

1 MARC J. FAGEL (State Bar No. 154425)
2 JUDITH L. ANDERSON (State Bar No. 124281)
3 ELENA RO (State Bar No. 197308)

4 Attorneys for Plaintiff
5 SECURITIES AND EXCHANGE COMMISSION
6 44 Montgomery Street, Suite 2600
7 San Francisco, California 94104
8 Telephone: (415) 705-2500
9 Facsimile: (415) 705-2501

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EDWARD W. WIEKING
CLERK, U.S. DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

10 UNITED STATES DISTRICT COURT
11 NORTHERN DISTRICT OF CALIFORNIA
12 SAN JOSE DIVISION

HRL

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13 SECURITIES AND EXCHANGE COMMISSION,
14 Plaintiff,
15 v.
16 KLA-Tencor Corporation,
17 Defendant.

Case No. _____

COMPLAINT

18
19 Plaintiff Securities and Exchange Commission (the "Commission") alleges:

20 SUMMARY OF THE ACTION

21 1. From at least 1997 through mid-2002, and once again in 2005, certain executives of
22 KLA-Tencor Corporation ("KLA" or "the Company"), a San Jose semiconductor company, concealed
23 millions of dollars in expenses from investors, and significantly overstated the Company's income, by
24 backdating employee stock option grants and failing to properly disclose and account for its true
25 compensation expenses.

26 2. Under well-settled accounting principles in effect during the relevant period, KLA did
27 not need to record an expense for options granted to employees at the current market price ("at-the-
28 money"), but the Company was required to record an expense in its financial statements for any

1 options granted below the current market price (“in-the-money”). In order to provide KLA executives
2 and employees with potentially far more lucrative “in-the-money” options, without disclosing to
3 shareholders millions of dollars in compensation expenses, KLA’s Stock Option Committee routinely
4 signed option grant approvals that reflected purported grant dates and prices selected weeks after such
5 grant dates.

6 3. By using option grant dates and prices selected with hindsight, KLA materially
7 understated the Company’s expenses and overstated its income in disclosures to the Commission and
8 the investing public, and falsely represented in certain filings that KLA had incurred no expense for
9 option grants. The Commission seeks an order enjoining KLA from future violations of the securities
10 laws, and providing other appropriate relief.

11 JURISDICTION AND VENUE

12 4. The Commission brings this action pursuant to Sections 20(b) and 20(d) of the
13 Securities Act of 1933 (“Securities Act”) [15 U.S.C. §§ 77t(b) and 77t(d)] and Sections 21(d) and
14 21(e) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. §§ 78u(d) and 78u(e)].

15 5. This Court has jurisdiction over this action pursuant to Sections 20(b) and 22(a) of the
16 Securities Act [15 U.S.C. §§ 77t(b) and 77v(a)] and Sections 21(d), 21(e) and 27 of the Exchange Act
17 [15 U.S.C. §§ 78u(d), 78u(e) and 78aa]. The defendant, directly or indirectly, has made use of the
18 means and instrumentalities of interstate commerce, of the mails, or of the facilities of a national
19 securities exchange in connection with the acts, practices and courses of business alleged in this
20 complaint.

21 6. Venue is proper in this District pursuant to Section 22 of the Securities Act [15 U.S.C.
22 § 77v], and Section 27 of the Exchange Act [15 U.S.C. § 78aa]. The transactions, acts, practices and
23 courses of business constituting the violations alleged herein occurred within the Northern District of
24 California, and the defendant may be found in this district.

25 INTRADISTRICT ASSIGNMENT

26 7. Assignment to the San Jose Division is appropriate pursuant to Civil Local Rules 3-
27 2(c) and 3-2(d) because acts and omissions giving rise to the Commission’s claims occurred, among
28 other places in this district, in Santa Clara County.

