 4

By: _____
Name: _____
Title: _____

Tenant joins in the execution of this letter solely for the purpose of evidencing its consent hereto, including its consent to the provisions that would allow, but not require, BNP to assume the Construction Contract in the event Tenant is evicted from the Project.

KLA Instruments Corporation

By: _____
Name: _____
Title: _____

Exhibit D-4-

Exhibit E

ESTOPPEL FROM ARCHITECTS/ENGINEERS
KLA INSTRUMENTS LEASE (PHASE III)

_____, 199__

BNP Leasing Corporation
717 North Harwood Street
Suite 2630
Dallas, Texas 75201

Attention: Lloyd Cox

Re: Assignment of [Architect's/Engineer's Agreement]

Ladies and Gentlemen:

The undersigned hereby confirms, warrants and represents to BNP Leasing Corporation, a Delaware corporation ("BNP"), and covenants with BNP as follows:

26. The undersigned has entered into that certain [Architects/Engineers Agreement] (the "AGREEMENT") by and between the undersigned and KLA Instruments Corporation ("TENANT") dated _____, 199__ for the [design] of the multiuse complex to be constructed on the San Jose campus leased by Tenant (the "IMPROVEMENTS") located on the land described in Exhibit A attached hereto and made a part hereof for all purposes (the "LAND" and, together with the Improvements and any other improvements now on or constructed in the future on the Land, being herein collectively referred to as the "PROJECT").

27. The undersigned has been advised that BNP owns the Land.

28. The undersigned has also received a copy of the Lease Agreement dated as of August 10, 1995 (the "LEASE"), pursuant to which BNP is leasing the Project to Tenant, and BNP has agreed, subject to the terms and conditions of the Lease, to provide a construction allowance for Tenant's construction of the Improvements. The Lease also requires Tenant to fulfill all obligations of the ["Owner"] under the Agreement and related documents and to indemnify BNP against any liability arising thereunder, all as more particularly provided in the Lease, reference to which is hereby made for all purposes.

29. A complete and correct copy of the Agreement is attached to this letter. The Agreement is in full force and effect and has not been modified

or amended.

30. The undersigned has not sent to Tenant or received from Tenant any notice of default or any other notice for the purpose of terminating the Agreement, nor is there any existing circumstance or event which, but for the elapse of time or otherwise, would constitute a default by the undersigned or the ["Owner"] under the Agreement.

1.

The undersigned acknowledges and agrees that:

BNP Leasing Corporation

_____, 199____

Page 2

a) BNP shall not be held liable for, and the undersigned shall not assert, any claims, demands or liabilities against BNP or, except for any statutory lien rights, against the Project arising under or in any way relating to the Agreement; provided, this paragraph will not prohibit the undersigned from asserting any claims or making demands under the Agreement if BNP elects in writing, pursuant to Paragraph b) below, to assume the Agreement in the event Tenant's right to possession of the Land is terminated, in which event BNP shall be liable thereunder for (but only for) any acts or omissions on the part of BNP occurring after the date on which BNP notifies the undersigned of BNP's election to assume the Agreement.

b) Upon any termination of Tenant's right to possession of the Project under the Lease, including but not limited to any eviction of Tenant resulting from an Event of Default (as defined in the Lease), BNP may, by notice to the undersigned and without the necessity of the execution of any other document, assume Tenant's rights and obligations under the Agreement, cure any defaults by Tenant thereunder and enforce the Agreement and all rights of the ["Owner"] thereunder. Within ten (10) days of receiving notice from BNP that Tenant's right to possession has been terminated, the undersigned shall send to BNP a written estoppel letter stating: (i) that the undersigned has not performed any act or executed any other instrument which invalidates or modifies the Agreement in whole or in part (or, if so, the nature of such modification); (ii) that the Agreement is valid and subsisting and in full force and effect; (iii) that there are no defaults or events of default then existing under the Agreement and no event has occurred which with the passage of time or the giving of notice, or both, would constitute such a default or event of default (or, if there is a default, the nature of such default in detail); (iv) that the construction contemplated by the Agreement is proceeding in a satisfactory manner in all material respects (or if not, a detailed description of all significant problems with the progress of construction); (v) a reasonably detailed report of the then critical dates projected by the undersigned for work and deliveries required to complete the Project; (vi) the total amount paid and due for services rendered under the Agreement through the date of the letter; (vii) the estimated total cost of completing services contemplated by the Agreement after the date of the letter, together with a projected payment schedule; and (viii) any other information BNP may request to allow it to decide whether to assume the Agreement. BNP shall have thirty (30) days from receipt of such written certificate containing all such requested information to decide whether to assume the Agreement. If BNP fails to assume the Agreement within such time, the undersigned agrees that BNP shall not be liable for (and the undersigned shall not assert or bring any action against BNP or, except for any statutory lien rights not waived, against the Land or improvements thereon for) any damages or other amounts resulting from the breach or termination of the Agreement or under any other theory of liability of any kind or nature, but rather the undersigned shall look solely to Tenant and any statutory lien rights not waived for the recovery of any such damages or other amounts.

c) If BNP notifies the undersigned that BNP shall not assume the Agreement pursuant to the preceding paragraph following the termination of Tenant's right to possession of the Project under the Lease, the undersigned shall immediately discontinue the work under the Agreement and remove its personnel from the Project, and BNP shall be entitled to obtain and use plans and specifications prepared under the Agreement with respect to the Project. The undersigned shall also, upon request by BNP, deliver to BNP all such plans and specifications, all other contract documents previously delivered to the undersigned (except that the undersigned may keep an original set of the Agreement and other contract documents executed by Tenant), all other material relating to the work which belongs to BNP or Tenant, and all papers and documents relating to governmental permits, orders placed, bills and invoices, lien releases and financial management under the Agreement.

d) No action taken by BNP or the undersigned with respect to the Agreement shall prejudice any other rights or remedies of BNP or the undersigned provided by law, by the Lease, by the Agreement or otherwise against Tenant.

BNP Leasing Corporation
_____, 199____
Page 3

e) The undersigned agrees promptly to notify BNP of any material default or claimed material default by Tenant under the Agreement, describing with particularity the default and the action the undersigned believes is necessary to cure the same. The undersigned will send any such notice to BNP prominently marked "URGENT NOTICE OF TENANT'S DEFAULT UNDER AGREEMENT WITH KLA INSTRUMENTS CORPORATION - SAN JOSE CALIFORNIA" at the address specified for notice below (or at such other addresses as BNP shall designate in notice sent to the undersigned), by certified or registered mail, return receipt requested. Following receipt of such notice, the undersigned will permit BNP or its designee to cure any such default within the time period reasonably required for such cure, but in no event less than thirty (30) days. If it is necessary or helpful to take possession of all or any portion of the Project to cure a default by Tenant under the Agreement, the time permitted by the undersigned for cure by BNP will include the time necessary to terminate Tenant's right to possession of the Project and evict Tenant, provided that BNP commences the steps required to exercise such right within sixty (60) days after it is entitled to do so under the terms of the Lease and applicable law.

f) Any notice or communication required or permitted hereunder shall be given in writing, sent by (a) personal delivery or (b) expedited delivery service with proof of delivery or (c) United States mail, postage prepaid, registered or certified mail or (d) telegram, telex or telecopy, addressed as follows:

To the undersigned: _____

To BNP: BNP Leasing Corporation
717 North Harwood Street
Suite 2630
Dallas, Texas 75201

g) The undersigned acknowledges that it has all requisite authority to execute this letter. The undersigned further acknowledges that BNP has requested this letter, and is relying on the truth and accuracy of the representations made herein, in connection with BNP's decision to advance funds for construction under the Lease with Tenant.

Very truly yours,

By: _____
Name: _____
Title: _____

BNP Leasing Corporation
_____, 199____
Page 4

Tenant joins in the execution of this letter solely for the purpose of evidencing its consent hereto, including its consent to the provisions that would allow, but not require, BNP to assume the Agreement in the event Tenant is evicted from the Project.

KLA Instruments Corporation
By: _____
Name: _____
Title: _____

180 Montgomery Street
San Francisco, California 94104

Attention: Rafael C. Lumanlan

Re: Construction Advance Request No. _____
by KLA Instruments Corporation

Ladies and Gentlemen:

Reference is made to the Lease Agreement between BNP Leasing Corporation, as landlord (herein "LANDLORD"), and KLA Instruments Corporation, as tenant (herein "TENANT"), dated as of August 10, 1995 (herein "THE LEASE"). Capitalized terms defined in the Lease and used but not defined in this letter are intended to have the meanings assigned to them in the Lease.

Tenant hereby makes request for a Construction Advance in the amount of \$ _____ (herein the "CURRENT ADVANCE"). Included herewith are:

1. An Application and Certificate for Payment based on AIA Form G702 (herein the "CONTRACTOR'S APPLICATION") from Tenant's general contractor, attached to which is a schedule of values listing all subcontractors, suppliers and other parties to whom the general contractor has or will make payments from the draw requested in the Contractor's Application. The Contractor's Application evidences an obligation incurred by (and previously paid by) Tenant for construction of Improvements and for which Tenant is entitled to reimbursement from the Current Advance.
2. A list of any costs paid by Tenant, other than to the general contractor, for which Tenant is entitled to reimbursement from the proceeds of the Current Advance (herein the "OTHER COSTS LIST").
3. Invoices and requests for payments from the subcontractors and others entitled to payment from the general contractor for construction and related work covered by the Contractor's Application; excluding, however, invoices or requests from some or all subcontractors and others that, according to

Exhibit F-1-

BNP Leasing Corporation
_____, 199 ____
Page 2

the Contractor's Application, are to be paid less than \$300,000 from the draw requested in Contractor's Application. Such invoices and requests for payments are consistent with the detail shown in the schedule of values attached to the Contractor's Application.

4. Invoices or other evidence of the costs (if any) included in the Other Costs List.
5. A list of any "checks on hold" (i.e., payments withheld from subcontractors or suppliers by Tenant's general contractor because of some defect or deficiency in the payee's request for payment or in the work or materials provided by the payee) in excess of \$50,000.
6. An up-to-date list of the names and addresses of any subcontractors that have actually filed a claim of lien against the Leased Property, together with, to the extent not already provided with a prior request for a Construction Advance, a copy of the claim of lien filed.
7. A certification of an officer of Tenant as required by Paragraph 6.(d)(viii) of the Lease.

We hereby confirm that Landlord will not be responsible for the application of any funds advanced to Tenant or to any other party at our request.

Sincerely,

KLA Instruments Corporation

By: _____
Name: _____
Title: _____

cc: BNP Leasing Corporation

717 North Harwood Street
Suite 2630
Dallas, Texas 75201
Attention: Lloyd Cox

Dorothy H. Bjorck
Thompson & Knight,
a Professional Corporation
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201

Exhibit F-2-

CONSTRUCTION ADVANCE CERTIFICATE
KLA INSTRUMENTS LEASE (PHASE III)

Pursuant to Paragraph 6.(d)(viii) of the Lease Agreement dated as of August 10, 1995 (the "LEASE") between KLA Instruments Corporation ("TENANT") and BNP Leasing Corporation ("LANDLORD"), Tenant does hereby represent, warrant and certify to Landlord in connection with Tenant's request for Construction Advance No. _____ that:

a) no Event of Default has occurred and is continuing,

b) the representations and warranties of Tenant contained in the Lease are true and correct in all material respects on and as of the date hereof as though made on and as of the date hereof, subject only to the following exceptions:

[LIST EXCEPTIONS HERE, OR IF THERE ARE NO EXCEPTIONS, INSERT "NONE"]

c) Construction of the Initial Improvements has commenced and is progressing without any significant continuing interruption in a good and workmanlike manner and substantially in accordance with the requirements of the Lease and all Applicable Laws and Tenant has corrected or is diligently pursuing the correction of any significant defect in such construction,

d) all costs and expenses for which Tenant is requesting reimbursement by the Construction Advance referenced above constitute actual costs and expenses incurred by Tenant for the Initial Improvements or for property taxes or assessments assessed against and paid with respect to the Leased Property, and

e) The amounts designated for payment to Potential Lien Claimants in prior Construction advance Requests have been paid to such Potential Lien Claimants, and the advance being requested hereby will not result in an excess of \$2,000,000 or more of (1) the total cost of work with respect to which Potential Lien Claimants could have asserted a lien against the Leased Property and for which Construction Advances have been advanced by Landlord, over (2) the cost of such work for which Tenant has provided to Landlord unconditional statutory lien releases from all Potential Lien Claimants.

Capitalized terms used herein which are defined in the Lease but not in this Certificate shall have the meanings assigned to them in the Lease.

In witness whereof, this Certificate is executed by an officer of KLA Instruments Corporation as of _____, 19__.

KLA Instruments Corporation

By: _____
Name: _____
Title: _____

Exhibit F-3-

LIST OF LIENS FOR WHICH A CLAIM OF LIEN HAS ACTUALLY BEEN FILED

(Construction Advance Request No. _____)
KLA Instruments Lease (Phase III)

Liens for which a claim of lien has actually been filed are as follows:

- 1.
- 2.
- 3.

Exhibit F-4-

OTHER COSTS LIST

(Construction Advance Request No. _____)
KLA Instruments Lease (Phase III)

Costs paid-other than to Tenant's general contractor-by Tenant and for which Tenant is entitled to reimbursement from the Current Advance being requested are as follows:

- 1.
- 2.
- 3.

Exhibit F-5-
Exhibit G

FINANCIAL COVENANT COMPLIANCE CERTIFICATE

BNP Leasing Corporation
c/o Banque Nationale de Paris, San Francisco
180 Montgomery Street
San Francisco, California 94104
Attention: Rafael C. Lumanlan

Re: KLA LEASE AGREEMENT (PHASE III)

Gentlemen:

I, the undersigned, the [chief financial officer, controller, treasurer or the assistant treasurer] of KLA Instruments Corporation, do hereby certify, represent and warrant that:

- 1. This Certificate is furnished pursuant to subparagraph 9.(w) (iii) of that certain Lease Agreement dated as of August 10, 1995 (the "LEASE AGREEMENT," the terms defined therein being used herein as therein defined) between KLA Instruments Corporation (the "TENANT"), and you.
- 2. Annex 1 attached hereto sets forth financial data and computations evidencing the Tenant's compliance with certain covenants of the Revolving Credit Agreement attached to the Lease Agreement, all of which data and computations are complete, true and correct.
- 3. To the knowledge of Tenant no Default or Event of Default under the Lease Agreement has occurred and is continuing.
- 4. The representations of Tenant set forth in the Lease Agreement are true and correct in all material respects as of the date hereof as though made on and as of the date hereof.

Executed this ____ day of _____, 19__.

KLA Instruments Corporation
Name: _____
Title: _____

[cc all Participants]

Exhibit G-1-

Annex 1 To Compliance Certificate
For the _____ Ended _____, 19__

[INSERT HERE COMPUTATIONS SHOWING COMPLIANCE WITH FINANCIAL COVENANTS]

Exhibit G-2-

Exhibit H

PERMITTED HAZARDOUS SUBSTANCES
KLA INSTRUMENTS LEASE (PHASE III)
(NOT a Comprehensive List)

It is anticipated that the following Hazardous Substances, and others necessary for the use, occupancy, and operation of the Leased Property in accordance with the terms and conditions of this Lease, will be used by Tenant at the Leased Property:

Description _____ C.A.S.#

Exhibit H-1-
Exhibit I

RESOLUTION OF DISPUTED INSURANCE CLAIMS
KLA INSTRUMENTS LEASE (PHASE III)

If Landlord and Tenant cannot agree upon the amount for which any insurance claim against an insurer should be settled after damage to the Leased Property by fire or other casualty, and so long as neither Tenant nor Landlord is authorized to determine such amount without the consent of the other pursuant to subparagraph 9.(r), then either party may require that the amount be determined as follows:

(i) Landlord and Tenant shall each appoint an experienced architect who is familiar with construction costs for comparable properties in the vicinity of the Leased Property. Each party will make the appointment no later than 10 days after receipt of notice from the other party that the dispute resolution process described in this Exhibit has been invoked. The agreement of the two architects as to the appropriate amount of the insurance settlement will be binding upon Landlord and Tenant. If the two architects cannot agree upon the settlement amount within 30 days following their appointment, they shall within another 10 days agree upon a third architect. Immediately thereafter, each of the first two architects will submit his best estimate of the appropriate settlement amount (together with a written report supporting such estimate) to the third architect and the third architect will choose between the two estimates. The estimate chosen by the third architect as the closest to the amount needed to repair and restore the Leased Property will be binding upon Landlord and Tenant as the amount for which the applicable insurance claim should be settled. (However, no such estimate and nothing contained in this Exhibit will limit Tenant's liability under other provisions of this Lease for the repair and restoration of the Leased Property.) Notification in writing of the estimate chosen by the third architect shall be made to Landlord and Tenant within 15 days following the selection of the third architect.

(ii) If architects must be selected under the procedure set out above and either Tenant or Landlord fails to appoint an architect or fails to notify the other party of such appointment within 10 days after receipt of notice that the prescribed time for appointing the architects has passed, then the other party's architect will determine the appropriate settlement amount. All architects selected for the dispute resolution process set out in this Exhibit will be disinterested, reputable, qualified architects with at least 15 years experience designing and overseeing the construction of properties comparable to the Leased Property.

(iii) If a third architect must be chosen under the procedure set out above, he will be chosen on the basis of objectivity and competence, not on the basis of his relationship with the other architects or the parties to this Lease, and the first two architects will be so advised. Although the first two architects will be instructed to attempt in good faith to agree upon the third architect, if for any reason they cannot agree within the prescribed time, either Landlord or Tenant may require the first two architects to immediately submit its top choice for the third architect to the then highest ranking officer of the San Francisco Bar Association who will agree to help and who has no attorney/client or other significant relationship to either Landlord or Tenant. Such officer will have complete discretion to select the most objective and competent third architect from between the choice of each of the first two architects, and will do so within 20 days after such choices are submitted to him.

(iv) Either Landlord or Tenant may notify the architect selected by the other party to demand the submission of an estimate of the appropriate settlement amount or a choice of a third architect as required under the procedure described above; and if the submission of such an estimate or choice is required but the

Exhibit I-1-

other party's architect fails to comply with the demand within 5 days after receipt of such notice, then the settlement amount or choice of the third architect, as the case may be, selected by the other architect (i.e., the notifying party's architect) will be binding upon Landlord and Tenant.

(v) For the purposes of this Exhibit, "appropriate settlement amount" and words of like effect means the amount required to restore the Leased Property, less any insurance deductible that clearly applies under the policy of insurance which provides the coverage to be settled; and all architects and other persons involved in the

determination of the settlement amount will be so advised.

Exhibit I-2-

Exhibit J

NOTICE OF LIBOR PERIOD ELECTION
KLA INSTRUMENTS LEASE (PHASE III)

BNP Leasing Corporation
c/o Banque Nationale de Paris, San Francisco
180 Montgomery Street
San Francisco, California 94104
Attention: Rafael C. Lumanlan

Re: Lease Agreement dated August 10, 1995, between KLA Instruments Corporation, as tenant, and BNP Leasing Corporation, as landlord

Gentlemen:

Capitalized terms used in this letter are intended to have the meanings assigned to them in the Lease referenced above. This letter constitutes notice to you that the LIBOR Period Election under the Lease shall be:

_____ month(s),

beginning with the first Base Rent Period that commences on or after:

_____, 199__.

NOTE: YOU SHALL BE ENTITLED TO DISREGARD THIS NOTICE IF THE NUMBER OF MONTHS SPECIFIED ABOVE IS NOT A PERMITTED NUMBER UNDER THE DEFINITION OF "LIBOR PERIOD ELECTION" SET FORTH AS PARAGRAPH 1.(bg) OF THE LEASE, OR IF THE DATE SPECIFIED ABOVE CONCERNING THE COMMENCEMENT OF THE LIBOR PERIOD ELECTION IS LESS THAN TEN (10) BUSINESS DAYS AFTER YOUR RECEIPT OF THIS NOTICE. HOWEVER, WE ASK THAT YOU NOTIFY US IMMEDIATELY IF FOR ANY REASON YOU BELIEVE THIS NOTICE IS DEFECTIVE.

Executed this ____ day of _____, 19__.

KLA Instruments Corporation

Name: _____

Title: _____

[cc all Participants]

EXECUTION

PURCHASE AGREEMENT

This PURCHASE AGREEMENT (this "AGREEMENT") is made as of August 10, 1995, by KLA INSTRUMENTS CORPORATION, a Delaware corporation ("KLA"), and BNP LEASING CORPORATION, a Delaware corporation ("BNP").

R E C I T A L S

A. BNP is acquiring the land described in Part I of Exhibit A attached hereto and any improvements and fixtures located thereon, and BNP anticipates that it will obtain the land described in Part II of Exhibit A. Pursuant to a Lease Agreement (as from time to time supplemented, amended or restated, the "LEASE") dated as of the date hereof between KLA and BNP, the land described in Part I of Exhibit A is being leased by BNP to KLA, and the Lease provides that the land described in Part II of Exhibit A will be leased by BNP to KLA effective as of the date BNP acquires such land.

B. BNP is also concurrently herewith receiving a separate environmental indemnity from KLA pursuant to an Environmental Indemnity Agreement (as from time to time supplemented, amended or restated, the "ENVIRONMENTAL INDEMNITY") between KLA and BNP dated as of the date hereof.

C. As a condition to BNP's acquisition of any of the land described in Exhibit A, BNP requires the agreements of KLA, on and subject to the terms and conditions set out herein, to protect BNP against certain losses

that BNP may suffer if (1) the value of the land covered from time to time under the Lease is or becomes less than BNP's investment in such land, or (2) the value of buildings and other property covered by the Lease, exclusive of land, is or may become less than BNP's investment in such buildings and other property.

NOW, THEREFORE, in consideration of the above recitals and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Definitions. As used herein, the terms "KLA", "BNP", "Lease," and "Environmental Indemnity" shall have the meanings indicated above; terms with initial capitals defined in the Lease and used but not defined herein shall have the meanings assigned to them in the Lease; and the terms listed immediately below shall have the following meanings:

(a) Applicable Purchaser. "Applicable Purchaser" means any third party designated by KLA to purchase the interest of BNP in the Property as provided in Paragraph 2(a)(2) below; provided, the third party so designated must not be a Person prohibited by ERISA from purchasing BNP's interest.

(b) Designated Payment Date. "Designated Payment Date" means the earlier of:

(1) the effective date of any termination of the Lease by KLA pursuant to Paragraph 2 thereof;

(2) any Advance Date or Base Rent Date designated by KLA in a written notice given by KLA to BNP, provided the notice of the date so designated is given by KLA at least thirty (30) days before the date so designated; or

(3) any date designated by BNP in a written notice given by BNP to KLA when an Event of Default by KLA is continuing, provided the notice of the date so designated is given by BNP at least thirty (30) days before the date so designated; or

(4) August 1, 2000, or if August 1, 2000 is not a Business Day, then the next following Business Day.

(c) Fair Market Value. "Fair Market Value" means with respect to any property or interest therein, the fair market value of such property or interest on or about the Designated Payment Date (calculated under the assumptions, whether or not then accurate, that KLA has maintained the Property in compliance with all Applicable Laws [including Environmental Laws]; that KLA has completed all construction which was commenced prior to the Designated Payment Date; that KLA has repaired and restored the Property after any damage following fire or other casualty; that KLA has restored the remainder of the Property after any partial taking by eminent domain; that KLA has completed any contests of and paid any taxes due [other than Excluded Taxes] or other amounts secured by or allegedly secured by a lien against the Property other than Prohibited Encumbrances; that KLA has complied with all Permitted Encumbrances and cured any title defects affecting the Property other than Prohibited Encumbrances, all in accordance with the standards and requirements of the Lease as though the Lease were continuing in force) as determined by an independent MAI appraiser selected by BNP, which appraiser must have five (5) years or more experience appraising similar properties in northern California.

(d) Improvement Value Percentage. "Improvement Value Percentage" means the percentage computed by dividing the value of the Improvements and any other Property, exclusive of the land, by the value of the entire Property, including land. BNP and KLA stipulate that the Improvement Value Percentage is 65.58% and will remain so unless it is adjusted by BNP prior to the Designated Payment Date. Following any change in circumstances that could affect the allocation of the value of the Property between land and other parts of the Property (including, without limitation, any casualty or condemnation or conveyance in lieu of condemnation and any construction or demolition of improvements not presently anticipated), BNP may determine that an adjustment to the Improvement Value Percentage is necessary or appropriate, in which event BNP may make the adjustment it deems necessary or appropriate by notice given to KLA at any time prior to the Designated Payment Date. Any such determination by BNP shall be conclusive and binding for purposes of this Agreement, absent clear and demonstrable error.

(e) Land Value Percentage. "Land Value Percentage" means 100% less the Improvement Value Percentage. Absent an adjustment of the Improvement Value Percentage as provided in the definition thereof above, the Land Value Percentage shall equal 34.42%.

(f) Property. "Property" means the land and easements described in Exhibit A and any and all other real or personal property from time to time covered by the Lease and included within the "Leased Property" as defined therein, together with BNP's interest in any funds held as Escrowed Proceeds from time to time; provided, however, as used herein "Property" will not include

the land described in Part II of Exhibit A or any improvements thereof or easements appurtenant thereto or any

-2-

Personal Property (as defined in the Lease) related to such land, unless and until BNP acquires such land and thereby causes it to be effectively added to the Leased Property.

(g) Purchase Price. "Purchase Price" means an amount equal to Stipulated Loss Value outstanding on the Designated Payment Date, plus all costs and expenses (including appraisal costs, withholding taxes (if any) and reasonable Attorneys' Fees, as defined in the Lease) incurred in connection with any sale of the Property by BNP hereunder or in connection with collecting sales proceeds due hereunder.

(h) Prohibited Encumbrance. "Prohibited Encumbrance" means any lien or other title defect encumbering the Property that is claimed by BNP itself or lawfully claimed by a third party through or under BNP, including any judgment lien lawfully filed against BNP and including any tax lien assessed because of BNP's failure to pay Excluded Taxes, but excluding the Lease and any lien or other title defect that (i) is a Permitted Encumbrance (as defined in the Lease), regardless of whether claimed by, through or under BNP, (ii) is claimed by, through or under KLA or any Participant approved by KLA, or (iii) exists because of any breach by KLA of the Lease, because of anything done or not done by BNP in an effort to satisfy subparagraph 10(b) of the Lease, or because of anything done or not done by BNP at the request of KLA.

(i) Net Improvement Sales Proceeds. "Net Improvement Sales Proceeds" means the Improvement Value Percentage, times the net cash price that BNP actually receives from any Applicable Purchaser upon the Designated Payment Date because of BNP's sale of its interest in the Property to such Applicable Purchaser or that BNP would have received from an Applicable Purchaser on the Designated Payment Date but for BNP's election to retain the Property as provided in Paragraph 2(a)(2) below.

(j) Net Land Sales Proceeds. "Net Land Sales Proceeds" means the Land Value Percentage, times the net cash price that BNP actually receives from any Applicable Purchaser upon the Designated Payment Date because of BNP's sale of its interest in the Property to such Applicable Purchaser or that BNP would have received from an Applicable Purchaser on the Designated Payment Date but for BNP's election to retain the Property as provided in Paragraph 2(a)(2) below.

(k) Remarketing Notice. "Remarketing Notice" shall have the meaning assigned to it in Paragraph 2(b)(1) below.

(l) Required Documents. "Required Documents" means the grant deed and other documents that BNP must tender pursuant to Paragraph 3 below.

(m) Shortage Amount. "Shortage Amount" shall mean the sum of any Supplemental Land Payment and any Supplemental Improvement Payment that may become due pursuant to Paragraph 2(a)(2) below.

-3-

(n) Stipulated Loss Value of the Improvements. "Stipulated Loss Value of the Improvements" means the Improvement Value Percentage, times the Stipulated Loss Value outstanding on the Designated Payment Date prior to any sale hereunder.

(o) Stipulated Loss Value of the Land. "Stipulated Loss Value of the Land" means the Land Value Percentage, times the Stipulated Loss Value outstanding on the Designated Payment Date prior to any sale hereunder.

(p) Supplemental Improvement Payment. "Supplemental Improvement Payment" means a payment from KLA to BNP equal to the amount, if any, by which the Stipulated Loss Value of the Improvements exceeds Net Improvement Sales Proceeds. HOWEVER, IF (BUT ONLY IF) NO EVENT OF DEFAULT HAS OCCURRED AND IS CONTINUING UNDER THE LEASE AND NEITHER KLA NOR ANY APPLICABLE PURCHASER HAS FAILED TO PAY ANY AMOUNT REQUIRED TO BE PAID BY THIS AGREEMENT ON THE DATE SUCH AMOUNT FIRST BECAME DUE, THEN ANY SUPPLEMENTAL IMPROVEMENT PAYMENT REQUIRED BY THIS AGREEMENT SHALL NOT EXCEED EIGHTY-FIVE PERCENT (85%) OF THE STIPULATED LOSS VALUE OF THE IMPROVEMENTS.

(q) Supplemental Land Payment. "Supplemental Land Payment" means a payment from KLA to BNP equal to the amount, if any, by which the Stipulated Loss Value of the Land exceeds Net Land Sale Proceeds. HOWEVER, IF (BUT ONLY IF) NO EVENT OF DEFAULT HAS OCCURRED AND IS CONTINUING UNDER THE LEASE AND NEITHER

KLA NOR ANY APPLICABLE PURCHASER HAS FAILED TO PAY ANY AMOUNT REQUIRED TO BE PAID BY THIS AGREEMENT ON THE DATE SUCH AMOUNT FIRST BECAME DUE, THEN ANY SUPPLEMENTAL LAND PAYMENT REQUIRED BY THIS AGREEMENT SHALL NOT EXCEED EIGHTY-FIVE PERCENT (85%) OF THE STIPULATED LOSS VALUE OF THE LAND.

2. KLA's Options and Obligations on the Designated Payment Date.

(a) Choices. On the Designated Payment Date KLA shall have the right and the obligation to either:

(1) purchase BNP's interest in the Property for a net cash price equal to the Purchase Price; or

(2) pay to BNP the Supplemental Improvement Payment (if any) and the Supplemental Land Payment (if any) and cause the Applicable Purchaser to purchase BNP's interest in the Property for a net cash price not less than the lesser of (a) the Fair Market Value of the Property or (b) Stipulated Loss Value outstanding immediately prior to the purchase. If, however, the Fair Market Value is less than fifteen percent (15%) of Stipulated Loss Value, BNP may elect to keep the Property rather than sell to the Applicable Purchaser, and no such election by BNP will relieve KLA of its obligation to pay the Supplemental Improvement Payment and the Supplemental Land Payment. Any Supplemental Improvement Payment will compensate BNP for, or mitigate against, any loss BNP may suffer relating to BNP's interest in Improvements; and any Supplemental Land Payment will compensate BNP for, or mitigate against, any loss BNP may suffer relating to BNP's interest in the Land only. In any event, if the net cash price actually paid by the Applicable Purchaser to BNP exceeds the Purchase Price and all other sums that are then due from KLA to BNP, KLA shall be entitled to such excess.

-4-

(b) Election by KLA. KLA shall have the right to elect whether it will satisfy the obligations set out in clause (1) or (2) of the preceding Paragraph 2(a); provided, however, that KLA must comply with the following requirements:

(1) To give BNP the opportunity to have the Fair Market Value determined by an appraiser before the Designated Payment Date, KLA must, unless KLA concedes that Fair Market Value will not be less than fifteen percent (15%) of Stipulated Loss Value on the Designated Payment Date, provide BNP with a Remarketing Notice (as defined below) no sooner than one hundred eighty (180) days before the Designated Payment Date and no later than ninety (90) days before the Designated Date, specifying that KLA does not concede that the Fair Market Value of the Property is equal to or greater than fifteen percent (15%) of the Stipulated Loss Value. If for any reason (including but not limited to any acceleration of the Designated Payment Date pursuant to clause (2) of the definition of Designated Payment Date above) KLA fails to provide a Remarketing Notice within the time periods specified in the preceding sentence, Fair Market Value shall, for purposes of this Agreement, be deemed to be no less than fifteen percent of Stipulated Loss Value on the Designated Payment Date. "REMARKETING NOTICE" means a notice given by KLA to BNP (and to each of the Participants) no earlier than one hundred eighty (180) days before the Designated Payment Date and no later than ninety (90) days before the Designated Payment Date. A Remarketing Notice will be required only if KLA does not concede that Fair Market Value of the Property will equal or exceed fifteen percent (15%) of Stipulated Loss Value on the Designated Payment Date. But if for any reason (including but not limited to any acceleration of the Designated Payment Date pursuant to clause (2) of the definition of Designated Payment Date above) KLA fails to provide a Remarketing Notice within the time periods specified in the definition of Remarketing Notice above, Fair Market Value of the Property shall, for purposes of this Agreement, be deemed to be no less than fifteen percent (15%) of Stipulated Loss Value on the Designated Payment Date.

(2) To give BNP the opportunity to prepare the Required Documents before the Designated Payment Date, KLA must, if it is to elect to satisfy the obligations set forth in clause (2) of Paragraph 2(a), specify an Applicable Purchaser in a notice to BNP given at least seven (7) days prior to the Designated Payment Date. If for any reason KLA fails to so specify an Applicable Purchaser, KLA shall be deemed to have irrevocably elected to satisfy the obligations set forth in clause (1) of Paragraph 2(a).

(c) Termination of KLA's Option To Purchase. Without limiting BNP's right to require KLA to satisfy the obligations imposed by Paragraph 2(a), KLA shall have no further option hereunder to purchase the Property if either:

(1) KLA shall have elected to satisfy the obligations set forth in clause (2) of Paragraph 2(a) above on a Designated Payment Date and BNP shall have elected to keep the Property on such Designated Payment Date in accordance with clause (2) of Paragraph 2(a); or

(2) KLA shall have failed on a Designated Payment Date to make or cause to be made all payments to BNP required by this Agreement or by the Lease and such failure shall have continued beyond the thirty (30) day period for tender specified in the next sentence.

-5-

If BNP does not receive all payments due under the Lease and all payments required hereunder on a Designated Payment Date, KLA may nonetheless tender to BNP the full Purchase Price and all amounts then due under the Lease, together with interest on the total Purchase Price computed at the Default Rate from the Designated Payment Date to the date of tender, and if presented with such a tender within thirty (30) days after the applicable Designated Payment Date, BNP must accept it and promptly thereafter deliver any Escrowed Proceeds and a deed and all other Required Documents listed in Paragraph 3.

(d) Payment to BNP. All amounts payable under the preceding Paragraphs 2(a), 2(b) or 2(c) by KLA and, if applicable, by the Applicable Purchaser must be paid directly to BNP, and no payment to any other party shall be effective for the purposes of this Agreement. In addition to the payments required hereunder, on the Designated Payment Date KLA must pay all amounts then due to BNP under the Lease. BNP will remit any excess amounts due KLA pursuant to the last sentence of clause (2) of Paragraph 2(a) promptly after (and no later than 30 days after) BNP's receipt of the same.

(e) Effect of Options on Subsequent Title Encumbrances. It is the intent of BNP and KLA that any conveyance of the Property to KLA or any Applicable Purchaser pursuant to this Agreement shall cut off and terminate any interest in the Property claimed by, through or under BNP (but not any unsatisfied obligations to BNP under the Lease, the Environmental Indemnity or this Agreement). Such interests cut off and terminated will include but not be limited to any interests in the Property claimed by Participants or any holder of a Leasehold Mortgage, any leasehold or other interests in the Property conveyed by BNP in the ordinary course of BNP's business and any other Prohibited Encumbrances. Anyone accepting or taking any interest in the Property by or through BNP after the date of this Agreement shall acquire such interest subject to the rights and options granted KLA hereby. Further, KLA and any Applicable Purchaser shall be entitled to pay any payment required by this Agreement for the purchase of the Property directly to BNP notwithstanding any prior conveyance or assignment by BNP, voluntary or otherwise, of any right or interest in this Agreement or the Property, and neither KLA nor any Applicable Purchaser shall be responsible for the proper distribution or application of any such payments by BNP.

3. Terms of Conveyance Upon Purchase. Immediately after receipt of all payments to BNP required pursuant to the preceding Paragraph 2, BNP must, unless it is to keep the Property as permitted by clause (2) of Paragraph 2(a), deliver Escrowed Proceeds, if any, and convey all of its right, title and interest in the Property by grant deed to KLA or the Applicable Purchaser, as the case may be, subject only to the Permitted Encumbrances (as defined in the Lease) and any other encumbrances that do not constitute Prohibited Encumbrances. However, such conveyance shall not include the right to receive any payment under the Lease then due BNP or that may become due thereafter because of any expense or liability incurred by BNP resulting in whole or in part from events or circumstances occurring before such conveyance. All costs of such purchase and conveyance of every kind whatsoever, both foreseen and unforeseen, shall be the responsibility of the purchaser, and the form of grant deed used to accomplish such conveyance shall be substantially in the form attached as Exhibit B. With such grant deed, BNP shall also tender to KLA or the Applicable Purchaser, as the case may be, the following, each fully executed and, where appropriate, acknowledged on BNP's behalf by an officer of BNP: (1) a Preliminary Change of Ownership Report in the form attached as Exhibit C, (2) a Bill of Sale and Assignment of Contract Rights and Intangible Assets in the form attached as Exhibit D, (3) an Acknowledgment of Disclaimer of Representations and Warranties, in the form attached as Exhibit E, which KLA or the Applicable Purchaser must execute and return to BNP, (5) a Documentary Transfer Tax Request in the form attached as Exhibit F, (6) a Secretary's Certificate

-6-

in the form attached as Exhibit G, (7) a letter to the title insurance company insuring title to the Property in the form attached as Exhibit H, and (8) a certificate concerning tax withholding in the form attached as Exhibit I.

4. Survival of KLA's Obligations.

(a) Status of this Agreement. Except as expressly provided in the last sentence of this subparagraph and elsewhere herein, this Agreement shall not terminate, nor shall KLA have any right to terminate this Agreement, nor shall KLA be entitled to any reduction of the Purchase Price hereunder, nor shall the obligations of KLA to BNP under Paragraph 2 be affected by reason of (i) any damage to or the destruction of all or any part of the Property from whatever cause, (ii) the taking of or damage to the Property or any portion thereof under the power of eminent domain or otherwise for any reason, (iii) the prohibition, limitation or restriction of KLA's use of all or any portion of the Property or any interference with such use by governmental action or otherwise, (iv) any eviction of KLA or any party claiming under KLA by paramount title or otherwise, (v) KLA's prior acquisition or ownership of any interest in the Property, (vi) any default on the part of BNP under this Agreement, the Lease or any other agreement to which BNP is a party, or (vii) any other cause, whether similar or dissimilar to the foregoing, any existing or future law to the contrary notwithstanding. It is the intention of the parties hereto that the obligations of KLA hereunder (including KLA's obligation to make payments under - - and, if applicable, to cause the Applicable Purchaser to make payments under Paragraph 2) shall be separate and independent of the covenants and agreements of BNP. Accordingly, the Purchase Price and the Shortage Amount, as the case may be under Paragraph 2, shall continue to be payable in all events, and the obligations of KLA hereunder shall continue unaffected by any breach of this Agreement by BNP. However, nothing in this subparagraph, nor the performance without objection by KLA of its obligations hereunder, shall be construed as a waiver by KLA of any right KLA may have at law or in equity, following any failure by BNP to tender a grant deed and the other Required Documents as required by Paragraph 3 upon the tender by KLA and/or the Applicable Purchaser of the payments required by Paragraph 2 and of the other documents to be executed in favor of BNP at the closing of the sale hereunder, to (i) recover monetary damages proximately caused by such failure of BNP if BNP does not cure the failure within thirty (30) days after KLA demands a cure by written notice to BNP, or (ii) a decree compelling performance of BNP's obligation to so tender a grant deed and the Required Documents.

(b) Remedies Under the Lease and the Environmental Indemnity. No repossession of or re-entering upon the Property or exercise of any other remedies available under the Lease or the Environmental Indemnity shall relieve KLA of its liabilities and obligations hereunder, all of which shall survive the exercise of remedies under the Lease and Environmental Indemnity. KLA acknowledges that the consideration for this Agreement is separate and independent of the consideration for the Lease and the Environmental Indemnity, and KLA's obligations hereunder shall not be affected or impaired by any event or circumstance that would excuse KLA from performance of its obligations under the Lease or the Environmental Indemnity.

5. Remedies Cumulative. No right or remedy herein conferred upon or reserved to BNP is intended to be exclusive of any other right or remedy BNP has with respect to the Property, and each and every such right and remedy shall be cumulative and in addition to any other right or remedy given hereunder or now or hereafter existing at law or in equity or by statute. In addition to other remedies available under this Agreement, either party shall be entitled, to the extent permitted by applicable law, to a decree compelling performance of any of the other party's agreements hereunder.

-7-

6. No Implied Waiver. The failure of either party to this Agreement to insist at any time upon the strict performance of any covenant or agreement of the other party or to exercise any remedy contained in this Agreement shall not be construed as a waiver or a relinquishment thereof for the future. The waiver by either party of or redress for any violation of any term, covenant, agreement or condition contained in this Agreement shall not prevent a subsequent act, which would have originally constituted a violation, from having all the force and effect of an original violation. No express waiver granted by either party shall affect any condition other than the one specified in such waiver and that one only for the time and in the manner specifically stated. A receipt by BNP of any payment hereunder with knowledge of the breach of this Agreement shall not be deemed a waiver of such breach, and no waiver by either party of any provision of this Agreement shall be deemed to have been made unless expressed in writing and signed by the waiving party.

7. Attorneys' Fees and Legal Expenses. If either party commences any legal action or other proceeding to enforce any of the terms of this Agreement or the documents and agreements referred to herein, or because of any breach by the other party or dispute hereunder or thereunder, the successful or prevailing party, shall be entitled to recover from the nonprevailing party all Attorneys' Fees incurred in connection therewith, whether or not such controversy, claim or dispute is prosecuted to a final judgment. Any such Attorneys' Fees incurred by either party in enforcing a judgment in its favor under this Agreement shall be recoverable separately from such judgment, and the

obligation for such Attorneys' Fees is intended to be severable from other provisions of this Agreement and not to be merged into any such judgment.

8. Estoppel Certificate. KLA and BNP will each, upon not less than twenty (20) days' prior written request by the other, execute, acknowledge and deliver to the requesting party a written statement certifying that this Agreement is unmodified and in full effect (or, if there have been modifications, that this Agreement is in full effect as modified, and setting forth such modification) and either stating that no default exists hereunder or specifying each such default of which the signer may have knowledge. Any such statement may be relied upon by any Participant or prospective purchaser or assignee of BNP with respect to the Property. Neither KLA nor BNP shall be required to provide such a certificate more frequently than once in any six month period; provided, however, that if either party determines that there is a significant business reason for requiring a current certificate, including, without limitation, the need to provide such a certificate to a prospective purchaser or assignee, the other shall provide a certificate upon request whether or not it had provided a certificate within the prior six month period.

9. Notices. Each provision of this Agreement referring to the sending, mailing or delivery of any notice or referring to the making of any payment to BNP, shall be deemed to be complied with when and if the following steps are taken:

-8-

(a) All payments required to be made by KLA or the Applicable Purchaser to BNP hereunder shall be paid to BNP in immediately available funds by wire transfer to:

Federal Reserve Bank of San Francisco
Account: Banque Nationale de Paris
ABA #: 121027234
Reference: KLA Instruments (Phase III).

or at such other place and in such other manner as BNP may designate in a notice to KLA (provided BNP will not unreasonably designate a method of payment other than wire transfer). Time is of the essence as to all payments to BNP under this Agreement. Any payments required to be made by BNP to KLA pursuant to the last sentence of clause (2) of Paragraph 2(a) shall be paid to KLA in immediately available funds by wire transfer to the account of KLA designated in writing by KLA or as KLA may otherwise direct by written notice sent in accordance herewith.

-9-

(b) All notices, demands and other communications to be made hereunder to the parties hereto shall be in writing (at the addresses set forth below) and shall be given by any of the following means: (A) personal service, with proof of delivery or attempted delivery retained; (B) electronic communication, whether by telex, telegram or telecopying (if confirmed in writing sent by United States first class mail, return receipt requested); or (C) registered or certified first class mail, return receipt requested. Such addresses may be changed by notice to the other parties given in the same manner as provided above. Any notice or other communication sent pursuant to clause (A) or (C) hereof shall be deemed received (whether or not actually received) upon first attempted delivery at the proper notice address on any Business Day between 9:00 A.M. and 5:00 P.M., and any notice or other communication sent pursuant to clause (B) hereof shall be deemed received upon dispatch by electronic means.

Address of BNP:

BNP Leasing Corporation
717 North Harwood Street
Suite 2630
Dallas, Texas 75201
Attention: Lloyd Cox
Telecopy: (214) 969-0060

With a copy to:

Banque Nationale de Paris
180 Montgomery Street
San Francisco, California 94104
Attention: Rafael Lumanlan
Telecopy: (415) 296-8954

And with a copy to:

Dorothy H. Bjorck
Thompson & Knight, P.C.
1700 Pacific Avenue, Suite 3300
Dallas, Texas 75201
Telecopy: (214) 969-1550

Address of KLA:

KLA Instruments Corporation
160 Rio Robles
San Jose, California 95134
Attn: Christopher Stoddart, Treasurer
Telecopy: (408) 434-4268

With a copy to:

Gray Cary Ware & Freidenrich

-10-

400 Hamilton Avenue
Palo Alto, California 94301
Attn: Jonathan Rattner, Esq.
Telecopy: (415) 328-3029

10. Severability. Each and every covenant and agreement of KLA contained in this Agreement is, and shall be construed to be, a separate and independent covenant and agreement. If any term or provision of this Agreement or the application thereof to any person or circumstances shall to any extent be invalid and unenforceable, the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby. Further, the obligations of KLA hereunder, to the maximum extent possible, shall be deemed to be separate, independent and in addition to, not in lieu of, the obligations of KLA under the Lease and other documents referenced herein. In the event of any inconsistency between the express terms of this Agreement and the express terms and provisions of the Lease or other documents referenced herein, the terms and provisions of this Agreement shall control.

11. Entire Agreement. This Agreement and the documents and agreements referred to herein set forth the entire agreement between the parties concerning the subject matter hereof and no amendment or modification of this Agreement shall be binding or valid unless expressed in a writing executed by both parties hereto.

12. Paragraph Headings. The paragraph headings contained in this Agreement are for convenience only and shall in no way enlarge or limit the scope or meaning of the various and several paragraphs hereof.

13. Gender and Number. Within this Agreement, words of any gender shall be held and construed to include any other gender and words in the singular number shall be held and construed to include the plural, unless the context otherwise requires.

14. GOVERNING LAW. THIS AGREEMENT SHALL BE DEEMED TO HAVE BEEN MADE UNDER AND SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA.

15. Successors and Assigns. The terms, provisions, covenants and conditions hereof shall be binding upon KLA and BNP and their respective permitted successors and assigns and shall inure to the benefit of KLA and BNP and all permitted transferees, mortgagees, successors and assignees of KLA and BNP with respect to the Property; provided, that the rights of BNP hereunder shall not pass to KLA or any Applicable Purchaser or any subsequent owner claiming through them. Prior to the Designated Payment Date BNP may transfer, assign and convey, in whole or in part, the Property and any and all of its rights under this Agreement (subject to the terms of this Agreement) by any conveyance that constitutes a Permitted Transfer, but not otherwise. If BNP sells or otherwise transfers the Property and assigns its rights under this Agreement and the Lease pursuant to a Permitted Transfer, and if BNP's successor in interest confirms its liability for the obligations imposed upon BNP by this Agreement and the Lease on and subject to the express terms set out herein and therein, then BNP shall thereby be released from any further obligations thereafter arising under this Agreement and the Lease, and KLA agrees to look solely to each successor in interest of BNP for performance of such obligations.

16. WAIVER OF JURY TRIAL. BNP AND KLA EACH HEREBY WAIVES ITS RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THE LEASE, THIS AGREEMENT OR ANY OTHER DOCUMENT OR ANY DEALINGS BETWEEN THEM RELATING TO THE SUBJECT MATTER OF THIS TRANSACTION AND THE

RELATIONSHIP THAT IS BEING ESTABLISHED. The scope of this waiver is intended to be all-encompassing of any and all disputes that may

be filed in any court and that relate to the subject matter of this transaction, including without limitation, contract claims, tort claims, breach of duty claims, and all other common law and statutory claims. KLA and BNP each acknowledge that this waiver is a material inducement to enter into a business relationship, that each has already relied on the waiver in entering into this Agreement and the other documents referred to herein, and that each will continue to rely on the waiver in their related future dealings. KLA and BNP each further warrant and represent that it has reviewed this waiver with its legal counsel, and that it knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THE LEASE, THIS AGREEMENT OR THE ENVIRONMENTAL INDEMNITY. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court.

17. Security. KLA's obligations under this Agreement are secured by the Pledge Agreement, reference to which is hereby made for a description of the Collateral (as defined in the Pledge Agreement) covered thereby and the rights and remedies provided to BNP thereby. Although BNP shall be entitled to hold all Collateral as security for the full and faithful performance by KLA of KLA's covenants and obligations under this Agreement, the Collateral shall not be considered an advance payment of the Purchase Price or any Shortage Amount or a measure of BNP's damages should KLA breach this Agreement. If KLA does breach this Agreement and fails to cure the same within any time specified herein for the cure, BNP may, from time to time, without prejudice to any other remedy and without notice to KLA, immediately apply the proceeds of any disposition of the Collateral (and any cash included in the Collateral) to amounts then due hereunder from KLA. If BNP assigns its interest in the Leased Property before the Designated Payment Date, BNP may also assign BNP's interest in the Collateral to the assignee.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

"BNP"

BNP LEASING CORPORATION, a Delaware corporation

By:

Lloyd G. Cox, Vice President

"KLA"

KLA INSTRUMENTS CORPORATION, a Delaware corporation

By:

Name: Christopher Stoddart, Treasurer
Title: Treasurer

EXHIBIT A

Legal Description

REAL PROPERTY in the City of San Jose, State of California, described as follows:

EXHIBIT B

[Use printed form assignment provided by California counsel, but expressly

subject to encumbrances described in Annex B]

B-1

ANNEX A
(to Deed)

Legal Description

REAL PROPERTY in the City of San Jose, State of California, described as follows:

B-2

Exhibit B
(to Grant Deed)

PERMITTED ENCUMBRANCES

This conveyance is subject to the matters described in the attached pages and to the following matters to the extent the same are still valid and in force:

[IF THE CONVEYANCE IS TO AN APPLICABLE PURCHASER:

___. Lease Agreement dated as of August 10, 1995 by and between BNP Leasing Corporation, as lessor, and KLA Instruments Corporation, as lessee.

___. Any encumbrances claimed by, through or under KLA Instruments Corporation]

[ADD A LIST OF ANY OTHER KNOWN ENCUMBRANCES FOR WHICH BNP IS NOT RESPONSIBLE UNDER PARAGRAPH 10(A) OF THE LEASE.]

B-3

EXHIBIT C

[PRINTED FORM OF CHANGE OF OWNERSHIP REPORT TO BE ATTACHED]

C-1

EXHIBIT D

BILL OF SALE, ASSIGNMENT OF CONTRACT
RIGHTS AND INTANGIBLE ASSETS

Assignor hereby sells, transfers and assigns unto [KLA OR THE APPLICABLE PURCHASER, AS THE CASE MAY BE], a _____ ("ASSIGNEE"), all of Assignor's right, title and interest in and to the following property, if any, to the extent such property is assignable:

(a) all licenses, permits or similar consents (excluding any prepaid utility reservations) from third parties to the extent related to the real property described in Annex A attached hereto (the "Property");

(b) any pending or future award made because of any condemnation affecting the Property or because of any conveyance to be made in lieu thereof, and any unpaid award for damage to the Property and any unpaid proceeds of insurance or claim or cause of action for damage, loss or injury to the Property;

(c) any goods, equipment, furnishings, furniture, chattels and personal property of whatever nature that are located on or about the Property; and

(d) any general intangibles, permits, licenses, franchises, certificates, and other rights and privileges owned by Assignor and used solely in connection with, or relating solely to, the Property, excluding any rights or privileges of Assignor under (i) the Environmental Indemnity, as defined in that certain Purchase Agreement between Assignor and KLA Instruments Corporation dated as of August 10, 1995 (the "PURCHASE AGREEMENT") (pursuant to which this document is being delivered), (ii) the Lease, as defined in the Purchase Agreement, to the extent rights under the Lease relate to the period ending on the date hereof, whether such rights are presently known or unknown, including rights of the Assignor to be indemnified against claims of third parties as provided in the Lease which may not presently be known, and including rights to recover any accrued unpaid rent under the Lease which may be outstanding as of the date hereof, (iii) agreements between Assignor and Participants, as defined in the Lease, or any modification or extension thereof, and (iv) any other instrument being delivered to Assignor contemporaneously herewith pursuant to the Purchase Agreement.

Assignor does for itself and its heirs, executors and administrators, covenant and agree to warrant and defend the title to the property assigned herein against the just and lawful claims and demands of any person claiming under or through Assignor, but not otherwise; excluding, however, any claim or demand arising by, through or under [KLA].

Assignee hereby assumes and agrees to keep, perform and fulfill Assignor's obligations, if any, relating to any permits or contracts, under which Assignor has rights being assigned herein.

D-1

Executed: _____, 199__.

ASSIGNOR:

BNP LEASING CORPORATION
a Delaware corporation

By: _____

Its: _____

ASSIGNEE:

[KLA, OR THE APPLICABLE PURCHASER], a
_____ corporation

By: _____

Its: _____

D-2

ANNEX A

Legal Description

REAL PROPERTY in the City of San Jose, State of California, described as follows:

D-3

EXHIBIT E

ACKNOWLEDGMENT OF DISCLAIMER OF REPRESENTATIONS AND WARRANTIES

THIS ACKNOWLEDGMENT OF DISCLAIMER OF REPRESENTATIONS AND WARRANTIES (this "CERTIFICATE") is made as of _____, 199__, by [KLA or the Applicable Purchaser, as the case may be], a _____ ("GRANTEE").

Contemporaneously with the execution of this Certificate, BNP Leasing

Corporation, a Delaware corporation ("BNP"), is executing and delivering to Grantee (1) a grant deed covering a leasehold estate under a ground lease and (2) a Bill of Sale, Assignment of Contract Rights and Intangible Assets (the foregoing documents and any other documents to be executed in connection therewith are herein called "Conveyancing Documents" and any of the properties, rights or other matters assigned, transferred or conveyed pursuant thereto are herein collectively called the "SUBJECT PROPERTY").

NOTWITHSTANDING ANY PROVISION CONTAINED IN THE CONVEYANCING DOCUMENTS TO THE CONTRARY, GRANTEE ACKNOWLEDGES THAT BNP MAKES NO REPRESENTATIONS OR WARRANTIES OF ANY NATURE OR KIND, WHETHER STATUTORY, EXPRESS OR IMPLIED, WITH RESPECT TO ENVIRONMENTAL MATTERS OR THE PHYSICAL CONDITION OF THE SUBJECT PROPERTY, AND GRANTEE, BY ACCEPTANCE OF THE CONVEYANCING DOCUMENTS, ACCEPTS THE SUBJECT PROPERTY "AS IS," "WHERE IS," "WITH ALL FAULTS" AND WITHOUT ANY SUCH REPRESENTATION OR WARRANTY BY GRANTOR AS TO ENVIRONMENTAL MATTERS, THE PHYSICAL CONDITION OF THE SUBJECT PROPERTY, COMPLIANCE WITH SUBDIVISION OR PLATTING REQUIREMENTS OR CONSTRUCTION OF ANY IMPROVEMENTS. Without limiting the generality of the foregoing, Grantee hereby further acknowledges and agrees that warranties of merchantability and fitness for a particular purpose are excluded from the transaction contemplated by the Conveyancing Documents, as are any warranties arising from a course of dealing or usage of trade. Grantee hereby assumes all risk and liability (and agrees that BNP shall not be liable for any special, direct, indirect, consequential, or other damages resulting or arising from or relating to the ownership, use, condition, location, maintenance, repair, or operation of the Subject Property, except for damages proximately caused by (and attributed by any applicable principles of comparative fault to) the wilful misconduct, Active Negligence or gross negligence of BNP, its agents or employees. As used in the preceding sentence, "Active Negligence" of a party means, and is limited to, the negligent conduct of activities actually on or about the Property by that party in a manner that proximately causes actual bodily injury or property damage to be incurred. "Active negligence" shall not include (1) any negligent failure of BNP to act when the duty to act would not have been imposed but for BNP's status as owner of any interest in the Subject Property or as a party to the transactions pursuant to which BNP is delivering this instrument (the "APPLICABLE TRANSACTIONS"), (2) any negligent failure of any other party to act when the duty to act would not have been imposed but for such party's contractual or other relationship to BNP or participation or facilitation in any manner, directly or indirectly, of the Applicable Transactions, or (3) the exercise in a lawful manner by BNP (or any party lawfully claiming through or under BNP) of any remedy provided in connection with the Applicable Transactions.

The provisions of this Certificate shall be binding on Grantee, its successors and assigns and any other party claiming through Grantee. Grantee hereby acknowledges that BNP is entitled to rely and is relying on this Certificate.

E-1

EXECUTED as of _____, 199__.

_____, a _____

By: _____

Name: _____

Title: _____

E-2

EXHIBIT F

DOCUMENTARY TRANSFER TAX REQUEST

ACCOUNTABLE FORM # _____

DATE: _____

To: _____ County Recorder

Subject: REQUEST THAT DOCUMENTARY TRANSFER TAX DECLARATION BE MADE IN ACCORDANCE WITH REVENUE CODE 11932.

Re: Instrument Title: Grant Deed

Name of Party Conveying Title: BNP Leasing Corporation

The Documentary Transfer Tax is declared to be in the amount of \$ _____
for the referenced instrument and is:

- // Computed on full value of property conveyed.
- // Computed on full value less liens/encumbrances remaining
thereon at time of sale.

This separate declaration is made in accordance with _____.
It is requested that the amount paid not be indicated on the face of the
document after the permanent copy has been made.

Sincerely,

Individual (or his agent) who made,
signed or issued instrument

PART I

RECORDING REFERENCE DATA:

Serial # _____ Date Recorded _____

SEPARATE PAPER AFFIXED TO INSTRUMENT:

"Tax paid" indicated on the face of instrument and the separate request
(DRA 3-A) was affixed for Recorder by:

Documentary Transfer Tax Collector Date _____

Witnessed by: _____ Date _____

F-1

Mail Clerk

(Note: Prepare photo for Recorder file.)

PART II

ACCOUNTABLE FORM # _____

REFERENCE DATA: Title: _____

Serial: _____ Date: _____

INSTRUCTIONS:

1. This slip must accompany document.
2. Mail Clerk hand carry document to Tax Collector to indicate
the amount of tax paid.

F-2

EXHIBIT G

SECRETARY'S CERTIFICATE

The undersigned, Secretary of BNP Leasing Corporation, a Delaware
corporation (the "CORPORATION"), hereby certifies as follows:

1. That he is the duly, elected, qualified and acting Secretary
[or Assistant Secretary] of the Corporation and has custody of the corporate
records, minutes and corporate seal.
2. That the following named persons have been properly
designated, elected and assigned to the office in the Corporation as indicated
below; that such persons hold such office at this time and that the specimen
signature appearing beside the name of such officer is his or her true and
correct signature.

[THE FOLLOWING BLANKS MUST BE COMPLETED WITH THE NAMES AND SIGNATURES OF THE

OFFICERS WHO WILL BE SIGNING THE DEED AND OTHER REQUIRED DOCUMENTS ON BEHALF OF THE CORPORATION.]

Name	Title	Signature
_____	_____	_____
_____	_____	_____

3. That the resolutions attached hereto and made a part hereof were duly adopted by the Board of Directors of the Corporation in accordance with the Corporation's Articles of Incorporation and Bylaws, as evidenced by the signatures of all directors of the Corporation affixed thereto. Such resolutions have not been amended, modified or rescinded and remain in full force and effect.

IN WITNESS WHEREOF, I have hereunto signed my name and affixed the seal of the Corporation on this ____, day of _____, 199 .

[signature]

G-1

CORPORATE RESOLUTIONS OF
BNP LEASING CORPORATION

WHEREAS, pursuant to that certain Purchase Agreement (herein called the "PURCHASE AGREEMENT") dated as of August 10, 1995, by and between BNP Leasing Corporation (the "CORPORATION") and [KLA OR THE APPLICABLE PURCHASER AS THE CASE MAY BE] ("PURCHASER"), the Corporation agreed to sell and Purchaser agreed to purchase or cause the Applicable Purchaser (as defined in the Purchase Agreement) to purchase the Corporation's interest in the property (the "PROPERTY") located in San Jose, California more particularly described therein.

NOW THEREFORE, BE IT RESOLVED, that the Board of Directors of the Corporation, in its best business judgment, deems it in the best interest of the Corporation and its shareholders that the Corporation convey the Property to Purchaser or the Applicable Purchaser pursuant to and in accordance with the terms of the Purchase Agreement.

RESOLVED FURTHER, that the proper officers of the Corporation, and each of them, are hereby authorized and directed in the name and on behalf of the Corporation to cause the Corporation to fulfill its obligations under the Purchase Agreement.

RESOLVED FURTHER, that the proper officers of the Corporation, and each of them, are hereby authorized and directed to take or cause to be taken any and all actions and to prepare or cause to be prepared and to execute and deliver any and all deeds and other documents, instruments and agreements that shall be necessary, advisable or appropriate, in such officer's sole and absolute discretion, to carry out the intent and to accomplish the purposes of the foregoing resolutions.

IN WITNESS WHEREOF, we, being all the directors of the Corporation, have hereunto signed our names as of the dates indicated by our signatures.

[signature and date]

[signature and date]

[signature and date]

G-2

EXHIBIT H

BNP LEASING CORPORATION
717 N. HARWOOD
SUITE 2630
DALLAS, TEXAS 75201

_____, 199_

[Title Insurance Company]

Re: Recording of Grant Deed to [KLA or the Applicable Purchaser]
("PURCHASER")

Ladies and Gentlemen:

BNP Leasing Corporation has executed and delivered to Purchaser a Grant Deed in the form attached to this letter. You are hereby authorized and directed to record the grant deed at the request of Purchaser.

Sincerely,

H-1

EXHIBIT I

FIRPTA STATEMENT

Section 1445 of the Internal Revenue Code of 1986, as amended, provides that a transferee of a U.S. real property interest must withhold tax if the transferor is a foreign person. Sections 18805, 18815 and 26131 of the California Revenue and Taxation Code, as amended, provide that a transferee of a California real property interest must withhold income tax if the transferor is a nonresident seller.

To inform [_____ OR THE APPLICABLE PURCHASER, AS THE CASE MAY BE] (the "TRANSFeree") that withholding of tax is not required upon the disposition of a California real property interest by transferor, BNP Leasing Corporation ("BNP"), the undersigned hereby certifies the following on behalf of BNP:

1. BNP is not a foreign corporation, foreign partnership, foreign trust, or foreign estate (as those terms are defined in the Internal Revenue Code and Income Tax Regulations);

2. The United States employer identification number for BNP is _____;

3. The office address of BNP is _____.

[NOTE: BNP MUST INCLUDE EITHER ONE, BUT ONLY ONE, OF THE FOLLOWING REPRESENTATIONS IN THE FIRPTA STATEMENT, BUT IF THE ONE INCLUDED STATES THAT BNP IS DEEMED EXEMPT FROM CALIFORNIA INCOME AND FRANCHISE TAX, THEN BNP MUST ALSO ATTACH A WITHHOLDING CERTIFICATE FROM THE CALIFORNIA FRANCHISE TAX BOARD EVIDENCING THE SAME:

4. BNP IS QUALIFIED TO DO BUSINESS IN CALIFORNIA.

OR

4. BNP IS DEEMED TO BE EXEMPT FROM THE WITHHOLDING REQUIREMENT OF CALIFORNIA REVENUE AND TAXATION CODE SECTION 26131(E), AS EVIDENCED BY THE WITHHOLDING CERTIFICATE FROM THE CALIFORNIA FRANCHISE TAX BOARD WHICH IS ATTACHED.]

BNP understands that this certification may be disclosed to the Internal Revenue Service and/or to the California Franchise Tax Board by the Transferee and that any false statement contained herein could be punished by

fine, imprisonment, or both.

BNP understands that the Transferee is relying on this affidavit in determining whether withholding is required upon said transfer. BNP hereby agrees to indemnify and hold the Transferee harmless from and against any and all obligations, liabilities, claims, losses, actions, causes of action, demands, rights, damages, costs, and expenses (including but not limited to court costs and attorneys' fees) incurred by the Transferee as a result of any false misleading statement contained herein.

I-1

Under penalties of perjury I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct and complete, and I further declare that I have authority to sign this document on behalf of BNP.

Dated: _____, 199__.

By: _____

Name: _____

Title: _____

I-2

SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

<TABLE>
<CAPTION>

QUARTER ENDED	FISCAL 1994				FISCAL 1995			
	SEPT. 30	DEC. 31	MARCH 31	JUNE 30	SEPT. 30	DEC. 31	MARCH 31	JUNE 30
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales	\$ 51.9	\$ 57.1	\$ 62.6	\$ 72.1	\$ 83.2	\$104.7	\$118.1	\$136.4
Gross profit	20.7	24.7	29.4	35.9	42.6	56.3	63.9	75.0
(% of net sales)	39.9%	43.3%	47.0%	49.8%	51.2%	53.8%	54.1%	55.0%
Engineering, research and development expense	4.9	4.8	5.5	7.2	8.2	8.8	12.3	16.0
(% of net sales)	9.4%	8.4%	8.8%	10.0%	9.9%	8.4%	10.4%	11.7%
Selling, general and administrative expense	9.9	11.3	12.0	15.0	16.5	21.7	21.6	25.5
(% of net sales)	19.1%	19.8%	19.2%	20.8%	19.8%	20.7%	18.3%	18.7%
Net income	4.2	6.3	9.0	10.7	12.8	1.0 (a)	20.8	24.0
(% of net sales)	8.1%	11.0%	14.4%	14.8%	15.4%	1.0%	17.6%	17.6%
Net income per share	\$ 0.20	\$ 0.30	\$ 0.40	\$ 0.45	\$ 0.54	\$ 0.04 (a)	\$ 0.86	\$ 0.94
Shares used in computing net income per share	20.8	20.9	22.7	23.7	23.9	24.1	24.3	25.5

</TABLE>

(A) Includes a net charge of \$16.2 million or \$0.66 per share, for writeoff of acquired in-process technology.

Management's Financial Commentary

Last year we described fiscal 1994 as a breakthrough year that resulted in a sharp improvement in earnings. This year we can describe fiscal 1995 as a year of rapid advance on all fronts. For the first time in many years, all of KLA's major businesses were growing at the same time. Earnings per share of \$3.06 (prior to the write-off resulting from the acquisition of Metrologix) were more than double the prior year's record of \$1.37 in fiscal 1994. This improvement was the result of a number of factors. First and foremost, semiconductor manufacturers continued to find new uses for the KLA 2100 series, and adoption of KLA's methodologies became more pervasive. The top ten manufacturing plants using KLA's approach now average seven KLA 2100 systems per fab, and more than 88 fabs have multiple systems installed or on order. The second factor was the continued strength of capital spending by the industry on new submicron manufacturing capabilities. The electronic components in greatest demand, such as microprocessors, memories and custom ASICs, require facilities capable of manufacturing circuits with 0.5-micron features or below. The shortage of these advanced facilities has resulted in a strong cycle of spending by semiconductor manufacturers. This spending strength has driven demand for all of KLA's products, including the metrology and test division systems. A third consideration was the recovery of the reticle and photomask business, reflecting the industry's enthusiasm for the new capabilities of the KLA 331. The system employs a new KLA technology, Simultaneous Transmitted and Reflected Light ("STARlight"), which finds many new classes of defects not previously thought to exist on masks and reticles. As a result, both mask makers and mask users are interested in this new verification technology.

As a result of these factors, KLA's bookings grew 80% in fiscal 1995, and backlog doubled from about \$125 million at June 30, 1994, to about \$250 million at June 30, 1995. To accommodate this continuing growth, KLA increased cleanroom manufacturing space during the fiscal year by over 100%, entered into an agreement to lease a 105,000 square-foot facility being constructed at its main campus site, and leased an additional 73,000 square feet of office and manufacturing space adjacent to the campus. In August of 1995, KLA also entered into leases for 134,000 square feet in three buildings adjacent to the KLA campus.

During fiscal 1995, KLA expanded the product offering of the metrology business by acquiring Metrologix, a manufacturer of scanning electron microscope (SEM) products used to measure the linewidths of very advanced devices. As these linewidths became smaller, the optical technology of the KLA 5100 was less able to resolve the images for linewidth measurement. As a result, the KLA 5100 is now employed primarily for overlay alignment applications, and it continues to have a majority share of that market. The acquisition resulted in an after-tax charge of \$16.2 million attributable to the write-off of

in-process technology; this charge reduced earnings in the second quarter by \$0.66 per share.

ANNUAL RESULTS OF OPERATIONS

Sales increased 82% in fiscal 1995 compared with increases of 46% and 7% in fiscal 1994 and 1993, respectively. The dollar sales increase in fiscal 1995 was primarily attributable to the continued success of the 2100 series product line manufactured by the Wafer Inspection Business Unit (WISARD). However, comparable percentage increases were also recorded by the Reticle and Photomask Inspection Business Unit (RAPID) for the reasons described earlier and by the Optical Metrology Business Unit, which continued to achieve the majority share of its overlay metrology market. Smaller percentage gains were seen in the ATS Division, which benefited from the introduction of a new prober model, and the Customer Service Division (CSD), which benefited from the growing installed base of KLA equipment worldwide. The 46% sales increase in fiscal 1994 was again primarily attributable to rising demand for WISARD's 2100 series product. The Metrology Business Unit recorded a similar percentage increase to that of WISARD. Revenue increases were also recorded in the RAPID and ATS divisions. The 7% sales increase in fiscal 1993 reflected strength in the ATS and Metrology divisions, which slightly offset a decline in RAPID caused by a delay in completing all the features of its new 300 Series.

International sales as a percent of total sales were 69%, 65% and 62% in fiscal years 1995, 1994 and 1993, respectively. The increase in international sales in fiscal 1995 was due to continued strong demand from Korea, to an upsurge in orders from Taiwan in the second half of the year, and to a continuation of the recovery of the Japanese semiconductor industry to more traditional levels of profitability and investment.

Gross margins were 54%, 45% and 36% in fiscal years 1995, 1994 and 1993, respectively. The improvement in fiscal 1995 was due to manufacturing efficiencies in WISARD, the rise in WISARD's share of KLA's total revenues, the absorption of fixed overhead costs by higher sales volumes and the favorable impact of a stronger yen. The gross margin improvement in fiscal 1994 was driven by the same considerations as in fiscal 1995. Gross margins in fiscal 1993 were adversely impacted by new product transitions in all divisions, which generated large scrap, rework and overhead variance costs. In RAPID, these transitions, unlike others in KLA's history, involved redesigns of every significant subsystem.

Engineering, research and development expenses were 10%, 9% and 10% of revenue in fiscal 1995, 1994 and 1993, respectively. In absolute dollars, these expenses doubled to \$45.3 million in fiscal 1995. As the Company increasingly concentrates on the broad opportunities in yield management, including the networking of all measurement tools in the fab, it is increasingly identifying opportunities to develop and market new systems and measurement tools, as well as applications and the related software for using these tools. Many such opportunities occurred in the WISARD Division during fiscal 1995, and R&D spending increased accordingly. Increases in R&D were also recorded in RAPID, Metrology and the new PRISM division. The decline in the percent of revenue for R&D in fiscal 1994 to 9% was due to the efficiency of developing new models with less extensive redesign of many subsystems than normal.

Engineering, research and development expenses are shown net of funds KLA receives

14

from customers, industry groups and government sources and also net of any capitalization of software costs. KLA's gross R&D expenses were reduced by 1%, 2% and 4% by these sources in fiscal years 1995, 1994 and 1993, respectively. KLA did not capitalize any software costs in fiscal years 1995 and 1994.

Selling, general and administrative costs were 19%, 20% and 20% in fiscal years 1995, 1994 and 1993, respectively. In fiscal 1995, decreases in sales and administration expenses as a percentage of sales were partially offset by increases in profit-sharing expenses resulting directly from the continued improvement in KLA's financial performance. In fiscal 1994, representative commissions and profit-sharing expenses increased slightly, and were offset by a decline in sales and administrative expenses, all as a percent of revenues.

"Interest income and other, net," increased in fiscal 1995 because the Company had higher balances of cash, cash equivalents and marketable securities. These balances increased primarily because of the secondary public offerings of stock of \$68.6 million in February 1994 and \$91 million in May 1995. Interest expense was \$2.4, \$2.0 and \$3.4 million in fiscal years 1995, 1994 and 1993, respectively. The decline in fiscal 1994 was due primarily to an interest rate adjustment in August 1993 on KLA's mortgage loan from 10.3% to 5.63%.

The provision for income taxes on pretax income was 34%, 25% and 25% in fiscal 1995, 1994 and 1993, respectively. In fiscal 1995, the income tax rate was lower than the statutory U.S. tax rate primarily due to the benefits generated by KLA's foreign sales corporation and the realization of deferred tax

assets which were previously reserved. KLA's tax rate increased from 1994 to 1995 as a result of a greater percentage of worldwide earnings being taxable in the U.S. in 1995 than in prior years. In fiscal 1993 and 1994, the income tax rate was lower than the statutory U.S. tax rate primarily due to tax advantages in Switzerland that resulted in a lower net foreign tax rate and as a result of the realization of deferred tax assets previously reserved. Additionally, the fiscal 1994 rate was reduced by the utilization of \$1.9 million in foreign tax credits.

The IRS is currently auditing the Company's federal income tax returns for fiscal years 1985-1992. Management believes sufficient taxes have been provided in prior years and that the ultimate outcome of the IRS audit will not have a material adverse impact on the Company's financial position or results of operations.

LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents and marketable securities increased by \$105.6 million in fiscal 1995 with \$22.3 million from operations, \$91 million from a secondary public offering in May 1995, and \$24.7 million from the after-tax impact of stock option and stock purchase plans. This was partially offset by a \$14.2 million cash payment to purchase Metrologix, and \$19 million in capital expenditures. Cash provided by operations was substantially less than reported earnings due to the working capital investment required to support the rise in revenues.

Capital expenditures of \$19 million in fiscal 1995 compared with depreciation charges of approximately \$11 million and were about triple the fiscal 1994 amount. The major uses of capital were the facility expansion at KLA's main campus and the facility expansions at KLA Israel and Japan. Capital expenditures for fiscal 1996 are expected to be greater than depreciation but less than the fiscal 1995 amount; however, this assessment could change if demand continues to exceed estimates and additional manufacturing capacity is required. No estimate can be made of the size or cost of any such additional capacity.

The Company has entered into lease agreements to occupy three buildings beginning in fiscal 1996. In total, the lessor has committed to fund up to \$27.9 million to construct or acquire and improve the three buildings located at KLA's main campus site. KLA may, at its option, purchase the properties during the term of the leases at approximately the amount expended by the lessor to acquire, construct and improve the properties. If the Company does not purchase the buildings at the end of the leases, the Company will guarantee the lessor 85% of the residual values of the properties as determined at the inception of the leases.

KLA believes that its current level of liquid assets, borrowing facilities, working capital and cash expected to be generated from operations will be sufficient to fund its growth through at least fiscal 1996. The current policy of KLA is not to pay dividends. Management believes that it is in the best interests of the stockholders to continue to reinvest KLA's earnings in the business.

[PHOTO OF ROBERT J. BOEHLKE, VICE PRESIDENT, FINANCE AND ADMINISTRATION AND CHIEF FINANCIAL OFFICER]

BUSINESS RISKS AND UNCERTAINTIES

The Company's future results will depend on its ability to continuously introduce new products and enhancements to its customers as demands for higher productivity and specifications of semiconductor test equipment change or increase. Due to the risks inherent in transitioning to new products, the Company must accurately forecast demand in both volume and configuration and also manage the transition from older products. The Company's results could be affected by the ability of competitors to introduce new products that have technological and/or pricing advantages. Results also will be affected by strategic decisions made by management regarding whether to continue particular product lines, and by volume, mix and timing of orders received during a period, fluctuations in foreign exchange rates, and changing conditions in both the semiconductor industry and key semiconductor markets around the world. As a result, the Company's operating results may fluctuate, especially when measured on a quarterly basis.

SELECTED FINANCIAL DATA (UNAUDITED)

<TABLE>
<CAPTION>

1995	1991	1992	1993	1994	
(In thousands, except per share amounts)					
<S>	<C>	<C>	<C>	<C>	<C>
YEARS ENDED JUNE 30,					
Net sales	\$ 148,432	\$ 155,963	\$ 167,236	\$ 243,737	\$
442,416					
Restructuring charges (recovery)	-	8,158	(718)	-	
-					
Income (loss) from continuing operations	2,415	(16,610)	6,961	30,188	
58,618					
Net income (loss)	(10,585)	(13,810)	6,961	30,188	
58,618					
Income (loss) per share from continuing operations	0.13	(0.90)	0.35	1.37	
2.40					
Net income (loss) per share	(0.57)	(0.75)	0.35	1.37	
2.40					
Shares used in computing net income per share	18,552	18,451	19,707	22,044	
24,435					
AT JUNE 30,					
Cash, cash equivalents and marketable securities	31,254	23,711	52,362	139,126	
244,753					
Working capital	91,116	83,961	93,611	212,873	
228,026					
Total assets	198,023	188,457	199,089	321,570	
546,296					
Long-term debt	24,000	24,000	20,000	20,000	
-					
Stockholders' equity	113,161	103,032	114,050	227,382	
403,969					

CONSOLIDATED STATEMENT OF OPERATIONS

YEARS ENDED JUNE 30,	1993	1994	1995
(In thousands, except per share amounts)			
<S>	<C>	<C>	<C>
Net sales	\$ 167,236	\$ 243,737	\$ 442,416
Costs and expenses:			
Cost of sales	107,466	133,028	204,618
Engineering, research and development	16,314	22,435	45,252
Selling, general and administrative	32,684	48,192	85,255
Write-off of acquired in-process technology	-	-	25,240
Restructuring recovery	(718)	-	-
	155,746	203,655	360,365
Income from operations	11,490	40,082	82,051
Interest income and other, net	1,217	2,174	9,127
Interest expense	(3,426)	(2,005)	(2,364)
Income before income taxes	9,281	40,251	88,814
Provision for income taxes	2,320	10,063	30,196
Net income	\$ 6,961	\$ 30,188	\$ 58,618
Net income per share	\$ 0.35	\$ 1.37	\$ 2.40
Shares used in computing net income per share	19,707	22,044	24,435
Pro forma net income per share, Note 5	\$ 0.18	\$ 0.69	\$ 1.20

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

<TABLE>

<CAPTION>
AT JUNE 30,
1995

1994

THOUSANDS)

(IN

<S>

<C>

<C>

ASSETS

Current assets:

Cash and cash equivalents	\$139,126	\$
92,059		
Short-term investments	-	
26,681		
Accounts receivable, net of allowances of \$1,754 and \$2,196	74,226	
129,274		
Inventories	53,265	
79,759		
Deferred income taxes	7,495	
18,155		
Other current assets	4,343	
14,949		

Total current assets 278,455
360,877

Land, property and equipment, net 37,149
49,004
Marketable securities -
126,013
Other assets 5,966
10,402

Total assets \$321,570 \$
546,296

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Notes payable	\$ 4,673	\$
4,458		
Current portion of long-term debt	-	
20,000		
Accounts payable	11,890	
19,376		
Income taxes payable	12,466	
22,797		
Other current liabilities	36,553	
66,220		

Total current liabilities 65,582
132,851

Deferred income taxes 8,606
9,476
Long-term debt 20,000

Commitments and contingencies, Note 4

Stockholders' equity:

Preferred Stock \$.001 par value, 1,000 shares authorized, none issued and outstanding	-	
-		
Common shares, \$.001 par value, 75,000 shares authorized, 22,864 and 25,080 shares issued and outstanding	23	
25		
Capital in excess of par value	147,358	
263,016		
Retained earnings	80,275	
138,893		
Treasury stock	(581)	
(581)		
Net unrealized gain on investments	-	
1,241		
Cumulative translation adjustment	307	
1,375		

Total stockholders' equity	227,382	
403,969		

Total liabilities and stockholders' equity	\$321,570	\$
546,296		

See accompanying notes to consolidated financial statements.

KLA INSTRUMENTS CORPORATION 17

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

TRANSLATION ADJUSTMENTS	COMMON STOCK AND CAPITAL IN EXCESS OF PAR VALUE		RETAINED	TREASURY STOCK		NET UNREALIZED GAIN ON
	SHARES	AMOUNT	EARNINGS	SHARES	AMOUNT	INVESTMENTS
(In thousands)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
<C>						
Balance at June 30, 1992	18,696	\$ 58,957	\$ 43,126	(55)	\$ (581)	\$ -
\$ 1,530						

Exercise of stock options	604	4,277				
Shares sold in stock purchase plan	203	1,424				
Net income			6,961			
Translation adjustments						
(1,644)						

Balance at June 30, 1993	19,503	64,658	50,087	(55)	(581)	-
(114)						

Exercise of stock options	854	6,960				
Tax benefit on exercise of stock options		5,232				
Shares sold in stock purchase plan	207	1,965				
Shares sold in stock offering	2,300	68,566				
Net income			30,188			
Translation adjustments						
421						

Balance at June 30, 1994	22,864	147,381	80,275	(55)	(581)	-
307						

Exercise of stock options	628	5,271				
Tax benefit on exercise of stock options		15,427				
Shares sold in stock purchase plan	88	3,995				
Shares sold in stock offering	1,500	90,967				
Net income			58,618			
Net unrealized gain on investments						1,241
Translation adjustments						
1,068						

Balance at June 30, 1995	25,080	\$263,041	\$138,893	(55)	\$ (581)	\$1,241
\$1,375						

See accompanying notes to consolidated financial statements.

18 KLA INSTRUMENTS CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 1995	1993	1994	
(In			
thousands)			
<S>	<C>	<C>	
<C>			
Cash flows from operating activities:			
Net income	\$ 6,961	\$30,188	\$
58,618			
Adjustments required to reconcile net income			
to cash provided by operations:			
Depreciation and amortization	9,646	10,734	
10,642			
Write-off of acquired in-process technology	-	-	
16,154			
Deferred income taxes	(466)	(2,053)	
(9,591)			
Changes in assets and liabilities:			
Accounts receivable	947	(26,149)	
(54,462)			
Inventories	6,048	(10,776)	
(23,112)			
Other assets	1,570	(139)	
(18,313)			
Accounts payable	3,375	2,937	
6,509			
Income taxes payable	(429)	3,063	
11,199			
Other current liabilities	2,655	3,483	
24,692			

Cash provided by operations	30,307	11,288	
22,336			

Cash flows from investing activities:			
Capital expenditures	(3,226)	(5,809)	
(19,009)			
Purchases of short and long-term available for sale securities	-	-	
(329,729)			
Sales and maturities of short and long-term available for sale securities	-	-	
178,276			
Investment in Metrologix	-	-	
(14,182)			
Other	(357)	-	
-			

Cash used for investing activities	(3,583)	(5,809)	
(184,644)			

Cash flows from financing activities:			
Short-term borrowings, net	(2,881)	2,141	
(1,487)			
Payment of current portion of long-term debt	-	(4,000)	
-			
Sales of common stock/tax benefit of options exercised	5,701	82,723	
115,660			

Cash provided by financing activities	2,820	80,864	
114,173			

Effect of exchange rate changes	(893)	421	
1,068			

Increase (decrease) in cash and cash equivalents	28,651	86,764	
(47,067)			
Cash and cash equivalents at beginning of year	23,711	52,362	
139,126			

Cash and cash equivalents at end of year	\$ 52,362	\$139,126	\$
92,059			

Cash paid during the year for:			
Interest	\$ 3,515	\$ 2,007	\$
2,361			
Income taxes	1,914	3,369	
22,715			

</TABLE>

See accompanying notes to consolidated financial statements.

KLA INSTRUMENTS CORPORATION

19

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION - The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Subsidiaries with accounts denominated in foreign currencies have been translated principally using the local currencies as the functional currencies. Accordingly, the assets and liabilities of these subsidiaries are translated at the rates of exchange on the balance sheet date, income and expense items are translated at average rates of exchange for the year, and the resulting translation gains or losses are included in stockholders' equity. Foreign currency transaction gains and losses have not been material and are included in interest income and other, net.

CASH EQUIVALENTS - Cash equivalents consist of highly liquid investments with a maturity date at acquisition of three months or less. Cash and cash equivalents are stated at cost, plus accrued interest, which approximates market value.

Effective July 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115 (FAS 115) "Accounting for Certain Investments in Debt and Equity Securities," which requires the Company to classify debt and equity securities into one of three categories: held to maturity, trading or available for sale. The Company's investments are classified as available for sale. Investments classified as available for sale are measured at market value, and net unrealized gains and losses are recorded as a separate component of stockholders' equity until realized. Any gains or losses on sales of investments are computed by specific identification. As of June 30, 1995, net unrealized gains on investments available for sale were \$1.2 million.

CONCENTRATION OF CREDIT RISK - Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of investments, trade accounts receivable and financial instruments used in hedging activities.

The Company invests in a variety of financial instruments such as certificates of deposit, commercial paper, municipal debt and U.S. Government debt. The Company, by policy, limits the amount of credit exposure to any one financial institution or commercial issuer.

The Company sells its systems to semiconductor manufacturers throughout the world. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. The Company maintains an allowance for uncollectible accounts receivable based upon expected collectibility of all accounts receivable. The write-off of uncollectible amounts has been insignificant.

The Company is exposed to credit loss in the event of nonperformance by counterparties on the foreign exchange contracts used in hedging activities. The Company does not anticipate nonperformance by these counterparties.

FOREIGN EXCHANGE HEDGING - The Company enters into forward contracts to hedge against currency fluctuations that affect certain foreign currency denominated sales and purchase transactions. Because the impact of movements in currency exchange rates on forward contracts offsets the related impact on the underlying items being hedged, these financial instruments do not subject the Company to speculative risk that would otherwise result from changes in currency exchange rates. Unrealized gains and losses on these contracts are deferred and accounted for as part of the hedged transactions. Cash flows from these contracts are classified in the Statement of Cash Flows in the same category as the hedged transactions.

At June 30, 1994, the Company had forward contracts maturing throughout fiscal 1995 to sell approximately \$48.1 million in foreign currency, primarily Japanese yen, and to purchase approximately \$5.8 million of Japanese yen. At June 30, 1995, the Company had forward contracts maturing throughout fiscal 1996 to sell approximately \$147.9 million in foreign currency, primarily Japanese yen, and to purchase approximately \$19.1 million in foreign currency, primarily Japanese yen. Of these contracts, approximately \$70.5 million of contracts hedge foreign

currency receivables and payables carried on the balance sheet as of June 30, 1995, and consequently the financial statements reflect the fair market value of the contracts and their underlying transactions. Approximately \$90.6 million and \$5.9 million of the contracts hedge firm commitments for future sales and purchases, respectively, denominated in foreign currency. The fair market value of these contracts on June 30, 1995, based upon prevailing market rates on that date, was approximately \$88.3 million and \$5.8 million, respectively.

INVENTORIES - Inventories are stated at the lower of cost or market. Cost is determined using standard costs, which approximate actual costs on a first-in, first-out basis.

PROPERTY AND EQUIPMENT - Property and equipment are recorded at cost. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, which are 30 years for buildings and building improvements, five years for furniture and fixtures, and range from three to five years for machinery and equipment. The life of the lease or the useful life, whichever is shorter, is used for the amortization of leasehold improvements.

REVENUE RECOGNITION - The Company recognizes sales of wafer inspection, metrology, reticle and photomask inspection systems upon acceptance at the Company's plant, which is when title transfers. Customers may observe and approve satisfactory completion of the tests. Sales of other systems are recognized upon shipment. A provision for the estimated future cost of system installation and warranty is recorded at the time revenue is recognized. Revenues from software licenses are recognized upon delivery of the software, provided that the Company does not have any significant obligations. Revenues from service contracts are recognized during the terms of the contracts on a straight-line basis.

20 KLA INSTRUMENTS CORPORATION

NOTE 1 (CONTINUED)

RESEARCH AND DEVELOPMENT - The Company is actively engaged in significant product improvement and new product development efforts. Research and development expenses relating to possible future products aggregated approximately \$13.4, \$16.8 and \$28.4 million for fiscal 1993, 1994 and 1995, respectively.

INCOME TAXES - The Company accounts for income taxes under the liability method, which requires an adjustment to the provision for income taxes for the effect of changes in corporate tax rates.

Undistributed earnings of certain of the Company's foreign subsidiaries, for which no U.S. income taxes have been provided, aggregated approximately \$6.3 million at June 30, 1995. The amount of the unrecognized deferred tax liability related to this investment is estimated at approximately \$2.3 million at June 30, 1995.

NET INCOME PER SHARE - Net income per share is computed using the weighted average number of common and common equivalent shares outstanding during the respective periods, including the assumed net shares issuable upon exercise of stock options, when dilutive.

NOTE 2 DETAILS OF FINANCIAL STATEMENT COMPONENTS

<TABLE>
<CAPTION>

	1994	1995
		(In thousands)
<S>	<C>	<C>
Inventories:		
Customer service spares	\$ 12,220	\$ 13,050
Systems raw materials	12,597	18,944
Work-in-process	13,348	26,863
Demonstration equipment	15,100	20,902
	\$ 53,265	\$ 79,759
Land, property and equipment:		
Land	\$ 10,502	\$ 10,502
Buildings and improvements	21,928	27,483
Machinery and equipment	33,143	41,203
Furniture and fixtures	4,549	5,542
Leasehold improvements	4,029	3,913
	74,151	88,643
Less accumulated depreciation and amortization	(37,002)	(39,639)
	\$ 37,149	\$ 49,004

Other current liabilities:		
Accrued compensation and benefits	\$ 16,328	\$ 27,574
Accrued warranty and installation	14,367	22,229
Unearned revenue	3,054	4,867
Other	2,804	11,550

	\$ 36,553	\$ 66,220

</TABLE>

NOTE 3 INVESTMENTS

The amortized cost and estimated fair value of securities available for sale as of June 30, 1995, are as follows:

<TABLE>
<CAPTION>

	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(In thousands)				
<S>	<C>	<C>	<C>	<C>
U.S. Treasuries	\$ 47,720	\$ 455	\$ 36	\$ 48,139
Municipal bonds	83,983	693	100	84,576
Corporate debt securities	43,638	705	-	44,343
Other	45,324	368	59	45,633

	220,665	2,221	195	222,691
Less cash equivalents	(70,021)	(12)	(36)	(69,997)
Less short-term investments	(26,614)	(77)	(10)	(26,681)

Long-term investments	\$ 124,030	\$ 2,132	\$ 149	\$ 126,013

</TABLE>

KLA INSTRUMENTS CORPORATION

21

NOTE 3 (continued)

Gross unrealized gains and losses are presented in stockholders' equity, net of the tax effect. The contractual maturities of securities classified as available for sale as of June 30, 1995, regardless of the consolidated balance sheet classification, are as follows:

<TABLE>
<CAPTION>

Estimated
Fair Value

-----		(In
thousands)		
<S>		
<C>		
Due within one year		\$
69,997		
Due after one year through five years		
72,518		
Due after five years		
80,176		

	\$222,691	

</TABLE>

Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The realized gains and losses for the year ended June 30, 1995 were not material to the Company's financial position or results of operations.

NOTE 4 COMMITMENTS AND CONTINGENCIES

The Company leases several facilities under operating leases expiring at various dates through fiscal 2025 with renewal options at fair market value for additional periods ranging up to ten years. In June 1995, the Company entered into an agreement to lease a building being constructed on land owned by the Company in San Jose, California. The lessor of the building has committed to fund up to \$12.5 million (subject to reductions based on certain conditions in the lease) for the construction of the building, with the portion of the committed amount actually utilized to be determined by the Company. In August

1995, the Company entered into a lease agreement to occupy two buildings in San Jose, California. The lessor has committed to fund up to \$15.4 million for the acquisition of the land and buildings and for the completion of improvements to the buildings. Rent obligations for the buildings will commence upon the Company's occupation of the buildings in fiscal 1996. The Company may, at its option, purchase the properties during the term of the leases at approximately the amount expended by the lessor to acquire, construct and improve the properties. If the Company does not purchase the buildings at the end of the leases, the Company will guarantee the lessor 85% of the residual value of the properties as determined at the inception of the leases. In addition, the lease agreements require the Company to maintain, among other items, minimum quick ratio, tangible net worth and profitability.

The aggregate minimum rental commitments under these lease agreements as of June 30, 1995, and including the facilities leased in August 1995, excluding property taxes, insurance and certain other costs to be paid by the Company, are approximately \$4.7, \$4.8, \$3.6, \$3.0, \$2.5 and \$26.4 million in fiscal 1996 through 2000 and thereafter, respectively. Total rental expense under all operating leases was \$2.9, \$2.5 and \$3.5 million in fiscal 1993, 1994 and 1995, respectively.

The Company is party to several claims and lawsuits arising in the ordinary course of business. While the outcome of these matters is not presently determinable, in the opinion of management, they are not expected to have a material effect on the financial position or the results of operations of the Company.

NOTE 5 STOCKHOLDERS' EQUITY

A two-for-one stock split was declared by the Board of Directors on July 24, 1995. The stock split will be in the form of a 100% stock dividend. The dividend will be paid on September 29, 1995, to stockholders of record on August 31, 1995. Financial information in this report has not been adjusted to reflect the impact of the proposed common stock split.

In May 1995, the Company raised approximately \$91 million, net of offering costs, in a public offering of 1,500,000 shares of common stock at \$63.50 per share.

In February 1994, the Company sold 2,300,000 shares of common stock at \$31.50 per share in a public offering resulting in \$68.6 million of proceeds to the Company, net of offering expenses.

In March 1989, the Company implemented a plan to protect stockholders' rights in the event of a proposed takeover of the Company. Under the plan, each share of the Company's outstanding common stock carries one Common Stock Purchase Right (Right). The Right entitles the holder, under certain circumstances, to purchase common stock of the Company or its acquirer at a discounted price. The Rights are redeemable by the Company and expire in 1999.

22 KLA INSTRUMENTS CORPORATION

NOTE 6 EMPLOYEE BENEFIT PLANS

The Company has a profit sharing program, wherein a percentage of pretax profits, as determined by the Board of Directors, is accumulated and distributed quarterly to all employees who have completed a stipulated employment period. In addition, the Board may approve matching contributions to the Company's savings and investment plan, a qualified salary reduction plan under section 401(k) of the Internal Revenue Code. The total charge to operations under the profit sharing and 401(k) programs aggregated approximately \$0.7, \$3.3 and \$16.6 million in fiscal 1993, 1994 and 1995, respectively.

Under the 1982 Stock Option Plan, as amended, 6,350,000 shares have been reserved for issuance to eligible employees and directors as either Incentive Stock Options (ISO's) or nonqualified options. Options under this plan are granted at prices determined by the Board of Directors, but not less than the fair market value on the date of grant, and expire ten years after the date of grant. Generally, options become exercisable within five years of the date of grant, vesting monthly after a waiting period of six to thirty months.

In October 1990, the Company adopted the 1990 Outside Directors Stock Option Plan to grant options to non-employee directors. This plan calls for an annual grant of 2,500 options, at fair market value, to each outside director. The options become exercisable at one fifty-fourth per month beginning six months from date of grant and expire ten years from grant date. A total of 100,000 shares has been reserved for issuance under this plan. These options carry exercise prices ranging from \$7.00 to \$49.50 per share, with 48,737 shares outstanding at June 30, 1995.

In August 1992, the Company allowed all holders of outstanding options, with the exception of holders who were officers or directors of the Company during all of

fiscal 1992, to exchange higher priced options for new non-qualified options at \$7.50 per share, the fair market value on the date of the Board's action; 412,000 options were exchanged.

Following is a summary of stock option and outside director plan transactions:

Reserved	Stock		
Shares	Option Price	Outstanding	Options

<S>	<C>	<C>	<C>
Balance at June 30, 1992	\$ 6.13-21.25	2,938,592	
874,901			
Options granted	7.50-12.38	1,048,246	
(1,048,246)			
Options cancelled	6.13-20.50	(594,311)	
594,311			
Options exercised	6.13-14.00	(603,912)	

Balance at June 30, 1993	\$ 7.00-21.25	2,788,615	
420,966			
Options granted	19.13-41.63	235,050	
(235,050)			
Options cancelled	7.00-31.75	(113,749)	
113,749			
Options exercised	7.00-31.75	(853,509)	

Balance at June 30, 1994	\$ 7.00-41.63	2,056,407	
299,665			
Options granted	4.69-61.25	1,329,768	
(1,326,539)			
Options cancelled	4.69-52.38	(196,246)	
196,246			
Options exercised	4.69-41.63	(628,288)	
Increase in reserved shares			
1,600,000			

Balance at June 30, 1995	\$ 4.69-61.25	2,561,641	
769,372			

</TABLE>

At June 30, 1995, options to purchase 598,497 shares of stock were exercisable under all option plans.

The Company has reserved 2,000,000 shares of common stock to be issued under the 1981 Employee Stock Purchase Plan, as amended. The Plan permits eligible employees to purchase common stock, through payroll deductions, at 85% of the lower of the fair market value of the common stock on the date at the beginning of the two-year offering period or the last day of the purchase period. Substantially all employees are eligible to participate in the Plan. At June 30, 1995, shares totaling 356,910 were available for future issuance under the Plan.

NOTE 7 FINANCING ARRANGEMENTS

At June 30, 1995, the Company had a \$20 million interest-only mortgage on its principal facility due August 1995, bearing interest of 7.62% per annum through August 1995. The mortgage is secured by the underlying asset. The Company intends to repay the mortgage in full in August 1995.

As of June 30, 1995, the Company had a \$10 million multicurrency line of credit with a bank, expiring December 31, 1995. The line of credit has a facility fee of 0.20% per annum. Interest on domestic and foreign borrowings is charged at the bank's reference rate and at the bank's offshore reference rate plus 0.75%, respectively. The agreement requires the Company to maintain, among other items, minimum quick ratio, tangible net worth and profitability. The agreement also restricts the amount of dividends that may be declared. At June 30, 1995, the Company was in compliance with all of these covenants. As of June 30, 1995, approximately \$0.5 million had been borrowed at the related offshore interest rate of 8.34% per annum.

In addition, certain of the Company's foreign subsidiaries had short-term local currency borrowings of approximately \$4.0 million at an average interest rate of 3.04% at June 30, 1995.

Based upon interest rates available to the Company for issuance of debt with

similar terms and remaining maturities, the fair values of the long-term mortgage debt and notes payable were approximately equal to the recorded values.

NOTE 8 RESEARCH AND DEVELOPMENT ARRANGEMENTS

The Company has entered into research and development arrangements with certain key customers and other entities to partially fund the development of new technology on a best efforts basis. In fiscal 1993, 1994 and 1995, revenues of \$6.8, \$5.7 and \$2.3 million, respectively, have been recognized on these research and development contracts on the percentage of completion basis. These revenues are offset against gross engineering, research and development expenses.

NOTE 9 METROLOGIX INC. ACQUISITION

In December 1994, the Company acquired Metrologix Inc. (Metrologix), a manufacturer of advanced electron beam measurement equipment, for \$14.2 million in cash. This acquisition was accounted for as a purchase and the total acquisition cost of \$16.1 million has been allocated to assets acquired and liabilities assumed. A significant portion of the acquisition cost was allocated to acquired in-process technology which was written off at the time of the acquisition, because further substantial research and development investments were necessary to complete the new product development then underway. This resulted in an after-tax charge of \$16.2 million (\$25.2 million pre-tax). The results of operations for Metrologix from the date of the acquisition to June 30, 1995, were immaterial.

NOTE 10 GEOGRAPHIC REPORTING

The Company is a leading manufacturer of yield monitoring and process control systems for the semiconductor manufacturing industry. For geographic reporting, sales are attributed to the geographic location of the sales and service organizations, and costs directly and indirectly incurred in generating sales are similarly assigned. During fiscal 1993, one customer accounted for 11% of net sales. During fiscal 1994 and 1995, no customer accounted for more than 10% of sales. The following is a summary of operations by geographical territories:

	1993	1994
<TABLE>		
<CAPTION>		
1995		

		(In
thousands)		
<S>	<C>	<C>
<C>		
Net sales to unaffiliated customers:		
United States	\$ 62,802	\$ 84,493
\$138,926		
Western Europe	34,141	37,854
47,862		
Japan	46,914	79,820
159,253		
Asia Pacific	23,379	41,570
96,375		

	167,236	243,737
442,416		

Intercompany sales between geographic areas:		
United States	28,942	39,998
60,861		
Western Europe	4,751	7,595
12,178		
Asia Pacific	3,212	6,832
9,846		

	36,905	54,425
82,885		

Consolidation eliminations	(36,905)	(54,425)
(82,885)		

Net sales	\$167,236	\$243,737	
\$442,416			
Operating results:			
United States	\$ 7,558	\$ 15,407	\$
31,777			
Western Europe	6,262	9,234	
8,567			
Japan	(1,783)	11,166	
46,583			
Asia Pacific	3,896	14,544	
39,463			
	15,933	50,351	
126,390			
General corporate expenses	(4,443)	(10,269)	
(44,339)			
Operating profit	\$ 11,490	\$ 40,082	\$
82,051			
Identifiable assets:			
United States	\$ 96,383	\$ 95,041	
\$147,557			
Western Europe	22,631	19,853	
24,361			
Japan	18,627	38,444	
71,854			
Asia Pacific	13,487	24,264	
45,380			
	151,128	177,602	
289,152			
General corporate assets	47,961	143,968	
257,144			
Total assets	\$199,089	\$321,570	
\$546,296			

</TABLE>

Intercompany transfers of products are based on the cost of products transferred. Corporate assets consist primarily of cash and cash equivalents and other investments. Corporate expenses consist primarily of general, administrative and other expenses not attributable to geographical regions. Capital expenditures and depreciation expense have been primarily in the United States.

NOTE 11 INCOME TAXES

The components of income before income taxes are comprised of the following:

	1993	1994	
1995			
			(In
thousands)			
<S>	<C>	<C>	
<C>			
Domestic	\$ 1,828	\$ 31,515	\$
77,157			
Foreign	7,453	8,736	
11,657			
	\$ 9,281	\$ 40,251	
\$ 88,814			

</TABLE>

NOTE 11 (continued)

The provisions for income taxes are comprised of the following:

	1993	1994	
1995			

			(In
thousands)			
<S>	<C>	<C>	
<C>			
Federal:			
35,390	\$ 495	\$ 7,587	\$
Currently payable			
(13,414)	-	(2,195)	
Deferred			

21,976	495	5,392	

State:			
6,094	321	2,222	
Currently payable			
(1,337)	-	-	
Deferred			

4,757	321	2,222	

Foreign:			
2,245	2,679	2,307	
Currently payable			
1,218	(1,175)	142	
Deferred			

3,463	1,504	2,449	

Provision for income taxes	\$ 2,320	\$10,063	\$
30,196			

Actual current tax liabilities are lower than reflected above for fiscal years 1993, 1994 and 1995 by none, \$5.2 and \$15.4 million, respectively, due to the stock option deduction benefits recorded as credits to capital in excess of par value.

The following is a reconciliation of the effective income tax rates and the United States statutory federal income tax rate:

	1993	1994
1995		

<S>	<C>	<C>
<C>		
Statutory federal income tax rate	34.0%	35.0%
35.0%		
State income taxes, net of federal tax benefits	2.3	3.6
3.5		
Effect of foreign operations at lower tax rates	(11.1)	(1.7)
(0.7)		
Non-taxable FSC income	-	(1.5)
(2.6)		
Foreign tax credit	-	(4.8)
(0.1)		
Realized deferred tax assets previously reserved	(3.8)	(5.8)
(2.7)		
Other	3.6	0.2
1.6		

Effective tax rate	25.0%	25.0%
34.0%		

</TABLE>

Deferred tax assets (liabilities) at June 30, 1993, 1994 and 1995 are comprised of the following:

	1993	1994	
1995			
thousands)			(In
<S>	<C>	<C>	
<C>			
Deferred tax assets:			
Federal and state loss and credit carryforwards	\$ 4,816	\$ 4,696	\$
2,804			
State tax	-	-	
1,096			
Nondeductible reserves and other	15,733	18,651	
24,611			
	20,549	23,347	
28,511			
Deferred tax liabilities:			
Depreciation	(4,317)	(5,157)	
(3,559)			
Unremitted earnings of foreign subsidiaries not permanently reinvested	(2,726)	(6,327)	
(8,319)			
Other	(3,275)	(1,896)	
(2,101)			
	(10,318)	(13,380)	
(13,979)			
Deferred tax assets valuation allowance	(13,395)	(11,078)	
(5,853)			
Total net deferred tax assets (liabilities)	\$ (3,164)	\$ (1,111)	\$
8,679			

</TABLE>

The Company's newly acquired subsidiary, Metrologix, has a federal net operating loss carryforward of approximately \$6 million as of June 30, 1995. It also has research and development tax credit carryovers of approximately \$0.7 million that will expire primarily in fiscal 2005 through 2008. These tax assets are subject to limitation as to their utilization under Internal Revenue Code Section 382 and other provisions.

The deferred tax assets valuation allowance at June 30, 1993, 1994 and 1995 is attributed to U.S. federal and state deferred tax assets. Management believes sufficient uncertainty exists with regard to the realizability of the Metrologix and certain other tax assets such that a valuation allowance of \$5.9 million has been provided at June 30, 1995. During fiscal 1993, 1994 and 1995, the Company realized \$0.4, \$2.3 and \$7.5 million, respectively, of deferred tax assets previously reserved, reducing the valuation allowance by corresponding amounts. In fiscal 1995, \$5.1 of the \$7.5 million that was realized was related to stock option deductions and accordingly was credited to capital in excess of par value.

The valuation allowance is allocated pro-rata to federal and state current and non-current deferred tax assets. Net deferred tax assets at June 30, 1995, of \$8.7 million, reflect net U.S. assets of \$13.2 million offset by \$4.5 million of net foreign liabilities. Net deferred tax liabilities at June 30, 1994, of \$1.1 million reflect foreign liabilities of \$3.3 million offset by \$2.2 million of net U.S. assets. The net deferred tax liability at June 30, 1993, relates to foreign operations.

The Company's manufacturing operations in Switzerland are exempt from taxes through 2001. The effect of this tax exemption was to increase net income in fiscal 1993, 1994 and 1995 by approximately \$0.6, \$0.6 and \$0.1 million,

respectively.

The IRS is currently auditing the Company's federal income tax returns for fiscal years 1985 to 1992. The Company has not yet received a notice of proposed tax deficiency. However, it anticipates a notice will be received in fiscal 1996. Management believes sufficient taxes have been provided in prior years and that the ultimate outcome of the IRS audit will not have a material adverse impact on the Company's financial position or results of operations.

KLA INSTRUMENTS CORPORATION 25

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and
Board of Directors of
KLA Instruments Corporation

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of KLA Instruments Corporation and its subsidiaries at June 30, 1994 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1995, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PRICE WATERHOUSE LLP

San Jose, California
July 26, 1995

Common Stock

<TABLE>
<CAPTION>

	1994		1995	
Low	High	Low	High	

<S>	<C>	<C>	<C>	
<C>				
First Quarter	26 1/2	17	51 3/4	
37 1/4				
Second Quarter	28	19	53	
44 3/4				
Third Quarter	43	25 7/8	65	
46 1/2				
Fourth Quarter	43 1/4	32 1/4	79 1/4	
60				

</TABLE>

The Company's common stock is traded on the Nasdaq National Market System under the symbol "KLAC."

The Company has not paid cash dividends on its common stock and does not plan to pay cash dividends to its stockholders in the near future. The Company presently intends to retain its earnings to finance further growth of its business. As of June 30, 1995, the Company had approximately 983 stockholders of record.

26 KLA INSTRUMENTS CORPORATION

CORPORATE DIRECTORY

<TABLE>
<CAPTION>

OFFICERS	DIRECTORS	
<S>	<C>	<C>
Kenneth Levy Chairman of the Board Chief Executive Officer	Kenneth Levy Chairman of the Board Chief Executive Officer	KLA Instruments Malaysia 60 Jalan Timah 7 Tarman Sri Putri 81300 Skudal Johor Bahru, Malaysia 607-557-1946
Kenneth L. Schroeder President Chief Operating Officer	Kenneth L. Schroeder President Chief Operating Officer	KLA Japan, Ltd. YBP Hi-Tech Center 134 Godo-Cho Hodogaya-ku Yokohama City Kanagawa 240, Japan 81-453-35-8200
Robert J. Boehlke Vice President, Finance and Administration Chief Financial Officer	Edward W. Barnholt Senior Vice President Hewlett-Packard	KLA Acrotec Company, Ltd. 20-16 Hikawadai Nerima-Ku 3-Cborne Tokyo 179, Japan 81-359-20-3611
Frank Brienzo Vice President	Leo J. Chamberlain Private Investor	KLA Instruments, S.A. Chernin de Buchaux 38 CH-2022 Bevaix, Switzerland 41-38-462090
Virginia DeMars Vice President, Human Resources	Robert E. Lorenzini Private Investor	KLA Instruments Korea Third Floor Lucky Security Building 184-1, Bangi-dong, Songpa-ku Seoul, South Korea 138-150 822-415-0552
Gary E. Dickerson Vice President	Yoshio Nishi, Ph.D. Vice President Texas Instruments	KLA Instruments Taiwan Fifth Floor 115 Ming Sheng Road Hsinchu City, Taiwan Republic of China 886-35-335163
Samuel Harrell, Ph.D. Senior Vice President	Samuel Rubinovitz Retired Executive Vice President EG&G, Inc.	INDEPENDENT ACCOUNTANTS Price Waterhouse LLP San Jose, California
Neil Richardson, Ph.D. Vice President	Dag Tellefsen General Partner Glenwood Venture Management	GENERAL LEGAL COUNSEL Gray Cary Ware & Freldehrich Palo Alto, California
Magnus O.W. Ryde Vice President		REGISTRAR AND TRANSFER AGENT First National Bank of Boston Boston, Massachusetts
Arthur P. Schnitzer Vice President	CORPORATE OFFICE KLA Instruments Coporation 160 Rio Robles P.O. Box 49055 San Jose, California 95161-9055 (408) 468-4200	ADDITIONAL COPIES OF THIS REPORT, AS WELL AS COPIES OF SEC FORM 10K, FOR THE YEAR ENDED JUNE 30, 1995, MAY BE OBTAINED FROM THE COMPANY WITHOUT CHARGE BY WRITING TO:
Christopher Stoddart Treasurer		KLA Instruments Corporation Attn: Investor Relations P.O. Box 49055 San Jose, CA 95161-9055
Bin-Ming Ben Tsai, Ph.D. Vice President Chief Technical Officer	INTERNATIONAL OFFICES KLA Instruments Ltd. 4 The Business Center Molly Millars Lane Wokingham, Berkshire RG11 2QZ, United Kingdom 44-1734-890666	
William Turner Vice President, Controller		
Paul E. Kreutz, Esq. Secretary	KLA Instruments GmbH Leonrodstrasse 58 80636 Muenchen, Germany 49-89-121561-0	
	KLA Instruments France, S.A. 25 Rue Michael Faraday 78180 Montlgny-le-Brettonneux France 33.1.30.45.30.03	
	KLA Instruments, SLR Via Gabrio Serbelloni 1 20122 Milan, Italy	
	KLA Instruments Israel 4 Science Avenue North Industrial Center P.O. Box 143 Migdal Ha'Emek 23100, Israel 972-6-449449	

</TABLE>

EXHIBIT 21

LIST OF SUBSIDIARIES OF
KLA INSTRUMENTS CORPORATION

<TABLE> <CAPTION>	STATE OR OTHER JURISDICTION OF INCORPORATION
NAME	-----
<S>	<C>
KLA Building Corporation	California
KLA Instruments International Corporation	California
KLA Management Corporation	Delaware
KLA Instruments PCBI Corporation	California
KLA Instruments Limited	United Kingdom
KLA Instruments GmbH	Germany
KLA Instruments France, S.A.	France
KLA Japan Limited	Japan
KLA Instruments Sales Corporation	U.S. Virgin Islands
KLA Instruments, SLR	Italy
KLA Instruments (Israel) Corporation	Israel
KLA Holding Company Limited	Israel
KLA (Israel) Service Limited	Israel
KLA Instruments (Cayman) Limited	Cayman Islands
KLA Instruments KLINNIK Corporation	California
KLA Instruments, S.A.	Switzerland
KLA Instruments (Malaysia) SdnBdh	Malaysia

</TABLE>

The aforesaid subsidiaries do business only under their own names.

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-15784, 2-71584, 2-75314, 33-26002, 33-42973, 33-42982, 33-42975 and 33-55362) of KLA Instruments Corporation of our report dated July 26, 1995, appearing on page 26 of the 1995 Annual Report to Stockholders which is incorporated in this Annual Report on Form 10-K.

Price Waterhouse, LLP

San Jose, California
September 27, 1995

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED STATEMENT OF OPERATIONS, THE CONSOLIDATED BALANCE SHEET AND THE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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