UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

MARK ONE

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED OCTOBER 27, 1996

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 0-6920

APPLIED MATERIALS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	94-1655526
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)
3050 BOWERS AVENUE, SANTA CLARA, CALIFORNIA (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	95054 (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (408) 727-5555

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

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

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

COMMON STOCK, $.01 PAR VALUE	NASDAQ

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 [X] 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. [ ]

Aggregate market value of the voting stock held by nonaffiliates of the registrant as of December 27, 1996: $6,490,391,240

Number of shares outstanding of the issuer's Common Stock, $.01 par value, as of December 27, 1996: 180,916,829

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of Applied Materials 1996 Annual Report for the year ended October 27, 1996 are incorporated by reference into Parts I, II and IV of this Form 10-K.

Portions of the definitive Proxy Statement for the Company's Annual Meeting of Stockholders to be held on March 19, 1997 are incorporated by reference into Part III of this Form 10-K.

PART I

ITEM 1: BUSINESS

Organized in 1967, Applied Materials, Inc. ("Applied Materials" or the "Company") develops, manufactures, markets and services semiconductor wafer fabrication equipment and related spare parts. The Company's worldwide customers include both companies which manufacture semiconductor devices for use in their own products and companies which manufacture semiconductor devices for sale to others. Applied Materials operates exclusively in the semiconductor wafer fabrication equipment industry. The Company is also a fifty percent stockholder in Applied Komatsu Technology, Inc., a joint venture corporation which develops, manufactures, markets and services thin film transistor fabrication systems used to produce active-matrix liquid crystal displays. On November 24, 1996, the Company announced that it had entered into agreements to acquire two companies in the metrology and inspection semiconductor equipment market. Opal, Inc. is a leading supplier of critical dimension scanning electron microscope systems that measure certain critical dimensions of integrated circuits at various stages of the manufacturing process. Orbot Instruments, Ltd. is a supplier of wafer and reticle inspection systems with leading-edge technologies. Both acquisitions were completed during the Company's first fiscal quarter of 1997 ending on January 26, 1997.

PRODUCTS

Applied Materials' products are sophisticated systems that utilize state-of-the-art technology in wafer processing chemistry and physics, particulate management, process control, software and automation. Many of the Company's technologies are complementary and can be applied across all of its product offerings. The Company's products, which provide enabling technology, productivity and yield enhancements to semiconductor manufacturers, are used to fabricate semiconductor devices on a substrate of semiconductor material (primarily silicon). A finished device consists of thin film layers which can form anywhere from one to millions of tiny electronic components that combine to perform desired electrical functions. The fabrication process must control film and feature quality to ensure proper device performance while meeting yield and throughput goals. The Company currently manufactures equipment that addresses three major steps in wafer fabrication: deposition, etch and ion implantation. The Company also manufactures a Rapid Thermal Processing (RTP) system that provides versatility and broad application to many areas of semiconductor manufacturing, a Chemical Mechanical Polishing (CMP) system that planarizes wafers after various processing steps, and systems for metrology and inspection.

Single-wafer, multi-chamber architecture

Recognizing the trend toward more stringent process requirements and larger wafer sizes, Applied Materials developed a single-wafer, multi-chamber system called the Precision 5000. The Company introduced the Precision 5000 with dielectric chemical vapor deposition (DCVD) processes in 1987, etch processes in 1988 and tungsten CVD (WCVD) processes in 1989. The Precision 5000's single-wafer, multi-chamber architecture features several processing chambers, each of which is attached to a central handling system, and is designed for both serial and integrated processing. The Precision 5000's integrated processing capability makes it possible to perform multiple process steps on a wafer in a controlled environment, thus reducing the risk of particulate contamination. The Company leveraged its expertise in single-wafer, multi-chamber architecture to develop an evolutionary platform in 1990 called the Endura 5500 PVD (Physical Vapor Deposition), which features a staged, ultra-high vacuum (UHV) architecture for the rapid sputtering of aluminum and other metal films used to form the circuit interconnections on advanced devices. In October 1991, the Company announced its second-generation Precision 5000 system,

the Precision 5000 Mark II, with numerous enhancements to the platform, process chambers and remote support equipment. The Precision 5000 Mark II is used to manufacture advanced devices, such as 16 megabit DRAMs (Dynamic Random Access Memories), on 200mm (8-inch) wafers. In September 1992, the Company announced its latest generation single-wafer, multi-chamber platform, the Centura, to target the high temperature thin films market and future process applications with 0.5-micron and below specifications. This platform improves upon the Precision 5000 by incorporating high vacuum capabilities and advanced robotics that provide significantly higher throughput.

Deposition

A fundamental technology in semiconductor fabrication, deposition is a process in which a layer of either electrically insulating (dielectric) or electrically conductive material is deposited on a wafer. Deposition can be divided into several different categories, of which Applied Materials currently participates in three: chemical vapor deposition (CVD), physical vapor deposition (PVD), and epitaxial and polysilicon deposition.

CVD. Chemical vapor deposition is a process used in semiconductor fabrication in which thin films (insulators, conductors and semiconductors) are deposited from gaseous sources. In 1987, the Company introduced the Precision 5000 CVD platform for DCVD which, with its automated multi-chamber architecture, provides the flexibility to perform a broad range of deposition processes utilizing up to four individual chambers on a single system. In 1989, the Company entered the tungsten (W) CVD market with the introduction of a system for blanket tungsten deposition, the Precision 5000 WCVD. The Company has continued to add functionality to this system, including integrated tungsten plug fabrication capability which combines WCVD deposition and etchback capabilities in the same system. The Company has also added tungsten silicide and titanium nitride processes to further extend its offerings. In 1992, the Company introduced the single-wafer, multi-chamber Centura platform. The Centura platform accommodates both DCVD and metal CVD processes. In 1994, the Company introduced the Precision 5000 Mark II CVD platform with sub-atmospheric process technologies that address applications to 0.35-microns. Also in 1994, the Company announced a new chamber technology called "xZ" on the Centura platform, which provides a significant enhancement by improving system throughput, providing no consumable parts and reducing operating costs. Most of the mainstream CVD applications offered by the Company are now available using this technology, with the exception of the HDP-CVD (High-Density Plasma CVD) Centura. Launched in February, the HDP-CVD Centura system is aimed at the most advanced sectors of the semiconductor market, including emerging semiconductor production, research and development and pilot lines. In April 1996, the Company entered a new market with a high-productivity silane-based CVD process for anti-reflective coating (ARC) applications. ARC films are typically used to enhance photolithography.

PVD. Physical vapor deposition sputters metals on wafers during semiconductor fabrication to form the circuit interconnects. Unlike CVD, the sources of the deposited materials are solid sources called targets. Applied Materials entered the PVD market in April 1990 with the Endura 5500 PVD system. This system utilizes a modular, single-wafer, multi-chamber platform which accommodates UHV processes like PVD, and conventional high vacuum processes like CVD and etch. In July 1993, the Company introduced the Endura HP (High Productivity) PVD system, an enhanced version of the Endura 5500 PVD system. In November 1993, the Centura HP PVD was introduced in order to offer customers a choice of platforms using the Company's PVD technology.

In November 1994, the Endura VHP (Very High Productivity) PVD system was launched, further enhancing the wafer transfer system to raise throughput. A key advance in process technology was announced in July 1996 with the Vectra IMP (Ion Metal Plasma) chamber for titanium (Ti) and titanium nitride (TiN) deposition. This technology creates metal ions from the materials sputtered from the target, whose directionality can then be controlled in the chamber for dramatically improved step coverage performance in very small contacts and vias. In September 1996, the Liner TxZ Centura system was launched. This system combines a new CVD TiN chamber with a Coherent PVD Ti chamber, and allows for deposition of sequential layers of Ti and CVD TiN in high-aspect-ratio metal structures under vacuum.

Epitaxial and polysilicon deposition. Epitaxial (Epi) and polysilicon deposition involve depositing layers of high-quality, silicon-based compounds on the surface of a silicon wafer to change its electrical properties and, in the case of epi, to form the base on which the integrated circuit is built. In 1989, the Company introduced the Precision 7700 Epi system for advanced silicon deposition. The 7700 system extends the capabilities of radiantly-heated "barrel" technology and incorporates fully automated wafer handling as well as many features for particulate control. In September 1992, the Company announced the Poly Centura, a single-wafer, multi-chamber platform targeted at the high temperature thin film deposition of polysilicon on wafers up to 200mm (8 inches) in diameter. The Epi Centura, which features deposition of epitaxial silicon, was announced in March 1993. In December 1993, the Company launched the Polycide Centura which combines chambers for polysilicon and tungsten silicide deposition on the Centura platform.

Etch

Prior to etch processing, a wafer is patterned with photoresist during the photolithography process. Etching then selectively removes material from areas which are not covered by the photoresist pattern. Applied Materials entered the etch market in 1981 with the introduction of the AME 8100 Etch system, which utilized a batch process technology for dry plasma etching. In 1985, the Company introduced the Precision Etch 8300, which featured improved levels of automation and particulate control. The Company continues to sell the Precision Etch 8300 product. Applied Materials' first single-wafer, multi-chamber system for the dry etch market was the Precision 5000 Etch, introduced in 1988. In 1990, the Company introduced a metal etch system based on the Precision 5000 architecture which provides single-wafer, aluminum etch capabilities. In 1993, the Company introduced its next generation etch platform, the Centura HDP Dielectric Etcher, designed for critical high density plasma oxide etch applications requiring sub-0.5-micron design rules, and the Precision 5000 Mark II Etch MxP, a new model of the Precision 5000-series etch system with several enhancements including process capability for 0.35-micron applications. In July 1994, Applied Materials introduced the Metal Etch MxP Centura, which combines sub-0.5-micron process technology with improved throughput. The Company launched a new dielectric etch system in April 1995, combining its latest Centura platform with an enhanced etch chamber, called the Dielectric Etch MxP+ Centura. The Remote Plasma Source (RPS) Centura, introduced in June 1995, extended the Company's range of dielectric dry etch process technologies to several isotropic etch steps. Two new etch systems were launched in 1996 for HDP etching of metal and silicon films, using the Company's new DPS (Decoupled Plasma Source) technology. The DPS Metal Etch Centura and DPS Silicon Etch Centura are aimed at very advanced applications, primarily for deep submicron devices (0.25-micron). In addition, the products deliver very high throughput, for superior cleanroom space utilization.

Ion Implantation

During ion implantation, silicon wafers are bombarded by a high-velocity beam of electrically charged ions. These ions are embedded within a wafer at selected sites and change the electrical properties of the implanted area. Applied Materials entered the high-current portion of the implant market in 1985 with the Precision Implant 9000 and introduced the Precision Implant 9200 in 1988. In 1989, the Company added enhancements to the 9200 series, including a new option for automated selection of implant angles and new hardware/software options that enable customers to perform remote monitoring and diagnostics. In 1991, the Company announced an enhanced version of its high-current ion implanter and designated it the Precision Implant 9200XJ. In November 1992, the Company introduced a new high-current ion implantation system, the Precision Implant 9500, to address the production of high-density semiconductor devices, such as 16 megabit and 64 megabit memory devices and advanced microprocessors. In November 1994, the 9500xR model was introduced, further extending the range of the 9500 system into the traditional medium-current area with enhanced low-dose, low-energy implant performance. In October 1995, the Company introduced its latest implant system, the Precision Implant xR80. This system features low-energy and a very small system footprint, while maintaining high throughput. Two extensions of the basic xR80 architecture were introduced in 1996: the Precision Implant xR LEAP (Low Energy Advanced Processing) in May and the xR120 in July. Both of these systems extend the energy range of the xR80 system for customers needing those capabilities.

Rapid Thermal Processing

In June 1995, Applied Materials introduced a new system, the Rapid Thermal Processing (RTP) Centura, into the emerging RTP market. RTP uses very rapid heating cycles to perform high-temperature processes traditionally done by slower-heating batch furnace technologies. The system is designed to solve the limiting technical issues -- temperature measurement and control and uniformity and process repeatability -- that have historically kept RTP from becoming a production technology. The RTP Centura's implant annealing processes offer chipmakers improved device performance, with demonstrated potential for significant yield improvements and faster factory cycle time.

Chemical Mechanical Processing

In December 1995, the Company entered a new market with the introduction of a Chemical Mechanical Polishing (CMP) system. CMP uses a combination of corrosive slurry and mechanical pressure to flatten or "planarize" the topography on semiconductor wafers. The Company's Mirra CMP system uses a unique multi-station "carousel" design, within which several wafers can be processed simultaneously.

Metrology and Inspection

In fiscal 1997, the Company entered into the metrology and inspection market with the acquisitions of two companies, Opal, Inc., and Orbot Instruments, Ltd. Opal, Inc. is a supplier of advanced scanning electron microscopes (SEMs) for the automated measurement of sub-micron circuit features, or critical dimensions (CDs), to verify the performance of critical lithography and patterning processes. Orbot Instruments manufactures two types of optical inspection equipment: one product locates and identifies defects in the wafer circuitry and is used in the in-line examination of patterned wafers; another product assures that the masks and reticles used in the lithography process are error free.

CUSTOMER SERVICE AND SUPPORT

The demand for improved production yields of integrated circuits requires that semiconductor wafer processing equipment operate reliably, with maximum uptime and within very precise tolerances. Applied Materials installs its equipment and provides warranty service worldwide through offices located in North America, Europe (including Israel), Japan, Korea and Asia-Pacific (Taiwan, China and Singapore). Applied Materials maintains 70 sales/service offices worldwide, with 24 offices in North America, 10 offices in Europe, 25 offices in Japan, 6 offices in Korea and 5 offices in Asia-Pacific. The Company offers a variety of service contracts to customers for maintenance of installed equipment and provides a comprehensive training program for all customers.

BACKLOG

At October 27, 1996, the Company's backlog totaled $1.4 billion, compared to $1.5 billion at October 29, 1995. The Company schedules production of its systems based upon order backlog and customer commitments. The backlog includes orders for which written authorizations have been accepted and shipment dates within 12 months have been assigned. Due to possible changes in customer delivery schedules and cancellations of orders, the Company's backlog at any particular date is not necessarily indicative of actual sales for any succeeding period.

MANUFACTURING, RAW MATERIALS AND SUPPLIES

The Company's manufacturing activities consist primarily of assembling various commercial and proprietary components into finished systems, principally in the United States, with additional operations in England, Japan, Korea and Taiwan. Production requires some raw materials and a wide variety of mechanical and electrical components, which are manufactured to the Company's specifications. Multiple commercial sources are available for most components. The Company has consolidated the number of sources for several key purchased items for purposes of improving its position with suppliers, resulting in improved on-time delivery, lower inventory levels and better pricing to the Company. There have been no significant delays in receiving components from sole source suppliers; however, the unavailability of any of these components could disrupt scheduled deliveries to customers.

MARKETING AND SALES

Because of the highly technical nature of its products, the Company markets its products worldwide through a direct sales force, with sales, service and spare parts offices in North America, Japan, Europe, Korea and Asia-Pacific. For the fiscal year ended October 27, 1996, sales to customers in North America, Europe, Japan, Korea and Asia-Pacific were approximately 31%, 16%, 24%, 14% and 15%, respectively, of the Company's net sales. For the fiscal year ended October 29, 1995, sales to customers in North America, Europe, Japan, Korea and Asia-Pacific were approximately 32%, 15%, 26%, 17% and 10%, respectively, of the Company's net sales. The Company's business is not seasonal in nature, but it is subject to the capital equipment investment patterns of major semiconductor manufacturers located throughout the world. Each region in the global semiconductor equipment market exhibits unique characteristics that cause capital equipment investment patterns to vary from period to period. While international markets provide the Company with significant growth opportunities, periodic economic downturns, trade balance issues, political instability and fluctuations in interest and foreign currency exchange rates are all risks that could affect global product and service demand.

RESEARCH AND DEVELOPMENT

The market served by the Company is characterized by rapid technological change. The Company's research and development efforts are global in nature. Engineering organizations are located in the United States, Japan, England and Israel, with process support and customer demonstration laboratories in the United States, Japan, England, Taiwan and Korea. Since 1984, the Company has operated a large-scale technology center in Narita, Japan, which has been expanded several times to meet the requirements of its Japanese customer base. In 1996, additional technology centers were opened in Korea and Taiwan to better serve customers in the Korea and Asia-Pacific regions. The Company also operates a technology center in Israel to develop controller configuration and software tools for its semiconductor processing systems. Applied Materials works closely with its global customers to design systems that meet their planned technical and production requirements. The Company's research and development activities are primarily directed toward the development of new wafer processing systems and new process applications for existing products. The Company is also investing in the development of new products in conjunction with the semiconductor industry's move to the next-generation 300mm wafer size. Together with today's standard 200mm wafers, 300mm wafers will be used to produce semiconductor devices with geometries of 0.25 micron and below, probably including the 256Mbit generation of DRAMs.

To meet emerging customer requirements for advanced manufacturing solutions, the Company is developing a capability called Process Sequence Integration (PSI). Choosing from Applied Materials' broad lineup of process technologies, customers will be able to order "process modules" which consist of multiple systems whose sequential processes can create complete structures within the semiconductor device, such as the interconnect structure found in multi-level metal device designs.

COMPETITION

The global semiconductor equipment industry is highly competitive and is characterized by increasingly rapid technological advancements and demanding worldwide service requirements. Each of the Company's products competes in markets defined by the particular wafer fabrication process it performs. There are several companies that compete with Applied Materials in each of these markets. Competition is based on many factors, primarily technological advancements, productivity and cost-effectiveness, customer support, contamination control and overall product quality. Management believes that the Company's competitive advantage in each of its served markets is based on the ability of its products and services to address customer requirements as they relate to these competitive factors.

Applied Materials is a principal supplier in each of its served markets. The Company faces strong competition throughout the world from other semiconductor equipment manufacturers as well as semiconductor manufacturers who design and produce fabrication equipment for their own internal uses and, in some cases, for resale. Management believes that the Company is a strong competitor with respect to its products, services and resources. However, new products, pricing pressures and other competitive actions from both new and existing competitors could adversely affect the Company's market position.

JOINT VENTURE

In September 1991, the Company announced its plans to develop thin film transistor (TFT) manufacturing systems for Active-Matrix Liquid Crystal Displays (AMLCDs). The AMLCD market currently includes screens for laptop, notebook and palmtop computers, desktop monitors, digital/video cameras, portable televisions and instrument displays. The Company believes that this market in the future may include
high-resolution workstations and direct view wall television. In September 1993, a joint

venture was formed with Applied Materials, Inc. and Komatsu, Ltd. of Japan sharing a 50-50 ownership. The joint venture, Applied Komatsu Technology, Inc. (AKT), is accounted for using the equity method. The Company's management believes that systems developed by AKT have the potential to lower the manufacturing costs of AMLCDs and provide new process technologies to enhance flat panel capabilities. The Company has granted to AKT an exclusive license to use the Company's intellectual property to develop, manufacture and sell products for the production of flat panel displays, in exchange for royalties in respect thereof. AKT has recently broadened its product offerings, and now has process capability in CVD, PVD and Etch for a wide range of substrate sizes. Investment in research and development will continue in 1997 on next generation systems to further lower AMLCD manufacturing costs and increase substrate size capability.

PATENTS AND LICENSES

Management believes that the Company's competitive position is primarily dependent upon skills in engineering, production, and marketing rather than its patent position. However, protection of the Company's technology assets by obtaining and enforcing patents is increasingly important. Consequently, the Company has an active program to file applications in the United States and other countries on inventions which the Company considers significant. The Company has a number of patents in the United States and other countries and additional applications are pending for new developments in its equipment and processes. In addition to patents, the Company also possesses other proprietary intellectual property, including trademarks, know-how, trade secrets and copyrights.

The Company enters into patent and technology licensing agreements with others when management determines it is in the Company's best interest to do so. The Company pays royalties under existing patent license agreements for the use, in several of its products, of certain patents which are licensed to the Company for the life of the patents.

The Company has made its technology, including patents, available to AKT through a license arrangement which permits AKT to use the Company's technology to develop, manufacture and sell equipment for the flat panel display industry.

In the normal course of business, the Company from time to time receives and makes inquiries with regard to possible patent infringement. In dealing with such inquiries, it may become necessary or useful for the Company to obtain and grant licenses or other rights. However, there can be no assurance that such license rights will be available to the Company on commercially reasonable terms. While there can be no assurance about the outcome of such inquiries, the Company believes that it is unlikely that their resolution will have a material adverse effect on its financial condition or results of operations.

ENVIRONMENTAL MATTERS

Although one of the Company's locations has been designated as a Superfund site by the United States Environmental Protection Agency, neither compliance with Federal, State and local provisions regulating discharge of materials into the environment, nor remedial agreements or other actions relating to the environment, has had, or is expected to have, a material effect on the Company's capital expenditures, results of operations, financial condition or competitive position.

EMPLOYEES

At October 27, 1996, the Company employed approximately 11,403 regular full-time employees. In the high technology industry, competition for highly skilled employees is intense. The Company believes that a great part of its future success depends on its continued ability to attract and retain qualified employees. None of the Company's employees are represented by a trade union. Management considers its relations with its employees to be good.

INCORPORATION BY REFERENCE

The following portions of the Company's 1996 Annual Report are incorporated herein by reference: "Management's Discussion and Analysis of Financial Condition and Results of Operations," pages 27 through 30, and the Consolidated Financial Statements and accompanying notes thereto, pages 31 through 48.

ITEM 2: PROPERTIES

Certain information concerning the Company's principal properties at October 27, 1996 is set forth below:

LOCATION	TYPE	PRINCIPAL USE	SQUARE FOOTAGE	OWNERSHIP
Santa Clara, CA	Office, plant & warehouse	Headquarters, Marketing, Manufacturing, Research and Engineering	498,000 1,789,000	owned leased
Austin, TX	Office, plant & warehouse	Manufacturing	566,000 233,000	owned leased
Horsham, England	Office, plant & warehouse	Manufacturing, Research and Engineering	81,000	leased
Narita, Japan	Office, plant & warehouse	Manufacturing, Research and Engineering	222,000	owned*
Chun-An, Korea	Office	Manufacturing, Research and Engineering	107,000	owned
Hsin-Chu, Taiwan	Office	Manufacturing, Research and Engineering	69,000	owned
Tel Aviv, Israel	Office	Research and Engineering	21,000	leased

* Subject to loans totaling $73 million secured by property and equipment having an approximate net book value of $79 million at October 27, 1996.

The Company also leases office space for 70 sales and service offices throughout the world: 24 offices are located in North America, 10 in Europe, 25 in Japan, 6 in Korea and 5 in Asia-Pacific.

The Company currently owns 875,000 square feet of manufacturing and other operating facilities in California that have not yet been completed and placed in service. In addition, the Company is currently constructing 258,000 square feet of manufacturing facilities in Texas.

The Company also owns 108 acres in Austin, Texas and 30 acres in Santa Clara, California, of buildable land. The Austin and Santa Clara land can accommodate approximately 1,000,000 and 865,000 square feet, respectively, of additional building space to help satisfy the Company's current and future needs.

Management considers the above facilities suitable and adequate to meet the Company's requirements.

ITEM 3: LEGAL PROCEEDINGS

In the first of two lawsuits filed by the Company, captioned Applied Materials, Inc. v. Advanced Semiconductor Materials America, Inc., Epsilon Technology, Inc. (doing business as ASM Epitaxy) and Advanced Semiconductor Materials International N.V. (collectively "ASM") (case no. C-91-20061-RMW), Judge William Ingram of the United States District Court for the Northern District of California ruled on April 26, 1994 that ASM's Epsilon I epitaxial reactor infringed three of the Company's United States patents and issued an injunction against ASM's use and sale of the ASM Epsilon I in the United States. On October 28, 1996, the U.S. Court of Appeals for the Federal Circuit decided ASM's appeal of this decision, affirming the trial court's judgment that one of the Company's patents is valid and infringed. Permanent injunctions are now effective to halt ASM's manufacture, use and sale of its epitaxial reactors in the United States. The trial of the Company's second patent infringement lawsuit against ASM, captioned Applied Materials, Inc. v. ASM (case no. C-92-20643-RMW), was concluded before Judge Whyte in May 1995. On November 1, 1995, the Court issued its judgment holding that two of the Company's United States patents were valid and infringed by ASM's reduced pressure epitaxial reactors. ASM appealed this decision. On December 17, 1996, the U.S. Court of Appeals for the Federal Circuit rejected ASM's appeal, and affirmed the District Court's ruling. The permanent injunction entered on March 7, 1996 prohibiting ASM's use or sale of its ribbed quartz epitaxial reactors within the United States is now effective. Trial in the District Court has been set for July 28, 1997 to determine ASM International's liability, damages and wilfulness, for both case no. C-91-20061-RMW and C-92-20643-RMW.

In a separate lawsuit filed by ASM against the Company involving one patent relating to the Company's single wafer epitaxial product line, captioned ASM America, Inc. v. Applied Materials, Inc. (case no. C-93-20853-RMW), the Court granted three motions for summary judgment in favor of the Company which eliminate the Company's liability on this patent. ASM has not indicated whether it intends to appeal this matter. The Company's counterclaims against ASM for inequitable conduct were tried by the Court in July 1996. The Company is awaiting a decision. A separate action severed from ASM's case, captioned ASM America, Inc. v. Applied Materials, Inc. (case no. C-95-20169-RMW), involves one United States patent which relates to the Company's Precision 5000 product. A prior trial date has been vacated; no trial date is currently set. In these cases, ASM seeks injunctive relief, damages and such other relief as the Court may find appropriate.

Further, the Company has filed a Declaratory Judgment action against ASM, captioned Applied Materials, Inc. v. ASM (case no. C-95-20003-RMW), requesting that an ASM United States patent be held invalid and not infringed by the Company's single wafer epitaxial product line. No trial date has been set. On April 10, 1996, the Court denied ASM's motion for summary judgment and granted the Company's motion for summary judgment finding several independent grounds why the Company's reactors do not literally infringe ASM's patent. With this ruling, the Company's liability has been substantially eliminated on this patent. ASM has not indicated whether it intends to appeal this decision. On July 7, 1996, ASM filed a lawsuit, captioned ASM America, Inc. v. Applied Materials, Inc. (case no. C95-20586-RMW), concerning alleged infringement of a United States patent by susceptors in chemical vapor deposition chambers. Discovery is proceeding.

On January 13, 1997, the Company filed a patent infringement suit against ASM's newly released Epsilon 2000 reactor. Discovery has not yet commenced.

In September 1994, General Signal Corporation filed a lawsuit against the Company (case no. 94-461-JJF) in the United States District Court, District of Delaware. General Signal alleges that the Company infringes five of General Signal's United States patents by making, using, selling or offering for sale multi-chamber wafer fabrication equipment, including for example, the Precision 5000 series machines. General Signal seeks an injunction, multiple damages and costs, including reasonable attorneys' fees and interest, and such other relief as the court may deem appropriate. This lawsuit is currently in active discovery and pre-trial preparation. A January 1997 trial date has been postponed, and will be rescheduled for later in 1997.

In January 1995, the Company filed a lawsuit against Novellus Systems, Inc. in the United States District Court, Northern District of California (case no. C-95-0243-MMC). This lawsuit alleges that Novellus' Concept One, Concept Two, and Maxxus F TEOS systems infringe the Company's United States patent relating to the TEOS-based, plasma enhanced CVD process for silicon oxide deposition. The lawsuit seeks an injunction, damages and costs, including reasonable attorneys' fees and interest, and such other relief as the court may deem appropriate. Damages and counterclaims have been bifurcated for separate trial. A jury trial has been scheduled for March 24, 1997 before Judge Charles A. Legge. The Court recently ruled on a number of substantive motions finding, on the issues raised, that the Company's patent in suit is valid and definite. On September 15, 1995, the Company filed another lawsuit against Novellus alleging that Novellus' then newly announced blanket tungsten interconnect process infringes the Company's United States patent relating to a tungsten CVD process. The Company also sought a declaration that a Novellus United States patent for a gas purge mechanism is not infringed by the Company and/or is invalid. Novellus answered by denying the allegations and counterclaimed by alleging that the Company's plasma enhanced TEOS CVD systems infringe Novellus' United States patents concerning gas purge and gas debubbler mechanisms. Novellus also filed a separate lawsuit as a plaintiff before the same court which contains the same claims as those stated in Novellus' defense of the Company's lawsuit. Both cases have been assigned to Judge Legge. Discovery has commenced, and trial which had been set for August 1997 has been postponed and will be rescheduled.

In the normal course of business, the Company from time to time receives and makes inquiries with regard to possible patent infringement. Management believes that it has meritorious defenses and intends to vigorously pursue these matters.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS IN FOURTH QUARTER OF FISCAL 1996

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following table and notes thereto identify and set forth information about the Company's seven executive officers:

NAME OF INDIVIDUAL	CAPACITIES IN WHICH SERVED
James C. Morgan(1).....	Chairman of the Board of Directors and Chief Executive Officer
James W. Bagley(2).....	Vice Chairman of the Board of Directors
Dan Maydan(3).....	President of the Company and Co-Chairman of Applied Komatsu Technology, Inc.
Gerald F. Taylor(4).....	Senior Vice President and Chief Financial Officer
Sasson Somekh(5).....	Senior Vice President
David N.K. Wang(6).....	Senior Vice President
Keisuke Yawata(7).....	Senior Vice President of the Company and President and Chief Executive Officer of Applied Materials Japan, Inc.

(1) Mr. Morgan, age 58, has been Chief Executive Officer since 1977 and Chairman of the Board of Directors since 1987. Mr. Morgan also served as President of the Company from 1976 to 1987.

(2) Mr. Bagley, age 58, was appointed Vice Chairman of the Board of Directors in December 1993. Mr. Bagley was Chief Operating Officer of the Company from 1987 through October 1995, and served as President of the Company from December 1987 to December 1993. Prior to that, Mr. Bagley served as Senior Vice President of the Company since 1981. Mr. Bagley is a director of Kulicke and Soffa Industries, Inc. and Tencor Instruments. Mr. Bagley resigned as Vice Chairman of the Board and Chief Operating Officer of the Company on May 17, 1996.

(3) Dr. Maydan, age 61, was appointed President of the Company in December 1993. Dr. Maydan served as Executive Vice President from 1990 to December 1993. Prior to that, Dr. Maydan had been Group Vice President since February 1989. Dr. Maydan joined Applied Materials in 1980 as a Director of Technology.

(4) Mr. Taylor, age 56, has been Chief Financial Officer of the Company since 1984. Mr. Taylor has also been a Senior Vice President of the Company since 1991 and was previously Vice President of Finance from 1984 to 1991.

(5) Dr. Somekh, age 50, was appointed Senior Vice President of the Company in December 1993. Dr. Somekh served as Group Vice President from 1990 to 1993. Prior to that, Dr. Somekh had been a divisional Vice President. Dr. Somekh joined Applied Materials in 1980 as a Project Manager.

(6) Dr. Wang, age 50, was appointed Senior Vice President of the Company in December 1993. Dr. Wang served as Group Vice President from 1990 to 1993. Prior to that, Dr. Wang had been a divisional Vice President. Dr. Wang joined Applied Materials in 1980 as a Manager, Process Engineering and Applications.

(7) Mr. Yawata, age 62, was appointed President and Chief Executive Officer of Applied Materials Japan, effective January 1, 1995. From 1985 through 1994, Mr. Yawata was a Vice President, and from 1993 through 1994, he was Executive Advisor to the Chairman of LSI Logic Corp. From 1985 through 1992, Mr. Yawata was President, and from 1992 through 1993, he was Chairman, of LSI Logic K.K.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

"Stock Price History" on page 50 of the Applied Materials' 1996 Annual Report is incorporated herein by reference.

The Company's common stock is traded on the Nasdaq over-the-counter market. As of December 27, 1996, there were approximately 3,832 holders of record of the common stock.

To date, the Company has paid no cash dividends to its stockholders. The Company has no plans to pay cash dividends in the near future.

ITEM 6: SELECTED CONSOLIDATED FINANCIAL DATA

"Selected Consolidated Financial Data" on page 26 of the Applied Materials 1996 Annual Report is incorporated herein by reference.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis" on pages 27 through 30 of the Applied Materials 1996 Annual Report 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, Independent Accountants, dated November 20, 1996 and appearing on pages 31 through 48, and page 50 of the Applied Materials 1996 Annual Report, are incorporated herein by reference.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Pursuant to Paragraph G(3) of the General Instructions to Form 10-K, portions of the information required by Part III of Form 10-K are incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the 1997 Annual Meeting of Stockholders ("the Proxy Statement").

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Information concerning directors of the Company appears in the Company's Proxy Statement, under Item 1 -- "Election of Directors." This portion of the Proxy Statement is incorporated herein by reference.

(b) For information with respect to Executive Officers, see Part I of this Form 10-K.

ITEM 11: EXECUTIVE COMPENSATION

Information concerning executive compensation appears in the Company's Proxy Statement, under Item 1 -- "Election of Directors," and is incorporated herein by reference.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information concerning the security ownership of certain beneficial owners and management appears in the Company's Proxy Statement, under Item 1 -- "Election of Directors," and is incorporated herein by reference.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning certain relationships and related transactions appears in the Company's Proxy Statement, under Item 1 -- "Election of Directors," and is incorporated herein by reference.

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(A) 1. FINANCIAL STATEMENTS

The consolidated financial statements listed in the accompanying index to financial statements and financial statement schedule are filed or incorporated by reference as part of this annual report on Form 10-K.

2. FINANCIAL STATEMENT SCHEDULE

The financial statement schedule listed in the accompanying index to financial statements and financial statement schedule is filed as part of this annual report on Form 10-K.

3. EXHIBITS

The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this annual report on Form 10-K.

(B) Report on Form 8-K was filed on August 13, 1996. The report contains the Company's financial statements for the period ended July 28, 1996, as attached to its press release dated August 13, 1996.

INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULE
(ITEM 14(A))

Schedules not listed above have been omitted because they are not required or the information required to be set forth therein is included in the Consolidated Financial Statements or Notes to Consolidated Financial Statements.

The consolidated financial statements listed in the above index that are included in the Company's Annual Report to Stockholders are hereby incorporated by reference. With the exception of the pages listed in the above index and the portion of such report referred to in items 1, 5, 6, 7 and 8 of this Form 10-K, the 1996 Annual Report to Stockholders is not to be deemed filed as part of this report.

INDEX TO EXHIBITS

These Exhibits are numbered in accordance with the Exhibit Table of Item 601 of Regulation S-K:

2.1	Agreement and Plan of Merger, by and among Applied Materials, Inc., Orion Corp. I, and Opal, Inc. dated as of November 24, 1996.
2.2	Stock Purchase Agreement dated as of November 24, 1996 by and among Applied Materials, Inc., Orbot Instruments, Ltd. and the Stockholders of Orbot Instruments, Ltd.
3(i)	Certificate of Incorporation of Applied Materials, Inc., a Delaware corporation, as amended to March 18, 1996.
3(ii)	Bylaws of Applied Materials, Inc., as amended to December 13, 1996.
4.1	Rights Agreement, dated as of June 14, 1989, between Applied Materials, Inc. and Bank of America NT&SA, as Rights Agent, including Form of Right Certificate and the Form of Summary of Rights to Purchase Common Stock, previously filed with the Company's report on Form 8-K dated June 14, 1989, and incorporated herein by reference.
4.2	Form of Indenture (including form of debt security) dated as of August 24, 1994 between Applied Materials, Inc. and Harris Trust Company of California, as Trustee, previously filed with the Company's Form 8-K on August 17, 1994, and incorporated herein by reference.
10.1	The 1976 Management Stock Option Plan, as amended to October 5, 1993, previously filed with the Company's Form 10-K for fiscal year 1993, and incorporated herein by reference.
10.2	Applied Materials, Inc., Supplemental Income Plan, as amended, including Participation Agreements with James C. Morgan, Walter Benzing, and Robert Graham, previously filed with the Company's Form 10-K for fiscal year 1981, and incorporated herein by reference.
10.3	Amendment to Supplemental Income Plan, dated July 20, 1984, previously filed with the Company's Form 10-K for fiscal year 1984, and incorporated herein by reference.
10.4	The Applied Materials Employee Financial Assistance Plan, previously filed with the Company's definitive Proxy Statement in connection with the Annual Meeting of Shareholders held on March 5, 1981, and incorporated herein by reference.
10.5	The 1985 Stock Option Plan for Non-Employee Directors, previously filed with the Company's Form 10-K for fiscal year 1985, and incorporated herein by reference.
10.6	Amendment 1 to the 1985 Stock Option Plan for Non-Employee Directors dated June 14, 1989, previously filed with the Company's Form 10-K for fiscal year 1989, and incorporated herein by reference.

10.7 Applied Materials, Inc. Supplemental Income Plan as amended to December 15, 1988, including participation agreement with James C. Morgan, previously filed with the Company's Form 10-K for fiscal year 1988, and incorporated herein by reference.

10.8 License agreement dated January 1, 1992 between the Company and Varian Associates, Inc., previously filed with the Company's Form 10-K for fiscal year 1992, and incorporated herein by reference.

10.9 Amendment dated December 9, 1992 to Applied Materials, Inc. Supplemental Income Plan dated June 4, 1981 (as amended to December 15, 1988), previously filed with the Company's Form 10-K for fiscal year 1993, and incorporated herein by reference.

10.10 The Applied Materials, Inc. Executive Deferred Compensation Plan dated July 1, 1993 and as amended on September 2, 1993, previously filed with the Company's Form 10-Q for the quarter ended August 1, 1993, and incorporated herein by reference.

10.11 Joint Venture Agreement between Applied Materials, Inc. and Komatsu Ltd. dated September 14, 1993 and exhibits thereto, previously filed with the Company's Form 10-K for fiscal year 1993, and incorporated herein by reference. (Confidential treatment has been requested for certain portions of the agreement)

10.12 $125,000,000 Credit agreement dated as of September 8, 1994 between Applied Materials and a group of seven banks, previously filed with the Company's Form 10-K for fiscal year 1994, and incorporated herein by reference.

10.13 Amendment No. 2 to Applied Materials, Inc. 1985 Stock Option Plan for Non-Employee Directors, dated September 10, 1992, previously filed with the Company's Form 10-K for fiscal year 1993, and incorporated herein by reference.

10.14 Amendment No. 3 to Applied Materials, Inc. 1985 Stock Option Plan for Non-Employee Directors, dated October 5, 1993, previously filed with the Company's Form 10-K for fiscal year 1993, and incorporated herein by reference.

10.15 Amendment No. 2 to the Applied Materials, Inc. Executive Deferred Compensation Plan, dated May 9, 1994, previously filed with the Company's Form 10-Q for the quarter ended May 1, 1994, and incorporated herein by reference.

10.16 Amendment No. 4 to Applied Materials, Inc. 1985 Stock Option Plan for Non-Employee Directors, dated December 8, 1993, previously filed with the Company's Form 10-Q for the quarter ended May 1, 1994, and incorporated herein by reference.

10.17	Applied Komatsu Technology, Inc. 1994 Executive Incentive Stock Purchase Plan, together with forms of Promissory Note, 1994 Executive Incentive Stock Purchase Agreement, Loan and Security Agreement, previously filed with the Company's Form 10-Q for the quarter ended July 31, 1994, and incorporated herein by reference.
10.18	The Applied Materials, Inc. 1995 Equity Incentive Plan, dated April 5, 1995, previously filed with the Company's Form 10-Q for the quarter ended April 30, 1995, and incorporated herein by reference.
10.19	The Applied Materials, Inc. Senior Executive Bonus Plan, dated September 23, 1994, previously filed with the Company's Form 10-Q for the quarter ended April 30, 1995, and incorporated herein by reference.
10.20	The Applied Materials, Inc. Executive Deferred Compensation Plan, as amended and restated on April 1, 1995, previously filed with the Company's Form 10-Q for the quarter ended April 30, 1995, and incorporated herein by reference.
10.21	Employment Agreement with James Bagley, dated August 15, 1995, previously filed with the Company's Form 10-Q for the quarter ended July 30, 1995, and incorporated herein by reference.
10.22	Applied Materials, Inc. Medium-Term Notes, Series A Distribution Agreement, dated August 24, 1995, and incorporated herein by reference.
10.23	Amendment No. 1 To Credit Agreement, dated February 12, 1996.
10.24	Amendment to Employment Agreement with James Bagley, dated May 17, 1996, previously filed with the Company's Form 10-Q for the quarter ended July 28, 1996, and incorporated herein by reference.
12.1	Ratio of Earnings to Fixed Charges
13	Applied Materials 1996 Annual Report for the fiscal year ended October 27, 1996 (to the extent expressly incorporated by reference)
21	Subsidiaries of Applied Materials, Inc.
23	Consent of Independent Accountants
24	Power of Attorney
27	Financial Data Schedule: filed electronically.

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.

APPLIED MATERIALS, INC.

By /s/ JAMES C. MORGAN
James C. Morgan
Chairman of the Board and
Chief Executive Officer

Dated: January 23, 1997

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

	TITLE	DATE
/s/ JAMES C. MORGAN James C. Morgan	Chairman of the Board and Chief Executive Officer	January 23, 1997
/s/ GERALD F. TAYLOR Gerald F. Taylor	Senior Vice President and Chief Financial Officer (Principal Financial Officer	January 23, 1997
/s/ MICHAEL K. O'FARRELL Michael K. O'Farrell	Vice President and Corporate Controller (Principal Accounting Officer)	January 23, 1997
Directors:		
James C. Morgan	Director	January 23, 1997
Dan Maydan*	Director	
Michael H. Armacost*	Director	
Herbert M. Dwight, Jr.*	Director	
George B. Farnsworth*	Director	
Philip V. Gerdine*	Director	
Tsuyoshi Kawanishi*	Director	
Paul R. Low*	Director	
Alfred J. Stein*	Director	
*By /s/ JAMES C. MORGAN James C. Morgan, Attorney-in-Fact**		January 23, 1997

**By authority of powers of attorney filed herewith.

REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of Applied Materials, Inc.

Our audits of the consolidated financial statements referred to in our report dated November 20, 1996 appearing on page 50 of the 1996 Annual Report to Stockholders of Applied Materials, Inc., (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 14(a) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICE WATERHOUSE LLP
- ----------------------------------
Price Waterhouse LLP

San Jose, California
November 20, 1996

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

ALLOWANCE FOR DOUBTFUL ACCOUNTS
(IN THOUSANDS)

	BALANCE AT BEGINNING OF YEAR	ADDITIONS-CHARGED TO INCOME	DEDUCTIONS-RECOVERIES	BALANCE AT END OF YEAR
As of:				
October 27, 1996	$3,017	$1,548	$(396)	$ 4,169
October 29, 1995	$1,089	$2,138	$(210)	$ 3,017
October 30, 1994	$ 487	$ 875	$(273)	$ 1,089

EXHIBIT 2.1

AGREEMENT AND PLAN OF MERGER

by and among

APPLIED MATERIALS, INC.,

ORION CORP. I,

and

OPAL, INC.

dated as of

November 24, 1996

Index of Defined Terms

TABLE OF CONTENTS

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (hereinafter referred to as this "Agreement"), dated as of November 24, 1996, by and among Applied Materials, Inc., a Delaware corporation ("Parent"), Orion Corp. I, a Delaware corporation and a wholly owned subsidiary of Parent (the "Purchaser"), and Opal, Inc., a Delaware corporation (the "Company").

WHEREAS, the Board of Directors of each of Parent, the Purchaser and the Company has approved, and deems it advisable and in the best interests of its respective stockholders to consummate, the acquisition of the Company by Parent upon the terms and subject to the conditions set forth herein; and

WHEREAS, concurrently with the execution of this Agreement, and as an inducement to Parent and the Purchaser to enter into this Agreement, certain stockholders of the Company have each entered into a Stockholder Agreement, dated as of the date hereof (collectively, the "Stockholder Agreements"), among Parent, the Purchaser and the stockholder named therein providing, among other things, that such stockholders will vote in favor of the Merger and will grant a proxy to Parent for that purpose;

NOW, THEREFORE, in consideration of the foregoing and the mutual representations, warranties, covenants and agreements set forth herein, the parties hereto agree as follows:

ARTICLE I

THE OFFER AND MERGER

Section 1.1 The Offer.

(a) As promptly as practicable (but in no event later than five business days after the public announcement of the execution hereof), the Purchaser shall commence (within the meaning of Rule 14d-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) a tender offer (the "Offer") for all of the outstanding shares of Common Stock, par value $.01

per share (the "Shares"), of the Company at a price of $18.50 per Share, net to the seller in cash (such price, or such other price per Share as may be paid in the Offer, being referred to herein as the "Offer Price"), subject to there being validly tendered and not withdrawn prior to the expiration of the Offer, that number of Shares which represents at least a majority of the Shares outstanding on a fully diluted basis (the "Minimum Condition") and to the other conditions set forth in Annex A hereto, and shall consummate the Offer in accordance with its terms ("fully diluted basis" means issued and outstanding Shares and Shares subject to issuance under Vested Company Options (as defined in Section 2.4(b)) and Shares subject to issuance upon exercise of outstanding warrants, calls, subscriptions or other rights, agreements, arrangements or commitments of any character relating to the issued or unissued capital stock of the Company or securities convertible or exchangeable for such capital stock, but shall not include Unvested Company Options). The obligations of the Purchaser to accept for payment and to pay for any Shares validly tendered on or prior to the expiration of the Offer and not withdrawn shall be subject only to the Minimum Condition and the other conditions set forth in Annex A hereto. The Offer shall be made by means of an offer to purchase (the "Offer to Purchase") containing the terms set forth in this Agreement, the Minimum Condition and the other conditions set forth in Annex A hereto. The Purchaser shall not amend or waive the Minimum Condition and shall not decrease the Offer Price or decrease the number of Shares sought, or amend any other condition of the Offer in any manner adverse to the holders of the Shares (other than with respect to insignificant changes or amendments, not including changes in the form of consideration payable under the Offer, in any of the conditions in Annex A, or in the expiration date of the Offer, and subject to the last sentence of this Section 1.1(a)) without the written consent of the Company (such consent to be authorized by the Board of Directors of the Company or a duly authorized committee thereof); provided, however, that if on the initial scheduled expiration date of the Offer which shall be 20 business days after the date the Offer is commenced, all conditions to the Offer shall not have been satisfied or waived, the Purchaser may, from time to time, in its sole discretion, extend the expiration date. The Purchaser shall, on the terms and subject to the prior satisfaction or waiver of the conditions of the

Offer, accept for payment and pay for Shares tendered as soon as it is legally permitted to do so under applicable law; provided, however, that if, immediately prior to the initial expiration date of the Offer (as it may be extended), the Shares tendered and not withdrawn pursuant to the Offer equal less than 90% of the outstanding Shares, the Purchaser may extend the Offer for a period not to exceed thirty business days, notwithstanding that all conditions to the Offer are satisfied as of such expiration date of the Offer, provided that upon such extension Parent and the Purchaser shall be deemed to have waived all of the conditions set forth in Annex A other than the Minimum Condition; provided, however, that if at the initial expiration date for the Offer, any or all of the conditions set forth in clauses (i), (iii), (iv), (v) or (vi) of Annex A shall not have been satisfied or waived or, as a result of any statute, rule, regulation, judgment, order or injunction having been enacted, entered, enforced, promulgated or deemed applicable, pursuant to an authoritative interpretation by or on behalf of a Governmental Entity, to the Offer or the Merger, or any other action shall be taken by any Governmental Entity, which shall not have become final and non-appealable, the conditions set forth in clause (vii) paragraph (b) of Annex A shall not have been satisfied or waived and at such time all of the other conditions to the Purchaser's obligation to consummate the Offer have been satisfied or waived, the Purchaser shall be obligated to extend the Offer for a period of up to ten business days, which extension shall be repeated one time further if necessary; provided, however, that the Purchaser may, in any such event, extend the expiration date of the Offer beyond such ten day period in its sole discretion.

(b) As soon as practicable on the date the Offer is commenced, Parent and the Purchaser shall file with the United States Securities and Exchange Commission (the "SEC") a Tender Offer Statement on Schedule 14D-1 with respect to the Offer (together with all amendments and supplements thereto and including the exhibits thereto, the "Schedule 14D-1"). The Schedule 14D-1 will include, as exhibits, the Offer to Purchase and a form of letter of transmittal and summary advertisement (collectively, together with any amendments and supplements thereto, the "Offer Documents"). The Offer Documents will comply in all material respects with the provisions of applicable federal securities laws and, on the date filed with the SEC and on the date first published, sent

or given to the Company's stockholders, shall not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading, except that no representation is made by Parent or the Purchaser with respect to information furnished by the Company to Parent or the Purchaser, in writing, expressly for inclusion in the Offer Documents. The information supplied by the Company to Parent or the Purchaser, in writing, expressly for inclusion in the Offer Documents and by Parent or the Purchaser to the Company, in writing, expressly for inclusion in the Schedule 14D-9 (as hereinafter defined) will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of Parent and the Purchaser will take all steps necessary to cause the Offer Documents to be filed with the SEC and to be disseminated to holders of the Shares, in each case as and to the extent required by applicable federal securities laws. Each of Parent and the Purchaser, on the one hand, and the Company, on the other hand, will promptly correct any information provided by it for use in the Offer Documents if and to the extent that it shall have become false or misleading in any material respect and the Purchaser will take all steps necessary to cause the Offer Documents as so corrected to be filed with the SEC and to be disseminated to holders of the Shares, in each case as and to the extent required by applicable federal securities laws. The Company and its counsel shall be given the opportunity to review the Schedule 14D-1 before it is filed with the SEC. In addition, Parent and the Purchaser will provide the Company and its counsel in writing with any comments, whether written or oral, Parent, the Purchaser or their counsel may receive from time to time from the SEC or its staff with respect to the Offer Documents promptly after the receipt of such comments.

Section 1.2 Company Actions.

(a) The Company hereby approves of and consents to the Offer and represents that the Board of Directors, at a meeting duly called and held, has (i) unanimously (with the abstention of Rafi Yizhar, Israel

Niv, Dan Maydan and Zvi Lapidot) determined that each of the Agreement, the Offer and the Merger (as defined in Section 1.4) are fair to and in the best interests of the stockholders of the Company, (ii) approved this Agreement and the Stockholder Agreements and the transactions contemplated hereby and thereby, including the Offer and the Merger (collectively, the "Transactions"), and such approval constitutes approval of the Offer, this Agreement, the Stockholders Agreement and the transactions contemplated hereby and thereby, including the Merger, for purposes of Section 203 of the Delaware General Corporation Law, as amended (the "DGCL")), such that Section 203 of the DGCL will not apply to the transactions contemplated by this Agreement or the Stockholder Agreements, and (iii) resolved to recommend that the stockholders of the Company accept the Offer, tender their Shares thereunder to the Purchaser and approve and adopt this Agreement and the Merger; provided, that such recommendation may be withdrawn, modified or amended if, in the opinion of the Board of Directors, only after receipt of written advice from outside legal counsel, failure to withdraw, modify or amend such recommendation could reasonably be expected to result in the Board of Directors violating its fiduciary duties to the Company's stockholders under applicable law. The Company represents that the actions set forth in this Section 1.2(a) and all other actions it has taken in connection therewith are sufficient to render the relevant provisions of such Section 203 of the DGCL inapplicable to the Offer, the Merger and the Stockholders Agreement.

(b) Concurrently with the commencement of the Offer, the Company shall file with the SEC a Solicitation/Recommendation Statement on Schedule 14D-9 (together with all amendments and supplements thereto and including the exhibits thereto, the "Schedule 14D-9") which shall, subject to the provisions of Section 5.4(b), contain the recommendation referred to in clause (iii) of Section 1.2(a) hereof. The Schedule 14D-9 will comply in all material respects with the provisions of applicable federal securities laws and, on the date filed with the SEC and on the date first published, sent or given to the Company's stockholders, shall not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading,

except that no representation is made by the Company with respect to information furnished by Parent or the Purchaser for inclusion in the Schedule 14D-9. The Company further agrees to take all steps necessary to cause the Schedule 14D-9 to be filed with the SEC and to be disseminated to holders of the Shares, in each case as and to the extent required by applicable federal securities laws. Each of the Company, on the one hand, and Parent and the Purchaser, on the other hand, agrees promptly to correct any information provided by it for use in the Schedule 14D-9 if and to the extent that it shall have become false and misleading in any material respect and the Company further agrees to take all steps necessary to cause the Schedule 14D-9 as so corrected to be filed with the SEC and to be disseminated to holders of the Shares, in each case as and to the extent required by applicable federal securities laws. Parent and its counsel shall be given the opportunity to review the Schedule 14D-9 before it is filed with the SEC. In addition, the Company agrees to provide Parent, the Purchaser and their counsel with any comments, whether written or oral, that the Company or its counsel may receive from time to time from the SEC or its staff with respect to the Schedule 14D-9 promptly after the receipt of such comments or other communications.

(c) In connection with the Offer, the Company will promptly furnish or cause to be furnished to the Purchaser mailing labels, security position listings and any available listing or computer file containing the names and addresses of all recordholders of the Shares as of a recent date, and shall furnish the Purchaser with such additional information (including, but not limited to, updated lists of holders of the Shares and their addresses, mailing labels and lists of security positions) and assistance as the Purchaser or its agents may reasonably request in communicating the Offer to the record and beneficial holders of the Shares. Except for such steps as are necessary to disseminate the Offer Documents, Parent and the Purchaser shall hold in confidence the information contained in any of such labels and lists and the additional information referred to in the preceding sentence, will use such information only in connection with the Offer, and, if this Agreement is terminated, will upon request of the Company deliver or cause to be delivered to the Company all copies of such

information then in its possession or the possession of its agents or representatives.

Section 1.3 Directors. Promptly upon the purchase of and payment for any Shares by Parent or any of its subsidiaries which represents at least a majority of the outstanding Shares (on a fully diluted basis, as defined in Section 1.1(a)), Parent shall be entitled to designate such number of directors, rounded up to the next whole number, on the Board of Directors of the Company as is equal to the product of the total number of directors on such Board (giving effect to the directors designated by Parent pursuant to this sentence) multiplied by the percentage that the number of Shares so accepted for payment bears to the total number of Shares then outstanding. In furtherance thereof, the Company shall, upon request of the Purchaser, use its best reasonable efforts promptly either to increase the size of its Board of Directors or secure the resignations of such number of its incumbent directors, or both, as is necessary to enable Parent's designees to be so elected to the Company's Board, and shall take all actions available to the Company to cause Parent's designees to be so elected. At such time, the Company shall also cause persons designated by Parent to constitute at least the same percentage (rounded up to the next whole number) as is on the Company's Board of Directors of (i) each committee of the Company's Board of Directors, (ii) each board of directors (or similar body) of each Subsidiary (as defined in Section 3.1) of the Company and (iii) each committee (or similar body) of each such board. The Company shall promptly take all actions required pursuant to Section 14(f) of the Exchange Act and Rule 14f-1 promulgated thereunder in order to fulfill its obligations under this Section 1.3(a), including mailing to stockholders the information required by such Section 14(f) and Rule 14f-1 as is necessary to enable Parent's designees to be elected to the Company's Board of Directors. Parent or the Purchaser will supply the Company and be solely responsible for any information with respect to either of them and their nominees, officers, directors and affiliates required by such Section 14(f) and Rule 14f-1. The provisions of this Section 1.3(a) are in addition to and shall not limit any rights which the Purchaser, Parent or any of their affiliates may have as a holder or beneficial owner of Shares as a matter of law with respect to the election of directors or otherwise. In the event

that Parent's designees are elected to the Company's Board of Directors, until the Effective Time, the Company's Board shall have at least three directors who are directors on the date hereof (the "Independent Directors"), provided that, in such event, if the number of Independent Directors shall be reduced below three for any reason whatsoever, any remaining Independent Directors (or Independent Director, if there be only one remaining) shall be entitled to designate persons to fill such vacancies who shall be deemed to be Independent Directors for purposes of this Agreement or, if no Independent Director then remains, the other directors shall designate three persons to fill such vacancies who shall not be stockholders, affiliates or associates of Parent or the Purchaser and such persons shall be deemed to be Independent Directors for purposes of this Agreement. Notwithstanding anything in this Agreement to the contrary, in the event that Parent's designees are elected to the Company's Board, after the acceptance for payment of Shares pursuant to the Offer and prior to the Effective Time, the affirmative vote of a majority of the Independent Directors shall be required to (a) amend or terminate this Agreement by the Company, (b) exercise or waive any of the Company's rights, benefits or remedies hereunder, (c) extend the time for performance of Parent's and the Purchaser's respective obligations hereunder, (d) take any other action by the Company's Board under or in connection with this Agreement or the Stockholder Agreements, or (e) approve any other action by the Company which could adversely affect the interests of the stockholders of the Company (other than Parent, the Purchaser and their affiliates other than the Company and the Subsidiaries) with respect to the transactions contemplated hereby.

Section 1.4 The Merger. Subject to the terms and conditions of this Agreement, at the Effective Time, the Company and the Purchaser shall consummate a merger (the "Merger") pursuant to which (a) the Purchaser shall be merged with and into the Company and the separate corporate existence of the Purchaser shall thereupon cease, (b) the Company shall be the successor or surviving corporation in the Merger (sometimes hereinafter referred to as the "Surviving Corporation") and shall continue to be governed by the laws of the State of Delaware, and (c) the separate corporate existence of the Company with all its rights, privileges, immunities,

powers and franchises shall continue unaffected by the Merger, except as set forth in this Section 1.4. Pursuant to the Merger, (x) the Certificate of Incorporation of the Purchaser (the "Certificate of Incorporation"), as in effect immediately prior to the Effective Time, shall be the certificate of incorporation of the Surviving Corporation until thereafter amended as provided by law and such Certificate of Incorporation, and (y) the Bylaws of the Purchaser (the "By-laws"), as in effect immediately prior to the Effective Time (as defined in Section 1.5), shall be the By-laws of the Surviving Corporation until thereafter amended as provided by law, by such Certificate of Incorporation or by such By-laws. The Merger shall have the effects specified in the DGCL.

Section 1.5 Effective Time. Parent, the Purchaser and the Company will cause a Certificate of Merger to be executed and filed on the Closing Date (as defined in Section 1.6) (or on such other date as Parent and the Company may agree) with the Secretary of State of Delaware (the "Secretary of State") as provided in the DGCL. The Merger shall become effective on the date on which the Certificate of Merger is duly filed with the Secretary of State or such time as is agreed upon by the parties and specified in the Certificate of Merger, and such time is hereinafter referred to as the "Effective Time."

Section 1.6 Closing. The closing of the Merger (the "Closing") shall take place at 10:00 a.m. on a date to be specified by the parties, which shall be no later than the second business day after satisfaction or waiver of all of the conditions set forth in Article VI hereof (the "Closing Date"), at the offices of Skadden, Arps, Slate, Meagher & Flom LLP, 919 Third Avenue, New York, New York 10022, unless another date or place is agreed to in writing by the parties hereto.

Section 1.7 Directors and Officers of the Surviving Corporation. The directors and officers of the Purchaser at the Effective Time shall, from and after the Effective Time, be the directors and officers, respectively, of the Surviving Corporation until their successors shall have been duly elected or appointed or qualified or until their earlier death, resignation or removal in accordance with the Certificate of Incorporation and the By-laws.

Section 1.8 Stockholders' Meeting.

(a) If required by applicable law in order to consummate the Merger, the Company, acting through its Board of Directors, shall, in accordance with applicable law:

(i) duly call, give notice of, convene and hold a special meeting of its stockholders (the "Special Meeting") as promptly as practicable following the acceptance for payment and purchase of Shares by the Purchaser pursuant to the Offer for the purpose of considering and taking action upon the approval of the Merger and the adoption of this Agreement;

(ii) prepare and file with the SEC a preliminary proxy or information statement relating to the Merger and this Agreement and use its best efforts (x) to obtain and furnish the information required to be included by the SEC in the Proxy Statement (as hereinafter defined) and, after consultation with Parent, to respond promptly to any comments made by the SEC with respect to the preliminary proxy or information statement and cause a definitive proxy or information statement, including any amendment or supplement thereto (the "Proxy Statement") to be mailed to its stockholders, provided that no amendment or supplement to the Proxy Statement will be made by the Company without consultation with Parent and its counsel and (y) to obtain the necessary approvals of the Merger and this Agreement by its stockholders; and

(iii) subject to the provisions of Section 5.4(b), include in the Proxy Statement the recommendation of the Board that stockholders of the Company vote in favor of the approval of the Merger and the adoption of this Agreement.

(b) Parent shall vote, or cause to be voted, all of the Shares then owned by it, the Purchaser or any of its other subsidiaries and affiliates in favor of the approval of the Merger and the adoption of this Agreement.

Section 1.9 Merger Without Meeting of Stockholders. Notwithstanding Section 1.8 hereof, in the event that Parent, the Purchaser and any other Subsidiaries of Parent shall acquire in the aggregate at least 90% of the outstanding shares of each class of capital stock of the Company, pursuant to the Offer or otherwise, the parties hereto shall, at the request of Parent and subject to Article VI hereof, take all necessary and appropriate action to cause the Merger to become effective as soon as practicable after such acquisition, without a meeting of stockholders of the Company, in accordance with Section 253 of the DGCL.

ARTICLE II

CONVERSION OF SECURITIES

Section 2.1 Conversion of Capital Stock. As of the Effective Time, by virtue of the Merger and without any action on the part of the holders of any Shares or holders of common stock, par value $.01 per share, of the Purchaser (the "Purchaser Common Stock"):

(a) the Purchaser Common Stock. Each issued and outstanding share of the Purchaser Common Stock shall be converted into and become one fully paid and nonassessable share of common stock of the Surviving Corporation.

(b) Cancellation of Treasury Stock and Parent-Owned Stock. All Shares that are owned by the Company as treasury stock and any Shares owned by Parent, the Purchaser or any other wholly owned Subsidiary of Parent shall be cancelled and retired and shall cease to exist and no consideration shall be delivered in exchange therefor.

(c) Exchange of Shares. Each issued and outstanding Share (other than Shares to be cancelled in accordance with Section 2.1(b) and any Shares which are held by stockholders exercising appraisal rights pursuant to Section 262 of the DGCL ("Dissenting Stockholders")) shall be converted into the right to receive the Offer Price, payable to the holder thereof, without interest (the "Merger Consideration"), upon surrender of the certificate formerly representing such Share in the manner provided in Section 2.2. All such Shares, when so

converted, shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist, and each holder of a certificate representing any such Shares shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration therefor upon the surrender of such certificate in accordance with Section 2.2, without interest, or the right, if any, to receive payment from the Surviving Corporation of the "fair value" of such Shares as determined in accordance with Section 262 of the DGCL.

Section 2.2 Exchange of Certificates.

(a) Paying Agent. Parent shall designate a bank or trust company reasonably acceptable to the Company to act as agent for the holders of the Shares in connection with the Merger (the "Paying Agent") to receive in trust the funds to which holders of the Shares shall become entitled pursuant to Section 2.1(c). Such funds shall be invested by the Paying Agent as directed by Parent or the Surviving Corporation.

(b) Exchange Procedures. As soon as reasonably practicable after the Effective Time, the Paying Agent shall mail to each holder of record of a certificate or certificates, which immediately prior to the Effective Time represented outstanding Shares (the "Certificates"), whose Shares were converted pursuant to Section 2.1 into the right to receive the Merger Consideration (i) a letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Paying Agent and shall be in such form and have such other provisions as Parent and the Company may reasonably specify) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for payment of the Merger Consideration. Upon surrender of a Certificate for cancellation to the Paying Agent or to such other agent or agents as may be appointed by Parent, together with such letter of transmittal, duly executed, the holder of such Certificate shall be entitled to receive in exchange therefor the Merger Consideration for each Share formerly represented by such Certificate and the Certificate so surrendered shall forthwith be cancelled. If payment of the Merger Consideration is to be made to a person other than the person in whose name the surrendered Certificate is registered,

it shall be a condition of payment that the Certificate so surrendered shall be properly endorsed or shall be otherwise in proper form for transfer and that the person requesting such payment shall have paid any transfer and other taxes required by reason of the payment of the Merger Consideration to a person other than the registered holder of the Certificate surrendered or shall have established to the satisfaction of the Surviving Corporation that such tax either has been paid or is not applicable. Until surrendered as contemplated by this Section 2.2, each Certificate shall be deemed at any time after the Effective Time to represent only the right to receive the Merger Consideration in cash as contemplated by this Section 2.2.

(c) Transfer Books; No Further Ownership Rights in the Shares. At the Effective Time, the stock transfer books of the Company shall be closed and thereafter there shall be no further registration of transfers of the Shares on the records of the Company. From and after the Effective Time, the holders of Certificates evidencing ownership of the Shares outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such Shares, except as otherwise provided for herein or by applicable law. If, after the Effective Time, Certificates are presented to the Surviving Corporation for any reason, they shall be cancelled and exchanged as provided in this Article II.

(d) Termination of Fund; No Liability. At any time following twelve months after the Effective Time, the Surviving Corporation shall be entitled to require the Paying Agent to deliver to it any funds (including any interest received with respect thereto) which had been made available to the Paying Agent and which have not been disbursed to holders of Certificates, and thereafter such holders shall be entitled to look to the Surviving Corporation (subject to abandoned property, escheat or other similar laws) only as general creditors thereof with respect to the Merger Consideration payable upon due surrender of their Certificates, without any interest thereon. Notwithstanding the foregoing, neither the Surviving Corporation nor the Paying Agent shall be liable to any holder of a Certificate for Merger Consideration delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

Section 2.3 Dissenters' Rights. If any Dissenting Stockholder shall be entitled to be paid the "fair value" of such holder's Shares, as provided in Section 262 of the DGCL, the Company shall give Parent notice thereof and Parent shall have the right to participate in all negotiations and proceedings with respect to any such demands. Neither the Company nor the Surviving Corporation shall, except with the prior written consent of Parent, voluntarily make any payment with respect to, or settle or offer to settle, any such demand for payment. If any Dissenting Stockholder shall fail to perfect or shall have effectively withdrawn or lost the right to dissent, the Shares held by such Dissenting Stockholder shall thereupon be treated as though such Shares had been converted into the Merger Consideration pursuant to Section 2.1.

Section 2.4 Company Plans.

(a) Parent and the Company shall, effective as of the Effective Time, cause each outstanding unvested employee stock option to purchase Shares (an "Unvested Company Option") granted under the Company's 1993 Employee Stock Option Plan and under prior plans included in the representation in Section 3.2(a)(iv) (collectively, the "Option Plan") to be assumed by Parent and converted into an option (or a new substitute option shall be granted) (a "Parent Option") to purchase shares of common stock, par value $.01 per share, of Parent ("Parent Common Stock") issued under and pursuant to the terms and conditions of Parent's 1995 Equity Incentive Plan, as amended, or any other stock option plan of Parent adopted specifically for employees of the Company in order to issue Parent Options as provided in this Section 2.4(a) (the "Parent Option Plan"). The issuance of shares of Parent Common Stock under the Parent Options shall be registered under the Securities Act pursuant to a Registration Statement of Parent on Form S-8. The parties agree that (i) the number of shares of Parent Common Stock subject to such Parent Option will be determined by multiplying the number of Shares subject to the Unvested Company Option to be cancelled by the Option Exchange Ratio (as hereinafter defined), rounding any fractional share up to the nearest whole share, and (ii) the exercise price per share of such Parent Option will be determined by dividing the exercise price per share under the Company Option in effect immediately prior to the Effec-

tive Time by the Option Exchange Ratio, and rounding the exercise price thus determined up to the nearest whole cent, subject to appropriate adjustments for stock splits and other similar events. Except as provided above, the converted or substituted Parent Options shall be subject to the same terms and conditions (including, without limitation, expiration date, vesting and exercise provisions) as were applicable to the Unvested Company Options immediately prior to the Effective Time. The Company, the trustee under the Option Plan that holds Shares and Company options on behalf of employees of the Company and its Subsidiaries (the "Trustee") and Parent shall take all necessary action to facilitate and effect the substitution described in this Section 2.4(a). Based upon and subject to the accuracy of the Company's representation and warranty set forth in Section 3.9(h), Parent will apply to qualify such Parent Options issued to employees of the Company who are residents of Israel under Section 102 or another similar provision of the Israeli Income Tax Ordinance and will obtain confirmation from the Israeli tax authorities that tacking shall be allowed with respect to the two-year holding period required under Section 102 for such periods in which the Unvested Company Options were held before the Effective Time; provided, that Parent shall not be required to agree to any change in any of the economic terms of such options as established by this Section 2.4(a) (including, without limitation, identity of employer, number of shares, exercise price and vesting provisions) in order to obtain such qualification. The issuance of Parent Options as provided herein shall be subject to, and conditioned upon, obtaining an exemption by the Israeli Securities Authority from the registration and prospectus delivery requirements of the Israeli Securities laws. In the event such exemption is not obtained, unless Parent elects to comply with the requirements of the Israeli Securities laws, all Unvested Company Options held by the 35 persons holding the greatest aggregate amount of Unvested Company Options shall be treated as provided in this Section 2.4(a) and exchanged for Parent Options and the remaining Unvested Company Options shall be treated in the same manner as the Vested Options pursuant to Section 2.4(b). For purposes of this Agreement, the "Option Exchange Ratio" shall be (x) the Offer Price divided by (y) the average of the closing prices of the Parent Common Stock on the Nasdaq National Market System during

the ten trading days preceding the fifth trading day prior to the Closing Date.

(b) At the Closing, immediately before the Effective Time, each outstanding fully vested employee stock option to purchase Shares (a "Vested Company Option", and together with an Unvested Company Option, a "Company Option") granted under the Option Plan, except for the Vested Company Options set forth in Section 2.4(b) of the Company Disclosure Schedule (as defined in Article III) which shall be treated in the same manner as the Unvested Company Options pursuant to Section 2.4(a), shall be surrendered to the Company and shall be forthwith cancelled and the Company or the Surviving Corporation shall pay to each holder of a Vested Company Option, by check, an amount equal to (i) the product of the number of the Shares which are issuable upon exercise of such Vested Company Option, multiplied by the Offer Price, less (ii) the aggregate exercise price of such Vested Company Option; provided that the foregoing cancellation and payment shall be subject to the obtaining of any necessary consents of holders of Vested Company Options and that any such payment may be withheld in respect of any Vested Company Option until any necessary consents or releases are obtained. From and after the Effective Time, each outstanding Vested Company Option held by a holder who has failed to so consent shall be treated as provided in Section 2.4(a). The Company and the Trustee shall take all necessary action to facilitate the surrender, cancellation and payment in consideration for the Vested Company Options described in this Section 2.4(b). The Company or the Trustee shall withhold all income or other taxes as required under applicable law prior to distribution of the cash amount received under this Section 2.4(b) to the holders of Vested Company Options.

(c) Except as may be otherwise agreed to by Parent or the Purchaser and the Company, the Option Plan and the Company's 1995 Employee Stock Purchase Plan (the "1995 Plan") shall terminate as of the Effective Time and the provisions in any other plan, program or arrangement providing for the issuance or grant of any other interest in respect of the capital stock of the Company or any of its Subsidiaries shall be deleted as of the Effective Time. Each participant in the 1995 Plan shall be entitled to receive, pursuant to the 1995 Plan,

a number of Shares based upon such participant's contributions in accordance with the provisions of the 1995 Plan for the Purchase Period (as defined in the 1995 Plan) ending December 31, 1996, or such part of such Purchase Period as has been completed at the Effective Time, and at the applicable purchase price per Share determined in accordance with the provisions of the 1995 Plan for such Purchase Period, provided that no such participant shall be entitled to increase his or her rate of contribution after the date hereof, and the Shares so purchased shall immediately be exchanged for cash pursuant to the Merger. After the expiration of the Purchase Period ending December 31, 1996, no such purchaser shall have any further right under the 1995 Plan to acquire any equity securities of the Company, the Surviving Corporation or any subsidiary thereof.

(d) For purposes of Sections 2.4(a) and (b), any partially vested Company Option shall be treated as two separate Company Options, one consisting of the vested portion and the other consisting of the unvested portion of such Company Option.

(e) Holders of Company Options and participants in the 1995 Plan shall be beneficiaries of the agreements in this Section 2.4.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Parent and the Purchaser that all of the statements contained in this Article III are true and correct as of the date of this Agreement (or, if made as of a specified date, as of such date), and will be true and correct in all material respects as of the Closing Date as though made on the Closing Date, except as set forth in the schedule attached to this Agreement setting forth exceptions to the Company's representations and warranties set forth herein (the "Company Disclosure Schedule"). The Company Disclosure Schedule will be arranged in sections corresponding to the sections of this Agreement to be modified by such disclosure schedule, provided that any disclosure made in any section of the Company Disclosure Schedule shall be deemed incorporated in all other sections thereof.

Section 3.1 Organization. Each of the Company and its Subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization and has all requisite corporate power and authority and all necessary governmental approvals to own, lease and operate its properties and to carry on its business as now being conducted, except where the failure to be so organized, existing and in good standing or to have such power, authority, and governmental approvals would not have a material adverse effect on the Company and its Subsidiaries, taken as a whole. As used in this Agreement, the term "Subsidiary" shall mean all corporations or other entities in which the Company or the Parent, as the case may be, owns a majority of the issued and outstanding capital stock or similar interests. As used in this Agreement, any reference to any event, change or effect being material or having a material adverse effect on or with respect to any entity (or group of entities taken as a whole) means such event, change or effect is materially adverse to (i) the consolidated financial condition, businesses, prospects or results of operations of such entity as a whole (or, if used with respect thereto, of such group of entities taken as a whole) or (ii) the ability of such entity (or group) to consummate the transactions contemplated hereby. The Company and each of its Subsidiaries is duly qualified or licensed to do business and in good standing in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so duly qualified or licensed and in good standing would not individually or in the aggregate have a material adverse effect on the Company and its Subsidiaries, taken as a whole. Except as set forth in Section 3.1 of the Company Disclosure Schedule, the Company does not own (i) any equity interest in any corporation or other entity or (ii) marketable securities where the Company's equity interest in any entity exceeds five percent of the outstanding equity of such entity on the date hereof.

Section 3.2 Capitalization. (a) The authorized capital stock of the Company consists of 12,500,000 Shares and 1,000,000 shares of preferred stock, par value $.01 per share (the "Preferred Stock"). As of the date hereof, (i) 8,743,583 Shares are issued and outstanding, (ii) no Shares are issued and held in the treasury of the

Company, (iii) no shares of Preferred Stock are issued and outstanding, (iv) 351,050 Shares are reserved for issuance upon exercise of Vested Company Options and 859,533 Shares are reserved for issuance upon exercise of Unvested Company Options, in each case under the Option Plan, and (vi) 298,278 Shares remain reserved for issuance under the 1995 Plan, of which up to 40,000 Shares will be issued in respect of outstanding employee contributions for the Purchase Period ending December 31, 1996. All the outstanding shares of the Company's capital stock are, and all Shares which may be issued pursuant to the exercise of outstanding Company Options will be, when issued in accordance with the respective terms thereof, duly authorized, validly issued, fully paid and non-assessable. There are no bonds, debentures, notes or other indebtedness having general voting rights (or convertible into securities having such rights) ("Voting Debt") of the Company or any of its Subsidiaries issued and outstanding. Except as set forth above and except for the transactions contemplated by this Agreement, as of the date hereof, (i) there are no shares of capital stock of the Company authorized, issued or outstanding (ii) there are no existing options, warrants, calls, pre-emptive rights, subscriptions or other rights, agreements, arrangements or commitments of any character, relating to the issued or unissued capital stock of the Company or any of its Subsidiaries, obligating the Company or any of its Subsidiaries to issue, transfer or sell or cause to be issued, transferred or sold any shares of capital stock or Voting Debt of, or other equity interest in, the Company or any of its Subsidiaries or securities convertible into or exchangeable for such shares or equity interests, or obligating the Company or any of its Subsidiaries to grant, extend or enter into any such option, warrant, call, subscription or other right, agreement, arrangement or commitment and (iii) except as set forth in Section 3.2(a) of the Company Disclosure Schedule, there are no outstanding contractual obligations of the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any Shares, or the capital stock of the Company, or any Subsidiary or affiliate of the Company or to provide funds to make any investment (in the form of a loan, capital contribution or otherwise) in any Subsidiary or any other entity.

(b) All of the outstanding shares of capital stock of each of the Subsidiaries are beneficial-

ly owned by the Company, directly or indirectly, and all such shares have been validly issued and are fully paid and nonassessable and are owned by either the Company or one of its Subsidiaries free and clear of all liens, charges, claims or encumbrances ("Encumbrances").

(c) There are no voting trusts or other agreements or understandings to which the Company or any of its Subsidiaries is a party with respect to the voting of the capital stock of the Company or any of the Subsidiaries.

Section 3.3 Authorization; Validity of Agreement; Company Action. The Company has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by the Company of this Agreement, and the consummation by it of the transactions contemplated hereby, have been duly authorized by its Board of Directors and, except for obtaining the approval of its stockholders as contemplated by Section 1.8 hereof, no other corporate action on the part of the Company is necessary to authorize the execution and delivery by the Company of this Agreement and the consummation by it of the transactions contemplated hereby. This Agreement has been duly executed and delivered by the Company and, assuming due and valid authorization, execution and delivery hereof by Parent and the Purchaser, is a valid and binding obligation of the Company enforceable against the Company in accordance with its terms.

Section 3.4 Consents and Approvals; No Violations. Except for the filings set forth in Section 3.4 of the Company Disclosure Schedule and the filings, permits, authorizations, consents and approvals as may be required under, and other applicable requirements of, the Exchange Act, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), state securities or blue sky laws, and the DGCL, none of the execution, delivery or performance of this Agreement by the Company, the consummation by the Company of the transactions contemplated hereby or compliance by the Company with any of the provisions hereof will (i) conflict with or result in any breach of any provision of the Certificate of Incorporation, the By-laws or similar organizational documents of the Company or of any of its

Subsidiaries, (ii) require any filing with, or permit, authorization, consent or approval of, any court, arbitral tribunal, administrative agency or commission or other governmental or other regulatory authority or agency (a "Governmental Entity"), (iii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation or acceleration) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which the Company or any of its Subsidiaries is a party or by which any of them or any of their properties or assets may be bound (the "Company Agreements") or (iv) violate any order, writ, injunction, decree, statute, rule or regulation applicable to the Company, any of its Subsidiaries or any of their properties or assets, excluding from the foregoing clauses (ii), (iii) and (iv) such violations, breaches or defaults which would not, individually or in the aggregate, have a material adverse effect on the Company and its Subsidiaries, taken as a whole. Section 3.4 of the Company Disclosure Schedule sets forth a list of all third party consents and approvals required to be obtained in connection with this Agreement under the Company Agreements prior to the consummation of the transactions contemplated by this Agreement.

Section 3.5 SEC Reports and Financial Statements. The Company has filed with the SEC, and has heretofore made available to Parent, true and complete copies of, all forms, reports, schedules, statements and other documents required to be filed by it under the Exchange Act or the Securities Act of 1933, as amended (the "Securities Act") (as such documents have been amended since the time of their filing, collectively, the "Company SEC Documents"). As of their respective dates or, if amended, as of the date of the last such amendment, the Company SEC Documents, including, without limitation, any financial statements or schedules included therein (a) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading and (b) complied in all material respects with the applicable requirements of the Exchange Act and the Securities Act, as the case may

be, and the applicable rules and regulations of the SEC thereunder. None of the Company's Subsidiaries is required to file any forms, reports or other documents with the SEC. The financial statements of the Company included in the Company SEC Documents (the "Financial Statements") have been prepared from, and are in accordance with, the books and records of the Company and its consolidated Subsidiaries, comply in all material respects with applicable accounting requirements and with the published rules and regulations of the SEC with respect thereto, have been prepared in accordance with United States generally accepted accounting principles ("GAAP") applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly present the consolidated financial position and the consolidated results of operations and cash flows (and changes in financial position, if any) of the Company and its consolidated Subsidiaries as of the times and for the periods referred to therein. The financial statements of Opal Technologies Ltd. and of ICT Integrated Circuit Testing GmbH have been prepared from, and are in accordance with, their respective books and records, comply in all material respects with applicable accounting requirements, have been prepared in accordance with Israeli and German generally accepted accounting principals, respectively, applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly present the financial position, results of operations and cash flows (and changes in financial position, if any) of Opal Technologies Ltd. and ICT Integrated Circuit Testing GmbH as of the times and for the periods referred to therein.

Section 3.6 Absence of Certain Changes. Except as disclosed in Section 3.6 of the Company Disclosure Schedule, since December 31, 1995, the Company and its Subsidiaries have conducted their respective businesses only in the ordinary and usual course and (i) there has not occurred any events or changes (including the incurrence of any liabilities of any nature, whether or not accrued, contingent or otherwise) having or reasonably likely to have, individually or in the aggregate, a material adverse effect on the Company and its Subsidiaries, taken as a whole, other than such events or changes which relate to general conditions in the economy or in the Company's industry or arise solely from the Company's execution and delivery of this Agreement, and

(ii) the Company has not taken any action which would have been prohibited under Section 5.1 hereof.

Section 3.7 No Undisclosed Liabilities. Except (a) as disclosed in the Financial Statements and (b) for liabilities and obligations (x) incurred in the ordinary course of business and consistent with past practice (y) pursuant to the terms of this Agreement or (z) as set forth in Section 3.7 of the Company Disclosure Schedule, since December 31, 1995, neither the Company nor any of its Subsidiaries has incurred any liabilities or obligations of any nature, whether or not accrued, contingent or otherwise, that have, or would be reasonably likely to have, a material adverse effect on the Company and its Subsidiaries, taken as a whole, or would be required by GAAP to be reflected on a consolidated balance sheet of the Company and its Subsidiaries (including the notes thereto).

Section 3.8 Litigation. Except as set forth in Section 3.8 of the Company Disclosure Schedule, as of the date hereof, there are no suits, claims, actions, proceedings, including, without limitation, arbitration proceedings or alternative dispute resolution proceedings, or investigations pending or, to the Company's knowledge, threatened against the Company or any of its Subsidiaries before any Governmental Entity. Except as disclosed in Section 3.8 of the Company Disclosure Schedule, neither the Company nor any of its Subsidiaries is subject to any outstanding order, writ, injunction or decree.

Section 3.9 Employee Benefit Plans; ERISA.

(a) Section 3.9(a) of the Company Disclosure Schedule sets forth a true and complete list (or, in the case of an unwritten plan, a description) of all material employee benefit plans, arrangements, contracts or agreements (including employment agreements, severance agreements and managers' insurance plans) of any type, statutory or otherwise, (including but not limited to plans described in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), maintained by the Company, any of its Subsidiaries or any trade or business, whether or not incorporated (an "ERISA Affiliate"), which together with the Company would be deemed a "single employer" within the meaning of Section

414(b), 414(c) or 414(m) of the Internal Revenue Code of 1986, as amended (the "Code"), or the regulations, issued under Section 414(o) of the Code ("Benefit Plans"). Except as disclosed in Section 3.9 of the Company Disclosure Schedule, neither the Company nor any ERISA Affiliate has any formal plan or commitment, whether legally binding or not, to create any additional Benefit Plan or modify or change any existing Benefit Plan that would affect any employee or terminated employee of the Company or any of its Subsidiaries.

(b) With respect to each Benefit Plan: (i) if intended to qualify under Section 401(a) of the Code, such plan so qualifies, and its trust is exempt from taxation under Section 501(a) of the Code, there have been no amendments to any such Benefit Plan which are not the subject of a favorable determination letter, and no condition exists that would reasonably be expected to affect such qualification; (ii) such plan has been administered in all material respects in accordance with its terms and applicable statutes, orders or governmental rules or regulations, including but not limited to ERISA and the Code, no notice has been issued by any Governmental Entity questioning or challenging such compliance, and no condition exists that would be expected to affect such compliance; (iii) no breaches of fiduciary duty have occurred which might reasonably be expected to give rise to material liability on the part of the Company; (iv) no disputes are pending, or, to the Company's knowledge, threatened that might reasonably be expected to give rise to material liability on the part of the Company; (v) no prohibited transaction (within the meaning of Section 406 of ERISA) has occurred that would give rise to material liability on the part of the Company or any ERISA Affiliate; and (vi) all contributions and premiums due as of the date hereof in respect of any Benefit Plan (taking into account any extensions for such contributions and premiums) have been made in full or accrued on the Company's balance sheet.

(c) Except as set forth in Section 3.9(c) of the Company Disclosure Schedule, neither the Company nor any ERISA Affiliate (i) has incurred an accumulated funding deficiency, as defined in the Code and ERISA, or (ii) has any material liability under Title IV of ERISA with respect to any employee benefit plan that is subject to Title IV of ERISA.

(d) With respect to each Benefit Plan that provides employee benefits other than pension benefits (including but not limited to each Benefit Plan that is a "welfare plan" (as defined in section 3(1) of ERISA)), except as disclosed in Section 3.9(d) of the Company Disclosure Schedule, no such plan provides medi-cal or death benefits with respect to current or former employees of the Company or any of its Subsidiaries beyond their termination of employment, other than as required by law.

(e) Except as set forth in Section 3.9(e) of the Company Disclosure Schedule, neither the execution of this Agreement nor the consummation of the transactions contemplated hereby will (i) entitle any individual to severance pay or accelerate the time of payment or vesting, or increase the amount, of compensation or benefits due to any individual, (ii) constitute or result in a prohibited transaction under Section 4975 of the Code or Section 406 of ERISA or (iii) subject the Company, any of its Subsidiaries, any ERISA Affiliate, any of the Benefit Plans, any related trust, any trustee or administrator of any thereof, or any party dealing with the Benefit Plans or any such trust to either a civil penalty assessed pursuant to Section 409 or 502(i) of ERISA or a tax imposed pursuant to Section 4975 of the Code.

(f) There is no Benefit Plan that is a "multiemployer plan," as such term is defined in Section 3(37) of ERISA.

(g) With respect to each Benefit Plan, the Company has previously delivered to Parent or its representatives accurate and complete copies of all plan documents, summary plan descriptions, summary of material modifications, trust agreements and other related agreements, including all amendments to the foregoing; the most recent annual report; the annual and periodic accounting of plan assets in respect of the two most recent plan years; the most recent determination letter received from the United States Internal Revenue Service (the "Service"); and the actuarial valuation, to the extent any of the foregoing may be applicable to a particular Benefit Plan, in respect of the two most recent plan years.

(h) The Option Plan is qualified under Section 102 of the Israeli Income Tax Ordinance and all steps necessary to maintain such qualification have been taken.

Section 3.10 Tax Matters; Government Benefits.

(a) The Company and each of its Subsidiaries have filed all Tax Returns (as hereinafter defined) that are required to be filed and have paid or caused to be paid all Taxes (as hereinafter defined) that are either shown on such Tax Returns as due and payable or otherwise due or claimed to be due by any taxing authority, in each case excluding only such Tax Returns or Taxes as to which any failure to file or pay does not have a material adverse effect on the Company and its Subsidiaries taken as a whole. All such Tax Returns are correct and complete in all material respects and accurately reflect all liability for Taxes for the periods covered thereby. All Taxes owed and due by the Company and each of its Subsidiaries for results of operations through December 31, 1995 (whether or not shown on any Tax Return) have been paid or have been adequately reflected on the Company's balance sheet as of December 31, 1995 included in the Financial Statements (the "Balance Sheet"). Since December 31, 1995, the Company has not incurred liability for any Taxes other than in the ordinary course of business. Neither the Company nor any of its Subsidiaries has received written notice of any claim made by an authority in a jurisdiction where neither the Company nor any of its Subsidiaries file Tax Returns, that the Company is or may be subject to taxation by that jurisdiction.

(b) Neither the Company nor any of its Subsidiaries has violated any applicable law of any jurisdiction relating to the payment and withholding of Taxes, including, without limitation, (x) withholding of Taxes pursuant to Sections 1441 and 1442 of the Code or similar provisions under non-U.S. law and (y) withholding of Taxes in respect of amounts paid or owing to any employee, creditor, independent contractor, or other third party, excluding unintended violations which do not have a material adverse effect on the Company and its Subsidiaries taken as a whole. The Company and each of its Subsidiaries have, in the manner prescribed by law,

withheld and paid when due all Taxes required to have been withheld and paid under all applicable laws.

(c) There are no Encumbrances upon the shares of capital stock of any of the Company's Subsidiaries or any of the assets or properties of the Company or any of its Subsidiaries or, to the Company's knowledge, on any of the Shares that arose in connection with any failure (or alleged failure) to pay any Tax when due.

(d) Neither the Company nor any of its Subsidiaries has waived any statute of limitations in any jurisdiction in respect of Taxes or Tax Returns or agreed to any extension of time with respect to a Tax assessment or deficiency.

(e) No federal, state, local or foreign audits, examinations or other administrative proceedings have been commenced or, to the Company's knowledge, are pending with regard to any Taxes or Tax Returns of the Company or of any of its Subsidiaries. No written notification has been received by the Company or by any of its Subsidiaries that such an audit, examination or other proceeding is pending or threatened with respect to any Taxes due from or with respect to or attributable to the Company or any of its Subsidiaries or any Tax Return filed by or with respect to the Company or any of its Subsidiaries. To the Company's knowledge, there is no dispute or claim concerning any Tax liability of the Company or any of its Subsidiaries either claimed or raised by any taxing authority in writing.

(f) During their most recent five taxable years respectively, neither the Company nor any of its Subsidiaries has made a change in tax accounting methods, received a ruling from any taxing authority or signed an agreement with any taxing authority which could have a material adverse effect on the Company or any of its Subsidiaries. Neither the Company nor any of its Subsidiaries is required to include in income any adjustment pursuant to Section 481(a) of the Code or any similar provision of foreign, state or local law, by reason of a voluntary change in tax accounting method (nor has any taxing authority proposed in writing any such adjustment or change of accounting method).

(g) Neither the Company nor any of its Subsidiaries is a party to, is bound by or has any obligation under any Tax sharing agreement, Tax indemnification agreement or similar contract or arrangement (other than contracts or arrangements among the Company and its Subsidiaries). Neither the Company nor any of its Subsidiaries is aware of any potential liability or obligation to any person as a result of, or pursuant to, any such agreement, contract or arrangement. Neither the Company nor any of its Subsidiaries has any liability for Taxes of another person by contract or otherwise.

(h) No power of attorney with respect to any matter relating to Taxes or Tax Returns has been granted by or with respect to the Company or any of its Subsidiaries.

(i) Neither the Company nor any of its Subsidiaries is a party to any agreement, plan, contract or arrangement that could result, separately or in the aggregate, in the payment of any "excess parachute payments" within the meaning of Section 280G of the Code.

(j) During the most recent five taxable years of the Company and of each of its Subsidiaries, no closing agreement pursuant to Section 7121 of the Code (or any predecessor provision, or any similar provision of any state, local or foreign law) has been entered into by or with respect to the Company or any of its Subsidiaries.

(k) Neither the Company nor any of its Subsidiaries has filed a consent pursuant to Section 341(f) of the Code (or any predecessor provision) concerning collapsible corporations, or agreed to have Section 341(f)(2) of the Code apply to any disposition of a "subsection (f) asset" (as such term is defined in Section 341(f)(4) of the Code) owned by the Company or any of its Subsidiaries.

(l) The Company has never been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code. The Company has never been a member of an Affiliated Group within the meaning of Section 1504 of the Code. None of the Subsidiaries of the Company is a

foreign personal holding company within the meaning of Section 552 of the Code or a passive foreign investment company within the meaning of Section 1296 of the Code.

(m) No taxing authority is asserting or threatening to assert a claim against the Company or any of its Subsidiaries under or as a result of Section 482 of the Code or any similar provision of state, local or foreign law.

(n) Section 3.10(n) of the Company Disclosure Schedule lists all United States federal, state, local, and foreign Tax Returns in respect of which an audit is in progress or is, to the Company's knowledge, pending, which was filed by, on behalf of or with respect to the Company and its Subsidiaries. The Company has delivered to Parent complete and accurate copies of each of: (A) all audit, examination and similar reports and all letter rulings and technical advice memoranda relating to United States federal, state, local, and foreign Taxes due from or with respect to the Company and its Subsidiaries; (B) all United States federal, state and local, and foreign Tax Returns, Tax examination reports and similar documents filed by the Company and its Subsidiaries; and (C) all closing agreements entered into by the Company and its Subsidiaries with any taxing authority and all statements of Tax deficiencies assessed against or agreed to by the Company and its Subsidiaries. The Company will deliver to the Purchaser all materials with respect to the foregoing for all matters arising after the date hereof.

(o) Section 3.10(o) of the Company Disclosure Schedule lists each tax incentive, other than incentives generally available by operation of law without application or governmental action, given to the Company or any of its Subsidiaries under the laws of the State of Israel, including but not limited to tax benefits granted under the Law for the Encouragement of Capital Investments, 1959, the period for which such tax incentive applies, and the nature of such tax incentive. The Company and each of its Subsidiaries have complied with all requirements of Israeli law to be entitled to claim each such tax incentive. Subject to the receipt of the approvals listed in Section 3.4 of the Company Disclosure Schedule, the consummation of the transactions contemplated hereby will not adversely affect the ability

of the Company or any of its Subsidiaries to claim the benefit of any tax incentive for the remaining duration of the incentive or require any recapture of any previously claimed incentive, and, except as set forth in Section 3.10(o) of the Company Disclosure Schedule, no consent or approval of any Governmental Entity is required in order to preserve the entitlement of the Company to any such incentive and, to the Company's knowledge, there is no intention to change the terms of such tax incentives.

(p) Section 3.10(p) of the Company Disclosure Schedule lists with respect to each grant that the Company or any of its Subsidiaries received or is entitled pursuant to outstanding grant awards to receive from the Office of the Chief Scientist in the Israeli Ministry of Industry and Trade (the "Chief Scientist"), the German Minister of Research and Technology and any other similar organization, the following information: (A) the total amount of the grant received by the Company or any of its Subsidiaries and the amount available for future use by the Company or any of its Subsidiaries; (B) the time period in which the Company or any of its Subsidiaries received, or will be entitled to receive, each grant; (C) a general description of the research and development program for which such grant was approved; (D) the royalty repayment schedule applicable to such grant and the total repayment due; (E) the type of revenues from which royalty payments should be made; and (F) the total amount of royalties paid as of a recent date and the total royalty obligations due as of such date.

(q) The Company and each of its Subsidiaries have complied in all material respects with all applicable laws and regulations, agreements, letters of commitments and any other requirements with respect to the terms and conditions of each of the grants listed in Section 3.10(p) of the Company Disclosure Schedule and no claim was made by the Chief Scientist or any other person with respect to compliance by the Company or any of its Subsidiaries with such terms and conditions or for any repayment in excess of the amounts specified in Section 3.10(p) of the Company Disclosure Schedule and, to the Company's knowledge, there is no threatened or possible claim for any breach of such terms and conditions or any intention to change such terms and conditions.

(r) As used in this Agreement, the following terms shall have the following meanings:

(i) "Tax" or "Taxes" shall mean all taxes, charges, fees, duties, levies, penalties or other assessments imposed by any federal, state, local or foreign governmental authority, including, but not limited to, income, gross receipts, excise, property, sales, gain, use, license, custom duty, unemployment, capital stock, transfer, franchise, payroll, withholding, social security, minimum estimated, and other taxes, and shall include interest, penalties or additions attributable thereto; and

(ii) "Tax Return" shall mean any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

Section 3.11 Title and Condition of Properties. Neither the Company nor any of its Subsidiaries own any real property. The Company and its Subsidiaries own good and marketable title, free and clear of all Encumbrances, to all of the personal property and assets shown on the Balance Sheet or acquired after December 31, 1995, except for (A) assets which have been disposed of to nonaffiliated third parties since December 31, 1995 in the ordinary course of business, (B) Encumbrances reflected in the Balance Sheet or in the notes thereto, (C) Encumbrances or imperfections of title which are not, individually or in the aggregate, material in character, amount or extent and which do not materially detract from the value or materially interfere with the present or presently contemplated use of the assets subject thereto or affected thereby, and (D) Encumbrances for current Taxes not yet due and payable. All of the machinery, equipment and other tangible personal property and assets owned or used by the Company and its Subsidiaries are in good condition and repair, except for ordinary wear and tear not caused by neglect, and are useable in the ordinary course of business. The personal property and assets reflected on the Balance Sheet or acquired after December 31, 1995, the rights under the Company Agreements and the Intellectual Property (as defined in Section 3.12) owned or used by the Company under valid Li-

cense (as defined in Section 3.12), collectively include all assets necessary to provide, produce, sell and license the services and products currently provided, produced, sold and licensed by the Company and its Subsidiaries and to conduct the business of the Company and its Subsidiaries as presently conducted or as currently contemplated to be conducted, provided that the Company makes no warranty with respect to infringement of intellectual property rights of third parties except as expressly provided in Section 3.12(e).

Section 3.12 Intellectual Property.

(a) Section 3.12(a) of the Company Disclosure Schedule contains an accurate and complete listing setting forth (x) all registered Trademarks, Patents, registered Copyrights and registered Mask Works (as each such term is hereinafter defined) which are owned by the Company or any of its Subsidiaries and (y) all Licenses to which the Company or any of its Subsidiaries is a party (other than shrink-wrap software and databases licensed to the Company or to any of its Subsidiaries under non-exclusive software licenses granted to end-user customers by third parties in the ordinary course of business of such third parties' businesses), such schedule indicating, as to each such License, whether the Company or any of its Subsidiaries is the licensee or licensor, whether it is royalty bearing, the territory, whether it is exclusive or non-exclusive, and the nature of the licensed property.

(b) Except as set forth in Section 3.12(b)(i) of the Company Disclosure Schedule, neither the Company nor any of its Subsidiaries is under any obligation to pay any royalty or other compensation to any third party or to obtain any approval or consent for the use of any Intellectual Property used in or necessary for its business as currently conducted or as currently proposed to be conducted. None of the Intellectual Property owned by the Company or by any of its Subsidiaries, or to the Company's knowledge, licensed to the Company or to any of its Subsidiaries, is subject to any outstanding judgment, order, decree, stipulation, injunction or charge. Except as set forth in Section 3.12(b)(ii) of the Company Disclosure Schedule, there is no claim, charge, complaint, action, suit, proceeding, hearing, investigation or demand pending or, to the Company's knowledge, threat-

ened, which challenges the legality, validity, enforceability, or the Company's or any of its Subsidiaries' use or ownership of any of the Intellectual Property owned by the Company or any of its Subsidiaries or, to the Company's knowledge, licensed to the Company or to any of its Subsidiaries. Neither the Company nor any of its Subsidiaries has agreed to indemnify any person for or against any interference, infringement, misappropriation, or other conflict with respect to any Intellectual Property, except as may be contained within agreements for the sale of the Company's products in the ordinary course or the Licenses set forth in Section 3.12(a) of the Company Disclosure Schedule.

(c) No material breach or default (or event which with notice or lapse of time or both would result in a material event of default) by the Company or any of its Subsidiaries exists or has occurred under any License or other agreement pursuant to which the Company or any of its Subsidiaries uses any Intellectual Property owned by a third party or has granted any third party the right to use its Intellectual Property, and the consummation of the transactions contemplated by this Agreement will not violate or conflict with or constitute a material default (or an event which, with notice or lapse of time or both, would constitute a material default), result in a forfeiture under, or constitute a basis for termination of any such License or other agreement.

(d) The Company and its Subsidiaries own all items of Intellectual Property set forth in Schedule 3.12(a) and own or have the right to use all items of Intellectual Property necessary to provide, produce, sell and license the services and products currently provided, produced, sold and licensed by the Company and its Subsidiaries and to conduct the business of the Company and its Subsidiaries as presently conducted or as currently proposed to be conducted, free and clear of all Encumbrances, provided that the Company makes no warranty with respect to infringement of intellectual property rights of third parties except as expressly provided in Section 3.12(e).

(e) To the Company's knowledge, except as set forth in Section 3.12(e) of the Company Disclosure Schedule, the conduct of the Company's and its Subsidiaries' business, the Intellectual Property owned or used by the

Company and its Subsidiaries, and the products or services produced, sold or licensed by or under development by the Company and its Subsidiaries do not infringe any Intellectual Property rights or any other proprietary right of any person or give rise to any obligations to any person as a result of co-authorship, co-inventorship, or an express or implied contract for any use or transfer. The Company and its Subsidiaries have received no notice of any allegations or threats that the Company's and its Subsidiaries' use of any of the Intellectual Property infringes upon or is in conflict with any Intellectual Property or proprietary rights of any third party, and to the Company's knowledge, no basis exists for any such allegations or threats.

(f) Except as set forth on Section 3.12(f) of the Company Disclosure Schedule, neither the Company nor any of its Subsidiaries has sent or otherwise communicated to any other person any notice, charge, claim or assertion of any present, impending or threatened infringement by any other person of any Intellectual Property of the Company and its Subsidiaries.

(g) None of the Company's and its Subsidiaries' products or services incorporate, are based upon or are derived or adapted from, any Intellectual Property of any other person in violation of any statutory or other legal obligation or any agreement to which the Company and its Subsidiaries is a party or by which it is bound.

(h) All of the Company's and its Subsidiaries' Patents, Trademarks and Copyrights issued by, registered with or filed with the United States Patent and Trademark Office or Register of Copyrights or the corresponding offices of other countries have been so duly registered, filed in or issued, as the case may be, have been properly maintained and renewed in accordance with all applicable provisions of law and administrative regulations, and the Company and its Subsidiaries, as the case may be, are the record owners thereof. The Company and its Subsidiaries have taken reasonable steps in accordance with normal industry practice to maintain the confidentiality of its trade secrets and other confidential Intellectual Property, and, to the Company's knowledge, there have been no acts or omissions by the Company or its Subsidiaries, the result of which would be to compromise the rights of the Company or its Subsidiaries to apply for or

enforce appropriate legal protection of such Intellectual Property.

(i) Except as described in Section 3.12(i) of the Company Disclosure Schedule, each of the Company's and its Subsidiaries' employees, officers, agents, directors and each independent contractor retained by the Company or any of its Subsidiaries has entered into a written agreement with the Company or any of its Subsidiaries (x) providing that all of the Company's and its Subsidiaries' Intellectual Property is confidential and proprietary to the Company or any of its Subsidiaries, and (y) obligating the disclosure and transfer to the Company or any of its Subsidiaries, in consideration for no more than normal salary and continued employment or consultant fees, as the case may be, of all inventions, developments and work product which during the period of his or her employment or consultancy with the Company or any of its Subsidiaries, as the case may be, such employee, officer, agent, director or independent contractor made or makes that related or relate to any subject matter with which such employee's, officer's, agent's, director's or independent contractor's work for the Company or any of its Subsidiaries was concerned, or, in the case of employees, officers, agents and directors, are made during such person's period of employment (or contractual relationship) or in connection therewith. No former employees, officers, directors or independent contractors of the Company or any of its Subsidiaries have asserted any claim, or have any, valid claim or valid right to any of the Company's or any of its Subsidiaries' Intellectual Property used in or necessary for the conduct of the Company's or its Subsidiaries' business as now conducted or as currently proposed to be conducted. To the Company's knowledge, no employee, officer, agent or director of the Company or any of its Subsidiaries is a party to or otherwise bound by any agreement with or obligated to any other person (including, any former employer) which conflicts with any obligation or commitment of such employee to the Company or any of its Subsidiaries under any agreement to which he or she is a party or otherwise.

(j) Section 3.12(j) of the Company Disclosure Schedule identifies each person to whom the Company or any of its Subsidiaries has sold or otherwise transferred any interest or rights to any Intellectual Property

(other than end users under licenses for computer software and related documentation transferred in the ordinary course of business) or purchased rights in any Intellectual Property, and the date, if applicable, of each such sale, transfer or purchase.

(k) The Company and each of its Subsidiaries have taken reasonable steps in accordance with normal industry practice to preserve and maintain, reasonably complete notes and records (including, without limitation, drawings, flow-charts, prototypes and models) relating to its know-how, inventions, processes, procedures, drawings, specifications, designs, plans, written proposals, technical data, works of authorship and other proprietary technical information, sufficient to cause such proprietary information to be readily identified, understood and available.

(l) As used in this Agreement, "Intellectual Property" means all of the following: (i) U.S., Israeli and foreign registered and unregistered trademarks, trade dress, service marks, logos, trade names, corporate names and all registrations and applications to register the same (the "Trademarks"); (ii) issued U.S., Israeli and foreign patents and pending patent applications, patent disclosures, and any and all divisions, continuations, continuations-in-part, reissues, reexaminations, and extension thereof, any counterparts claiming priority therefrom, utility models, patents of importation/confirmation, certificates of invention and like statutory rights (the "Patents"); (iii) U.S., Israeli and foreign registered and unregistered copyrights (including, but not limited to, those in computer software and databases) rights of publicity and all registrations and applications to register the same (the "Copyrights"); (iv) U.S., Israeli and foreign rights in any semi-conductor chip product works or "mask works" as such term is defined in 17 U.S.C. 901, et seq. and any registrations or applications therefor ("Mask Works"); (v) all categories of trade secrets as defined in the Uniform Trade Secrets Act including, but not limited to, business information; (vi) all licenses and agreements pursuant to which the Company has acquired rights in or to any Trademarks, Patents, Copyrights or Mask Works, or licenses and agreements pursuant to which the Company has licensed or transferred the right to use any of the foregoing ("Licenses").

Section 3.13 Employment Matters. To the Company's knowledge, no key employee or group of employees has any plans to terminate their employment with the Company or any of its Subsidiaries as a result of the transactions contemplated hereby or otherwise. Neither the Company nor any of its Subsidiaries has experienced any strikes, collective labor grievances, other collective bargaining disputes or Claims of unfair labor practices in the last five years. To the Company's knowledge, there is no organizational effort presently being made or threatened by or on behalf of any labor union with respect to employees of the Company and its Subsidiaries.

Section 3.14 Compliance with Laws. The Company and its Subsidiaries are in substantial compliance with, and have not violated any applicable law, rule or regulation of any United States federal, state, local, Israeli or other foreign government or agency thereof which materially affects the business, properties or assets of the Company and its Subsidiaries, and no notice, charge, claim, action or assertion has been received by the Company or any of its Subsidiaries or has been filed, commenced or, to the Company's knowledge, threatened against the Company or any of its Subsidiaries alleging any such violation, except for any matter otherwise covered by this sentence which does not have a material adverse effect on the Company and its Subsidiaries taken as a whole. All licenses, permits and approvals required under such laws, rules and regulations are in full force and effect except where the failure to be in full force and effect would not have a material adverse effect on the Company and its Subsidiaries taken as a whole.

Section 3.15 Contracts. Each Company Agreement is legally valid and binding and in full force and effect, except where failure to be legally valid and binding and in full force and effect would not have a material adverse effect on the Company and its Subsidiaries, taken as a whole, and there are no defaults by the Company or any of its Subsidiaries thereunder, except those defaults that would not have a material adverse effect on the Company and its Subsidiaries, taken as a whole. The Company has previously made available for inspection by Parent or the Purchaser or their representatives all of the Company Agreements. Set forth in

Section 3.15 of the Company Disclosure Schedule is a true and complete list of all agreements, contracts or other arrangements, written or oral, to which ICT Integrated Circuit Testing GmbH ("ICT") or any of its Subsidiaries is a party or by which ICT or any of its Subsidiaries or any of its or their assets may be bound (the "ICT Agreements") concerning or relating to (i) Intellectual Property, (ii) the spin-off or other disposition of assets, (iii) which are necessary to provide, produce, sell and license the services and products currently provided, produced, sold and licensed by ICT and its Subsidiaries and to conduct the business of ICT and its Subsidiaries as presently conducted or as currently contemplated to be conducted. Each ICT Agreement is valid, binding, enforceable and in full force and effect. None of the execution, delivery or performance of this Agreement by the Company, the consummation by the Company of the transactions contemplated hereby or compliance by the Company with any of the provisions hereof will result in a breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation or acceleration) under, any of the terms, conditions or provisions of any ICT Agreement. None of ICT or any of its Subsidiaries is or, to the Company's knowledge, any other party is in breach or default (including, with respect to any express or implied warranty), and no event has occurred which with notice or lapse of time or both would constitute a material breach or default or permit termination, modification or acceleration under any ICT Agreement, except for any breaches, defaults, terminations, modifications or accelerations which have been cured or waived; and no party has, to the Company's knowledge, repudiated any provision of any such ICT Agreement.

Section 3.16 Potential Conflicts of Interest. Except as set forth in Section 3.16 of the Company Disclosure Schedule or in the Company SEC Reports, to the Company's knowledge, no officer of the Company or any of its Subsidiaries owns, directly or indirectly, any interest in (excepting not more than 1% stock holdings for investment purposes in securities of publicly held and traded companies) or is an officer, director, employee or consultant of any person which is a competitor, lessor, lessee, customer or supplier of the Company or any of its Subsidiaries; and no officer or director of the Company or any of its Subsidiaries (i) owns, directly or indi-

rectly, in whole or in part, any Intellectual Property which the Company or any of its Subsidiaries is using or the use of which is necessary for the business of the Company or any of its Subsidiaries; (ii) has any claim, charge, action or cause of action against the Company or any of its Subsidiaries, except for claims for accrued vacation pay, accrued benefits under the Benefit Plans and similar matters and agreements existing on the date hereof; (iii) has made, on behalf of the Company or any of its Subsidiaries, any payment or commitment to pay any commission, fee or other amount to, or to purchase or obtain or otherwise contract to purchase or obtain any goods or services from, any other person of which any officer or director of the Company, or, to the Company's knowledge, a relative of any of the foregoing, is a partner or stockholder (except stock holdings solely for investment purposes in securities of publicly held and traded companies); (iv) owes any money to the Company or any of its Subsidiaries; or (v) is owed any money by the Company or any of its Subsidiaries. Opal Technologies Ltd. is not a party to any contract with an "interested party" or any contract in which an "officer" has a "personal interest" (as each of such terms is defined in Chapter 4A of the Israeli Companies Ordinance, 1983).

Section 3.17 Vote Required. The affirmative vote of the holders of a majority of the outstanding Shares are the only votes of the holders of any class or series of the Company's capital stock necessary to approve this Agreement and the transactions contemplated hereby.

Section 3.18 Suppliers and Customers. From December 31, 1995 to the date of this Agreement, no material licensor, vendor, supplier, licensee or customer of the Company or any of its Subsidiaries has cancelled or otherwise modified its relationship with the Company or its Subsidiaries and, to the Company's knowledge, no such person has any intention to do so. Except as set forth in Section 3.18 of the Company Disclosure Schedule, no material customer of the Company or any of its Subsidiaries has expressed to the Company any material dissatisfaction with any of the products of the Company or any of its Subsidiaries, respectively, which is likely to result in an adverse impact on such customer's continuing relationship with the Company or any of its Subsidiaries, and the Company and its Subsidiaries have not experienced any

complaints of a recurring nature with respect to any of their products.

Section 3.19 Information in Proxy Statement. The Proxy Statement, if any (or any amendment thereof or supplement thereto), will, at the date mailed to Company stockholders and at the time of the meeting of Company stockholders to be held in connection with the Merger, not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading, except that no representation is made by the Company with respect to statements made therein based on information supplied by Parent or the Purchaser for inclusion in the Proxy Statement. The Proxy Statement will comply in all material respects with the provisions of the Exchange Act and the rules and regulations thereunder.

Section 3.20 Opinion of Financial Advisor. The Company has received the opinion of Robertson Stephens & Company, dated the date hereof, to the effect that, as of such date, the consideration to be received in the Offer and the Merger by the Company's stockholders is fair to the Company's stockholders from a financial point of view, a copy of which opinion has been delivered to Parent and the Purchaser.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF PARENT AND THE PURCHASER

Parent and the Purchaser represent and warrant to the Company that the statements contained in this Article IV are true and correct as of the date of this Agreement and will be correct and complete as of the Closing Date as though made on the Closing Date.

Section 4.1 Organization. Each of Parent and the Purchaser is a corporation duly organized, validly existing and in good standing under the laws of Delaware and has all requisite corporate or other power and authority and all necessary governmental approvals to own, lease and operate its properties and to carry on its

business as now being conducted, except where the failure to be so organized, existing and in good standing or to have such power, authority, and governmental approvals would not have a material adverse effect on Parent and its Subsidiaries, taken as a whole. Parent and each of its Subsidiaries is duly qualified or licensed to do business and in good standing in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so duly qualified or licensed and in good standing would not, individually or in the aggregate, have a material adverse effect on Parent and its Subsidiaries, taken as a whole.

Section 4.2 Authorization; Validity of Agreement; Necessary Action. Each of Parent and the Purchaser has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Parent and the Purchaser of this Agreement, and the consummation of the Merger and of the transactions contemplated hereby have been duly authorized by the Board of Directors of Parent and the Purchaser and by Parent as the sole stockholder of the Purchaser and no other corporate action on the part of Parent and the Purchaser is necessary to authorize the execution and delivery by Parent and the Purchaser of this Agreement and the consummation of the transactions contemplated hereby. This Agreement has been duly executed and delivered by Parent and the Purchaser, as the case may be, and, assuming due and valid authorization, execution and delivery hereof by the Company, is a valid and binding obligation of each of Parent and the Purchaser, as the case may be, enforceable against each of them in accordance with its respective terms.

Section 4.3 Consents and Approvals; No Violations. Except as set forth in Section 4.3 of the schedule attached to this Agreement setting forth exceptions to Parent's representations and warranties set forth herein and except for filings, permits, authorizations, consents and approvals as may be required under, and other applicable requirements of, the Exchange Act, the HSR Act, state securities or blue sky laws and the DGCL, none of the execution, delivery or performance of this Agreement by Parent or the Purchaser, the consummation by

Parent or the Purchaser of the transactions contemplated hereby or compliance by Parent or the Purchaser with any of the provisions hereof will (i) conflict with or result in any breach of any provision of the respective certificate of incorporation or by-laws of Parent or the Purchaser, (ii) require any filing with, or permit, authorization, consent or approval of, any Governmental Entity, (iii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which Parent, or any of its Subsidiaries or the Purchaser is a party or by which any of them or any of their respective properties or assets may be bound, or (iv) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Parent, any of its Subsidiaries or any of their properties or assets, excluding from the foregoing clauses (ii),(iii) and (iv) such violations, breaches or defaults which would not, individually or in the aggregate, have a material adverse effect on Parent and its Subsidiaries, taken as a whole.

Section 4.4 Information in Proxy Statement. None of the information supplied by Parent or the Purchaser specifically for inclusion or incorporation by reference in the Proxy Statement will, at the date mailed to stockholders and at the time of the meeting of stockholders to be held in connection with the Merger, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

Section 4.5 Financing. Parent and the Purchaser (i) have bank facilities in place which, either alone or with cash presently on hand, will provide sufficient funds to purchase and pay for the Shares pursuant to the Offer and the Merger in accordance with the terms of this Agreement and to consummate the other transactions contemplated hereby and (ii) will have on the expiration date of the Offer and the Effective Date sufficient funds to purchase and pay for the Shares pursuant to the Offer and the Merger, respectively, in

accordance with the terms of this Agreement. The Parent's bank facilities permit Parent to borrow money under such facilities and use such funds to purchase and pay for the Shares pursuant to the Offer and the Merger in accordance with the terms of this Agreement and to consummate the other transactions contemplated hereby.

Section 4.6 Options. The Parent Options to be granted by Parent under Section 2.4(a) shall be duly authorized, valid and enforceable in accordance with the terms of said Section 2.4(a), and any shares of Parent Common Stock issued upon proper exercise thereof shall be duly and validly issued, fully paid and non-assessable.

Section 4.7 Company Shares. As of the date of this Agreement, neither Parent nor any of its Subsidiaries owns any Shares or is acting together with any other person in connection with the Offer.

ARTICLE V

COVENANTS

Section 5.1 Interim Operations of the Company. The Company covenants and agrees that, except (i) as expressly contemplated by this Agreement, (ii) as set forth in Section 5.1 of the Company Disclosure Schedule, or (iii) as agreed in writing by Parent, after the date hereof, and prior to the time the directors of the Purchaser have been elected to, and shall constitute a majority of, the Board of Directors of the Company pursuant to Section 1.3 (the "Appointment Date"):

(a) the business of the Company and its Subsidiaries shall be conducted only in the ordinary and usual course and, to the extent consistent therewith, each of the Company and its Subsidiaries shall use its best reasonable efforts to preserve its business organization intact and maintain its existing relations with customers, suppliers, employees, creditors and business partners;

(b) the Company will not, directly or indirectly, (i) sell, transfer or pledge or agree to sell, transfer or pledge any treasury stock of the Company or any capital stock of any of its Subsidiaries beneficially owned by it, (ii) amend its Certificate of

Incorporation or By-laws or similar organizational documents; or (iii) split, combine or reclassify the outstanding Shares or Preferred Stock or any outstanding capital stock of any of the Subsidiaries of the Company;

(c) neither the Company nor any of its Subsidiaries shall: (i) declare, set aside or pay any dividend or other distribution payable in cash, stock or property with respect to its capital stock; (ii) issue, sell, pledge, dispose of or encumber any additional shares of, or securities convertible into or exchangeable for, or options, warrants, calls, commitments or rights of any kind to acquire, any shares of capital stock of any class of the Company or its Subsidiaries, other than Shares reserved for issuance on the date hereof pursuant to the exercise of Company Options outstanding on the date hereof or pursuant to the 1995 Plan as permitted in Section 2.4 hereof; (iii) transfer, lease, license, sell, mortgage, pledge, dispose of, or encumber any material assets other than in the ordinary and usual course of business and consistent with past practice, or incur or modify any material indebtedness or other liability, other than in the ordinary and usual course of business and consistent with past practice; or (iv) redeem, purchase or otherwise acquire directly or indirectly any of its capital stock except pursuant to stock restriction agreements with employees existing at the date hereof and set forth in Section 3.2(a) of the Company Disclosure Schedule;

(d) neither the Company nor any of its Subsidiaries shall: (i) grant any increase in the compensation payable or to become payable by the Company or any of its Subsidiaries to any of its executive officers or key employees except inflationary increases given in accordance with past practice; or (ii)(A) adopt any new, or (B) amend or otherwise increase, or accelerate the payment or vesting of the amounts payable or to become payable under any existing bonus, incentive compensation, deferred compensation, severance, profit sharing, stock option, stock purchase, insurance, pension, retirement or other employee benefit plan, agreement or arrangement, including, without limitation, the Option Plan and the 1995 Plan; or (iii) enter into any employment or severance agreement with or, except in accordance with the existing written policies of the Company, grant any

severance or termination pay to any officer, director or employee of the Company or any its Subsidiaries;

(e) neither the Company nor any of its Subsidiaries shall modify, amend or terminate any of its material contracts or waive, release or assign any material rights or claims, except in the ordinary course of business and consistent with past practice;

(f) neither the Company nor any of its Subsidiaries shall permit any material insurance policy naming it as a beneficiary or a loss payable payee to be cancelled or terminated without notice to Parent, except in the ordinary course of business and consistent with past practice;

(g) neither the Company nor any of its Subsidiaries shall: (i) incur or assume any long-term debt, or except in the ordinary course of business, incur or assume any short-term indebtedness in amounts not consistent with past practice; (ii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other person, except in the ordinary course of business and consistent with past practice; (iii) make any loans, advances or capital contributions to, or investments in, any other person (other than to wholly owned Subsidiaries of the Company); or (iv) enter into any material commitment or transaction (including, but not limited to, any material capital expenditure or purchase or lease of assets or real estate other than the purchase of products for inventory and supplies in the ordinary course of business);

(h) neither the Company nor any of its Subsidiaries shall change any of the accounting methods used by it unless required by GAAP;

(i) neither the Company nor any of its Subsidiaries shall pay, discharge or satisfy any claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise), other than the payment, discharge or satisfaction in the ordinary course of business and consistent with past practice, of claims, liabilities or obligations reflected or reserved against in, or contemplated by, the consolidated financial state-

ments (or the notes thereto) of the Company and its consolidated Subsidiaries;

(j) neither the Company nor any of its Subsidiaries will adopt a plan of complete or partial liquidation, dissolution, merger, consolidation, restructuring, recapitalization or other reorganization of the Company or any of its Subsidiaries (other than the Merger);

(k) neither the Company nor any of its Subsidiaries will take, or agree to commit to take, any action that would or is reasonably likely to result in any of the conditions to the Offer set forth in Annex A or any of the conditions to the Merger set forth in Article VI not being satisfied, or would make any representation or warranty of the Company contained herein inaccurate in any respect at, or as of any time prior to, the Effective Time, or that would materially impair the ability of the Company to consummate the Offer or the Merger in accordance with the terms hereof or materially delay such consummation; and

(l) neither the Company nor any of its Subsidiaries will enter into an agreement, contract, commitment or arrangement to do any of the foregoing, or to authorize, recommend, propose or announce an intention to do any of the foregoing.

Section 5.2 Access; Confidentiality. Upon reasonable notice, the Company shall (and shall cause each of its Subsidiaries to) afford to the officers, employees, accountants, counsel, financing sources and other representatives of Parent, access, during normal business hours during the period prior to the Appointment Date, to all its properties, books, contracts, commitments and records and, during such period, the Company shall (and shall cause each of its Subsidiaries to) furnish promptly to the Parent (a) a copy of each report, schedule, registration statement and other document filed or received by it during such period pursuant to the requirements of federal securities laws and (b) all other information concerning its business, properties and personnel as Parent may reasonably request. After the Appointment Date the Company shall provide Parent and such persons as Parent shall designate with all such information, at such time as Parent shall request.

Unless otherwise required by law and until the Appointment Date, Parent will hold any such information which is nonpublic in confidence in accordance with the provisions of a letter agreement dated October 21, 1996 between the Company and the Parent (the "Confidentiality Agreement").

Section 5.3 Consents and Approvals. (a) Each of the Company, Parent and the Purchaser will take all reasonable actions necessary to comply promptly with all legal requirements which may be imposed on it with respect to this Agreement and the transactions contemplated hereby (which requirements shall include, without limitation, those identified in Section 5.3(a) of the Company Disclosure Schedule attached to this Agreement, and which actions shall include, without limitation, furnishing all information required under the HSR Act and in connection with approvals of or filings with any other Governmental Entity) and will promptly cooperate with and furnish information to each other in connection with any such requirements imposed upon any of them or any of their Subsidiaries in connection with this Agreement and the transactions contemplated hereby. Each of the Company, Parent and the Purchaser will, and will cause its Subsidiaries to, take all reasonable actions necessary to obtain (and will cooperate with each other in obtaining) any consent, authorization, order or approval of, or any exemption by, any Governmental Entity or other public or private third party required to be obtained or made by Parent, the Purchaser, the Company or any of their Subsidiaries in connection with the Merger or the taking of any action contemplated thereby or by this Agreement.

(b) The Company and Parent shall take all reasonable actions necessary to file as soon as practicable notifications under the HSR Act and to respond as promptly as practicable to any inquiries received from the Federal Trade Commission and the Antitrust Division of the Department of Justice for additional information or documentation and to respond as promptly as practicable to all inquiries and requests received from any State Attorney General or other Governmental Entity in connection with antitrust matters.

Section 5.4 No Solicitation. (a) Neither the Company nor any of its Subsidiaries shall (and the Company shall use its best efforts to cause its officers, directors, employees, representatives and agents, includ-

ing, but not limited to, investment bankers, attorneys and accountants, not to), directly or indirectly, encourage, solicit, participate in or initiate discussions or negotiations with, or provide any information to, any corporation, partnership, person or other entity or group (other than Parent, any of its affiliates or representatives) concerning any proposal or offer to acquire all or a substantial part of the business and properties of the Company or any of its Subsidiaries or any capital stock of the Company or any of its Subsidiaries, whether by merger, tender offer, exchange offer, sale of assets or similar transactions involving the Company or any Subsidiary, division or operating or principal business unit of the Company (an "Acquisition Proposal"), except that nothing contained in this Section 5.4 or any other provision hereof shall prohibit the Company or the Company's Board from (i) taking and disclosing to the Company's stockholders a position with respect to a tender or exchange offer by a third party pursuant to Rules 14d-9 and 14e-2 promulgated under the Exchange Act, or (ii) making such disclosure to the Company's stockholders as, in the good faith judgment of the Board, after receiving advice from outside counsel, is required under applicable law, provided that the Company may not, except as permitted by Section 5.4(b), withdraw or modify, or propose to withdraw or modify, its position with respect to the Offer or the Merger or approve or recommend, or propose to approve or recommend, any Acquisition Proposal, or enter into any agreement with respect to any Acquisition Proposal. The Company will immediately cease any existing activities, discussions or negotiations with any parties conducted heretofore with respect to any of the foregoing. Notwithstanding the foregoing, the Company may furnish information concerning its business, properties or assets to any corporation, partnership, person or other entity or group pursuant to appropriate confidentiality agreements, and may negotiate and participate in discussions and negotiations with such entity or group concerning an Acquisition Proposal if (x) such entity or group has on an unsolicited basis submitted a bona fide written proposal to the Board of Directors of the Company relating to any such transaction which the Board determines in good faith, represents a superior transaction to the Offer and the Merger and which is not conditioned upon obtaining additional financing and (y) in the opinion of the Board of Directors of the Company, only after receipt of advice from outside legal counsel to the

Company, the failure to provide such information or access or to engage in such discussions or negotiations could reasonably be expected to cause the Board of Directors to violate its fiduciary duties to the Company's stockholders under applicable law (an Acquisition Proposal which satisfies clauses (x) and (y) being referred to herein as a "Superior Proposal"). The Company will immediately notify Parent of the existence of any proposal or inquiry received by the Company and the identity of the party making such proposal or inquiry which it may receive in respect of any such transaction.

(b) Except as set forth herein, neither the Board of Directors of the Company nor any committee thereof shall (i) withdraw or modify, or propose to withdraw or modify, in a manner adverse to Parent or the Purchaser, the approval or recommendation by such Board of Directors or any such committee of the Offer, this Agreement or the Merger, (ii) approve or recommend, or propose to approve or recommend, any Acquisition Proposal or (iii) enter into any agreement with respect to any Acquisition Proposal. Notwithstanding the foregoing, prior to the time of acceptance for payment of Shares in the Offer, the Board of Directors of the Company may (subject to the terms of this and the following sentence) withdraw or modify its approval or recommendation of the Offer, this Agreement or the Merger, approve or recommend a Superior Proposal, or enter into an agreement with respect to Superior Proposal, in each case at any time after the second business day following Parent's receipt of written notice advising Parent that the Board of Directors has received a Superior Proposal, specifying the material terms and conditions of such Superior Proposal and identifying the person making such Superior Proposal; provided that the Company shall not enter into an agreement with respect to a Superior Proposal unless the Company shall have furnished Parent with written notice not later than 12:00 noon one day in advance of any date that it intends to enter into such agreement and shall have caused its financial and legal advisors to negotiate with Parent to make such adjustments in the terms and conditions of this Agreement as would enable the Company to proceed with the transactions contemplated herein on such adjusted terms. In addition, if the Company proposes to enter into an agreement with respect to any Acquisition Proposal, it shall concurrently with entering into such agreement pay, or cause to be paid, to

Parent the Termination Fee (as defined in Section 8.1(b)) subject to the provisions of Section 8.1(b).

Section 5.5 Brokers or Finders. The Company represents, as to itself and its Subsidiaries and affiliates, that no agent, broker, investment banker, financial advisor or other firm or person is or will be entitled to any brokers' or finder's fee or any other commission or similar fee from the Company or any of its Subsidiaries in connection with any of the transactions contemplated by this Agreement except for Robertson, Stephens & Company LLC and Evergreen Capital Markets Ltd., whose engagement letter is attached as Section 5.5 of the Company Disclosure Schedule.

Section 5.6 Additional Agreements. Subject to the terms and conditions herein provided, each of the parties hereto shall use all reasonable efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations, or to remove any injunctions or other impediments or delays, legal or otherwise, to achieve the satisfaction of the Minimum Condition and all conditions set forth in Annex A and Article VI, and to consummate and make effective the Merger and the other transactions contemplated by this Agreement. Without limitation of the foregoing, Parent, Purchaser and the Company shall take such steps and provide and comply with such undertakings as may be required by any Governmental Entity whose approval or consent, or with respect to which a waiting period must expire, to satisfy the conditions set forth in Annex A and to assure that the Parent Options may properly be issued under Section 2.4(a); provided that such steps and undertakings shall not impose upon the Company or Parent and the Purchaser any terms or conditions which Parent determines reasonably and in good faith to be unreasonably burdensome to Parent or the Purchaser or to the operations of the Company on a going-forward basis. In case at any time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement, the proper officers and directors of the Company, Parent and the Purchaser shall use all reasonable efforts to take, or cause to be taken, all such necessary actions.

Section 5.7 Publicity. The initial press release with respect to the execution of this Agreement

shall be a joint press release acceptable to Parent and the Company. Thereafter, so long as this Agreement is in effect, neither the Company, Parent nor any of their respective affiliates shall issue or cause the publication of any press release or other announcement with respect to the Merger, this Agreement or the other transactions contemplated hereby without the prior consultation of the other party, except as may be required by law or by any listing agreement with a national securities exchange or trading market.

Section 5.8 Notification of Certain Matters. The Company shall give prompt notice to Parent and Parent shall give prompt notice to the Company, of (i) the occurrence or non-occurrence of any event the occurrence or non-occurrence of which would cause any representation or warranty contained in this Agreement to be untrue or inaccurate in any material respect at or prior to the Effective Time and (ii) any material failure of the Company, Parent or the Purchaser, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided, however, that the delivery of any notice pursuant to this Section 5.8 shall not limit or otherwise affect the remedies available hereunder to the party receiving such notice.

Section 5.9 Directors' and Officers' Insurance and Indemnification. (a) For seven years after the Effective Time, Parent shall, and shall cause the Surviving Corporation (or any successor to the Surviving Corporation) to, (i) retain all provisions of the Company's Certificate of Incorporation as now in effect respecting the limitation of liabilities of directors and officers, and (ii) indemnify, defend and hold harmless the present and former officers and directors of the Company and its Subsidiaries, and persons who become any of the foregoing prior to the Effective Time (each an "Indemnified Party") against all losses, claims, damages, liabilities, costs, fees and expenses (including reasonable fees and disbursements of counsel and judgments, fines, losses, claims, liabilities and amounts paid in settlement (provided that any such settlement is effected with the written consent of the Parent or the Surviving Corporation which consent shall not unreasonably be withheld)) arising out of actions or omissions occurring at or prior to the Effective Time to the full extent permitted under

Delaware law, subject to the terms of the Company's Certificate of Incorporation or the By-laws, as in effect at the date hereof, including provisions relating to advancement of expenses incurred in the defense of any action or suit; provided that, in the event any claim or claims are asserted or made within such seven year period, all rights to indemnification in respect of any such claim or claims shall continue until disposition of any and all such claims; provided, further, that any determination required to be made with respect to whether an Indemnified Party's conduct complies with the standards set forth under Delaware law, the Certificate of Incorporation or the By-Laws, as the case may be, shall be made by independent counsel mutually acceptable to Parent and the Indemnified Party and; provided, further, that nothing herein shall impair any rights or obligations of any present or former directors or officers of the Company. In the event the Surviving Corporation or any of its successors or assigns consolidates with or merges into any other person or entity and shall not be the continuing or surviving corporation or entity of such consolidation or merger or transfers or conveys all or substantially all of its properties and assets to any person or entity, then, and in each such case, proper provision shall be made so that the successors and assigns of the Surviving Corporation assume the obligations set forth in this Section 5.9.

(b) Parent or the Surviving Corporation shall maintain the Company's existing officers' and directors' liability insurance ("D&O Insurance") for a period of not less than seven years after the Effective Date; provided, that the Parent may substitute therefor policies of substantially equivalent coverage and amounts containing terms no less favorable to such former directors or officers; provided, further, if the existing D&O Insurance expires, is terminated or cancelled during such period, Parent or the Surviving Corporation will use all reasonable efforts to obtain substantially similar D&O Insurance; provided, further, however, that in no event shall the Company be required to pay aggregate premiums for insurance under this Section in excess of 150% of the aggregate premiums paid by the Company in 1995 on an annualized basis for such purpose (the "1995 Premium"); and provided, further, that if the Parent or the Surviving Corporation is unable to obtain the amount of insurance required by this Section 5.9(b) for such aggregate

premium, Parent or the Surviving Corporation shall obtain as much insurance as can be obtained for an annual premium not in excess of 150% of the 1995 Premium.

Section 5.10 Purchaser Compliance. Parent shall cause the Purchaser to comply with all of its obligations under or related to this Agreement.

Section 5.11 Actions of Parent and the Purchaser. Neither Parent nor the Purchaser will take, or agree to commit to take, any action that would or is reasonably likely to result in any of the conditions to the Offer set forth in Annex A or any of the conditions to the Merger set forth in Article VI not being satisfied, or would make many representation or warranty of Parent or the Purchaser contained herein inaccurate in any respect at, or as of any time prior to, the Effective Time, or that would materially impair the ability of the parties to consummate the Offer or the Merger in accordance with the terms hereof or materially delay such consummation. Neither Parent nor the Purchaser will enter into an agreement, contract, commitment or arrangement to do any of the foregoing, or to authorize, recommend, propose or announce an intention to do any of the foregoing.

Section 5.12 ICT Action. The Company agrees that, prior to the Closing Date, it shall cause its representatives and agents to consult with Parent on an ongoing basis with respect to any decisions and other matters in respect of ICT's discussions with Carl Zeiss and Advantest Corporation and neither the Company nor any of its representatives shall enter into any contractual obligation or waive any rights in respect thereof without Parent's prior written consent.

ARTICLE VI

CONDITIONS

Section 6.1 Conditions to Each Party's Obligation to Effect the Merger. The respective obligation of each party to effect the Merger shall be subject to the satisfaction on or prior to the Closing Date of each of the following conditions, any and all of which may be waived in whole or in part by the Company, Parent

or the Purchaser, as the case may be, to the extent permitted by applicable law:

(a) Stockholder Approval. This Agreement shall have been approved and adopted by the requisite vote of the holders of the Shares, if required by applicable law, in order to consummate the Merger;

(b) Statutes; Consents. No law, statute, rule, order, decree or regulation shall have been enacted or promulgated by any Governmental Entity of competent jurisdiction which declares this Agreement invalid or unenforceable in any material respect or which prohibits consummation of the Merger and all governmental consents, orders and approvals (including, without limitation, those identified in Section 5.3(a) of the Schedule attached to this Agreement) required for the consummation of the Merger and the other transactions contemplated hereby shall have been obtained and shall be in effect at the Effective Time;

(c) Purchase of Shares in Offer. Parent, the Purchaser or their affiliates shall have purchased Shares pursuant to the Offer, except that this condition shall not apply if Parent, the Purchaser or their affiliates shall have failed to purchase Shares pursuant to the Offer in breach of their obligations under this Agreement; and

(d) HSR Approval. The applicable waiting period under the HSR Act shall have expired or been terminated.

Section 6.2. Condition to Parent's and the Purchaser's Obligations to Effect the Merger. The obligations of Parent and the Purchaser to consummate the Merger are further subject to the fulfillment of the condition that all actions contemplated by Section 2.4 hereof shall have been taken, which may be waived in whole or in part by Parent and the Purchaser.

ARTICLE VII

TERMINATION

Section 7.1 Termination. This Agreement may be terminated and the transaction contemplated herein may be abandoned at any time prior to the Effective Time, whether before or after stockholder approval thereof:

(a) By the mutual written consent of the Board of Directors of Parent or the Purchaser and the Board of Directors of the Company.

(b) By either of the Board of Directors of the Company or the Board of Directors of Parent or the Purchaser:

(i) if (x) the Offer shall have expired without any Shares being purchased therein or (y) the Purchaser shall not have accepted for payment any Shares pursuant to the Offer by August 24, 1997; provided, however, that the right to terminate this Agreement under this Section 7.1(b)(i) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of Parent or the Purchaser, as the case may be, to purchase the Shares pursuant to the Offer on or prior to such date; or

(ii) if any Governmental Entity shall have issued an order, decree or ruling or taken any other action (which order, decree, ruling or other action the parties hereto shall use their best efforts to lift), which permanently restrains, enjoins or otherwise prohibits the acceptance for payment of, or payment for, Shares pursuant to the Offer or the Merger and such order, decree, ruling or other action shall have become final and non-appealable.

(c) By the Board of Directors of the Company:

(i) if Parent, the Purchaser or any of their affiliates shall have failed to commence the Offer on or prior to five business days following the date of the initial public announcement of the

Offer; provided, that the Company may not terminate this Agreement pursuant to this Section 7.1(c)(i) if the Company is at such time in material breach of its obligations under this Agreement;

(ii) in connection with entering into a definitive agreement in accordance with Section 5.4(b), provided it has complied with all provisions thereof, including the notice provisions therein, and that it makes simultaneous payment of the Termination Fee; or

(iii) if Parent or the Purchaser shall have breached in any material respect any of their respective representations, warranties, covenants or other agreements contained in this Agreement, which breach cannot be or has not been cured within 30 days after the giving of written notice to Parent or the Purchaser, as applicable.

(d) By the Board of Directors of Parent or the Purchaser:

(i) if, due to an occurrence, not involving a breach by Parent or the Purchaser of their obligations hereunder, which makes it impossible to satisfy any of the conditions set forth in Annex A hereto, Parent, the Purchaser, or any of their affiliates shall have failed to commence the Offer on or prior to five business days following the date of the initial public announcement of the Offer;

(ii) if prior to the purchase of Shares pursuant to the Offer, the Company shall have breached any representation, warranty, covenant or other agreement contained in this Agreement which (A) would give rise to the failure of a condition set forth in paragraph (f) or (g) of Annex A hereto and (B) cannot be or has not been cured within 30 days after the giving of written notice to the Company; or

(iii) if either Parent or the Purchaser is entitled to terminate the Offer as a result of the occurrence of any event set forth in paragraph (e) of Annex A hereto.

Section 7.2 Effect of Termination. In the event of the termination of this Agreement pursuant to its terms, written notice thereof shall forthwith be given to the other party or parties specifying the provision hereof pursuant to which such termination is made, and this Agreement shall forthwith become null and void, and there shall be no liability on the part of the Parent or the Company except (A) for fraud or for breach of this Agreement prior to such termination and (B) as set forth in Section 8.1.

ARTICLE VIII

MISCELLANEOUS

Section 8.1 Fees and Expenses. (a) Except as contemplated by this Agreement, including Section 8.1(b) hereof, all costs and expenses incurred in connection with this Agreement and the consummation of the transactions contemplated hereby shall be paid by the party incurring such expenses.

(b) If (x) the Board of Directors of the Company shall terminate this Agreement pursuant to Section 7.1(c)(ii), (y) the Board of Directors of Parent or the Purchaser shall terminate this Agreement pursuant to Section 7.1(d)(iii) hereof, or (z) prior to the termination of this Agreement (other than by the Board of Directors of the Company pursuant to Section 7.1(c)(i) or 7.1(c)(iii)), an Acquisition Proposal shall have been made and within one year of such termination, the Company enters into an agreement with respect to, approves or recommends or takes any action to facilitate an Acquisition Proposal with the person making such original Acquisition Proposal and at a price and on terms at least as favorable to the stockholders of the Company as the Offer and the Merger and such later Acquisition Proposal is consummated, the Company shall pay to Parent (concurrently with such termination, in the case of clauses (x) or (y) above, and not later than the consummation of such later Acquisition Proposal, in the case of clause (z) above) an amount equal to $4,000,000 (the "Termination Fee"); provided that no Termination Fee shall be payable if the Purchaser or Parent was in material breach of its representations, warranties or obligations under this Agreement at the time of its termination.

Section 8.2 Amendment and Modification. Subject to applicable law, this Agreement may be amended, modified and supplemented in any and all respects, whether before or after any vote of the stockholders of the Company contemplated hereby, by written agreement of the parties hereto, by action taken by their respective Boards of Directors (which in the case of the Company shall include approvals as contemplated in Section 1.3(b)), at any time prior to the Closing Date with respect to any of the terms contained herein; provided, however, that after the approval of this Agreement by the stockholders of the Company, no such amendment, modification or supplement shall reduce the amount or change the form of the Merger Consideration.

Section 8.3 Nonsurvival of Representations and Warranties. None of the representations and warranties in this Agreement or in any schedule, instrument or other document delivered pursuant to this Agreement shall survive the Effective Time.

Section 8.4 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, telecopied (which is confirmed) or sent by an overnight courier service, such as Federal Express, to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to Parent or the Purchaser, to:

Applied Materials, Inc.
Attention: Joseph J. Sweeney
Telephone No.: (408) 748-5420
Telecopy No.: (408) 563-4635

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
919 Third Avenue
New York, New York 10022
Attention: David Fox, Esq.
Telephone No.: (212) 735-3000
Telecopy No.: (212) 735-2000

and

(b) if to the Company, to:

Opal, Inc.
3203 Scott Boulevard
Santa Clara, CA 95054
Attention: Israel Niv
Telephone No.: (408) 727-6060
Telecopy No.: (408) 727-6332

with a copy to:

Goodwin, Procter & Hoar LLP
Exchange Place
53 State Street
Boston, Massachusetts 02109
Attention: Thomas P. Storer, P.C.
Telephone No.: (617) 570-1145
Telecopy No.: (617) 523-1231

and

Goldfarb, Levy, Eran & Co.
Eliahu House
2 Ibn Gvirol Street
Tel Aviv 64077
Israel
Attention: Yehuda M. Levy, Adv.; Marc A. Rabin, Adv.; and Shirin Halpern-Herzog, Adv.
Telephone No.: (972-3) 695-4343
Telecopy No.: (972-3) 695-4344

Section 8.5 Interpretation. When a reference is made in this Agreement to Sections, such reference shall be to a Section of this Agreement unless otherwise indicated. Whenever the words "include", "includes" or "including" are used in this Agreement they shall be deemed to be followed by the words "without limitation". As used in this Agreement, (a) the term "affiliate(s)" shall have the meaning set forth in Rule l2b-2 of the Exchange Act, and (b) the term "Company's knowledge" means the actual knowledge after due inquiry of any of Rafi Yizhar, Henry Schwartzbaum or Israel Niv, provided that none of the foregoing individuals shall have any personal liability to the Parent or the Purchaser by reason of the foregoing.

Section 8.6 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be considered one and the same agreement and shall become effective when two or more counterparts have been signed by each of the parties and delivered to the other parties.

Section 8.7 Entire Agreement; No Third Party Beneficiaries. This Agreement and the Confidentiality Agreement (including the documents and the instruments referred to herein and therein): (a) constitute the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, and (b) except as provided in Sections 2.4 and 5.9 is not intended to confer upon any person other than the parties hereto any rights or remedies hereunder.

Section 8.8 Severability. Any term or provision of this Agreement that is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a court of competent jurisdiction or other authority declares that any term or provision hereof is invalid, void or unenforceable, the parties agree that the court making such determination shall have the power to reduce the scope, duration, area or applicability of the term or provision, to delete specific words or phrases, or to replace any invalid, void or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision.

Section 8.9 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without giving effect to the principles of conflicts of law thereof.

Section 8.10 Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto (whether by operation of law or otherwise) without the

prior written consent of the other parties, except that the Purchaser may assign, in its sole discretion, any or all of its rights, interests and obligations hereunder to Parent or to any direct or indirect wholly owned Subsidiary of Parent. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

Section 8.11 Transfer and Similar Taxes. Notwithstanding any other provision of this Agreement to the contrary, each of the Company's stockholders shall be responsible for the payment of any sales, use, privilege, transfer, documentary, gains, stamp, duties, recording and similar Taxes and fees (including any penalties, interest and additions to such fees) incurred in connection with such stockholder's sale of Shares to the Purchaser pursuant to this Agreement and for the accurate filing of all necessary Tax Returns and other documentation with respect to any transfer Tax.

IN WITNESS WHEREOF, Parent, the Purchaser and the Company have caused this Agreement to be signed by their respective officers thereunto duly authorized as of the date first written above.

APPLIED MATERIALS, INC.

By: /s/ James C. Morgan

Name: James C. Morgan
Title: Chairman and Chief Executive Officer

ORION CORP. I

By: /s/ Joseph J. Sweeney

Name: Joseph J. Sweeney
Title: Vice President

OPAL, INC.

By: /s/ Mendy Erad

Name: Mendy Erad
Title: Chairman of the Board

By: /s/ Rafi Yizhar

Name: Rafi Yizhar
Title: President and Chief Executive Officer

ANNEX A

Certain Conditions of the Offer. Notwithstanding any other provisions of the Offer, and in addition to (and not in limitation of) the Purchaser's rights to extend and amend the Offer at any time in its sole discretion (subject to the provisions of the Merger Agreement), the Purchaser shall not be required to accept for payment or, subject to any applicable rules and regulations of the SEC, including Rule 14e-1(c) under the Exchange Act (relating to the Purchaser's obligation to pay for or return tendered Shares promptly after termination or withdrawal of the Offer), pay for, and may delay the acceptance for payment of or, subject to the restriction referred to above, the payment for, any tendered Shares, and may terminate or amend the Offer as to any Shares not then paid for, if (i) any applicable waiting period under the HSR Act has not expired or terminated, (ii) the Minimum Condition has not been satisfied, (iii) the approval of the Offer and the Merger by the Israeli Investments Center shall not have been obtained, (iv) any applicable waiting period under the Israeli Restrictive Trade Practices Act of 1988 has not expired or terminated, (v) the approval of the Offer and the Merger by the Israeli Office of Chief Scientist shall not have been obtained, (vi) the exemption by the Israeli Securities Authority from the registration and prospectus delivery requirements of the Israeli Securities laws for the issuance of the Parent Options pursuant to Section 2.4(a) shall not have been obtained or (vii) at any time on or after the date of the Merger Agreement and before the time of acceptance for payment for any such Shares, any of the following events shall occur or shall be determined by the Purchaser to have occurred:

(a) there shall be threatened or pending any suit, action or proceeding by any Governmental Entity against the Purchaser, Parent, the Company or any Subsidiary of the Company (i) seeking to prohibit or impose any material limitations on Parent's or the Purchaser's ownership or operation (or that of any of their respective Subsidiaries or affiliates) of all or a material portion of their or the Company's businesses or assets, or to compel Parent or the Purchaser or their respective Subsidiaries and affiliates to dispose of or hold separate any material portion of the business or assets of the Company or Parent and their respective Subsidiaries, in each case taken as a whole, (ii) challenging the acquisi-

tion by Parent or the purchaser of any Shares under the Offer or pursuant to the Stockholder Agreements, seeking to restrain or prohibit the making or consummation of the Offer or the Merger or the performance of any of the other transactions contemplated by this Agreement or the Stockholder Agreements (including the voting provisions thereunder), or seeking to obtain from the Company, Parent or the Purchaser any damages that are material in relation to the Company and its Subsidiaries taken as a whole, (iii) seeking to impose material limitations on the ability of the Purchaser, or render the Purchaser unable, to accept for payment, pay for or purchase some or all of the Shares pursuant to the Offer and the Merger, (iv) seeking to impose material limitations on the ability of the Purchaser or Parent effectively to exercise full rights of ownership of the Shares, including, without limitation, the right to vote the Shares purchased by it on all matters properly presented to the Company's stockholders, or (v) which otherwise is reasonably likely to have a material adverse affect on the consolidated financial condition, businesses or results of operations of the Company and its Subsidiaries, taken as a whole;

(b) there shall be any statute, rule, regulation, judgment, order or injunction enacted, entered, enforced, promulgated, or deemed applicable, pursuant to an authoritative interpretation by or on behalf of a Government Entity, to the Offer or the Merger, or any other action shall be taken by any Governmental Entity, other than the application to the Offer or the Merger of applicable waiting periods under HSR Act, that is reasonably likely to result, directly or indirectly, in any of the consequences referred to in clauses (i) through (iv) of paragraph (a) above;

(c) there shall have occurred (i) any general suspension of trading in, or limitation on prices for, securities on the New York Stock Exchange or in the NASDAQ National Market System, for a period in excess of 24 hours (excluding suspensions or limitations resulting solely from physical damage or interference with such exchanges not related to market conditions), (ii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States (whether or not mandatory), (iii) a commencement of a war, armed hostilities or other international or national calamity directly or indirectly involving the United States or involving Israel and, in the case of armed hostilities involving Israel, having, or which could reasonably be expected to have, a substantial continuing general effect on business and financial conditions in Isra-

el, (iv) any limitation (whether or not mandatory) by any United States or Israeli governmental authority on the extension of credit generally by banks or other financial institutions, or (v) a change in general financial bank or capital market conditions which materially and adversely affects the ability of financial institutions in the United States and in Israel to extend credit or syndicate loans or (vi) in the case of any of the foregoing existing at the time of the commencement of the Offer, a material acceleration or worsening thereof;

(d) there shall have occurred any material adverse change (or any development that, insofar as reasonably can be foreseen, is reasonable likely to result in any material adverse change) in the consolidated financial condition, businesses, results of operations or prospects of the Company and its Subsidiaries, taken as a whole, other than any such change which relates to general conditions in the economy or in the Company's industry or arises solely from the Company's execution and delivery of this Agreement;

(e)(i) the Board of Directors of the Company or any committee thereof shall have withdrawn or modified in a manner adverse to Parent or the Purchaser its approval or recommendation of the Offer, the Merger or this Agreement, or approved or recommended any Acquisition Proposal or (ii) the Company shall have entered into any agreement with respect to any Superior Proposal in accordance with Section 5.4(b) of this Agreement;

(f) any of the representations and warranties of the Company set forth in this Agreement that are qualified as to materiality shall not be true and correct and any such representations and warranties that are not so qualified shall not be true and correct in any material respect, in each case (i) as of the date referred to in any representation or warranty which addresses matters as of a particular date, or (ii) as to all other representations and warranties, as of the date of this Agreement and as of the scheduled expiration of the Offer;

(g) the Company shall have failed to perform in any material respect any material obligation or to comply in any material respect with any material agreement or covenant of the Company to be performed or complied with by it under this Agreement; or

(h) the Agreement shall have been terminated in accordance with its terms; which in the reasonable good faith judgment of Parent or the Purchaser, in any such case, and regardless of the circumstances (including any action or inaction by Parent or the Purchaser) giving rise to such condition makes it inadvisable to proceed with the Offer and/or with such acceptance for payment of or payment for Shares.

The foregoing conditions are for the sole benefit of Parent and the Purchaser and may be waived by Parent or the Purchaser, in whole or in part at any time and from time to time in the sole discretion of Parent or the Purchaser. The failure by Parent or the Purchaser at any time to exercise any of the foregoing rights shall not be deemed a waiver of any such right and each such right shall be deemed an ongoing right which may be asserted at any time and from time to time.

EXHIBIT 2.2

STOCK PURCHASE AGREEMENT

Dated as of November 24, 1996

by and among

APPLIED MATERIALS, INC.

ORBOT INSTRUMENTS LTD.

and

THE STOCKHOLDERS OF ORBOT INSTRUMENTS LTD.

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STOCK PURCHASE AGREEMENT

STOCK PURCHASE AGREEMENT, dated as of November 24, 1996 (this "AGREEMENT"), by and among Applied Materials, Inc., Delaware corporation (the "BUYER"), Orbot Instruments Ltd., an Israeli private company (the "COMPANY"), and each of the stockholders of the Company listed on the signature pages hereto that either executed this Agreement on or as of the date hereof or hereafter accept the Offer (as defined below) and become parties to this Agreement (the "STOCKHOLDERS"). The Buyer, the Company and the Stockholders are referred to collectively herein as the "PARTIES".

WHEREAS, each of the Stockholders owns that number of Ordinary Shares, par value NIS 0.02 per share, of the Company (the "COMPANY SHARES") set forth opposite such Stockholder's name on Schedule A hereto;

WHEREAS, each of the Stockholders desires to sell to the Buyer all Company Shares owned by such Stockholder and to consummate the other transactions described herein upon the terms and conditions set forth herein;

WHEREAS, subject to the terms and conditions set forth in Section 2.3, the Buyer desires to purchase all of the issued and outstanding Company Shares as described in Article II (the "STOCK PURCHASE") and to consummate the other transactions described herein upon the terms and conditions set forth herein, as a result of which the Company shall become a direct or indirect wholly-owned subsidiary of the Buyer;

WHEREAS, the Boards of Directors of the Company and the Buyer have each approved this Agreement and the transactions contemplated hereby and determined that such Agreement and transactions are advisable and in the best interests of their respective corporations and stockholders;

WHEREAS, the stockholders of the Company have approved or will approve, as provided herein, this Agreement and the transactions contemplated hereby at a meeting of stockholders of the Company duly convened in accordance with the Companies Ordinance (as defined below) and the Company's Articles of Association;

NOW, THEREFORE, in consideration of the foregoing and the mutual representations, warranties, covenants and agreements contained herein, the parties hereto agree as follows:

ARTICLE I - CERTAIN DEFINITIONS

1.1 Definitions. As used in this Agreement, the following terms have the meanings set forth below:

"ACQUIRING PARTIES" means as set forth in Section 8.1(b).

"ACQUISITION PROPOSALS" means as set forth in Section 4.4.

"ADMINISTRATOR" means as set forth in Section 9.2(b).

"AFFILIATE" means, with respect to any particular Person, any Person controlling, controlled by or under common control with such Person, whether by ownership or control of voting securities, by contract or otherwise.

"AFFILIATED GROUP" means any affiliated group within the meaning of Section 1504 of the Code.

"AGREED TRANSACTION EXPENSES" means as set forth in Section 9.10.

"BALANCE SHEET" means as set forth in Section 3.2(i)(i).

"BIRD" means the Israel-United States Binational Industrial Research and Development Foundation.

"BUYER COMMON STOCK" means the Common Stock, par value $.01 per share, of the Buyer.

"BUYER DISCLOSURE SCHEDULE" means as set forth in Section 3.3(c).

"BUYER INDEMNIFIABLE LOSSES" means as set forth in Section 8.1(b)(ii).

"BUYER OPTION" means an option to purchase Buyer Common Stock.

"BUYER OPTION PLAN" means the Buyer's 1995 Equity Incentive Plan, as amended, or any other stock option plan of the Buyer adopted specifically for employees of the Company in order to issue Buyer Options as provided in Section 4.1(a).

"BUYER REPRESENTATIONS" means the representations and warranties of the

Buyer contained in Section 3.3, provided that for purposes of Article VIII, the Buyer Representations shall not include the representations and warranties set forth in Sections 3.3(e) and 3.3(f).

"CHIEF SCIENTIST" means the Office of the Chief Scientist in the Israeli Ministry of Industry and Trade.

"CLAIM" means any claim, charge, complaint, action, cause of action, suit, proceeding (including, without limitation, arbitration proceedings or alternative dispute resolution proceedings), hearing, investigation or demand.

"CLOSING" means as set forth in Section 2.2.

"CLOSING DATE" means as set forth in Section 2.2.

"CODE" means the Internal Revenue Code of 1986, as amended.

"COMPANIES ORDINANCE" means the Israeli Companies Ordinance (New Version) 1983, as amended.

"COMPANY ACTION" means as set forth in Section 2.3(b).

"COMPANY AGREEMENTS" means as set forth in Section 3.2(d).

"COMPANY DISCLOSURE SCHEDULE" means as set forth in Section 3.2.

"COMPANY'S KNOWLEDGE" means the knowledge that the directors and officers of the Company would possess after reasonable investigation and inquiry.

"COMPANY OPTION" means any option or other right to acquire the Compa-ny Shares.

"COMPANY PLAN" means the Company's Employee Share Ownership and Option Plan.

"COMPANY REPRESENTATIONS" means the representations and warranties of the Company contained in Section 3.2.

"COMPANY SHARES" means as set forth in the recitals to this Agreement.

"COMPANY SHARES OUTSTANDING" means the sum of (i) all Company Shares

outstanding immediately prior to the Closing and (ii) all Company Shares issuable upon exercise of all Company Options (vested or unvested) outstanding immediately prior to the Closing (assuming for the purpose of this calculation that all of the Company Options identified in Section 3.2(b)(i) have been issued and exercised).

"CONFIDENTIAL INFORMATION" means any proprietary information concerning the businesses and affairs of a Party other than any such information that (i) is generally available to or known by the public immediately prior to the time of disclosure (except through the actions or inactions of the Party to whom disclosure has been made), or (ii) has been acquired or developed independently of any information obtained from the first referred Party.

"CONFIDENTIALITY AGREEMENT" means the Confidentiality Agreement, dated October 3, 1996 between the Buyer and the Company.

"DAMAGES" means with respect to any Claim for indemnification pursuant to Article VIII hereof or any Claim under Article V hereof, any and all losses, liabilities, damages, obligations, payments, costs and expenses (including, without limitation, the costs and expenses of any and all Claims, demands, assessments, judgments, settlements and compromises relating thereto and reasonable attorneys' fees and expenses in connection therewith) suffered with respect to such Claim but excluding any Damages resulting from a loss of an alternative investment opportunity of the Purchase Price.

"DISCLOSED PRIOR EXPENSES" means as set forth in Section 4.7.

"DISPUTE" means as set forth in Section 9.1.

"DOLLARS" AND "$" means United States Dollars.

"D&O CLAIM" means as set forth in Section 4.10(d).

"ENCUMBRANCES" means any encumbrance, lien, claim, charge, mortgage, pledge, security interest or other legal or equitable limitations or restrictions or rights of any third party.

"ERISA" means the United States Employee Retirement Income Security Act of 1974, as amended.

"ERISA AFFILIATE" means any corporation or other business, whether or not incorporated, which together with the Company would be deemed a "single

employer" within the meaning of Sections 414(b), 414(c) and 414(m) of the Code or the regulations issued under Section 414(o) of the Code.

"ESCROW AGENT" means either Bank Leumi L'Israel Ltd., Bank Hapoalim B.M. or any of their respective affiliates as agreed upon by the Buyer and the Company.

"ESCROW AGREEMENT" means the Escrow Agreement to be entered into between the Buyer, the Stockholders and the Escrow Agent on the Closing Date in substantially the form attached as Exhibit A hereto.

"ESCROW AMOUNT" means as set forth in Section 2.7(a).

"ESTIMATED TRANSACTION EXPENSES" means as set forth in Section 4.7.

"EXCESS PRIOR EXPENSES" means as set forth in Section 8.1(b)(i)(D).

"EXCESS TRANSACTION EXPENSES" means as set forth in Section 9.10.

"FINANCIAL STATEMENTS" means as set forth in Section 3.2(e)(i).

"GOVERNMENTAL ENTITY" means any federal, state, local or other court, arbitral tribunal, administrative agency or commission or other governmental or regulatory authority or agency, in Israel, the United States or any other foreign jurisdiction.

"INDEMNIFIED PARTY" means as set forth in Section 8.1(f)(i).

"INDEMNIFIED PERSON" means as set forth in Section 4.10(d).

"INDEMNIFYING PARTY" means as set forth in Section 8.1(f)(i).

"INTELLECTUAL PROPERTY" means all of the following: (i) U.S., Israeli and foreign registered and unregistered trademarks, trade dress, service marks, logos, trade names, corporate names and all registrations and applications to register the same ("TRADEMARKS"); (ii) issued U.S., Israeli and foreign patents and pending patent applications, patent disclosures, and any and all divisions, continuations, continuations-in-part, reissues, reexaminations, and extensions thereof, any counterparts claiming priority therefrom, utility models, patents of importation/confirmation, certificates of invention and like statutory rights ("PATENTS"); (iii) U.S., Israeli and foreign registered and unregistered copyrights (including, but not

limited to, those in computer software and databases) and all registrations and applications to register the same ("COPYRIGHTS"); (iv) U.S., Israeli and foreign rights in any semi-conductor chip product works or "mask works" as such term is defined in 17 U.S.C. 901, et seq. and any registrations or applications therefor ("MASK WORKS"); (v) all categories of trade secrets as defined in the Uniform Trade Secrets Act including, but not limited to, business information; and (vi) all licenses and agreements pursuant to which the Person in question has acquired rights in or to any of the Trademarks, Patents, Copyrights or Mask Works, or licenses and agreements pursuant to which the Person in question has licensed or transferred the right to use any of the foregoing ("LICENSES").

"INVENTORY" means as set forth in Section 3.2(q).

"INVESTMENTS CENTER" means the Investments Center in the Israeli Ministry of Industry and Trade.

"IRS" means the United States Internal Revenue Service.

"ISRAELI GAAP" means Israeli generally accepted accounting principles as promulgated by the Israeli Certified Public Accountants Council and the Israeli Certified Public Accountants Bureau and in effect from time to time.

"KLA ACTION" means as set forth in Section 3.2(k)(ii)

"KLA COMPLAINT" means as set forth in Section 3.2(k)(ii).

"MATERIAL ADVERSE EFFECT" means, with respect to any Person (or group taken as a whole), such event, change or effect which is materially adverse to (i) the consolidated financial condition, business as currently conducted or as currently contemplated to be conducted, results of operations or prospects (without giving effect to the Stock Purchase contemplated hereby) of such Person (or, if used with respect thereto, of such group taken as a whole), or (ii) the ability of such Person (or group) to consummate the transactions contemplated hereby and by the Related Agreements.

"MATERIAL AGREEMENTS" means as set forth in Section 3.2(l)(i).

"MINIMUM CONDITION" means as set forth in Section 2.3(a).

"NIS" means New Israeli Shekel, the lawful currency of the State of Israel.

"OFFER" means as set forth in Section 2.4(a).

"OPTION EXCHANGE RATIO" means (i) the Purchase Price Per Share divided by (ii) the average of the closing prices of the Buyer Common Stock on the Nasdaq National Market System on the five trading days preceding the fifth trading day before the Closing Date (the "AVERAGE BUYER PRICE").

"OPTION HOLDER" means as set forth in Section 3.2(b)(i).

"ORBOTECH" means Orbotech Ltd.

"PARTIES" means as set forth in the recitals to this Agreement.

"PERIOD BUYER PRICE" means as set forth in Section 4.1(a).

"PERSON" means any individual, trust, corporation, company, partnership, limited liability company or other business association, legal entity, court or government, governmental agency or instrumentality.

"PLANS" means: (i) all employee benefit plans (as defined in Section 3(3) of ERISA); (ii) all other severance pay, deferred compensation, excess benefit, vacation, stock, stock option and incentive plans, managers' insurance schemes, contracts, schemes, programs, funds, commitments or arrangements, statutory or otherwise, made with any group of employees; and (iii) all other plans, contracts, schemes, programs, funds, commitments or arrangements providing money, services, property or other benefits, whether written or oral, qualified or nonqualified, funded or unfunded, and including any that have been frozen or terminated, which pertain to any employee, former employee, director, officer, stockholder, consultant or independent contractor of the Company or any ERISA Affiliate to which the Company or any ERISA Affiliate may have any liability.

"PURCHASE CONSIDERATION" means as set forth in Section 2.1(a).

"PURCHASE PRICE" means $110 million.

"PURCHASE PRICE PER SHARE" means a dollar amount equal to (i) the Purchase Price divided by (ii) the Company Shares Outstanding.

"RELATED AGREEMENTS" means the Escrow Agreement and all other documents and agreements entered into in connection with this Agreement or the Escrow Agreement.

"REQUISITE AMOUNT" shall mean that number of the Company Shares that must be tendered to the Buyer such that the percentage obtained by dividing (i) the Company Shares tendered to the Buyer by (ii) the Company Shares Outstanding (excluding Company Shares issuable upon exercise of all of the outstanding Unvested Company Options other than Unvested Company Options which are scheduled to vest no later than January 2, 1997), equals or exceeds 90%.

"SECTION 236 ACTION" means action pursuant to Section 236 of the Companies Ordinance.

"SEPTEMBER 30 BALANCE SHEET" means as set forth in Section 3.2(j).

"SPIN-OFF AGREEMENT" means as set forth in Section 3.2(k)(ii).

"STOCK PURCHASE" means as set forth in the recitals to this Agreement.

"STOCKHOLDERS' AGENT" means as set forth in Section 5.8(a).

"STOCKHOLDERS' DISCLOSURE SCHEDULE" means as set forth in Section 3.1.

"STOCKHOLDERS' REPRESENTATIONS" means the representations and warranties of the Stockholders contained in Section 3.1.

"STOCKHOLDERS' LIMITED REPRESENTATIONS" means the representations and warranties of the Stockholders contained (i) in Sections 3.1(a) and 3.1(b), (ii) in the first sentence of Section 3.1(f) (only with respect to Stockholders who are identified in Schedule B, (iii) in the second sentence of Section 3.1(f) and (iv) in any other Stockholders' Representations relating to the conveyance to the Buyer of good and valid title to the Company Shares free of Encumbrances.

"SUBSIDIARY" means all corporations or other entities in which the Buyer, the Company or the Stockholder, as the case may be, owns a majority of the issued and outstanding capital stock or similar interests.

"SURVIVAL PERIOD" means as set forth in Section 8.1(a).

"TAX" or "TAXES" means all taxes, charges, fees, duties, levies, penalties or other assessments imposed by any federal, state, local or foreign governmental authority, including, but not limited to, income, gross receipts, excise, property, sales, gain, use, license, customs duty, unemployment, capital stock, transfer,

franchise, payroll, withholding, social security, minimum estimated and other taxes, and shall include and interest, penalties or additions attributable thereto.

"TAX RETURN" means any return, declaration, report, claim for refund or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"TERMINATION DATE" means as set forth in Section 7.1(b).

"THIRD PARTY CLAIM" means as set forth in Section 8.1(f).

"TRUSTEE" means as set forth in Section 3.2(n)(ii).

"UNVESTED COMPANY OPTIONS" means all outstanding Company Options that immediately prior to the Closing may not yet be exercised in accordance with the terms of such Company Options and the Company Plan.

"VESTED COMPANY OPTIONS" means all outstanding Company Options that immediately prior to the Closing may be exercised in accordance with the terms of such Company Options and the Company Plan.

"VOTING DEBT" means as set forth in Section 3.2(b)(ii).

ARTICLE II - THE STOCK PURCHASE

II.1 The Stock Purchase. Upon the terms and conditions set forth herein, at the Closing the following actions shall take place:

(a) As provided in Section 2.2, each of the Stockholders will sell, assign, transfer and deliver to, or at the direction of, the Buyer all Company Shares issued and outstanding immediately prior to the Closing Date and owned by such Stockholder free and clear of all Encumbrances in exchange for an amount in cash equal to the product of (i) the Purchase Price Per Share multiplied by (ii) the number of the Company Shares transferred by such Stockholder (the "PURCHASE CONSIDERATION").

(b) Each Company Option outstanding immediately prior to the Closing Date shall be treated in accordance with the provisions of Section 4.1.

II.2 Closing. The closing of the Stock Purchase (the "CLOSING") will

take place on the later of (i) December 23, 1996 or (ii) the second business day following the satisfaction or waiver of all of the closing conditions set forth in Article VI, at the offices of Skadden, Arps, Slate, Meagher & Flom LLP, 919 Third Avenue, New York, New York, or such other date and place as the Parties may agree (the date of the Closing being referred to herein as the "CLOSING DATE"). At the Closing, each Stockholder shall deliver or cause to be delivered to, or at the direction of, the Buyer all of the share certificates, duly endorsed in blank or accompanied by deeds of transfer duly executed in blank, representing all Company Shares held by such Stockholder immediately prior to the Closing and the transfer of all such Company Shares to or at the direction of the Buyer will be entered in the Company's Register of Members, and, subject to Section 2.7, the Buyer shall pay the Purchase Consideration payable to the Stockholders pursuant to Section 2.1(a) pursuant to wire transfer or pursuant to other payment instructions reasonably acceptable to the Buyer provided by the Stockholders' Agent to the Buyer no later than five days prior to the Closing Date. At the Closing, each of the Parties shall deliver or cause to be delivered to the intended recipient any other documents and instruments required to be delivered by or on behalf of such Party at or prior to the Closing pursuant to the terms of this Agreement.

II.3 Company Action. (a) In the event that, as of the date hereof, Company stockholders holding less than the Requisite Amount shall have executed and delivered this Agreement and became parties hereto, all of the Buyer's obligations under this Agreement, including the obligation to effect the Stock Purchase, shall be conditioned upon the receipt by the Buyer, on or prior to 5:00 p.m. Israel time, on December 1, 1996, of duly executed counterparts of this Agreement by that number of additional Company stockholders such that, as of such date and time, the Stockholders shall hold an aggregate of at least the Requisite Amount of Company Shares (the "MINIMUM CONDITION"). The Minimum Condition may be waived by the Buyer at any time prior to 5:00 p.m. Israel time, on December 2, 1996, in the Buyer's sole discretion. Until the earlier of the satisfaction or waiver of the Minimum Condition, this Agreement shall have no force and effect on the Buyer and, accordingly, the Buyer shall have no obligations hereunder, except for the Buyer's obligations under the Confidentiality Agreement and under Section 4.5 hereto. Notwithstanding the foregoing, this Agreement shall have full force and effect with respect to the obligations of the Company and the Stockholders until the Agreement is duly terminated as provided in the following sentence. In the event that the Minimum Condition is not satisfied or waived by the Buyer on or before December 2, 1996 (in either case as provided in this Section 2.3(a)), this Agreement shall be deemed terminated and neither the Company nor the Stockholders shall have any further rights or obligations hereunder.

(b) As promptly as practicable after the date on which Company stockholders holding more than the Requisite Amount of Company Shares shall have executed and delivered this Agreement and become parties hereto (unless all holders of Company Shares are parties hereto), the Company shall take all necessary action (including all required Board of Directors action) and will use its best efforts to ensure that, no later than December 16, 1996, all stockholder action shall be taken to accomplish the following (collectively, the "COMPANY ACTION"):

(i) the approval by the meeting of the stockholders of the Company of this Agreement and the Related Agreements and all the transactions contemplated hereby and thereby, as required by the Companies Ordinance and the Articles of Association of the Company; and

(ii) the amendment of the Company's Articles of Association to delete and terminate all rights of first refusal or other provisions of such Articles of Association which would confer on any person other than the Buyer any right or option to purchase Company Shares or other Company securities, other than as provided by the terms of the Company Options, as a result of the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby.

II.4 The Offer. (a) In the event that, as of December 2, 1996, not all of the Company's stockholders shall have executed and delivered this Agreement and became parties hereto, the Buyer shall deliver to all of the stockholders of the Company who have not, as of such date, executed and delivered this Agreement and have not become parties thereto, an offer to become parties to this Agreement and to sell all of their Company Shares to the Buyer upon the terms and conditions of this Agreement (the "OFFER"). The Offer shall be accompanied by, among other things, a copy of this Agreement. The Company shall cooperate with the Buyer as the Buyer may reasonably request in disseminating the Offer to all of the Company's stockholders who are not parties hereto and in facilitating acceptance of the Offer by such stockholders. The Offer may be extended by the Buyer at any time by notice to the Company and to such stockholders. In the event any of the Company Options are exercised after the date hereof and prior to the Closing by any Option Holder that is not a party hereto, the Buyer shall deliver the Offer to such Option Holder and allow such Option Holder to accept the Offer and become a party to this Agreement in accordance with the terms and conditions of the Offer and this Agreement.

(b) The Offer will provide, among other things, that the acceptance of the Offer by a stockholder shall be effective only if such stockholder shall have

accepted the Offer with respect to all the Company Shares owned by such stockholder immediately prior to the Closing and shall have delivered validly executed copies of this Agreement to the Buyer and certificates evidencing all such Company Shares, together with validly executed deeds of transfer and other documents as may be determined by the Buyer in order to effect such transfer, to the Stockholders' Agent for delivery to the Buyer at the Closing.

(c) The Offer will provide that (i) the execution and delivery of this Agreement and related documents and the tenders made thereby shall be irrevocable and shall not be subject to withdrawal rights, (ii) the obligation of the Buyer to accept any tenders and to effect the Stock Purchase shall be subject to the satisfaction or waiver of the conditions set forth in Article VI hereof, and (iii) the Offer may be terminated and abandoned by the Buyer at any time upon or following termination of this Agreement. The conditions in this paragraph (c) are for the benefit of the Buyer and may be asserted by the Buyer at any time regardless of the circumstances giving rise to any such condition or may be waived by the Buyer in whole or in part at any time, in the Buyer's sole discretion.

II.5 Section 236 Action. Following the execution of this Agreement by Company stockholders holding the Requisite Amount of Company Shares, the Buyer shall commence the Section 236 Action to acquire all of the issued and outstanding Company Shares from Company stockholders who have not accepted the Offer and became parties to this Agreement. Such Section 236 Action shall include, without limitation (i) the delivery to each such Company stockholder, with a copy to the Company, of a notice informing such Company stockholder of the election of the Buyer to acquire all of the issued and outstanding Company Shares as provided in Section 236 of the Companies Ordinance, and (ii) the taking of all other action necessary in accordance with Section 236 such that the Buyer shall become entitled to acquire all of the issued and outstanding Company Shares. The Company and each of the Stockholders shall cooperate with the Buyer, as the Buyer may reasonably request, in the taking of such Section 236 Action, including, without limitation, cooperating with the Buyer in the dissemination of such notice to all Company stockholders who are not parties to this Agreement, and in making all filings and taking all other reasonable action necessary or desirable to effect the Stock Purchase with respect to all of the issued and outstanding Company Shares in compliance with Section 236 of the Companies Ordinance.

II.6 Rights of Company Stockholders. From and after the Closing, the Stockholders shall have no rights with respect to their Company Shares other than to surrender the certificate(s), instruments or other documents previously representing such securities in exchange for the Purchase Consideration payable in

accordance with Section 2.1(a).

II.7 Buyer Holdback. (a) It is agreed that there shall be withheld from the cash consideration otherwise payable to Company stockholders and Option Holders pursuant to this Agreement a cash amount equal to (i) 10% of the Purchase Price less (ii) the amounts, if any, of the Excess Transaction Expenses and Excess Prior Expenses (the "ESCROW AMOUNT"), and the amounts of such Excess Transaction Expenses and Excess Prior Expenses shall be retained by the Buyer and shall not be payable to the Company's stockholders, provided that the Company shall be obligated to pay such Excess Prior Expenses and Excess Transaction Expenses which have been deducted from the Escrow Amount; provided that if the Buyer waives the condition specified in Section 6.2(a)(ii) hereto, the Escrow Amount shall be equal to 10% of the Purchase Consideration paid to the Stockholders. The Escrow Amount shall be held as security for the Company's and the Stockholders' indemnification obligations under Article VIII pursuant to the provisions of the Escrow Agreement.

(b) The Escrow Amount shall be withheld, on a pro rata basis, from all of the stockholders receiving cash pursuant to this Agreement and pursuant to the Section 236 Action; provided, however, that if the Closing shall occur prior to the completion of the Section 236 Action or if the Buyer determines in good faith that the withholding of the Escrow Amount from Company stockholders in connection with the Section 236 Action may jeopardize the completion of or impair the validity of the Section 236 Action or be unenforceable in any respect, then, unless the Buyer waives the condition specified in Section 6.2(a)(ii) hereto, the full Escrow Amount set forth in Section 2.7(a) shall be withheld on a pro rata basis only from the Stockholders.

ARTICLE III - REPRESENTATIONS AND WARRANTIES

III.1 Representations and Warranties of the Stockholders. As a material inducement to the Buyer to enter into this Agreement and to consummate the transactions contemplated hereby, each Stockholder hereby severally represents and warrants to the Buyer that all of the statements contained in this Section 3.1 with respect to such Stockholder are true and correct as of the date on which such Stockholder has executed this Agreement, except as set forth in the schedule attached to this Agreement setting forth exceptions to the Stockholders' representations and warranties set forth herein (the "STOCKHOLDERS' DISCLOSURE SCHEDULE"). The Stockholders' Disclosure Schedule will be arranged in sections corresponding to the sections of this Agreement to be modified by such disclosure schedule.

(a) Ownership of the Company Shares. Such Stockholder has good and valid title to the Company Shares and the Company Options owned or to be owned by such Stockholder, free and clear of all Encumbrances, except for Company Shares which are subject to a pledge to Orbotech pursuant to the terms of the Share Exchange Agreement and Plan of Merger, dated August 17, 1992, among Optrotech Ltd., Orbot Systems Ltd., certain shareholders of Optrotech Ltd. and the shareholders of Orbot Systems Ltd., a true and correct copy of which is included in Schedule 3.1(a) of the Stockholders Disclosure Schedule. Section 3.1(a) of the Stockholders' Disclosure Schedule sets forth all of the Company Shares, Company Options, any other securities of the Company and rights to acquire any of the foregoing, owned beneficially or of record by such Stockholder as of the date of this Agreement. At the Closing, such Stockholder will transfer to the Buyer, and the Buyer will acquire, all of the title to the Company Shares owned by such Stockholder free and clear of all Encumbrances.

(b) Authorization; Validity of Agreements. Such Stockholder has the full right, power and authority to execute and deliver this Agreement and the Related Agreements to which such Stockholder will be a party, and, upon termination of the right of first refusal as provided in Section 2.3(b)(i) and the release of the pledge of Company Shares referred to in Section 3.1(a), to consummate the transactions contemplated hereby and thereby. If applicable, the execution, delivery and performance by such Stockholder of this Agreement and the Related Agreements to which such Stockholder will be a party and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by such Stockholder's board of directors and, if necessary, stockholders and by all other necessary corporate action. Such Stockholder will prior to the Closing deliver to the Stockholders' Agent all Company Shares in which such Stockholder owns any record or beneficial interest and will promptly deliver to the Stockholders' Agent all Company Shares which are issued to such Stockholder upon exercise of Company Options between the date of this Agreement and the Closing Date. This Agreement has been, and each of the Related Agreements to which the Stockholder will be a party will be, duly executed and delivered by such Stockholder and, assuming the due and valid execution by the Buyer, constitutes or (with respect to the Related Agreements to which such Stockholder will be a party) will constitute a valid and binding obligation of such Stockholder enforceable against such Stockholder in accordance with their respective terms, subject as to enforce- ability to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general principles of equity.

(c) Consents and Approvals; No Violations. None of the execution and the

delivery of this Agreement or the Related Agreements (to the extent such Stockholder will be party thereto) by such Stockholder, the consummation by such Stockholder of the transactions contemplated hereby or thereby or compliance by such Stockholder with any of the provisions hereof or thereof will (i) conflict with or result in any breach of any provision of any organizational documents applicable to such Stockholder, (ii) require any filing with, or permit, authorization, consent or approval of, any Governmental Entity, (iii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation or acceleration) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which such Stockholder or any of its Affiliates or, if applicable, Subsidiaries, is a party or by which any of them or any of their properties or assets may be bound, or (iv) violate any order, writ, injunction, decree, statute, rule or regulation applicable to such Stockholder, any of its Affiliates or, if applicable, Subsidiaries or any of their properties or assets, excluding from the foregoing clauses (ii), (iii) and (iv) such violations, breaches or defaults which would not, individually or in the aggregate, have a Material Adverse Effect on such Stockholder. Section 3.1(c) of the Stockholders' Disclosure Schedule sets forth a list of all third party consents and approvals required to be obtained by such Stockholder in connection with this Agreement or the Related Agreements (to the extent such Stockholder will be a party thereto) prior to the consummation of the transactions contemplated hereby and thereby.

(d) Broker's Fees. Such Stockholder has no liability or obligation to pay any fees or commissions to any broker, trader or agent with respect to the transactions contemplated by this Agreement for which the Buyer or the Company could become liable or otherwise obligated.

(e) Voting and Other Agreements. Except as contemplated by this Agreement, and if applicable the voting agreement contained in the 1993 Subscription Agreement among the Company and the Company stockholders listed therein and the Shareholders' Agreement, dated February 27, 1994, among Amiram Caspi, Zvi Lapidot, Yochai Richter, Shimon Ullman, Or-Tass Ltd. and Carroll Acquisition Corp. true and correct copies of which are included as Section 3.1(e) of the Stockholders' Disclosure Schedule, such Stockholder is not a party or otherwise subject to any voting trust, proxy or other agreement, restriction or understanding with respect to the voting of any of the capital stock of the Company. Except as set forth above, such Stockholder has sole voting power, sole power of disposition and sole power to agree to all of the matters set forth in this Agreement and in the Related Agreements (to the extent such Stockholder will be a party thereto), in each case with respect to all of such Stockholder's Company Shares, with no limitations,

qualifications or restrictions on such rights.

(f) Related Party Transactions. With respect to each of the Stockholders identified on Schedule B to this Agreement, such Stockholder, except for indirect interests which arise due to an interest that such Stockholder has in Orbotech, and except for passive investments in shares of capital stock or other equity interests of less than 5% in any Person other than the Company, does not own, directly or indirectly, in whole or in part, any Intellectual Property or other assets, real or personal, which the Company or any of its Subsidiaries is using or the use of which is necessary for the business of the Company as currently conducted or as currently contemplated to be conducted by the Company. With respect to each of the Stockholders, such Stockholder (i) does not have any Claim against the Company or any of its Subsidiaries, except, in the case of a Stockholder that is an employee of the Company on the date of this Agreement, for Claims for accrued vacation pay, accrued benefits under Plans and for the current month's salary and similar matters and agreements existing on the date hereof; (ii) has not made, on behalf of the Company or any of its Subsidiaries, except in the capacity as an officer or employee of the Company or any of its Subsidiaries, any payment or commitment to pay any commission, fee or other amount to, or to purchase or obtain or otherwise contract to purchase or obtain any goods or services from, any other Person; (iii) is not a party, except in the capacity as an employee, officer or director of the Company, to any transaction, agreement or arrangement with the Company or any of its Subsidiaries , or with any officer, director or employee of the Company or any of its Subsidiaries with respect to Company business; (iv) does not owe any money to the Company or any of its Subsidiaries; and (v) is not owed any money by the Company or any of its Subsidiaries other than as referred to in clause (i) hereto.

III.2 Representations and Warranties of the Company. As a material inducement to the Buyer to enter into this Agreement and to consummate the transactions contemplated hereby, the Company hereby represents and warrants to the Buyer that all of the statements contained in this Section 3.2 are true and correct as of the date of this Agreement (or, if made as of a specified date, as of such date), except as set forth in the schedule attached to this Agreement setting forth exceptions to the Company's representations and warranties set forth herein (the "COMPANY DISCLOSURE SCHEDULE"). The Company Disclosure Schedule will be arranged in sections corresponding to the sections of this Agreement to be modified by such disclosure schedule.

(a) Organization. Each of the Company and its Subsidiaries is a corporation duly organized and validly existing under the laws of the jurisdiction of its incorporation or organization and has all requisite corporate power and authority

and all necessary governmental approvals to own, lease and operate its properties and to carry on its business as now being conducted, except where the failure to be so organized and existing or to have such power, authority, and governmental approvals would not have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole. The Company and each of its Subsidiaries is duly qualified or licensed to do business and in good standing in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so duly qualified or licensed and in good standing would not, individually or in the aggregate, have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole. Section 3.2(a) of the Company Disclosure Schedule sets forth a complete list of all of the Company's Subsidiaries. Except as set forth in Section 3.2(a) of the Company Disclosure Schedule, the Company does not own (i) any equity interest in any corporation or other entity or (ii) marketable securities where the Company's equity interest in any entity exceeds five (5) percent of the outstanding equity of such entity on the date hereof.

(b) Capitalization. (i) The authorized capital stock of the Company consists of 10,000,000 Company Shares. As of the date hereof, (A) 6,038,625 Company Shares are issued and outstanding, and (B) 394,000 Company Shares are reserved for issuance upon exercise of outstanding Company Options granted under the Company Plan or under other arrangements previously disclosed to the Buyer in writing. Set forth in Section 3.2(b)(i) of the Company Disclosure Schedule is a true and correct description of (A) the full translation of the legal name and current address as it appears on the books and records of the Company of each of the Company's stockholders, (B) the name and address as it appears on the books and records of the Company of each of the holders of Company Options ("OPTION HOLDERS"), (C) the number of the Company Shares owned of record by each Company stockholder and the certificate numbers of the stock certificates representing such shares, (D) the number of the Company Options owned by each Option Holder and the number of the Company Shares subject to each such Company Option, and (E) the exercise price, expiration dates and vesting schedule for each Company Option.

(ii) All of the outstanding Company Shares are, and all Company Shares which may be issued pursuant to the exercise of outstanding Company Options will be, when issued in accordance with the respective terms thereof, duly authorized, validly issued, fully paid and non-assessable. There are no bonds, debentures, notes or other indebtedness having general voting rights (or convertible into securities having such rights) ("VOTING DEBT") of the Company or any of its Subsidiaries issued and outstanding. Except as set forth above and except for the

transactions contemplated by this Agreement, as of the date hereof, (A) there are no shares of capital stock of the Company authorized, issued or outstanding, (B) there are no existing options, warrants, calls, pre-emptive rights, subscriptions or other rights, agreements, arrangements or commitments of any character, relating to the issued or unissued capital stock of the Company or any of its Subsidiaries, obligating the Company or any of its Subsidiaries to issue, transfer or sell or cause to be issued, transferred or sold any shares of capital stock or Voting Debt of, or other equity interest in, the Company or any of its Subsidiaries or securities convertible into or exchangeable for such shares or equity interests, or obligating the Company or any of its Subsidiaries to grant, extend or enter into any such option, warrant, call, subscription or other right, agreement, arrangement or commitment, and (C) there are no outstanding contractual obligations of the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of the capital stock of the Company or any Subsidiary of the Company as a result of the transactions contemplated hereby or otherwise or to provide funds to make any investment (in the form of a loan, capital contribution or other- wise) in any Subsidiary or any other entity other than investments in J.M.G. S.A. or J.M.G. Instruments S.A. on terms described in Section 3.2(a) of the Company Disclosure Schedule.

(iii) All of the outstanding shares of capital stock of each of the Company's Subsidiaries are beneficially owned by the Company, directly or indirectly, and all such shares have been validly issued and are fully paid and nonassessable and are owned by either the Company or one of its Subsidiaries free and clear of all Encumbrances.

(iv) Except as provided in the 1993 Subscription Agreement referred to in Section 3.1(e), there are no voting trusts or other agreements or understandings to which the Company or any of its Subsidiaries is a party with respect to the voting of the capital stock of the Company or any of its Subsidiaries.

(c) Authorization; Validity of Agreement; Company Action. The Company has full corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by the Company of this Agreement, and the consummation by it of the transactions contemplated hereby, have been duly authorized by the Company's Board of Directors and, upon completion of the Company Action as provided in Section 2.3(b), by the meeting of stockholders of the Company as required by the Companies Ordinance and the Company's Articles of Association, and no other corporate action on the part of the Company is necessary to authorize the execution and delivery by the Company of this Agreement and the consummation by it of the transactions contemplated hereby. This Agreement has been duly executed and

delivered by the Company and, assuming due and valid authorization, execution and delivery hereof by the Buyer, is a valid and binding obligation of the Company enforceable against the Company subject to and in accordance with its terms, subject as to enforceability to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general principles of equity.

(d) Consents and Approvals; No Violations. Except for the filings, permits and consents set forth on Section 3.2(d) of the Company Disclosure Schedule, none of the execution, delivery or performance of this Agreement by the Company, the consummation by the Company of the transactions contemplated hereby or compliance by the Company with any of the provisions hereof will (i) upon completion of the Company Action as provided in Section 2.3(b), conflict with or result in any breach of any provision of the Memorandum of Association or Articles of Association or similar organizational documents of the Company or of any of its Subsidiaries, (ii) require any filing with, or permit, authorization, consent or approval of, any Governmental Entity, (iii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, amendment, cancellation or acceleration) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which the Company or any of its Subsidiaries is a party or by which any of them or any of their properties or assets may be bound (the "COMPANY AGREEMENTS"), or (iv) violate any order, writ, injunction, decree, statute, rule or regulation applicable to the Company, any of its Subsidiaries or any of their properties or assets, excluding from the foregoing clauses (ii), (iii) and (iv) such violations, breaches or defaults which would not, individually or in the aggregate, have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole. Section 3.2(d) of the Company Disclosure Schedule sets forth a list of all third party consents and approvals required to be obtained by the Company in connection with this Agreement prior to the consummation of the transactions contemplated by this Agreement.

(e) Financial Statements; Books and Records. (i) The Company has provided the Buyer with the following financial statements, correct and complete copies of which are set forth on Section 3.2(e)(i) of the Company Disclosure Schedule (collectively, the "FINANCIAL STATEMENTS"): (A) audited consolidated balance sheets and statements of income, changes in stockholders' equity and cash flows for the Company as of and for the fiscal years ended December 31, 1993, 1994 and 1995; and (B) unaudited consolidated balance sheets and statements of income, changes in stockholders' equity and cash flows for the Company as of and for each

of the fiscal quarters ended March 31, 1996, June 30, 1996 and September 30, 1996. The Financial Statements have been prepared from, and are in accordance with, the books and records of the Company and its Subsidiaries, have been prepared in accordance with Israeli GAAP applied on a consistent basis throughout the periods covered thereby and fairly present the consolidated financial condition and the consolidated results of operations of the Company and its Subsidiaries as of the times and for the periods referred to therein.

(ii) The consolidated sales of the Company and its Subsidiaries in or into the United States (without giving effect to intercompany sales of products which are subsequently sold at a price which is higher than the price at which such intercompany sales are made) in the fiscal year ended December 31, 1995 were less than $25 million and the total assets of the Company and its Subsidiaries located in the United States as of September 30, 1996 had an aggregate book value of less than $15 million.

(iii) The books and records of the Company and its Subsidiaries are and have been properly prepared and maintained in form and substance adequate for preparing audited financial statements in accordance with Israeli GAAP, and fairly and accurately reflect in all material respects the assets and liabilities of the Company and its Subsidiaries and all contracts and transactions to which the Company and its Subsidiaries are or were a party or by which the Company and its Subsidiaries or any of their business or assets is or was affected. The corporate minute books of the Company and its Subsidiaries, copies of which have been made available to the Buyer, correctly reflect all resolutions adopted and all other material corporate actions taken at all meetings or through consent of the directors (including committees thereof) and the stockholders of the Company and its Subsidiaries. The stock transfer books and stock ledgers of the Company and its Subsidiaries are complete and correctly reflect all issuances and transfers of the capital stock and other securities issued by the Company and its Subsidiaries.

(f) Absence of Certain Changes. Except as disclosed in Section 3.2(f) of the Company Disclosure Schedule, since December 31, 1995, the Company and its Subsidiaries have conducted their respective businesses only in the ordinary and usual course and (i) there has not occurred any events or changes (including the incurrence of any liabilities of any nature, whether or not accrued, contingent or otherwise) having or reasonably likely to have, individually or in the aggregate, a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole, and (ii) the Company and its Subsidiaries have not taken any action which would have been prohibited under Section 4.3 hereof.

(g) No Undisclosed Liabilities. Except (i) as disclosed in the Financial Statements, and (ii) for liabilities and obligations (u) relating to Taxes (as to which the representations and warranties set forth in Section 3.2(i) shall apply), (v) incurred in the ordinary course of business and consistent with past practice, (w) pursuant to the terms of this Agreement, (x) any unbilled legal fees and expenses in an amount not to exceed the amount previously disclosed in writing to the Buyer in accordance with Section 4.7, (y) as set forth in Section 3.2(g) of the Company Disclosure Schedule or (z) in relation to future obligations under existing agreements set forth on Section 3.2(l) of the Company Disclosure Schedule or in relation to immaterial future obligations under existing agreements which are not required to be described pursuant to Section 3.2(l), since December 31, 1995, neither the Company nor any of its Subsidiaries has incurred any liabilities or obligations of any nature, whether or not accrued, contingent or otherwise, that have, or would be reasonably likely to have, a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole, or would be required by Israeli GAAP to be reflected on a consolidated balance sheet of the Company and its Subsidiaries (including the notes thereto).

(h) Litigation. Except as set forth in Section 3.2(h) of the Company Disclosure Schedule, as of the date hereof, there are no Claims or investigations pending or, to the Company's Knowledge, threatened against the Company or any of its Subsidiaries before any Governmental Entity. Except as disclosed in Section 3.2(h) of the Company Disclosure Schedule, neither the Company nor any of its Subsidiaries is subject to any outstanding order, writ, injunction or decree.

(i) Tax Matters; Government Benefits. (i) The Company and each of its Subsidiaries have filed all Tax Returns that are required to be filed and have paid or caused to be paid all Taxes that are either shown on such Tax Returns as due and payable or otherwise claimed to be due by any taxing authority. All such Tax Returns were correct and complete in all material respects and accurately reflect all liability for Taxes for the periods covered thereby. All Taxes owed and due by the Company and each of its Subsidiaries for results of operations through December 31, 1995 (whether or not shown on any Tax Return) have been paid or have been adequately reflected on the Company's balance sheet as of December 31, 1995 included in the Financial Statements (the "BALANCE SHEET"). Since December 31, 1995, the Company has not incurred liability for any Taxes other than in the ordinary course of business. Neither the Company nor any of its Subsidiaries has received notice of any claim made by an authority in a jurisdiction where the Company or its Subsidiaries do not file Tax Returns that the Company or any of its Subsidiaries is or may be subject to taxation by that jurisdiction.

(ii) Neither the Company nor any of its Subsidiaries has violated any applicable law of any jurisdiction relating to the payment and withholding of Taxes, including, without limitation, (x) withholding of Taxes pursuant to Sections 1441 and 1442 of the Code or similar provisions under non-U.S. law and (y) withholding of Taxes in respect of amounts paid or owing to any employee, creditor, independent contractor, or other third party, excluding violations unknown to the Company which are not material. The Company and its Subsidiaries have, in the manner prescribed by law, withheld and paid when due all Taxes required to have been withheld and paid under all applicable laws.

(iii) There are no Encumbrances upon the Company Shares or any of the assets or properties of the Company or any of its Subsidiaries that arose in connection with any failure (or alleged failure) by the Company or any of its Subsidiaries to pay any Tax when due.

(iv) The Company and its Subsidiaries have not waived any statute of limitations in any jurisdiction in respect of Taxes or Tax Returns or agreed to any extension of time with respect to a Tax assessment or deficiency, other than as set forth in Section 3.2(i)(iv) of the Company Disclosure Schedule.

(v) Neither the Company nor any of its Subsidiaries have received any notice that any federal, state, local or foreign audits, examinations or other administrative proceedings have been commenced or are pending with regard to any Taxes or Tax Returns of the Company or any of its Subsidiaries. No notification has been received by the Company or by its Subsidiaries that such an audit, examination or other proceeding is pending or threatened with respect to any Taxes due from or with respect to or attributable to the Company or any of its Subsidiaries or any Tax Return filed by or with respect to the Company or any of its Subsidiaries. To the Company's Knowledge, there is no reasonable basis on which any taxing authority could assess any additional Taxes for any period for which Tax Returns have been filed. To the Company's Knowledge, there is no dispute or Claim concerning any Tax liability of the Company or any of its Subsidiaries either claimed or raised by any taxing authority.

(vi) During their most recent five taxable years, neither the Company nor any of its Subsidiaries has made a change in accounting methods, received a ruling from any taxing authority or signed an agreement with any taxing authority which could have a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole. Neither the Company nor any of its Subsidiaries is required to include in income any adjustment pursuant to Section 481(a) of the Code or any similar provision of Israeli, foreign, state or local law, by reason of the

voluntary change in accounting method (nor has any taxing authority proposed in writing any such adjustment or change of accounting method).

(vii) Neither the Company nor any of its Subsidiaries is a party to, is bound by or has an obligation under any Tax sharing agreement, Tax indemnification agreement or similar contract or arrangement. Neither the Company nor any of its Subsidiaries is aware of any potential liability or obligation to any Person as a result of, or pursuant to, any such agreement, contract or arrangement. Neither the Company nor any of its Subsidiaries has any liability for Taxes of another Person by contract or otherwise.

(viii) No power of attorney with respect to any matter relating to Taxes or Tax Returns has been granted by or with respect to the Company or any of its Subsidiaries.

(ix) Neither the Company nor any of its Subsidiaries is a party to any agreement, plan, contract or arrangement that could result, separately or in the aggregate, in the payment of any "excess parachute payments" within the meaning of Section 280G of the Code.

(x) During the Company's most recent five taxable years, no closing agreement pursuant to Section 7121 of the Code (or any predecessor provision, or any similar provision of any state, local, Israeli or foreign law) has been entered into by or with respect to the Company or any of its Subsidiaries.

(xi) Neither the Company nor any of its Subsidiaries has filed a consent pursuant to Section 341(f) of the Code (or any predecessor provision) concerning collapsible corporations, or agreed to have Section 341(f)(2) of the Code apply to any disposition of a "subsection (f) asset" (as such term is defined in Section 341(f)(4) of the Code) owned by the Company or any of its Subsidiaries.

(xii) The Company's United States Subsidiary has never been a member of an Affiliated Group. The Company is not a controlled foreign corporation within the meaning of Section 957 of the Code, a foreign personal holding company within the meaning of Section 552 of the Code or a passive foreign investment company within the meaning of Section 1296 of the Code.

(xiii) Section 3.2(i)(xiii) of the Company Disclosure Schedule lists all Israeli, United States federal, state and local, and other foreign Tax Returns in respect of which an audit is in progress or is pending, filed by, on behalf of or with respect to the Company and its Subsidiaries. The Company has delivered to Buyer

complete and accurate copies of each of: (A) all audit, examination and similar reports and all letter rulings and technical advice memoranda relating to Israeli, United States federal, state and local, and any other foreign Taxes due from or with respect to the Company and its Subsidiaries; (B) all Israeli, United States federal, state and local, and any other foreign Tax Returns, Tax examination reports and similar documents filed by the Company and its Subsidiaries; and (C) all closing agreements entered into by the Company and its Subsidiaries with any taxing authority and all statements of Tax deficiencies assessed against or agreed to by the Company and its Subsidiaries. The Company will deliver to the Buyer all materials with respect to the foregoing for all matters arising after the date hereof and prior to the Closing.

(xiv) Section 3.2(i)(xiv) of the Company Disclosure Schedule lists each tax incentive, other than incentives generally available by operation of law without application or material governmental action, given to the Company under the laws of the State of Israel, the period for which such tax incentive applies, and the nature of such tax incentive. The Company has complied in all material respects with all requirements of Israeli law to be entitled to claim each such tax incentive. Subject to (x) the receipt of the approvals listed in Section 3.2(d) of the Company Disclosure Schedule, (y) the terms and conditions for all governmental approvals and consents required for the consummation of the Stock Purchase and (z) the manner in which the Company is operated after the Closing, the consummation of the transactions contemplated hereby will not adversely affect the ability of the Company to claim the benefit of any tax incentive for the remaining duration of the incentive or require any recapture of any previously claimed incentive, and, except as set forth in Section 3.2(i)(xiv) of the Company Disclosure Schedule, no consent or approval of any Governmental Entity is required in order to preserve the entitlement of the Company to any such incentive and, to the Company's Knowledge, there is no intention to change the terms of such tax incentives, except as may result from generally applicable changes in the relevant laws or the regulations thereunder.

(xv) Section 3.2(i)(xv) of the Company Disclosure Schedule lists with respect to each grant that the Company or any of its Subsidiaries received or is entitled to receive from the Chief Scientist, BIRD or any other Governmental Entity the following information: (A) the total amount of the grant received and the amount available for future use by the Company and its Subsidiaries; (B) the time period in which the Company and its Subsidiaries received, or will be entitled to receive, each grant; (C) a general description of the research and development program or other program for which such grant was approved; (D) the royalty repayment schedule or other repayment mechanism applicable to such grant and the total

repayment due; (E) the type of revenues from which royalty payments should be made; and (F) the total amount of royalties paid as of a recent date and the total royalty obligations accrued as of such date.

(xvi) The Company and its Subsidiaries have complied in all material respects with all applicable laws and regulations, agreements, letters of commitments and any other requirements with respect to the terms and conditions of each of the grants listed in Section 3.2(i)(xv) of the Company Disclosure Schedule and no claim was made by the Chief Scientist, BIRD or any other Governmental Entity or other Person with respect to the Company's compliance with such terms and conditions or for any repayment in excess of the amounts specified in Section 3.2(i)(xv) of the Company Disclosure Schedule and, to the Company's Knowledge, there is no threatened claim for any breach of such terms and conditions or any intention to change such terms and conditions, except as may result from generally applicable changes in the relevant laws or the regulations thereunder.

(j) Title and Condition of Properties. Neither the Company nor any of its Subsidiaries own any real property. The Company and its Subsidiaries own good and marketable title, free and clear of all Encumbrances, to all of the personal property and assets shown on the balance sheet of the Company as of September 30, 1996 (the "SEPTEMBER 30 BALANCE SHEET") or acquired after September 30, 1996, except for (A) assets which have been disposed of to nonaffiliated third parties since September 30, 1996 in the ordinary course of business, (B) Encumbrances reflected in the September 30 Balance Sheet, (C) Encumbrances under the floating charges specified in Section 3.2(l)(C) of the Company Disclosure Schedule, (D) Encumbrances or imperfections of title which are not, individually or in the aggregate, material in character, amount or extent and which do not materially detract from the value or materially interfere with the present or presently contemplated use of the assets subject thereto or affected thereby, and (E) Encumbrances for current Taxes not yet due and payable and for Taxes contested in good faith for which adequate reserves have been made on the September 30 Balance Sheet. Substantially all of the machinery, equipment and other tangible personal property and assets owned or used by the Company and its Subsidiaries are in good condition and repair, except for ordinary wear and tear not caused by neglect, and are useable in the ordinary course of business as currently conducted or as currently contemplated to be conducted by the Company. The personal property and assets reflected on the September 30 Balance Sheet or acquired after September 30, 1996, the Company Agreements and the Intellectual Property owned or used by the Company under valid Licenses, collectively include all assets necessary to provide, produce, sell and license the services and products currently provided, produced, sold and licensed by the Company and its Subsidiaries and to conduct the business of the Company and

its Subsidiaries as presently conducted.

(k) Intellectual Property. (i) Section 3.2(k)(i) of the Company Disclosure Schedule contains an accurate and complete listing setting forth (x) all Trademarks, Patents, registered Copyrights and Mask Works which are owned by the Company or any of its Subsidiaries and (y) all Licenses to which the Company or any of its Subsidiaries is a party (other than software and databases licensed to the Company or to any of its Subsidiaries under non-exclusive software licenses granted to end-user customers by third parties in the ordinary course of business of such third parties' businesses), such schedule indicating, as to each such License, whether the Company or any of its Subsidiaries is the licensee or licensor, whether it is royalty bearing, the territory, whether it is exclusive or non-exclusive, and the nature of the licensed property.

(ii) Except (x) as set forth in Section 3.2(k)(ii) of the Company Disclosure Schedule, (y) for the cross-licenses included in the Spin-Off and License Agreement, dated August 17, 1992, between Orbot Systems Ltd. (currently known as Orbotech) and the Company (the "SPIN-OFF AGREEMENT"), a true and correct copy of which is included in Section 3.2(k)(ii) of the Company Disclosure Schedule, and (z) for the software and databases licensed to the Company or to any of its Subsidiaries under non-exclusive software licenses granted to end-user customers by third parties in the ordinary course of business of such third parties' businesses, neither the Company nor any of its Subsidiaries is under any obligation to pay any royalty or other compensation to any third party or to obtain any approval or consent for the use of any Intellectual Property used in or necessary for its business as currently conducted or as currently contemplated to be conducted by the Company, including, without limitation, reticle inspection equipment, wafer inspection equipment and related technologies and components. None of the Intellectual Property owned by the Company or any of its Subsidiaries or, to the Company's Knowledge, licensed to the Company or any of its Subsidiaries, is subject to any outstanding judgment, order, decree, stipulation, injunction or charge. Other than the complaint contained in KLA Instruments Corporation, v. Orbot Instruments, Inc., civil action no. 93-CV-20886 (the "KLA ACTION") filed in the District Court in the Northern District of California (the "KLA COMPLAINT"), there is no Claim pending or, to the Company's Knowledge, threatened, which challenges the legality, validity, enforceability, or the Company's and its Subsidiaries' use or ownership of any of the Intellectual Property owned by the Company and its Subsidiaries or, to the Company's Knowledge, licensed to the Company or any of its Subsidiaries. Neither the Company nor any of its Subsidiaries has agreed to indemnify any Person for or against any interference, infringement, misappropriation or other conflict with respect to any Intellectual Property, except as may be con-

tained within the Licenses or sales agreements set forth in Section 3.2(k)(i) of the Company Disclosure Schedule.

(iii) No breach or default (or event which with notice or lapse of time or both would result in an event of default) by the Company or any of its Subsidiaries exists or has occurred under any License or other agreement pursuant to which the Company or any of its Subsidiaries uses any Intellectual Property owned by a third party or has granted any third party the right to use its Intellectual Property, and, subject to the consent of Nikon Corporation required under the Supply Agreement, dated December 1, 1994, between the Company and Nikon Corporation, the consummation of the transactions contemplated by this Agreement will not violate or conflict with, or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) or result in a forfeiture under, or constitute a basis for termination of any such License or other agreement.

(iv) The Company and its Subsidiaries own all items of Intellectual Property set forth on Section 3.2(k)(i)(x) of the Company Disclosure Schedule and own or have the right to use all items of Intellectual Property necessary to provide, produce, sell and license the services and products currently provided, produced, sold and licensed by the Company and its Subsidiaries and to conduct the business of the Company and its Subsidiaries as currently conducted or as currently contemplated to be conducted by the Company, including, without limitation, reticle inspection equipment, wafer inspection equipment and related technologies and components free and clear of all Encumbrances.

(v) To the Company's Knowledge, except as set forth in Section 3.2(k)(v) of the Company Disclosure Schedule, the conduct of the Company's and its Subsidiaries' business, the Intellectual Property owned or used by the Company and its Subsidiaries, and the products or services produced, sold or licensed by or under development by the Company and its Subsidiaries do not infringe any Intellectual Property rights or any other proprietary right of any person or give rise to any obligations to any person as a result of co-authorship, co-inventorship, or an express or implied contract for any use or transfer. Other than as alleged in the KLA Complaint, neither the Company nor any of its Subsidiaries has received any notice of any allegations or threats that the Company's or its Subsidiaries' use of any of the Intellectual Property infringes upon or is in conflict with any Intellectual Property or proprietary rights of any other Person, and to the Company's Knowledge, no reasonable basis exists for any such allegations or threats.

(vi) Except as set forth on Section 3.2(k)(vi) of the Company Disclosure Schedule, neither the Company nor any of its Subsidiaries has sent or other-

wise communicated to any other Person any Claim of any present, impending or threatened infringement by any other Person of any Intellectual Property of the Company and its Subsidiaries.

(vii) None of the Company's products or services incorporate, are based upon or are derived or adapted from, any Intellectual Property of any other Person in violation of any statutory or other legal obligation or any agreement to which the Company or any of its Subsidiaries is a party or by which it is bound.

(viii) All of the Company's and its Subsidiaries' Patents, Trademarks and Copyrights issued by, registered with or filed with the United States Patent and Trademark Office or Register of Copyrights or the corresponding offices of other countries have been duly registered, filed in or issued, as the case may be, have been properly maintained and renewed in accordance with all applicable provisions of law and administrative regulations, and the Company and its Subsidiaries, as the case may be, are the record owners thereof. The Company and its Subsidiaries have maintained the confidentiality of their trade secrets and other confidential Intellectual Property, and, to the Company's Knowledge, there have been no acts or omissions by the Company or any of its Subsidiaries, the result of which would be to compromise the rights of the Company or any of its Subsidiaries to apply for, obtain or enforce appropriate legal protection of such Intellectual Property.

(ix) Each of the Company's and its Subsidiaries' current and former employees, officers and agents and each independent contractor that has had access or any right to any of the Intellectual Property of the Company and its Subsidiaries retained by the Company or any of its Subsidiaries has entered into a written agreement with the Company or its Subsidiaries (x) providing that all of the Intellectual Property of the Company and its Subsidiaries is confidential and proprietary to the Company and (y) obligating the disclosure and transfer to the Company, in consideration for no more than normal salary and continued employment or consultant fees, as the case may be, of all inventions, developments and work product which during the period of his or her employment or consultancy with the Company or any of its Subsidiaries, as the case may be, such employee, officer, agent or independent contractor made or makes that related or relate to any subject matter with which such employee's, officer's, agent's or independent contractor's work for the Company or any of its Subsidiaries was concerned, and in the case of employees and officers, are made during such person's period of employment (or contractual relationship) and in connection therewith, or in the case of agents, during the course of such agency. No current or former employees, officers or independent contractors of the Company or any of its Subsidiaries have asserted any Claim, or have any

valid Claim or valid right, to any of the Intellectual Property used in or necessary for the conduct of business by the Company and its Subsidiaries as currently conducted or as currently contemplated to be conducted by the Company, including, without limitation, reticle inspection equipment, wafer inspection equipment and related technologies and components. To the Company's Knowledge, no employee, officer or agent of the Company is a party to or otherwise bound by any agreement with or obligated to any other Person (including, any former employer) which conflicts with any obligation or commitment of such employee to the Company or any of its Subsidiaries under any agreement to which he or she is a party or otherwise.

(x) Section 3.2(k)(x) of the Company Disclosure Schedule identifies each Person to whom the Company or any of its Subsidiaries has sold or otherwise transferred any interest or rights to any Intellectual Property or purchased rights in any Intellectual Property (except for non-exclusive Licenses of Intellectual Property by the Company or any of its Subsidiaries pursuant to agreements with customers in the ordinary course of business) , and the date, if applicable, of each such sale, transfer or purchase.

(l) Contracts. (i) Section 3.2(l)(i) of the Company Disclosure Schedule lists the ten largest customers of the Company and its Subsidiaries and each of the Company Agreements of the type specified below (collectively, the "MATERIAL AGREEMENTS"):

(A) any written arrangement for the lease of (1) personal property from or to third parties with annual payments exceeding $50,000 or with a term exceeding two years, or (2) real property;

(B) any written arrangement concerning a partnership or joint venture with the Company or any of its Subsidiaries;

(C) any written arrangement under which the Company or any of its Subsidiaries has created, incurred, assumed or guaranteed (or may create, incur, assume or guarantee) indebtedness in excess of $50,000 or imposed (or may impose) an Encumbrance on any of its assets, tangible or intangible;

(D) any written arrangement concerning confidentiality or non-competition, other than standard forms of agreements between the Company or any of its Subsidiaries and their employees and consultants, copies of which forms have previously been delivered to the Buyer, or confidentiality or non-disclosure agreements with any prior interested purchaser of Company Shares;

(E) any collective bargaining agreement or any contract with any labor union or employment, severance or change of control contract with any officer, individual employee or other Person;

(F) any agreement or commitment with respect to the lending or investing of funds to or in other Persons;

(G) any contract for or relating to the purchase or sale of products or services, including all distribution and supply agreements, which is not terminable by the Company on less than sixty (60) days notice under which the undelivered balance of such products and services has a selling price in excess of $50,000;

(H) any other contract requiring payments after the date hereof to or by the Company or any of its Subsidiaries of more than $50,000 or not terminable by the Company or any of its Subsidiaries on less than sixty (60) days notice;

(I) any grant, incentive or subsidy (including applications therefor) from, or other agreement with (including letters of approval from), the Government of Israel or any agency or instrumentality thereof, except as set forth in Sections 3.2(i)(xiv) and 3.2(i)(xv) of the Company Disclosure Schedule; and

(J) any written arrangement not otherwise disclosed in Section 3.2(l)(i) of the Company Disclosure Schedule under which the consequences of a default or termination could have a Material Adverse Effect on the Company or which was not entered into in the ordinary course of business.

(ii) The Company has delivered or otherwise made available to the Buyer a correct and complete copy of each written Material Agreement (including all amendments thereto) listed in Section 3.2(l)(i) of the Company Disclosure Schedule. With respect to each Material Agreement: (A) such Material Agreement is legal, valid, binding, enforceable and in full force and effect subject to and in accordance with its terms, subject as to enforceability to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general principles of equity; (B) such Material Agreement will continue to be legal, valid, binding and enforceable and in full force and effect on identical terms immediately after the Closing; (C) none of the Company or any of its Subsidiaries is or, to the Company's Knowledge, any other party is in

material breach or default (including with respect to any express or implied warranty), and no event has occurred which with notice or lapse of time or both would constitute a material breach or default or permit termination, modification or acceleration thereunder, except for any breaches, defaults, terminations, modifications or accelerations which have been cured or waived; and (D) no party has repudiated any provision of any such Material Agreement. Neither the Company nor any of its Subsidiaries is a party to any unwritten agreement which, if reduced to written form, would be required to be listed by Section 3.2(l)(i) of the Company Disclosure Schedule.

(m) Powers of Attorney. Except as set forth in Section 3.2(m) of the Company Disclosure Schedule, there are no outstanding powers of attorney executed by or on behalf of the Company or any of its Subsidiaries.

(n) Employment Matters; Trustee. (i) To the Company's Knowledge, except as described in Section 3.2(n)(i) of the Company Disclosure Schedule in writing to the Buyer, no key employee or group of employees has any plans to terminate their employment with the Company or any of its Subsidiaries as a result of the transactions contemplated hereby or otherwise. Neither the Company nor any of its Subsidiaries has experienced any strikes, grievances, other collective bargaining disputes or Claims of unfair labor practices. None of the employees of the Company or any of its Subsidiaries are represented by or on behalf of any labor union and, to the Company's Knowledge, there is no organizational effort presently being made or threatened by or on behalf of any labor union with respect to employees of the Company and its Subsidiaries.

(ii) The trustee under the Company Plan that holds Company Shares and Company Options on behalf of employees of the Company and its Subsidiaries and on behalf of other persons not currently employed by the Company (the "TRUSTEE") has been duly authorized and empowered by all such beneficial holders to sign this Agreement and all other documents required hereunder and has the power and authority to transfer title to the Company Shares and Company Options held of record by such Trustee and to effect all the other transactions contemplated by this Agreement and the Related Agreements, including, without limitation, the transactions contemplated in Section 4.1.

(o) Employee Benefit Plans. (i) Section 3.2(o)(i) of the Company Disclosure Schedule sets forth a true and complete list (or in the case of an unwritten Plan, a description) of all the Plans established or maintained by the Company and its Subsidiaries or covering employees or former employees of the Company and its Subsidiaries, whether or not any of such Plans are covered by ERISA. With

respect to each Plan, the Company has previously delivered or made available to the Buyer true and complete copies of (A) all Plan documents, including amendments thereto, (B) the most recent determination letter, if any, received from the IRS relating to the two most recent Plan years, (C) any trust documents or other documents relating to the funding of the Plan, (D) the latest actuarial valuations, if applicable, and (D) all summary Plan descriptions and summaries of material modifications and material communications with employees with respect to any Plan.

(ii) Each Plan listed on Section 3.2(o)(i) of the Company Disclosure Schedule is in material compliance with its terms and the requirements provided by any and all applicable U.S. federal, state or local, Israeli and foreign statutes, orders or governmental rules or regulations, including but not limited to ERISA and the Code, and no condition exists that would be expected to affect such material compliance. To the Company's Knowledge, no notice has been issued by any Governmental Entity questioning or challenging such compliance. The Company and its Subsidiaries have no Plans which require a favorable determination letter under Section 401(a) of the Code or such letter has been obtained. No material violation of ERISA has at any time occurred in connection with the administration of any of the Plans which are governed by ERISA. There are no Claims (other than routine, non-contested Claims for benefits) pending or, to the Company's Knowledge, threatened against the Plans, or any administrator or fiduciary thereof, which could result in any material liability to the Company and its Subsidiaries, taken as a whole. With respect to all such Plans, all required contributions due for all periods ending before the Closing Date have been made in full or have been accrued on the Company's most recent balance sheet. Neither the Company nor any of its Subsidiaries maintains or contributes to, or has any liability (fixed, contingent or otherwise) for, medical, health or life insurance benefits for terminated or retired employees of the Company or any of its Subsidiaries after termination of their employment, except as required by law.

(iii) Neither the Company nor any of its Subsidiaries nor any ERISA Affiliate nor any of their employees, stockholders or directors have engaged in any transaction in connection with which any of them will be subject either to a civil penalty assessed pursuant to Section 502 of ERISA or a tax imposed by Section 4975 of the Code. The execution and performance of this Agreement will not involve any prohibited transaction within the meaning of Section 406 of ERISA or Section 4975 of the Code.

(iv) The execution and performance of this Agreement will not constitute a stated triggering event under any Plan or employment agreement that

will result in any payment (whether of severance pay or otherwise) becoming due to any employee of the Company, any of its Subsidiaries or any ERISA Affiliate.

(v) The Company Plan is qualified under Section 102 of the Israeli Income Tax Ordinance and all steps necessary to maintain such qualification have been taken.

(p) Compliance with Laws. The Company and its Subsidiaries are in substantial compliance with, and have not violated, any applicable law, rule or regulation of any Israeli or United States federal, state, local or foreign government or agency thereof which materially affects the business, properties or assets of the Company and its Subsidiaries, taken as a whole, and no Claim has been received by the Company or any of its Subsidiaries or has been filed, commenced or, to the Company's Knowledge, threatened against the Company or any of its Subsidiaries alleging any such violation. All material licenses, permits and approvals required under such laws, rules and regulations are in full force and effect in all material respects.

(q) Inventory. The inventory of the Company and its Subsidiaries reflected on the Company's balance sheet as of September 30, 1996 included in the Financial Statements (the "INVENTORY") consists of software, supplies, goods in process and finished goods in a quantity and quality useable and saleable or licensable in the ordinary course of business and fit for the purpose for which it was procured, developed or manufactured, and none of which is slow-moving, obsolete, damaged or defective, subject only to the reserve for inventory write-down reflected on such balance sheet. The current product mix of the Inventory is consistent with the Company's existing customer orders. Since September 30, 1996, there has not been a material change in the level of the Inventory other than in the ordinary course of business.

(r) Suppliers and Customers. Since December 31, 1995, no material licensor, vendor, supplier, licensee or customer of the Company or any of its Subsidiaries has cancelled or otherwise materially adversely modified its relationship with the Company or its Subsidiaries and, to the Company's Knowledge, without having made any inquiries of customers as to these matters, (i) no such Person has any intention to do so, and (ii) the consummation of the transactions contemplated hereby will not adversely affect any of such relationships.

(s) Product Warranty. Each product manufactured, sold, leased or delivered by the Company and its Subsidiaries has been in material conformity with all applicable contractual commitments and all express and implied warranties, if

any, and neither the Company nor any of its Subsidiaries has any liability (and, to the Company's Knowledge, there is no basis for any present or future Claim giving rise to any liability that could reasonably be expected to result in a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole) for replacement or repair thereof or other damages in connection therewith, subject only to the reserve for product installation and warranty claims, if any, reflected on the Balance Sheet as such reserve may have been increased or decreased for the passage of time through the Closing Date in accordance with the past practice of the Company. No product manufactured, sold, leased, licensed or delivered by the Company or any of its Subsidiaries is subject to any guaranty, warranty or other indemnity beyond the applicable standard terms and conditions, if any, of license and sale and such other indemnities and warranties disclosed on Section 3.2(s) of the Company Disclosure Schedule.

(t) Broker's Fees. The Company has no liability or obligation to pay any fees or commissions to any broker, trader or agent with respect to the transactions contemplated by this Agreement.

(u) Potential Conflicts of Interest. Except for passive investments of not more than 5% of the capital stock or other equity interests in any Person other than the Company and as set forth in Section 3.2(u)(i) of the Company Disclosure Schedule, no officer or director of the Company owns, directly or indirectly, any interest in or is an officer, director, employee or consultant of any Person which is a competitor, lessor, lessee, customer or supplier of the Company or any of its Subsidiaries; and no officer or director of the Company or any of its Subsidiaries (i) except for any indirect interest of any such officer or director arising under the Spin -Off Agreement, owns, directly or indirectly, in whole or in part, any Intellectual Property which the Company or any of its Subsidiaries is currently using and except for any indirect interests which arise as a result of an interest that any such officer or director has in Orbotech, owns, directly or indirectly, in whole or in part, any Intellectual Property the use of which is necessary for the business of the Company and its Subsidiaries as currently conducted or as currently contemplated to be conducted by the Company; (ii) has any Claim against the Company or any of its Subsidiaries, except for Claims for accrued vacation pay, accrued benefits under Plans and similar matters and agreements existing on the date hereof; (iii) has made, on behalf of the Company or any of its Subsidiaries, any payment or commitment to pay any commission, fee or other amount to, or to purchase or obtain or otherwise contract to purchase or obtain any goods or services from, any other Person of which any officer or director of the Company or any of its Subsidiaries, or, to the Company's Knowledge, a relative of any of the foregoing, is a partner or stockholder (except for passive investments of not more than 5% of the capital stock

or other equity interests in any Person other than the Company); (iv) owes any money to the Company or any of its Subsidiaries, or (v) is owed any money by the Company or any of its Subsidiaries. Except as set forth in Section 3.2(u)(ii) of the Company Disclosure Schedule, the Company is not a party to any contract with an "interested party" or any contract in which an "officer" has a "personal interest" (as each of such terms is defined in Chapter 4A of the Companies Ordinance).

(v) Disclosure. Neither this Agreement nor the Company Disclosure Schedule contains any untrue statement of a material fact or omits a material fact necessary to make the statements contained herein or therein, in light of the circumstances in which they were made, not misleading.

III.3 Representations and Warranties of the Buyer. As a material inducement to the Company and the Stockholders to enter into this Agreement and consummate the transactions contemplated hereby, the Buyer hereby represents and warrants to the Company and the Stockholders that the statements contained in this Section 3.3 are true and correct as of the date of this Agreement.

(a) Organization. The Buyer is a corporation duly organized, validly existing and in good standing under the laws of Delaware and has all requisite corporate or other power and authority and all necessary governmental approvals to own, lease and operate its properties and to carry on its business as now being conducted, except where the failure to be so organized, existing and in good standing or to have such power, authority, and governmental approvals would not have a Material Adverse Effect on the Buyer and its Subsidiaries, taken as a whole. The Buyer and each of its Subsidiaries is duly qualified or licensed to do business and is in good standing in each jurisdiction in which the property owned, leased or operated by it or the nature of the business conducted by it makes such qualification or licensing necessary, except where the failure to be so duly qualified or licensed and in good standing would not, individually or in the aggregate, have a Material Adverse Effect on the Buyer and its Subsidiaries, taken as a whole.

(b) Authorization; Validity of Agreement; Necessary Action. The Buyer has full corporate power and authority to execute and deliver this Agreement and the Related Agreements to which it will be a party and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance by the Buyer of this Agreement and the Related Agreements to which it will be a party, and the consummation of the transactions contemplated hereby and thereby have been duly authorized by the Board of Directors of the Buyer and no other corporate action on the part of the Buyer is necessary to authorize the execution and delivery by the Buyer of this Agreement and the Related Agreements to which it

will be a Party and the consummation of the transactions contemplated hereby and thereby. This Agreement has been, and each of the Related Agreements to which the Buyer will be a party will be, duly executed and delivered by the Buyer and, assuming due and valid authorization, execution and delivery hereof by the Company, constitutes or (with respect to the Related Agreements to which the Buyer will be a party) will constitute a valid and binding obligation of the Buyer enforceable against it in accordance with and subject to their respective terms, subject as to enforceability to bankruptcy, insolvency, reorganization and other laws of general applicability relating to or affecting creditors' rights and to general principles of equity.

(c) Consents and Approvals; No Violations. Except as set forth in Section 3.3(c) of the schedule attached to this Agreement setting forth exceptions to the Buyer's representations and warranties set forth herein (the "BUYER DISCLOSURE SCHEDULE"), none of the execution, delivery or performance of this Agreement or the Related Agreements (to the extent the Buyer will be a party thereto) by the Buyer, the consummation by the Buyer of the transactions contemplated hereby or compliance by the Buyer with any of the provisions hereof or thereof will (i) conflict with or result in any breach of any provision of the Certificate of Incorporation or By-Laws of the Buyer, (ii) require any filing with, or permit, authorization, consent or approval of, any Governmental Entity, (iii) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation or acceleration) under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which the Buyer or any of its Subsidiaries is a party or by which any of them or any of their respective properties or assets may be bound or (iv) violate any order, writ, injunction, decree, statute, rule or regulation applicable to the Buyer, any of its Subsidiaries or any of their properties or assets, excluding from the foregoing clauses (ii),(iii) and (iv) such violations, breaches or defaults which would not, individually or in the aggregate, have a Material Adverse Effect on the Buyer and its Subsidiaries, taken as a whole.

(d) Buyer Common Stock. The Buyer shall cause all shares of Buyer Common Stock issuable upon exercise of Buyer Options granted under Section 4.1(a) to be registered under the Securities Act of 1933, as amended, and the rules and regulations thereunder, on a Registration Statement on Form S-8 and the Buyer shall use its best efforts to cause such Registration Statement to be declared effective at or prior to the Closing Date and maintain such effectiveness for so long as shares of Buyer Common Stock may be issuable under Buyer Options issued pursuant to Section 4.1. The Buyer shall take all action necessary to reserve a sufficient number of shares of Buyer Common Stock which will be issuable to holders of Buyer Options issued pursuant to Section 4.1(a) and to authorize and approve the issuance of the shares of Buyer Common Stock issuable upon the exercise of the Buyer Options.

(e) Employee Matters. The Buyer intends to enter into employment agreements with each of Zvi Lapidot and Shimon Ullman as of the date hereof, which employment agreements shall become effective as of the Closing Date. In addition, the Buyer intends to make an incentive bonus program available to members of the Company's senior management and individual key contributors on terms to be agreed between the Buyer and such individuals.

(f) Continuation of Operations. The Buyer intends to continue the operations of the Company in Israel and to comply with the applicable requirements of the research and development grants provided to the Company by the Chief Scientist and BIRD.

(g) Limitation of Representations. The Buyer acknowledges that neither the Company nor any of the Stockholders has made any legally binding representation or warranty, express or implied, with respect to the levels of revenues or profitability of the operation of the Company after the Closing.

ARTICLE IV - COVENANTS

IV.1 Company Options. (a) Except as provided in Section 4.1(c), the Buyer shall, at the Closing, cause each Unvested Company Option, except for Unvested Company Options which by their terms are scheduled to vest on January 1, 1997, to be assumed by the Buyer and converted to a Buyer Option (or a new substitute option shall be granted), issued under and pursuant to the terms and conditions of the Buyer Option Plan. The Parties agree that (i) the number of shares of Buyer Common Stock subject to such Buyer Option will be determined by multiplying the number of the Company Shares subject to the Unvested Company

Option to be cancelled by the Option Exchange Ratio, rounding any fractional share up to the nearest whole share, and (ii) the exercise price per share of such Buyer Option will be $0.01 per share. Except as provided above, the converted or substituted Buyer Options shall be subject to the same terms and conditions (including, without limitation, expiration date, vesting and exercise provisions) as were applicable to the Unvested Company Options to be cancelled under this Section 4.1(a) immediately prior to the Closing Date. The issuance of Buyer Options as provided herein shall be subject to, and conditioned upon, obtaining an exemption by the Israeli Securities Authority from the registration and prospectus delivery requirements of the Israeli Securities laws. In the event such exemption is not obtained prior to the Closing, unless the Buyer elects to comply with the requirements of the Israeli Securities laws, all Unvested Company Options to be cancelled under this Section 4.1(a) held by the 30 persons holding the greatest aggregate amount of such Unvested Company Options (other than the persons holding the Unvested Company Options described in Section 4.1(c)) shall be treated as provided in this Section 4.1(a) and exchanged for Buyer Options and the remaining Unvested Company Options shall be treated in the same manner as the Vested Company Options pursuant to Section 4.1(d). The Company, the Trustee, the Stockholders (to the extent they are holders of Company Options) and the Buyer shall take all necessary action to facilitate and effect the substitution described in this Section 4.1(a). Based upon and subject to the accuracy of the Company's representation and warranty set forth in Section 3.2(o)(v), the Buyer will apply to qualify such Buyer Options issued to employees of the Company who are residents of Israel (including Buyer Options issued under Section 4.1(c)) under Section 102 or another similar provision of the Israeli Income Tax Ordinance and to obtain confirmation from the Israeli tax authorities that tacking of the holding period shall be allowed with respect to the two-year holding period required under Section 102 for such periods in which Unvested Company Options were held before the Closing Date; provided, that the Buyer shall not be required to agree to any change in any of the economic terms of such options as established by this Section 4.1(a) (including, without limitation, identity of employer, number of shares, exercise price and vesting provisions) in order to obtain such qualification. In the event such qualification is not obtained, the Buyer agrees to loan to each holder of an Unvested Company Option that is converted into a Buyer Option pursuant to paragraphs (a) and (c) of this Section 4.1 an amount of cash equal to the amount of taxes such holder is required to pay directly as a result of such conversion contemplated in Section 4.1(a). Such loans shall (i) be made in NIS, (ii) be linked to the Israeli consumer price index and (iii) be payable upon the earlier of the sale of shares of Buyer Common Stock issued upon exercise of the Buyer Options or the transfer of such shares from the Trustee to the Option Holder, provided that in any event such repayment will be due no later than two years after the date on which the Buyer

Options are scheduled to vest, provided further, that with respect to Buyer Options which are scheduled to vest on January 1, 2000, repayment will be due no later than January 1, 2001. Notwithstanding the foregoing, in the event that such loan is granted and, at any time during the period commencing on the applicable vesting date of the Buyer Option in respect of which the loan was made and ending on the date on which the shares of Buyer Common Stock issued upon exercise of such Buyer Option are sold, the highest closing price of the Buyer Common Stock on the Nasdaq National Market System during such period (the "PERIOD BUYER PRICE") is less than the Average Buyer Price, the amount due to be repaid to the Buyer for such loan shall be reduced by an amount equal to the difference between the amount of tax paid in respect of the shares of Buyer Common Stock so sold as a result of the conversion contemplated in Section 4.1 and the amount of tax that would have been required to be paid as a result of a sale of such shares of Buyer Common Stock at such Period Buyer Price.

(b) Each Unvested Company Option which has been assumed and converted into a Buyer Option pursuant to Section 4.1(a) and which subsequent to the Closing shall expire without having been exercised by the beneficiary thereof for any reason other than due to (x) the voluntary termination by such beneficiary of his or her employment with the Company or (y) the termination of such beneficiary's employment with the Company for cause, following the Closing shall, in the case of such expiration, be deemed to have been vested in and exercised by the Stockholders immediately prior to the Closing in accordance with their proportionate holdings in the Company as of the Closing.

(c) Notwithstanding anything to the contrary contained in Section 4.1(a), the Buyer shall, at the Closing, cause each Unvested Company Option described in Section 4.1(c) of the Company Disclosure Schedule to be assumed by the Buyer and converted to a Buyer Option (or a new substitute option shall be granted), issued under and pursuant to the terms and conditions of the Buyer Option Plan. The Parties agree that (i) the number of shares of Buyer Common Stock subject to such Buyer Option will be determined by multiplying the number of the Company Shares subject to the Unvested Company Option to be cancelled by the Option Exchange Ratio, rounding any fractional share up to the nearest whole share, and (ii) the exercise price per share of such Buyer Option will be $0.01 per share. Each of the Unvested Company Options converted into Buyer Options pursuant to this Section 4.1(c) shall become fully vested and exercisable on the earlier of (x) January 1, 1998 or (y) the termination of the Option Holder's employment with the Company other than for cause. Except as provided above, the converted or substituted Buyer Options shall be subject to the same terms and conditions (including, without limitation, expiration date and exercise provisions) as were applicable to the Unvested

Company Options immediately prior to the Closing Date. Notwithstanding the foregoing, the Buyer agrees that, if the average of the closing prices of the Buyer Common Stock on the Nasdaq National Market System on the five trading days preceding January 1, 1998 is less than the Average Buyer Price (subject to adjustment in the case of stock splits, combinations and similar events), the Buyer shall make a cash payment to each of the Option Holders identified in Section 4.1(c) of the Company Disclosure Schedule equal to such difference multiplied by the aggregate number of Unvested Company Options identified in such Section (as similarly adjusted).

(d) At the Closing, each Vested Company Option and each Unvested Company Option which by its terms is scheduled to vest on January 1, 1997 shall be surrendered to the Buyer and shall be forthwith cancelled and the Buyer shall pay to the Trustee, on behalf of the holders of the Vested Company Options, by wire transfer, an amount equal to (i) the product of the number of the Company Shares which are issuable upon exercise of all the Vested Company Options and such Unvested Company Options, multiplied by the Purchase Price Per Share, less (ii) the aggregate exercise price of all such Vested Company Options and such Unvested Company Options. The Company, the Trustee and the Stockholders (to the extent they are holders of Company Options) shall take all necessary action to facilitate the surrender, cancellation and payment in consideration for the Vested Company Options and the Unvested Company Options described in this Section 4.1(d). The Trustee shall withhold all Israeli income or other taxes as required under applicable Israeli law prior to distribution of the cash amount received under this Section 4.1(d) to the holders of Vested Company Options and such Unvested Company Options.

IV.2 Business Access. The Company agrees, subject to prior arrangements, to give the Buyer and its counsel, accountants, consultants and representatives reasonable further access during normal business hours to all of the Company's and its Subsidiaries' premises and all of their files, records, contracts and other documents and properties as the Buyer or its counsel, accountants, consultants or representatives may reasonably request. The Buyer shall act in such a manner as to minimize any disruption of the day to day operations of the Company and shall obtain the prior consent of the Company before contacting any Person other than employees of the Company and its Subsidiaries, which consent shall not be unreasonably withheld. The Buyer's further access pursuant to this Section 4.2 shall be governed by the Confidentiality Agreement.

IV.3 Conduct of Business. From the date hereof until the Closing Date, the Company and its Subsidiaries will carry on their business and operations

in the usual, regular and ordinary manner and, absent the prior written consent of the Buyer, which will not be unreasonably withheld, neither the Company nor any of its Subsidiaries will:

(a) change or alter in any material respect or enter into any employment contracts or arrangements with any of its management personnel or make, adopt, alter, revise or amend any Plan;

(b) declare or pay any dividend or make any other distribution with respect to its capital stock;

(c) issue, sell or become contractually committed to issue or sell any Company Shares or other securities of the Company or any of its Subsidiaries (except as a result of the proper exercise by employees of the Company Options outstanding on the date hereof and described in Section 3.2(b)(i) of the Company Disclosure Schedule, according to their respective terms;

(d) split, combine, reclassify or redeem any of its capital stock;

(e) sell, create, assume or acquire property subject to any Encumbrance, except in the ordinary course of business;

(f) make any capital investment in any Person, other than in relation to JMG Instruments as disclosed to the Buyer prior to the date hereof and other than purchases of equipment, supplies and materials in the ordinary course of business consistent with past practice;

(g) compromise or settle any debt or Claim except for adjustments made with respect to contracts for the purchase of equipment, supplies and materials or for the sale of products or services in the ordinary course of business, which in the aggregate are not material;

(h) incur any debt or, other than in the ordinary course of business, incur any trade payables or other obligations or enter into any transaction to sell any assets or make any payment in respect of any material liabilities or obligations;

(i) except for the payment of normal salaries, fees or commissions in the ordinary course of business, enter into or engage in any transaction with any stockholder of the Company, except as contemplated by this Agreement;

(j) alter or amend in any manner its Memorandum and Articles of Associa-

tion or similar organizational documents, except as contemplated by Section 2.3(b)(ii);

(k) alter, amend or enter into any licensing or contractual arrangements with respect to any Intellectual Property of the Company or its Subsidiaries, other than in the ordinary course of business;

(l) enter into any agreement with a third-party manufacturer regarding the manufacture or assembly of its products;

(m) enter into, or modify any existing grant from, or other agreement with, the Chief Scientist, BIRD, the Investments Center or any other Governmental Entity, except as provided by this Agreement; or

(n) disclose any of its proprietary information to third parties, except pursuant to standard non-disclosure agreements the form of which has been provided to the Buyer or as required under other existing agreements with parties listed in Section 3.2(l)(i) of the Company Disclosure Schedule.

IV.4 Exclusivity. Recognizing that the Buyer's investigations of the Company and its business, and the negotiation and drafting of this Agreement and the Related Agreements, have to date required and will continue to require the Buyer to expend significant time, effort and money, and to induce the Buyer to execute and deliver this Agreement and proceed with the transactions contemplated hereby, none of the Company, any of its Subsidiaries, any director or officer of the Company or any of its Subsidiaries, the Stockholders or any of their respective representatives or other agents, will encourage any offers from, solicit, encourage, initiate, respond to (other than by a bare statement, without further detail or explanation, that they are not permitted to respond) or continue any discussions with, engage in negotiations with or provide any information to, or enter into any agreements or understandings with, any Person, other than the Buyer and its officers, employees and agents, concerning any merger, consolidation, transfer of substantial assets, issuance, sale or exchange of shares or similar transaction involving or affecting the ownership of the Company or any of its Subsidiaries (all such transactions being referred to herein as "ACQUISITION PROPOSALS"). The Company agrees to advise the Buyer immediately if it receives an Acquisition Proposal from another Person, and to promptly provide to the Buyer a copy of any Acquisition Proposal received in writing or a written summary of any other Acquisition Proposal made orally.

IV.5 Non-Solicitation. Each of the Buyer and the Company agrees

that it will not, without the prior written consent of the other party, for a period of fifteen months following any termination of this Agreement in accordance with its terms, solicit the employment of any key management or other employee of the other party. Each of the Stockholders agrees that it will not, without the prior written consent of the Buyer, for a period of fifteen months following the Closing Date solicit the employment of any key management or other employee of the Company.

IV.6 Company Board Resolution. Prior to the Closing Date and subject to the provisions of this Agreement, the Board of Directors of the Company will duly adopt a resolution in accordance with the Company's Articles of Association and the Companies Ordinance (i) approving and authorizing the transfer, at the Closing, of all Company Shares held by the Stockholders to or at the direction of the Buyer and authorizing the entry of such transfer in the Company's Register of Members, and (ii) approving and authorizing the exchange and cancellation of all the Company Options as provided in Section 4.1.

IV.7 Estimated Company Expenses. The Company (i) has previously disclosed in writing to the Buyer the amount of costs and expenses (including fees and expenses of legal counsel, investment bankers, brokers or other representatives or consultants), not previously paid for or provided for, incurred by the Company in connection with its contemplated initial public offering of Company Shares and other matters identified in such writing (the "DISCLOSED PRIOR EXPENSES"), (ii) shall prior to the Closing cause the full amount of Disclosed Prior Expenses to be reflected on the Company's financial statements, (iii) shall prior to the Closing record in its financial statements all charges and expenses which are required to be recorded under Israeli GAAP and United States generally accepted accounting principles as a result of the grant of Company Options and shall within five business days prior to the Closing Date deliver to the Buyer a certificate of the Company's independent accountants as to the compliance of such recordation with Israeli GAAP and United States generally accepted accounting principles and (iv) shall within five business days prior to the Closing Date, deliver to the Buyer a certificate signed by the Chief Financial Officer of the Company with an estimate of the costs and expenses (including fees and expenses of legal counsel, investment bankers, brokers or other representatives or consultants) incurred or to be incurred by the Company through the Closing Date in connection with the negotiation, preparation and execution of this Agreement, the Related Agreements and the transactions contemplated hereby and thereby ("ESTIMATED TRANSACTION EXPENSES").

IV.8 Taking of Necessary Action. The Buyer on the one hand, and

the Company and the Stockholders, on the other hand, shall use all reasonable efforts to take all such actions and provide all reasonable information (including action to cause the satisfaction of the conditions of the other to effect the Stock Purchase) as may be necessary or appropriate in order to effectuate the Stock Purchase, the Section 236 Action and the other transactions contemplated by this Agreement and the Related Agreements as promptly as possible, including obtaining all consents and approvals required for the consummation of the transactions contemplated by this Agreement; provided, that the Buyer shall not be obligated to (and without the prior written consent of the Buyer the Company shall not) agree to any condition, limitation or requirement or take any action that in the good faith judgment of the Buyer is or may be unreasonably burdensome to the business of the Company as currently conducted or as currently contemplated to be conducted by the Company. If, at any time prior to or after the Closing, any further action is necessary or desirable to vest the Buyer with full ownership, benefit and possession of, and control over, all the securities of the Company, or to otherwise carry out the purposes of this Agreement and the Related Agreements, the Stockholders agree to take such actions and to execute and deliver such documents and instruments as the Buyer may reasonably request for such purposes.

IV.9 Release of Guarantees. Each of the Company and the Buyer shall, prior to the Closing, use its respective reasonable commercial efforts to procure the discharge and release of the guarantees of Orbotech to the Company's bank loans in the aggregate amount of $2.5 million and, if required, the Buyer shall substitute its own guarantee in place of Orbotech.

IV.10 Post-Closing Covenants. The Parties agree as follows, with respect to the period following the Closing:

(a) Transition. For a period ending on the third anniversary of the Closing, none of the Stockholders will take any action that primarily is designed or intended to have the effect of discouraging any lessor, licensor, customer, supplier or other business associate of the Company from maintaining the same business relationships with the Company after the Closing as it maintained with the Company prior to the Closing. For a period ending on the third anniversary of the Closing, the Stockholders will refer to the Company all inquiries by current or former customers (as of the Closing) of the Company relating to the Company's wafer and reticle inspection business.

(b) Confidentiality. Each of the Stockholders will treat and hold as confidential all of the Confidential Information of the Company, refrain from using any of the Confidential Information of the Company except in connection with this

Agreement, and deliver promptly to the Company or destroy, at the request and option of the Company, all tangible embodiments (and all copies) of the Confidential Information of the Company which are in such Stockholder's possession. In the event that any of the Stockholders is requested or required (by oral question or request for information or documents in any legal proceeding, interrogatory, subpoena, civil investigative demand, or similar process) to disclose any Confidential Information of the Company, such Stockholder will notify the Company promptly of the request or requirement so that the Company may seek an appropriate protective order or waive compliance with the provisions of this Section 4.10(b). If, in the absence of a protective order or the receipt of a waiver hereunder, the Stockholders are, on the advice of counsel, compelled to disclose any Confidential Information of the Company to any tribunal or else stand liable for contempt, the Stockholders may disclose the Confidential Information of the Company compelled to be so disclosed to the tribunal; provided, that the disclosing Stockholder shall use its reasonable efforts to obtain, at the reasonable request of the Company, an order or other assurance that confidential treatment will be accorded to such portion of the Confidential Information of the Company required to be disclosed as the Company shall designate.

(c) Companies Ordinance. Within five days after the Closing Date, the Company shall, at the direction of the Buyer, give written notice of transfer to the Buyer of the Company Shares to the Israeli Registrar of Companies in accordance with the Companies Ordinance.

(d) Indemnification of Directors and Officers. (i) The Buyer agrees for a period of seven years after the Closing to preserve the assets of the Company or otherwise to provide sufficient assets to the Company to enable the Company to adequately indemnify its former officers and directors in accordance with the Company's Articles of Association as in effect as of the date hereof and agrees that all rights to indemnification, including, without limitation, provisions relating to advances of expenses incurred in defense of any action or suit, existing in favor of the present or former directors and officers of the Company (collectively, the "INDEMNIFIED PERSONS"), as provided in the Company's Articles of Association, or the articles of incorporation or by-laws or similar documents of any of the Company's Subsidiaries, as in effect as of the date hereof, with respect to such matters occurring through the Closing Date, shall survive the Closing and this Agreement and shall continue in full force and effect for a period of seven years from the Closing Date; provided however, that all rights to indemnification in respect of any claim (a "D&O CLAIM") asserted or made within such period shall continue until the disposition of such D&O Claim.

(ii) The Buyer shall maintain in effect for not less than seven years after the Closing Date the policies of directors' and officers' liability insurance and fiduciary liability insurance maintained by the Company and its Subsidiaries as of the Closing Date with respect to the matters occurring prior to the Closing Date, provided that the Company shall not purchase such policies without prior consultation with and approval by the Buyer, which shall not be unreasonably withheld; provided further, that (x) Buyer may substitute therefor policies of substantially the same or better coverage containing terms and conditions which are not less advantageous, in any material respect, to the Indemnified Persons and (y) Buyer shall not be required to pay an annual premium for such insurance in excess of 150% of the premium in effect immediately prior to the Closing Date, but in such case shall purchase as much coverage as possible for such amount.

(iii) In the event that any action, suit, proceeding or investigation relating hereto or to the transactions contemplated hereby is commenced, whether before or after the Closing, the Parties hereto agree to cooperate and use their respective best efforts to vigorously defend against and respond thereto.

(iv) This Section 4.10(d) is intended to benefit the Indemnified Persons and shall be binding on all successors and assigns of the Buyer and the Company.

IV.11 KLA Action. The Company agrees that, prior to the Closing Date, it shall and it shall cause its representatives or agents to, cooperate with the Buyer with respect to all decisions and other matters in respect of the KLA Action and neither the Company nor any of its representatives shall take any action in respect of the KLA Action without prior consultation with the Buyer and after giving due consideration to the Buyer's suggestions in connection therewith subject to compliance with applicable court procedures.

ARTICLE V - STOCKHOLDERS COVENANTS

V.1. Voting Agreement. Each of the Stockholders hereby agrees that, until the earlier of the Closing or the termination of this Agreement in accordance with its terms, at any meeting of the stockholders of the Company or any adjournment thereof, including the meeting contemplated in Section 2.3, however called, or in any other circumstances upon which its vote, consent or other approval is sought, it shall vote or cause to be voted such Stockholder's Company Shares in favor of this Agreement and the various transactions contemplated by this Agreement, including the matters contemplated in Section 2.3, and against any Acquisition Proposal or any other action or agreement that would in any manner impede, frustrate, prevent or nullify this Agreement, or result in a breach of any covenant, representation or warranty or any other obligation or agreement of the Company or the Stockholders under this Agreement or which would result in any of the closing conditions set forth in Article VI or the Company's obligations under this Agreement not being fulfilled.

V.2. No Inconsistent Arrangements. Each of the Stockholders hereby covenants and agrees that, until the earlier of the Closing or the termination of this Agreement in accordance with its terms, except as contemplated by this Agreement, it shall not (a) transfer (which term shall include, without limitation, any sale, gift, pledge or other disposition), or consent to any transfer of, any or all of such Stockholder's Company Shares, Company Options or any interest therein, (b) enter into any contract, option or other agreement or understanding with respect to any transfer of any or all of such Company Shares, Company Options or any interest therein, (c) grant any proxy, power-of-attorney or other authorization in or with respect to such Company Shares or Company Options, (d) deposit such Company Shares or Company Options into a voting trust or enter into a voting agreement or arrangement with respect to such Company Shares or Company Options, or (e) take any other action that would in any way restrict, limit or interfere with the performance of its obligations hereunder or the transactions contemplated hereby.

V.3. Grant of Proxy; Appointment of Proxy. (a) Until the earlier of the Closing or the termination of this Agreement in accordance with its terms, each Stockholder hereby irrevocably grants to, and appoints, Ephraim Abramson, such Stockholder's proxy and attorney-in-fact (with full power of substitution), for and in the name, place and stead of such Stockholder, to vote such Stockholder's Company Shares, or grant a consent or approval in respect of such Company Shares in favor of this Agreement and the various transactions contemplated hereby,

including the matters set forth in Section 2.3(b), and against any Acquisition Proposal. The Stockholders shall have no Claim against Ephraim Abramson, as proxy and attorney-in-fact, for any action taken, decision made or instruction given by him in accordance with this Agreement.

(b) Such Stockholder understands and acknowledges that the Buyer is entering into this Agreement in reliance upon such irrevocable proxy. Such Stockholder hereby affirms that the irrevocable proxy set forth in this Section 5.3 is given to secure the performance of the duties of the Stockholder under this Agreement. Such Stockholder hereby further affirms that the irrevocable proxy is coupled with an interest and may under no circumstances be revoked. Such Stockholder hereby ratifies and confirms all that such irrevocable proxy may lawfully do or cause to be done by virtue hereof.

.1. Notification of Certain Matters. The Company or the relevant Stockholders, as the case may be, shall give prompt notice to the Buyer and the Buyer shall give prompt notice to the Company and the Stockholders, in each case after discovery thereof, of (a) the occurrence or non-occurrence of any event the occurrence or non-occurrence of which would cause any of its representations or warranties contained in this Agreement to be untrue or inaccurate in any material respect at or prior to the Closing Date, and (b) any material failure of the Company, such Stockholders or the Buyer, as the case may be, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder; provided, however, that the delivery of any notice pursuant to this Section 5.4 shall not limit or otherwise affect the remedies available hereunder to the party receiving such notice.

.2. Supplements to Disclosure Schedule. From time to time prior to the Closing, the Stockholders and the Company shall promptly supplement or amend the Stockholders' Disclosure Schedule and the Company Disclosure Schedule, respectively, with respect to any matter, condition or occurrence hereafter arising which, if existing or occurring at the date of this Agreement, would have been required to be set forth or described in the respective disclosure schedule. No supplement or amendment shall be deemed to cure any breach of any representation or warranty made in this Agreement or have any effect for the purpose of determining satisfaction of the conditions set forth in Section 6.2(b) hereof or the compliance by the Stockholders and the Company with the covenant set forth in Section 4.8 hereof.

.3. Waiver of Claims. Without waiving any right to indemnification referred to in Section 4.10(d) that may be available to any Stockholder in his

capacity as an officer or director of the Company, each Stockholder hereby waives any and all Claims and Damages against the Company, its Subsidiaries and their respective stockholders, officers, directors, employees, legal advisors or agents connected with or arising out of any act or omission of the Company, any of its Subsidiaries or their respective officers, directors, employees, legal advisors or agents, in such capacity, at or prior to the Closing Date, including, without limitation, with respect to the negotiation of the terms of this Agreement and the Related Agreements. In the event that any Claim waived hereby is pursued by any Stockholder, such Stockholder shall indemnify and hold harmless the Company and its Subsidiaries and their respective stockholders, officers, directors, employees, legal advisors and agents for any Damages resulting therefrom.

.4. Transfer and Similar Taxes. Notwithstanding any other provision of this Agreement to the contrary, the Stockholders and the Buyer shall each pay 50% of all applicable stamp, duties, recording and similar Taxes and fees (including any penalties, interest and additions to such fees) imposed upon any party and incurred in connection with any of the transactions contemplated by this Agreement .

.5. Stockholders' Agent. (a) The Stockholders hereby designate Harry Grynberg of Ephraim Abramson & Co. as their agent and representative (the "STOCKHOLDERS' AGENT"). Upon the execution hereof, each of the Stockholders has delivered to the Stockholders' Agent all Company Shares in which such Stockholder owns any record or beneficial interest and will promptly deliver to the Stockholders' Agent all Company Shares which are issued to such Stockholder upon exercise of Company Options between the date of this Agreement and the Closing Date for delivery to the Buyer at the Closing.

(b) The Stockholders hereby authorize the Stockholders' Agent (i) to take all action necessary in the Stockholders' Agent's discretion in connection with the defense and/or settlement of any Claims for which the Stockholders may be required to indemnify the Buyer pursuant to Article VIII hereof, (ii) to give and receive all notices required to be given and take all action required or permitted to be taken under this Agreement and the Related Agreements, including, without limitation, under the Escrow Agreement, (iii) to enter into amendments to this Agreement and the Escrow Agreement which do not adversely affect the rights or increase the obligations of the Stockholders and (iv) to take any and all additional action as is contemplated to be taken by or on behalf of the Stockholders by the terms of this Agreement and the Related Agreements (including, without limitation, the execution of the Escrow Agreement and all investment directions under the Escrow Agreement with respect to the Escrow Amount).

(c) Upon receiving notice of the death or incapacity or resignation of the Stockholders' Agent, the Stockholders agree to appoint such person that the majority of Stockholders approve (based on their pro rata interests in the Escrow Amount) to fill the vacancy. In addition, at the Closing, the Stockholders agree that a successor Stockholders' Agent reasonably acceptable to the Buyer shall be appointed by the Company, to act on behalf of the Stockholders as provided in this Section 5.8 following the Closing.

(d) By their execution and delivery of this Agreement, the Stockholders agree that: (i) notwithstanding any other provision herein to the contrary, the Buyer shall be able to rely conclusively on the instructions and decisions of the Stockholders' Agent as to the settlement of any Claims for indemnification by the Buyer, the Company or the Stockholders pursuant to Article VIII hereof or any other actions required to be taken by the Stockholders' Agent hereunder, and no Party hereunder shall have any Claim against the Buyer or the Company for any action taken by the Buyer or the Company in good faith reliance upon the instructions or decisions of the Stockholders' Agent; and (ii) all actions, decisions and instructions of the Stockholders' Agent, including, without limitation, any action taken in relation to the Closing or the defense or settlement of any Claims for which the Stockholders may be required to indemnify the Buyer or the Company pursuant to Article VIII hereof, shall be conclusive and binding upon all of the Stockholders and no Stockholder shall have any right to object, dissent, protest or otherwise contest the same or have any Claim against the Stockholders' Agent for any action taken, decision made or instruction given by the Stockholders' Agent under this Agreement, acting in good faith in what he or she reasonably believes to be necessary or beneficial for the carrying out of the Stockholders' Agent's obligations. The Stockholders' Agent shall be indemnified and held harmless jointly and severally by the Stockholders against any claim made against the Stockholders' Agent by reason of an act or omission in connection with any of the transactions contemplated hereby and against any loss, liability or expense he or she may sustain in carrying out its functions hereunder, except for acts in bad faith. The Stockholders shall pay the Stockholders' Agent's fees as agreed upon between the Company and the Stockholders' Agent prior to the Closing. The Stockholders shall reimburse the Stockholders' Agent for any expenses and costs incurred by the Stockholders' Agent in connection with the carrying out of his or her functions hereunder.

ARTICLE VI - CONDITIONS

VI.1 Conditions to Obligations of Each Party. The respective obligations of each Party to effect the Stock Purchase shall be subject to the satisfaction on or prior to the Closing Date of the following conditions, any and all of which may be waived in whole or in part by any Party to the extent permitted by applicable law:

(a) No law, statute, rule, order, decree or regulation shall have been enacted or promulgated by any Government Entity of competent jurisdiction which declares this Agreement invalid or unenforceable in any material respect or which permanently restrains, enjoins or otherwise prohibits consummation of the Stock Purchase and all other material transactions contemplated by this Agreement and the Related Agreements;

(b) All government consents, orders and approvals required for the consummation of the Stock Purchase and the other transactions contemplated by this Agreement and the Related Agreements as specified in Section 3.2(d) of the Company Disclosure Schedule, Section 3.1(c) of the Stockholders' Disclosure Schedule or Section 3.3(c) of the Buyer Disclosure Schedule, shall have been obtained, shall not impose upon the Company or the Buyer any terms or conditions which are unreasonably burdensome to the Buyer or to the business of the Company as currently conducted or as currently contemplated to be conducted by the Company and shall be in effect on the Closing Date;

(c) No action, suit or proceeding before any Governmental Entity shall have been instituted or threatened which seeks to prevent or delay the consummation of the Stock Purchase and the other material transactions contemplated by this Agreement and the Related Agreements or which challenges the validity or enforceability of this Agreement, which actions or proceedings are reasonably likely to result in an adverse judgment in the reasonable opinion of counsel to the Buyer; and

(d) the amendment to the Company's Articles of Association as provided in Section 2.3(b)(ii) shall have been duly effected.

VI.2 Conditions to Obligations of the Buyer. The obligations of the Buyer to effect the Stock Purchase are further subject to satisfaction on or prior to the Closing Date of each of the following conditions, any and all of which may be waived in whole or in part by the Buyer:

(a) Either (i) all of the Company stockholders shall have duly executed and delivered this Agreement and the Related Agreements and become parties thereto or (ii) the Buyer shall have completed the Section 236 Action to its satisfaction;

(b) All of the Company Representations and the Stockholders Representations shall have been true and correct in all material respects when made and shall be true and correct in all material respects on and as of the Closing Date (except for representations and warranties that relate to a specific date) as though made on the Closing Date, except that if the failure of a representation or warranty to be true and correct in all material respects is due to an event which occurs after the date of this Agreement, this condition will be deemed satisfied notwithstanding such failure unless it has resulted in or may reasonably be expected to result in a fundamental impairment of the business or prospects of the Company, and the Buyer shall have received a certificate dated the Closing Date and signed by the Chairman of the Board of Directors, President and the Chief Financial Officer of the Company to such effect with respect to the Company Representations;

(c) The Company and the Stockholders shall have performed in all material respects all obligations required under this Agreement to be performed by them, respectively, on or before the Closing Date, and the Buyer shall have received a certificate dated the Closing Date and signed by the Chairman of the Board of Directors, the President and the Chief Financial Officer of the Company to such effect with respect to the obligations of the Company;

(d) All of the third party consents and approvals required to be procured in order to effect the Stock Purchase and the other transactions contemplated by this Agreement and the Related Agreements as set forth in Section 3.2(d) of the Company Disclosure Schedule, shall have been procured, in substance and form that are not unreasonably burdensome to the Buyer or to the business of the Company as currently conducted or as currently contemplated to be conducted by the Company;

(e) There shall not be any change in, or effect on, the Company's assets, financial condition, operating results, customer and employee relations, or business prospects or the financial statements theretofore supplied by the Company to the Buyer which has, or may reasonably be expected to have, a Material Adverse Effect on the Company and its Subsidiaries, taken as a whole, which has resulted in, or may reasonably be expected to result in, a fundamental impairment of the business or prospects of the Company;

(f) The Buyer shall have received from Ephraim Abramson & Co., Israeli

counsel to the Company, an opinion substantially in the form set forth in Exhibit B attached hereto and otherwise reasonably satisfactory in form and substance to the Buyer, addressed to the Buyer and dated as of the Closing Date;

(g) All directors and officers of the Company and its Subsidiaries shall have executed and delivered to the Buyer the Waiver in the form attached hereto as Exhibit C and all directors of the Company and its Subsidiaries shall have executed and delivered to the Buyer resignations as directors, provided that such waiver shall not affect or derogate from any rights to indemnification pursuant to the provisions of Section 4.10(d);

(h) The Buyer shall have received from the Trustee his written consent, on behalf of all of the Option Holders, to the treatment of the Company Options in accordance with the provisions of Section 4.1;

(i) The Buyer shall have entered into employment agreements with each of Zvi Lapidot and Shimon Ullman on terms reasonably satisfactory to the parties thereto; and

(j) The Buyer shall either have received a legal opinion reasonably satisfactory to the Buyer or have become reasonably satisfied with respect to certain intellectual property matters relating to the Company and its Subsidiaries.

VI.3 Conditions to Obligations of the Stockholders. The obligations of the Stockholders to effect the Stock Purchase are further subject to satisfaction on or prior to the Closing Date of each of the following conditions, any and all of which may be waived in whole or in part by the Stockholders' Agent (on behalf of the Stockholders):

(a) All of the Buyer Representations shall have been true and correct when made and shall be true and correct in all material respects on and as of the Closing Date as though made on the Closing Date, and the Stockholders shall have received a certificate dated the Closing Date and signed by the Chairman of the Board or President and by the Chief Financial Officer of the Buyer to such effect;

(b) The Buyer shall have performed in all material respects all obligations required under this Agreement to be performed by it on or before the Closing Date, and the Stockholders shall have received a certificate dated the Closing Date and signed by the Chairman of the Board or President and by the Chief Financial Officer of the Buyer to that effect;

(c) The release of all of the guarantor's obligations under the guarantees listed on Section 6.3(c) of the Company Disclosure Schedule shall have been obtained, including without limitation the guarantee of Orbotech for the Company's bank loans previously disclosed to the Buyer in the aggregate amount of $2.5 million; and

(d) The Company shall have received from Skadden, Arps, Slate, Meagher & Flom LLP, United States counsel to the Buyer, an opinion substantially in the form set forth in Exhibit D attached hereto and otherwise satisfactory in form and substance to the Company, addressed to the Company and dated as of the Closing Date.

ARTICLE VII - TERMINATION AND ABANDONMENT

VII.1 Methods of Termination; Termination Date. This Agreement may be terminated and the transactions contemplated hereby may be abandoned at any time before the Closing:

(a) By the mutual written consent of the Stockholders' Agent (on behalf of the Stockholders) and the Buyer;

(b) By the Buyer, if all the conditions set forth in Section 6.1 or Section 6.2 of this Agreement shall not have been satisfied or waived on or before March 31, 1997, except that if on such date the only condition which shall not have been satisfied or waived by the Buyer is the condition set forth in Section 6.2(a), such date shall be June 30, 1997 (the applicable date being referred to as the "TERMINATION DATE"), unless, in each case, such failure shall be due to the action or failure to act of the Buyer, which action or failure to act constitutes a breach of this Agreement;

(c) By the Stockholders' Agent (on behalf of the Stockholders), if all the conditions set forth in Section 6.1 or Section 6.3 of this Agreement shall not have been satisfied or waived on or before the Termination Date, unless such failure shall be due to the action or failure to act of the Stockholders or the Company, which action or failure to act constitutes a breach of this Agreement;

(d) By the Stockholders' Agent (on behalf of the Stockholders) or the Buyer if the other fails to comply in all material respects with any of its covenants or agreements contained herein, or breaches its representations and warranties in any material way, such that, in any such case, any of the conditions to the Closing set

forth in Article VI could not be satisfied on or prior to the Termination Date;

(e) By the Stockholders' Agent (on behalf of the Stockholders) or the Buyer if a Governmental Entity shall have issued an order, decree or ruling or taken any other action (which order, decree or ruling the parties hereto shall use their best efforts to lift), which declares this Agreement invalid or unenforceable in any material respect or which permanently restrains, enjoins or otherwise prohibits the consummation of the Stock Purchase and all other material transactions contemplated by this Agreement and the Related Agreements and such order, decree, ruling or other action shall have become final and non-appealable; or

(f) By the Buyer if the Company Action has not been completed to the satisfaction of the Buyer on or prior to December 23, 1996.

VII.2 Procedure Upon Termination. In the event of termination and abandonment of this Agreement pursuant to Section 7.1, written notice thereof shall forthwith be given to the other Parties and this Agreement shall terminate and the transactions contemplated hereby shall be abandoned, without further action by the Stockholders, the Company or the Buyer. If this Agreement is terminated as provided herein, no party to this Agreement shall have any liability or further obligation to any other party to this Agreement except as provided in Section 9.10; provided, however, that no termination of this Agreement pursuant to this Article VII shall relieve any party of liability for a breach of any provision of this Agreement occurring before such termination.

ARTICLE VIII - INDEMNIFICATION AND ESCROW

VIII.1 Indemnification. (a) Survival. All of the Stockholders Representations, the Company Representations and the Buyer Representations shall survive the Closing and shall continue in full force and effect for a period of fifteen months thereafter, after which such representations and warranties shall terminate and have no further force or effect; provided that (i) the Stockholders Limited Representations and (ii) the Company Representations contained in Section 3.2(b) hereof shall survive indefinitely; provided further, that the Buyer Representations set forth in Sections 3.3(e) and 3.3(f) shall not survive the Closing. The period during which any such representation or warranty survives is the "SURVIVAL PERIOD" for such representation or warranty. Notwithstanding the foregoing, any representation that would otherwise terminate shall survive with respect to Damages asserted in any Claim of which notice is given pursuant to this Agreement prior to the end of the applicable Survival Period, until such Claim is finally resolved and any related Damages are paid. All covenants of the Parties in this Agreement shall survive the Closing and shall continue in full force thereafter in accordance with their terms.

(b) Indemnification by the Stockholders. (i) Subject to Section 8.1(c) and Section 8.1(e), and regardless of any investigation at any time made by or on behalf of the Buyer or of any knowledge or information that the Buyer may have, each of the Stockholders shall, on a pro rata basis, in accordance with its proportionate shareholding in the Company, indemnify, defend and hold the Buyer, and, following the Closing, the Company (collectively, the "ACQUIRING PARTIES") harmless, from and against any Damages any of the Acquiring Parties may suffer, sustain or become subject to, resulting from or relating to: (A) any breach as of the date hereof discovered prior to or during the applicable Survival Period of any of the Company Representations, (B) any breach on or prior to the Closing Date of any covenant or agreement on the part of the Company set forth in this Agreement, (C) any Excess Transaction Expenses not otherwise deducted at the Closing from the Escrow Amount pursuant to Section 2.7, or (D) (x) any Disclosed Prior Expenses not otherwise deducted at the Closing from the Escrow Amount pursuant to Section 2.7 in excess of an aggregate amount of $400,000 which are not expensed in the Company's statements of income for the periods ended September 30, 1996 (y) any additional costs and expenses (including fees and expenses of legal counsel, investment bankers, brokers or other representatives or consultants) incurred by the Company in connection with its contemplated initial public offering of Company Shares and other matters identified in the calculation of the Disclosed Prior Expenses, in excess of the Disclosed Prior Expenses (paragraphs (x) and (y)

collectively, the "EXCESS PRIOR EXPENSES").

(ii) In addition, subject to Section 8.1(c) and Section 8.1(e), and regardless of any investigation at any time made by or on behalf of the Buyer or of any knowledge or information that the Buyer may have, each Stockholder shall, severally and not jointly, indemnify, defend and hold the Acquiring Parties harmless, from and against any Damages any of the Acquiring Parties may suffer, sustain or become subject to, resulting from or relating to: (A) any breach as of the date hereof discovered prior to or during the applicable Survival Period of any of the Stockholders Limited Representations, or (B) any breach of any covenant or agreement on the part of such Stockholder in this Agreement (together with Section 8.1(b)(i), the "BUYER INDEMNIFIABLE LOSSES").

(c) Limits on Indemnification. (i) The Escrow Amount held under the Escrow Agreement will be applied against and shall be the sole source for indemnification for any Buyer Indemnifiable Losses and no Stockholder shall otherwise be liable to the Buyer or the Company for the breach of any representation or warranty of any Stockholder or the Company hereunder or in connection with the transactions contemplated hereby; provided that notwithstanding anything to the contrary in this Agreement, the Escrow Amount shall not be the sole source for indemnification for (A) any Buyer Indemnifiable Losses arising out of breaches by a Stockholder of the Stockholders' Limited Representations, (B) breaches of the covenants or agreements on the part of any Stockholder in this Agreement or (C) any Buyer Indemnifiable Losses arising out of any breach of the Company Representations contained in section 3.2(b) hereof; provided, further, that no Escrow Amount deposited into escrow by or on behalf of any Stockholder may be applied against Buyer Indemnifiable Losses arising out of any breach of the Stockholder Representations or breaches of the covenants or agreements on the part of any Stockholder in this Agreement by any Stockholder other than the Stockholder who made such deposit or on whose behalf such deposit was made.

(ii) Notwithstanding anything to the contrary contained in Section 8.1(b)(i)(A), the Stockholders shall have no liability for Damages in respect of Buyer Indemnifiable Losses pursuant to such Section until the aggregate amount of such Damages exceeds $750,000, and then only for such Damages in excess of $250,000. The foregoing limitation shall not apply to the Stockholders' liability for Damages in respect of Buyer Indemnifiable Losses relating to (w) breaches as provided in Section 8.1(b)(ii)(A), (x) breaches of the covenants or agreements on the part of the Company and any Stockholder in this Agreement, (y) any Excess Transaction Expenses and Excess Prior Expenses, or (z) breaches of the Company Representations contained in Section 3.2(b).

(d) Indemnification by the Buyer. Subject to Section 8.1(e), and regardless of any investigation at any time made by or on behalf of the Stockholders or of any knowledge or information that the Stockholders may have, the Buyer shall indemnify, defend and hold the Stockholders harmless from and against any Damages the Stockholders may suffer, sustain or become subject to, resulting from or relating to: (i) any breach as of the date hereof discovered prior to or during the applicable Survival Period of any of the Buyer Representations, or (ii) any breach of any covenant or agreement on the part of the Buyer set forth in this Agreement.

(e) Written Claim Requirement. Each Indemnifying Party (as defined below) shall have no obligation to indemnify the Indemnified Party (as defined below) from and against any indemnifiable losses unless the Indemnified Party makes a written claim, which shall contain reasonable detail, to the extent available to the Indemnified Party, with regard to the basis of the claim and the amount thereof, within the Survival Period with respect to the breach which gives rise to such Indemnifiable Losses.

(f) Matters Involving Third Parties. (i) If any third party shall notify any Party (the "INDEMNIFIED PARTY") with respect to any matter (a "THIRD PARTY CLAIM") which may give rise to a claim by such Indemnified Party for indemnification against any other Party (the "INDEMNIFYING PARTY") under this Agreement, then the Indemnified Party shall notify each Indemnifying Party thereof promptly; provided, however, that no delay on the part of the Indemnified Party in notifying any Indemnifying Party shall relieve the Indemnifying Party from any liability or obligation hereunder unless (and then solely to the extent that) the Indemnifying Party is disadvantaged or damaged thereby.

(ii) Any Indemnifying Party will have the right to defend the Indemnified Party against a Third Party Claim with counsel of the Indemnifying Party's choice, reasonably satisfactory to the Indemnified Party, so long as (A) the Indemnifying Party notifies the Indemnified Party, within thirty (30) business days after the Indemnified Party has given notice of the Third Party Claim to the Indemnifying Party that the Indemnifying Party is assuming the defense of such Third Party Claim and will indemnify the Indemnified Party against such Third Party Claim in accordance with the terms and limitations of this Section 8.1, and (B) the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently.

(iii) So long as the conditions set forth in Section 8.1(f)(ii) are and remain satisfied, then (A) the Indemnifying Party may conduct the defense of the

Third-Party Claim, (B) the Indemnified Party may retain one separate local co-counsel in each relevant jurisdiction at its sole cost and expense, (C) the Indemnified Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party Claim without the prior written consent of the Indemnifying Party (not to be unreasonably withheld), (D) the Indemnifying Party will not consent to the entry of any judgment with respect to the matter, or enter into any settlement which (x) requires a payment by the Indemnified Party other than from the Escrow Amount, (y) imposes an injunction or other equitable relief upon the Indemnified Party or does not include a provision whereby the plaintiff or claimant in the matter releases the Indemnified Party from all liability with respect thereto, or (z) in the case of a Third Party Claim initiated by any taxing authority with respect to Taxes, which would increase the liability for Taxes of the Indemnified Party, without the prior written consent of the Indemnified Party, which consent shall not be unreasonably withheld, and (E) the Indemnified Party shall, at the Indemnifying Party's reasonable request and at the Indemnifying Party's expense, cooperate in the defense of the matter. In the event that the conditions in Section 8.1(f)(ii) are or become unsatisfied in the case of any Third Party Claim, then the Indemnified Party may assume control of the defense of such claim, subject to the requirement that it not enter into any settlement or consent to the entry of any judgment with respect to the matter without the consent of the Indemnifying Party, which consent shall not be unreasonably withheld.

(g) The amount of any Damages for which indemnification is provided under this Section 8.1 shall be net of any amounts that the Indemnified Party recovers under insurance or indemnification policies or agreements with respect to such Damages, after deducting the Indemnified Party's costs and expenses of procuring such recovery; provided that such Indemnified Party shall be required to pursue, in accordance with its customary business practice, all applicable good faith claims.

VIII.2 Remedies. Each of the Parties acknowledges and agrees that each other Party would be damaged irreparably in the event any of the provisions of this Agreement are not performed in accordance with their specific terms or otherwise are breached. Accordingly, each of the Parties agrees that each other Party shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof in any action instituted in any court of the United States or any state thereof having jurisdiction over the parties and the matter, in addition to any other remedy to which it may be entitled, at law or in equity. Notwithstanding the foregoing, the Parties agree that the indemnities provided for in this Article VIII shall be exclusive other than in the case of actual fraud and no party shall be entitled to any duplicative recovery or remedy against the other party. None of the Stockholders shall have any right of contribution against the Company with respect to any Buyer Indemnifiable Losses.

ARTICLE IX - MISCELLANEOUS

IX.1 Dispute Resolution. In the event of any dispute, controversy or claim arising out of or relating to this Agreement, including any and all schedules and exhibits hereto (a "DISPUTE"), the Parties to such Dispute (which in the case of the Stockholders shall be represented by the Stockholders' Agent unless the Dispute relates to a matter in which not all of the Stockholders have a common interest) shall first use their best efforts to resolve such Dispute among themselves. If the Parties to such Dispute are unable to resolve the Dispute within 30 calendar days after the notification by one Party to another of the existence of a Dispute, at the request of any Party, the Dispute will be submitted to arbitration in accordance with Section 9.2 hereof.

IX.2 Arbitration. (a) Any Dispute not resolved as described in Section 9.1 shall, at the written request of any Party to the Dispute, be submitted to final and binding arbitration in New York, New York in accordance with the International Arbitration Rules of the American Arbitration Association, except as otherwise provided in this Section 9.2. The arbitration proceedings shall be conducted, and the award rendered, in the English language.

(b) In any arbitration pursuant to this Article IX, the Stockholders shall be treated as one Party for all purposes, including the selection of the sole arbitrator by the Stockholders' Agent on behalf of the Stockholders (unless the Dispute relates to a matter in which not all of the Stockholders have a common interest). There shall

be one arbitrator who shall be selected by mutual agreement of the Parties prior to the Closing. If such arbitrator is unable or unwilling to serve, a mutually agreed replacement arbitrator shall be selected by the parties within 15 days following commencement of an arbitration proceeding pursuant to this Article IX; provided that, in the event that the Parties are unable to so agree, such arbitrator shall be appointed by the administrator of the American Arbitration Association within 10 days following the request of any of the Parties that such administrator do so.

(c) The arbitrator shall not be an employee, consultant, officer, director or stockholder of any Party hereto or any Affiliate of any Party to this Agreement.

(d) The arbitrator shall decide the matters in dispute in accordance with the laws of the State of New York, without reference to the conflict of laws rules thereof. The arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. Sections 1-16, 201-08. The arbitrator shall have the power to rule on his own jurisdiction.

(e) The hearing shall be commenced no later than sixty (60) days and the award shall be rendered no later than ninety five (95) days following the appointment of the Dispute to the arbitrator. All discovery shall be allowed, only with the approval of the arbitrator, and shall be completed no later than twenty (20) days prior to the commencement of the hearing. The Parties and the arbitrator shall treat the proceedings, any related discovery, and the decisions of the arbitral tribunal as confidential, except in connection with a judicial challenge to, or enforcement of, an award, and unless otherwise required by law.

(f) The award of the arbitrator shall be final and binding and shall be the sole and exclusive remedy between the Parties regarding any Claims, counterclaims, issues or accountings presented to the tribunal. The arbitrator shall have full authority to grant provisional remedies and to award damages for the failure of any party to respect the arbitrator's orders to that effect. The arbitrator's award shall state the reasons on which the award is based, and may not include punitive damages. Any monetary award shall be made and payable in Dollars, free of any tax or other deduction, and shall include interest from the date of any breach or other violation of this Agreement to the date on which the award is paid, at a rate to be determined by the arbitrator.

(g) Judgment upon the award rendered by the arbitrator may be entered by any court having jurisdiction thereof, including the courts of the United States and Israel. Each of the Parties hereby consents to service of process by registered mail, by receipted Federal Express or other courier delivery, or by personal delivery at

its address set forth below and agrees that its submission to jurisdiction and its consent to service of process by mail is made for the express benefit of the other party.

(h) The prevailing Party shall be awarded reasonable costs and expenses incurred in connection with the arbitration, including attorneys' fees and the costs and fees of the arbitrator and the arbitration, unless the arbitrator for good cause determines otherwise.

(i) This agreement to arbitrate shall be binding upon the heirs, successors, and assigns and any trustee, receiver, or executor of each Party.

IX.3 Entire Agreement; No Third Party Beneficiaries. This Agreement, the Confidentiality Agreement, the Escrow Agreement and the Related Agreements (including the documents and other agreements referred to herein or therein) (a) constitute the entire agreement between the Parties and supersede any prior understandings, agreements or representations by or between the Parties, written or oral, with respect to the subject matter hereof, and (b) is not intended to confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns, except that (i) Option Holders shall be deemed to be beneficiaries of the provisions of Section 4.1 hereof (ii) the appointed proxy pursuant to Section 5.3 shall be deemed to be a beneficiary of the provisions of Section 5.3, (iii) the Stockholders' Agent shall be deemed to be a beneficiary of the provisions of Section 5.8 and (iv) the Persons for whom a waiver is given under Section 5.6 shall be deemed to be beneficiaries of Section 5.6.

IX.4 Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Company, the Stockholders and the Buyer and their respective successors and permitted assigns. None of the Parties may assign or delegate either this Agreement or any of its rights, interests or obligations hereunder without the prior written approval of the other Parties, except that the Buyer may assign or delegate either this Agreement or any of its rights, interests or obligations hereunder to any direct or indirect wholly owned Subsidiary of the Buyer, but in such event the Buyer shall remain liable for the performance of all of such obligations. Any references in this Agreement to a Stockholder or the Stockholders shall mean and include the successors to the Stockholders' rights hereunder, whether pursuant to assignment, testamentary disposition, the laws of descent and distribution or otherwise.

IX.5 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which

together will constitute one and the same instrument.

IX.6 Notices. All notices, requests, demands, Claims and other communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given (i) on the next business day following the date on which it is sent by facsimile, (ii) on the second business day following the date on which it is sent by a recognized international courier service, and (iii) on the seventh business day following the date on which it is sent by registered or certified mail in the country of receipt, return receipt requested, postage prepaid, and in each case addressed to the intended recipient as set forth below:

If to the Company:
Orbot Instruments Ltd
Yavne Industrial Zone
P.O. BOX 601, Yavne 81106, Israel
Fax: (972) 8-942-1644
Attn: Zvi Lapidot
Chairman of the Board of Directors

With a Copy To:
Ephraim Abramson & Co.
16 King George Street
Jerusalem 94229, Israel
Fax:(972) 2-625-9264
Attn: Ephraim Abramson

If to the Stockholders:
To the Stockholders' Agent, at:
Ephraim Abramson & Co.
16 King George Street
Jerusalem 94229, Israel
Phone: (972) 2-624-5881
Fax: (972) 2-625-9264
Attn: Harry Grynberg

If to the Buyer:
Applied Materials, Inc.
2881 Scott Blvd.
Santa Clara, California 95050

Fax: (408) 563-4635
Attn: Joseph J. Sweeney
Vice President-Legal Affairs

With a Copy to:
Skadden, Arps, Slate, Meagher & Flom LLP
919 Third Avenue
New York, New York 10022
Fax: (212) 735-2000
Attn: David Fox

Any Party may give any notice, request, demand, Claim or other communication hereunder using any other means (including personal delivery, expedited courier, messenger service, telex, ordinary mail, or electronic mail), but no such notice, request, demand, Claim or other communication shall be deemed to have been duly given unless and until it actually is received by the Person for whom it is intended; provided that if the Person is a corporation such receipt shall be by an officer or authorized agent of such Person.

IX.7 Governing Law; Jurisdiction and Venue. This Agreement shall be governed by and construed in accordance with the domestic laws of the United States of America and the State of New York, without giving effect to any choice of law or conflict of law provision or rule that would cause the application of the laws of any jurisdiction other than the State of New York, except with respect to the mechanics and procedures of the Company Action, which shall be governed and construed in accordance with the domestic laws of the State of Israel.

IX.8 Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by the Buyer, the Company and the Stockholders' Agent on behalf of the Stockholders who by signing this Agreement have duly appointed such Stockholders' Agent. No waiver by any Party of any default, misrepresentation or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

IX.9 Severability. Any term or provision of this Agreement that is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable in any situation in any jurisdiction shall not affect the validity or enforce-

ability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a court of competent jurisdiction or other authority declares that any term or provision hereof is invalid, void or unenforceable, the Parties agree that the court making such determination shall have the power to reduce the scope, duration, area or applicability of the term or provision, to delete specific words or phrases, or to replace any invalid, void or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision.

IX.10 Expenses. Each of the Buyer, on the one hand, and the Company and the Stockholders on the other hand will bear his, her or its own direct and indirect costs and expenses (including fees and expenses of legal counsel, investment bankers, brokers or other representatives or consultants) incurred in connection with the negotiation, preparation and execution of this Agreement, the Related Agreements and the transactions contemplated hereby and thereby, whether or not such transactions are consummated; provided, that the Company will bear and pay (i) up to an aggregate of $200,000 of any costs and expenses (including fees and expenses of legal counsel, investment bankers, brokers or other representatives or consultants) incurred by the Company in connection with the negotiation, preparation and execution of this Agreement, the Related Agreements and the transactions contemplated hereby and thereby (the "AGREED TRANSACTION EXPENSES"), (ii) any Disclosed Prior Expenses up to an aggregate amount of $400,000 and (iii) any additional Disclosed Prior Expenses expensed in the Company's statements of income for the periods ended September 30, 1996, and the Stockholders will bear (i) any amount of such transaction expenses in excess of the Agreed Transaction Expenses (the "EXCESS TRANSACTION EXPENSES") and (ii) any Excess Prior Expenses. Notwithstanding the foregoing, the 1% fee payable to Ephraim Abramson & Co. with respect to employee options of the Company shall not be considered Excess Transaction Expenses for purposes of this Section 9.10 and Sections 2.7 and 8.1. Any Estimated Transaction Expenses which are disclosed to the Buyer in writing pursuant to Section 4.7(iv) in excess of the Agreed Transaction Expenses and any Excess Prior Expenses disclosed to the Buyer in writing pursuant to Section 4.7(i) shall be deducted at the Closing from the Escrow Amount and the Company shall be obligated to pay such expenses. Any other Excess Transaction Expenses and Excess Prior Expenses shall be subject to indemnification under Section 8.1.

IX.11 Interpretation. Each defined term used in this Agreement has a comparable meaning when used in its plural or singular form. The term "include" and its derivatives shall have the same construction as the phrase "include, without limitation," and its derivatives. The section headings contained in this Agreement

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are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement. All references in this Agreement to "applicable laws", and other references of similar import, include the laws of the United States, the State of Israel or other states and their respective political subdivisions.

IN WITNESS WHEREOF, each of the Buyer, the Company and the Stockholders have caused this Agreement to be duly executed as of the day and year first above written.

APPLIED MATERIALS, INC.

By: /s/ James C. Morgan

Name: James C. Morgan
Title: Chairman and Chief Executive Officer

ORBOT INSTRUMENTS LTD.
By: /s/ Zvi Lapidat /s/ Avner Hermoni

Name: Zvi Lapidat Avner Hermoni
Title: Chairman President

ADNIR HOLDINGS LTD.

By: /s/ Alex Goldenberg

Name: Alex Goldenberg
Title:

CARROLL ACQUISITION CORP.

By: /s/ Alan L. Schlang

Name: Alan L. Schlang
Title: Secretary

CHARANA HOLDING

By: /s/ G. Shulev

Name: G. Shulev, by its attorney, pursuant to power of attorney dated November 22, 1996
Title:

DAFNA PROVIDENT FUND FOR TEACHERS'

COMPENSATION AND PROVIDENT LTD.

By: /s/ Avivit Shahar /s/ Ron Cohen

Name: Avivit Shahar and Ron Cohen
Title:

DANAN INVESTMENTS

By: /s/ Kuti Gavish

Name: Kuti Gavish
Title:

ELDAR PROVIDENT FUND FOR INDEPENDENT LTD.

By: /s/ Avivit Shahar /s/ Ron Cohen

Name: Avivit Shahar and Ron Cohen
Title:

FELINE INVESTMENTS INC.

By: /s/ G. Shalev

Name: G. Shalev, by its attorney, pursuant to power of attorney dated November 20, 1996
Title:

FURTHER EDUCATION FUND FOR ACADEMICS
IN LIBERAL ARTS AND SOCIAL SCIENCES

By: /s/ Gadiel Blustein

Name: Gadiel Blustein
Title:

GADISH PROVIDENT FUNDS LTD.

By: /s/ Menachem Zuta /s/ Yosi Oana

Name: Menachem Zuta and Yosi Oana
Title:

GALRAN ASSETS LTD.

By: /s/ Kuti Gavish

Name: Kuti Gavish
Title:

GMOOL INVESTMENTS COMPANY LTD.

By: /s/ Avivit Shahar and Ron Cohen

Name: Avivit Shahar and Ron Cohen
Title:

HAGMUL PROVIDENT FUND FOR SCHOOL AND NURSERY TEACHERS LTD.

By: /s/ Avivit Shahar and Ron Cohen

Name: Avivit Shahar and Ron Cohen
Title:

KATZIR PROVIDENT AND COMPENSATION FUND LTD.

By: /s/ Menachem Zutu /s/ Yosi Oana

Name: Menachem Zutu and Yosi Oana
Title:

KEREN OR PROVIDENT FUND

By: /s/ Yosi Dana /s/ Menachem Zuta

Name: Yosi Dana Menachem Zuta
Title: CPA Managing Director

OSCAR GRUSS & SON, INC.

By: /s/ G. shalev

Name: G. Shalev, by its attorney, pursuant to power of attorney dated November, 20 1996
Title:

OR-TASS LTD.

By: /s/ Yehuda Burnicki

Name: Yehuda Burnicki
Title:

TAGMULIM CENTRAL PROVIDENT FUND

By: /s/ Menachem Zuta /s/ Yosi Oana

Name: Menachem Zuta and Yosi Oana
Title:

THE AIRCRAFT INDUSTRIES WORKERS' PROVIDENT FUND

By: /s/ Ackerman Zvi /s/ Eligahu Ashery

Name: Ackerman Zvi Eligahu Ashery
Title: Chairman of the Board General Manager

THE HEBREW UNIVERSITY EMPLOYEES'
PROVIDENT FUND LTD.

By: /s/ G. Shalev

Name: G. Shalev by its attorney, under power of attorney dated November 21, 1996
Title:

THE PROVIDENT FUND FOR EL AL
EMPLOYEES

By: /s/ Dov Shumer /s/ Shimon Kutchisky

Name: Dov Shumer Shimon Kutchisky
Title: Chairman Director

TOM HOLDINGS AND ASSETS (1993) LTD.

By: /s/ Kuti Gavish

Name: Kuti Gavish
Title:

UBERSEBANK AG

By: /s/ G. Shalev

Name: G. Shalev by its attorney, pursuant to power of attorney dated November 21, 1996
Title:

/s/ Ephraim Abramson

Ephraim Abramson

/s/ D. Alumoth

David Alumoth

/s/ Amiram Caspi

Amiram Caspi, by his attorney, Rachel Caspi, pursuant to power of attorney dated November 20, 1996

/s/ Rachel Caspi

Rachel Caspi

/s/ David Cohen

David Cohen

/s/ Ephraim Abramson

Hanan Gilutz, by his attorney, Ephraim Abramson, pursuant to power of attorney dated November 17, 1996

/s/ Yhakov Moreshet

Julia Gold, by her attorney, Yhakov Moreshet, pursuant to power of attorney dated November 20, 1996

/s/ David Hermelin

David Hermelin

/s/ Zvi Lapidot

Zvi Lapidot

/s/ Eliahu Lerner

Eliahu Lerner

/s/ Zvi Lapidot

Gadi Neuman, by his attorney, Zvi Lapidot, pursuant to power of attorney dated November 19, 1996

/s/ Ya'akov Richter

Ya'akov Richter

/s/ Yochai Richter

Yochai Richter

/s/ Uziahu and Shoshana Rosenberg

Uziahu and Shoshana Rosenberg

/s/ G. Rosenfeld

Gideon Rosenfeld

/s/ Shimon Ullman

Shimon Ullman

SCHEDULE A

SHAREHOLDERS OF ORBOT INSTRUMENTS LTD.

Name	Number of Shares	Percentage %
Or-tass Ltd.	899,800	14.9007
Carroll Acquisition Corp.	735,050	12.1725
Eliahu Lerner	450,200	7.2437
Zvi Lapidot	411,050	6.8070
Ya'akov Richter	411,050	6.8070
Yochai Richter	411,050	6.8070
Shimon Ullman	411,050	6.8070
Oscar Gruss & Son, Inc.	212,450	3.5182
Amiram Caspi	205,550	3.4039
Rachel Caspi	205,500	3.4030
Uziahu and Shoshana Rosenberg	195,000	3.2292
Gmool Investments Company Ltd.	185,250	3.0678
Gadish Provident Funds Ltd.	175,500	2.9063
Hanan Gilutz	154,150	2.5527
Further Education Fund for Academics in Liberal Arts and Social Sciences	97,500	1.6146
David Alumoth	90,000	1.4904
Gadi Neuman	90,000	1.4904
David Hermelin	75,100	1.2437
Gideon Rosenfeld	72,000	1.1923
Tagmulim Central Provident Fund	58,500	0.9688
The Aircraft Industries Worker's Provident Fund	58,500	0.9688
Charana Holding	48,750	0.8073
Uberseebank AG	48,750	0.8073
Feline Investments Inc.	48,750	0.8073

Dafna Provident Fund for Teachers' Compensation and Provident Ltd.	39,000	0.6458
Hagmul Provident Fund for School and Nursery Teachers Ltd.	39,000	0.6458
Katzir Provident and Compensation Fund Ltd.	29,250	0.4844
Keren Or Provident Fund	29,250	0.4844
The Hebrew University Employees' Provident Fund Ltd.	29,250	0.4844
Adnir Holdings Ltd.	19,500	0.3229
Eldar Provident Fund for Independent Ltd.	19,500	0.3229
Galran Assets Ltd.	19,500	0.3229
The Provident Fund for El Al Employees	19,500	0.3229
Tom Holdings and Assets (1993) Ltd.	19,500	0.3229
Julia Gold	9,750	0.1615
Ephraim Abramson	7,700	0.1275
Danan Investments	4,875	0.0807
David Cohen	2,550	0.0422

SCHEDULE B

Name

Or-tass Ltd.

Carroll Acquisition Corp.

Eliahu Lerner (on behalf of the beneficial holders of Company Shares held of record by Mr. Lerner)

Ya'akov Richter

Yochai Richter

Amiram Caspi

Rachel Caspi

Uziahu and Shoshana Rosenberg

Hanan Gilutz

David Alumoth

Gadi Neuman

Gideon Rosenfeld

Ephraim Abramson

BUYER DISCLOSURE SCHEDULE

Section 3.3(c)

1. Exemption of the Israeli Securities Authority from the registration and prospectus delivery requirements under Israeli Securities laws with respect to the issuance of Buyer Options as provided in Section 4.1(a), provided that obtaining such exemption shall not be a condition to the Stock Purchase as set forth in Section 6.1 and in the event such exemption is not obtained, the provision of Section 4.1(a) will apply.

2. No-action or approval by the Comptroller of Restrictive Trade Practices under the Restrictive Trade Practices Law of 1988.

EXHIBIT 3(i)

CERTIFICATE OF INCORPORATION

OF

APPLIED MATERIALS, INC.

(as amended to March 18, 1996)

FIRST: The name of the corporation is Applied Materials, Inc.

SECOND: The address of the corporation's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at that address is The Corporation Trust Company.

THIRD: The name and mailing address of the incorporator of the corporation is:

Donald A. Slichter
Orrick, Herrington & Sutcliffe
55 Almaden Boulevard
San Jose, California 95113

FOURTH: The nature of the business or purposes to be conducted or promoted by the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

FIFTH: 1. The corporation is authorized to issue two classes of shares to be designated, respectively, "Preferred Stock" and "Common Stock." The number of shares of Preferred Stock authorized to be issued is One Million (1,000,000) and the number of shares of Common Stock authorized to be issued is Five Hundred Million (500,000,000). The stock, whether Preferred Stock or Common Stock, shall have a par value of $.01 per share.

2. The shares of Preferred Stock may be issued from time to time in one or more series. The Board of Directors is authorized, by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof, including but not limited to the fixing or alteration of the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price or prices, and the liquidation preferences of any wholly unissued series of shares of Preferred Stock; and to increase or decrease the number of shares of any series subsequent to the issue of shares of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

SIXTH: In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to adopt, amend and repeal from time to time any or all of the bylaws of the corporation, including bylaw amendments increasing or reducing the authorized number of directors.

SEVENTH: No action shall be taken by the stockholders except at an annual or special meeting of stockholders. No action shall be taken by stockholders by written consent.

EIGHTH: Elections of directors need not be by written ballot unless the bylaws of the corporation shall so provide.

NINTH: 1. The affirmative vote of the holders of not less than sixty-six and sixty-seven hundredths percent (66.67%) of the outstanding shares of "Voting Stock" (as hereinafter defined) shall be required for the approval or authorization of any "Business Combination" (as hereinafter defined) of this corporation or any subsidiary of this corporation with any "Related Person" (as hereinafter defined), notwithstanding the fact that no vote may be required or that a lesser percentage may be specified by law, in any agreement with any national securities exchange or otherwise; provided, however, that the sixty-six and sixty-seven hundredths percent (66.67%) voting requirement shall not be applicable and such Business Combination shall require only such affirmative vote as is required by law, any agreement with any national securities exchange or otherwise if:

(a) The "Continuing Directors" (as hereinafter defined) of this corporation by at least a majority vote have expressly approved such Business Combination either in advance of or subsequent to such Related Person becoming a Related Person; or

(b) All of the following conditions are met:

(i) The cash or "Fair Market Value" (as hereinafter defined) as of the date of the consummation of the Business Combination (the "Combination Date") of the property, securities or other consideration to be

received per share by holders of a particular class or series of capital stock, as the case may be, of this corporation in the Business Combination is not less than the highest of:

(A) the highest per share price (including brokerage commissions, transfer taxes and soliciting dealers' fees) paid by or on behalf of the Related Person in acquiring beneficial ownership of any of its holdings of such class or series of capital stock of this corporation (i) within the two-year period immediately prior to the Combination Date or (ii) in the transaction or series of transactions in which the Related Person became a Related Person, whichever is higher; or

(B) the Fair Market Value per share of the shares of capital stock being acquired in the Business Combination (i) as of the Combination Date or (ii) the date on which the Related Person became a Related Person, whichever is higher; or

(C) in the case of Common Stock, the per share book value of the Common Stock as reported at the end of the fiscal quarter immediately prior to the Combination Date, and in the case of Preferred Stock, the highest preferential amount per share to which the holders of shares of such class or series of Preferred Stock would be entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up

of the affairs of the corporation, regardless of whether the Business Combination to be consummated constitutes such an event.

The provision of this paragraph l(b)(i) shall be required to be met with respect to every class or series of outstanding capital stock, whether or not the Related Person has previously acquired any shares of a particular class or series of capital stock. In all of the above instances, appropriate adjustments shall be made for recapitalizations and for stock dividends, stock splits and like distributions; and

(ii) The consideration to be received by holders of a particular class or series of capital stock shall be in cash or in the same form as previously has been paid by or on behalf of the Related Person in connection with its direct or indirect acquisition of beneficial ownership of shares of such class or series of stock. If the consideration so paid for any such shares varied as to form, the form of consideration for such shares shall be either cash or the form used to acquire beneficial ownership of the largest number of shares of such class or series of capital stock previously acquired by the Related Person; and

(iii) After such Related Person has become a Related Person and prior to the consummation of such Business Combination: (a) except as approved by a majority of the Continuing Directors, there shall have

been no failure to declare and pay at the regular date therefor any full quarterly dividends (whether or not cumulative) on the outstanding Preferred Stock; (b) there shall have been (1) no reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any subdivision of the Common Stock), except as approved by a majority of the Continuing Directors, and (2) an increase in such annual rate of dividends as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of the Common Stock, unless the failure so to increase such annual rate is approved by a majority of the Continuing Directors; and (c) such Related Person shall have not become the beneficial owner of any additional shares of Voting Stock except as part of the transaction which results in such Related Person becoming a Related Person; and

(iv) After such Related Person has become a Related Person, such Related Person shall not have received the benefit, directly or indirectly (except as proportionately as a stockholder), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the corporation, whether in anticipation of

or in connection with such Business Combination or otherwise; and

(v) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations) shall be mailed to public stockholders of the corporation at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions).

2. For purposes of this Article NINTH:

(a) The term "Business Combination" shall mean any (i) merger or consolidation of this corporation or a Subsidiary (as hereinafter defined) of this corporation with a Related Person or any other corporation which is or after such merger or consolidation would be an "Affiliate" or "Associate" (as hereinafter defined) of a Related Person, (ii) sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) with any Related Person or any Affiliate or Associate of any Related Person, of all or any "Substantial Part" (as hereinafter defined) of the assets of this corporation or of a Subsidiary of this corporation to a Related Person or any Affiliate or Associate of any Related Person, (iii) adoption of any plan or proposal for the

liquidation or dissolution of this corporation proposed by or on behalf of a Related Person or any Affiliate or Associate of any Related Person, (iv) sale, lease, exchange or other disposition, including without limitation a mortgage or other security device, of all or any Substantial Part of the assets of a Related Person or any Affiliate or Associate of any Related Person to this corporation or a Subsidiary of this corporation, (v) issuance or pledge of securities of this corporation or a Subsidiary of this corporation to or with a Related Person or any Affiliate or Associate of any Related Person, (vi) reclassification of securities (including any reverse stock split) or recapitalization of this corporation or any other transaction that would have the effect, either directly or indirectly, of increasing the proportionate share of any class of equity or convertible securities of this corporation or any Subsidiary of this corporation which is directly or indirectly beneficially owned by any Related Person or any Affiliate or Associate of any Related Person, and (vii) agreement, contract or other arrangement providing for any of the transactions described in this definition of Business Combination.

(b) The term "person" shall mean any individual, firm, corporation or other entity and shall include any group comprised of any person and any other person with whom such person or any Affiliate or Associate of such person has any agreement, arrangement or understanding, directly or indirectly, for the purpose of acquiring, holding, voting or disposing of Voting Stock of this corporation.

(c) The term "Related Person" shall mean any person (other than this corporation, or any Subsidiary and other than any profit-sharing, employee stock ownership or other employee benefit plan of this corporation or any Subsidiary or any trustee of or fiduciary with respect to any such plan when acting in such capacity) who or which:

(i) is the beneficial owner (as hereinafter defined) of fifteen percent (15%) or more of the Voting Stock;

(ii) is an Affiliate or Associate of this corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner of fifteen percent (15%) or more of the Voting Stock; or

(iii) is an assignee of or has otherwise succeeded to the beneficial ownership of any shares of Voting Stock which were at any time within the two-year period immediately prior to such time beneficially owned by any Related Person, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

(d) A person shall be a "beneficial owner" of any Voting Stock:

(i) which such person or any of its Affiliates or Associates beneficially owns, directly or indirectly,

(ii) which such person or any of its Affiliates or Associates has, directly or indirectly, (a) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (b) the right to vote pursuant to any agreement, arrangement or understanding; or

(iii) which are beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

(e) For the purposes of determining whether a person is a Related Person pursuant to subparagraph (c) of this paragraph 2, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of subparagraph (d) of this paragraph 2 but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(f) The terms "Affiliate" or "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on January 12, 1987.

(g) The term "Subsidiary" means any corporation of which a majority of any class of equity securities is owned, directly or indirectly, by this corporation; provided, however, that for the purposes of the definition of Related Person set forth in subparagraph (c) of this paragraph 2, the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity securities is owned, directly or indirectly, by this corporation.

(h) The term "Continuing Director" means any member of the Board of Directors, while such person is a member of the Board of Directors, who is not an Affiliate, Associate or a representative of the Related Person involved in a proposed Business Combination and was a member of the Board of Directors prior to the time that the Related Person became a Related Person, and any successor of a Continuing Director, while such successor is a member of the Board of Directors, who is not an Affiliate, Associate or a representative of the Related Person and is recommended or elected to succeed a Continuing Director by a majority of Continuing Directors. Each initial director of this corporation elected by the incorporator of this corporation shall be a Continuing Director for purposes of this Article NINTH.

(i) The term "Substantial Part" shall mean more than twenty percent (20%) of the Fair Market Value, as determined by a majority of the Continuing Directors, of the total consolidated assets of this corporation and its Subsidiaries taken as a whole as of the end of its most recent fiscal year ended prior to the time the determination is being made.

(j) For the purposes of paragraph l(b)(i) of this Article NINTH, the term "other consideration to be received" shall include, without limitation, capital stock retained by the shareholders.

(k) The term "Voting Stock" shall mean all of the outstanding shares of Common Stock and the outstanding shares of Preferred Stock entitled to vote on each matter on which the holders of record of Common Stock shall be entitled to vote, and each reference to a proportion of shares of Voting Stock shall refer to such proportion of the votes entitled to be cast by such shares voting as one class.

(l) The term "Fair Market Value" means (i) in case of capital stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for the New York Stock Exchange Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Act of 1934 on which such stock is listed, or, if such stock is not listed on any such stock exchange, the highest closing sale price with

respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any successor system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined in good faith by a majority of the Continuing Directors; and (ii) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined in good faith by a majority of the Continuing Directors.

(m) A Related Person shall be deemed to have acquired a share of the Voting Stock of this corporation at the time when such Related Person became the beneficial owner thereof. If a majority of the Continuing Directors is not able to determine the price at which a Related Person has acquired a share of Voting Stock of this corporation, such price shall be deemed to be the Fair Market Value of the shares in question at the time when the Related Person became the beneficial owner thereof. With respect to shares owned by Affiliates, Associates or other persons whose ownership is attributed to a Related Person under the foregoing definition of Related Person, the price deemed to be paid therefor by such Related Person shall be the price paid upon the acquisition thereof by such Affiliate, Associate or other person, or, if such price is not determinable by a majority of the Continuing Directors, the Fair Market Value of the shares in question at the time when the Affiliate,

Associate or other such person became the beneficial owner thereof.

3. The fact that any Business Combination complies with the provisions of paragraph l(b) of this Article NINTH shall not be construed to impose any fiduciary duty, obligation or responsibility on the Board of Directors, or any member thereof, to approve such Business Combination or recommend its adoption or approval to the shareholders of this corporation, nor shall such compliance limit, prohibit or otherwise restrict in any manner the Board of Directors, or any member thereof, with respect to evaluations of or actions and responses taken with respect to such Business Combination.

4. A majority of the Continuing Directors of the corporation shall have the power and duty to determine for the purposes of this Article NINTH, on the basis of information known to them after reasonable inquiry, (A) whether a person is a Related Person, (B) the number of shares of Voting Stock beneficially owned by any person, and (C) whether a person is an Affiliate or Associate of another. A majority of the Continuing Directors of the corporation shall have the further power to interpret all of the terms and provisions of this Article NINTH.

TENTH: A director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional

misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

ELEVENTH: 1. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director, officer, employee or agent, of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the corporation to the fullest extent authorized by the Delaware General Corporation Law, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except as provided in

paragraph 2 hereof, the corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors of the corporation. The right to indemnification conferred in this Article shall be a contract right.

2. If a claim under paragraph 1 of this Article is not paid in full by the corporation within 30 days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the corporation) that the claimant has not met the standards of conduct which make it permissible under the Delaware General Corporation Law for the corporation to indemnify the claimant for the amount claimed.

3. The right to indemnification conferred in this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

4. The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or

agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law.

TWELFTH: The corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred on stockholders herein are granted subject to this reservation. Notwithstanding the foregoing, the provisions set forth in Articles NINTH, TENTH, ELEVENTH and TWELFTH may not be amended or repealed in any respect unless such amendment or repeal is approved by the affirmative vote of not less than sixty-six and sixty-seven hundredths percent (66.67%) of the total voting power of all outstanding shares of stock in this corporation entitled to vote thereon.

THE UNDERSIGNED, being the incorporator hereinbefore named, for the purpose of forming a corporation to do business both within and without the State of Delaware, and in pursuance of the Delaware Corporation Law, does hereby make and file this Certificate.

Donald A. Slichter

EXHIBIT 3(ii)

BYLAWS

OF

APPLIED MATERIALS, INC.
(a Delaware corporation)

(As amended to December 13, 1996)

BYLAWS OF
APPLIED MATERIALS, INC.

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BYLAWS

OF

APPLIED MATERIALS, INC.

ARTICLE I

OFFICES

1.1 Registered Office. The registered office of the corporation in the State of Delaware shall be Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of the registered agent of the corporation at such location is The Corporation Trust Company.

1.2 Other Offices. The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the corporation may require.

ARTICLE II

STOCKHOLDERS

2.1 Place of Meetings. Meetings of stockholders shall be held at such place, either, within or without the State of Delaware, as may be designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the corporation's principal executive offices.

2.2 Annual Meeting. The annual meeting of stockholders shall be held each year on a date and at a time designated by the board of directors. At the meeting, directors shall be elected and any other proper business may be transacted.

2.3 Special Meeting. Special meetings of the stockholders may be called at any time by the board of directors, or by the chairman of the board, or by the president of the corporation.

If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other facsimile transmission to the chairman of the board, the president, any vice president, or the secretary of the

corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The officer receiving the request shall cause notice to be promptly given to the stockholders entitled to vote, in accordance with the provisions of Sections 4 and 5 of this Article II, that a meeting will be held at the time requested by the person or persons calling the meeting, not less than 35 nor more than 60 days after the receipt of the request. If the notice is not given within 20 days after the receipt of the request, the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this Section 3 shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the board of directors may be held.

2.4 Notice of Stockholders' Meetings. All notices of meetings with stockholders shall be in writing and shall be sent or otherwise given in accordance with Section 2.5 of these bylaws not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. The notice shall specify the place, date, and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

2.5 Advance Notice of Stockholder Nominees. No nominations for director of the corporation by any person other than the board of directors shall be presented to any meeting of stockholders unless the person making the nomination is a record stockholder and shall have delivered a written notice to the secretary of the corporation no later than the close of business 60 days in advance of the stockholder meeting or l0 days after the date on which notice of the meeting is first given to the stockholders, whichever is later. Such notice shall (i) set forth the name and address of the person advancing such nomination and the nominee, together with such information concerning the person making the nomination and the nominee as would be required by the appropriate Rules and Regulations of the Securities and Exchange Commission to be included in a proxy statement soliciting proxies for the election of such nominee, and (ii) shall include the duly executed written consent of such nominee to serve as director if elected.

No proposal by any person other than the board of directors shall be submitted for the approval of the stockholders at any regular or special meeting of the stockholders of the corporation unless the person advancing such proposal shall have delivered a written notice to the secretary of the corporation no later than the close of business 60 days in advance of the stockholder meeting or l0 days after the date on which notice of the meeting is first given to the stockholders, whichever is later. Such notice shall set forth the name and address of the person advancing the proposal, any material interest of such person in the proposal, and such other information concerning the person making such proposal and the proposal itself as would be

required by the appropriate Rules and Regulations of the Securities and Exchange Commission to be included in a proxy statement soliciting proxies for the proposal.

2.6 Manner of Giving Notice; Affidavit of Notice. Written notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the corporation. An affidavit of the secretary or an assistant secretary or of the transfer agent of the corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

2.7 Quorum. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. Except as otherwise required by law, the certificate of incorporation or these bylaws, the affirmative vote of the majority of such quorum shall be deemed the act of the stockholders. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the chairman of the meeting or (ii) the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

2.8 Adjourned Meeting; Notice. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.9 Conduct of Business. The chairman of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of business.

2.10 Voting. Except as may be otherwise provided in the certificate of incorporation, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder. Voting may be by voice or by ballot as the presiding officer of the meeting of the stockholders shall

determine. On a vote by ballot, each ballot shall be signed by the stockholder voting, or by such stockholder's proxy, and shall state the number of shares voted.

2.11 Waiver of Notice. Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

2.12 Record Date for Stockholder Notice; Voting; Giving Consents. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action.

If the board of directors does not so fix a record date:

(i) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(ii) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

2.13 Proxies. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him by a written proxy, signed by the stockholder and

filed with the secretary of the corporation, but no such proxy shall be voted or acted upon after one year from its date, unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the stockholder or the stockholder's attorney-in-fact. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the corporation generally.

ARTICLE III

DIRECTORS

3.1 Powers. Subject to the provisions of the General Corporation Law of Delaware and any limitations in the certificate of incorporation or these bylaws relating to action required to be approved by the stockholders, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the board of directors.

3.2 Number of Directors. The board of directors shall consist of eleven persons until changed by a proper amendment of this Section 3.2.

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

3.3 Election, Qualification and Term of Office of Directors. Except as provided in Section 3.4 of these bylaws, directors shall be elected at each annual meeting of stockholders. Directors need not be stockholders. Each director, including a director elected to fill a vacancy, shall hold office until his successor is elected and qualified or until his earlier resignation or removal.

Elections of directors need not be by written ballot.

3.4 Resignation and Vacancies. Any director may resign at any time upon written notice to the attention of the secretary of the corporation. When one or more directors so resigns and the resignation is effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold

office as provided in this section in the filling of other vacancies.

Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the certificate of incorporation or these bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole board (as constituted immediately prior to any such increase), then the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten percent (10%) of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the General Corporation Law of Delaware as far as applicable.

The stockholders may elect a director at any time to fill any vacancy not filled by the directors.

If a vacancy is the result of action taken by the shareholders under Section 3.13 of these bylaws, then the vacancy shall be filled by the holders of a majority of the shares then entitled to vote at an election of directors.

3.5 Place of Meetings; Meetings by Telephone. The board of directors of the corporation may hold meetings, both regular and special, either within or outside the State of Delaware.

Members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this bylaw shall constitute presence in person at the meeting.

3.6 Regular Meetings. Regular meetings of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by the board.

3.7 Special Meetings; Notice. Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board, the president, any vice president, the secretary or any two directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four days before the time of the holding of the meeting. If the notice is delivered personally or by telephone or by telegram, it shall be delivered personally or by telephone or to the telegraph company at least 48 hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose or the place of the meeting, if the meeting is to be held at the principal executive office of the corporation.

3.8 Quorum. At all meetings of the board of directors, a majority of the authorized number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than the announcement at the meeting, until a quorum is present.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

3.9 Waiver of Notice. Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors, or members of a committee of directors, need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

3.10 Board Action by Written Consent Without a Meeting. Any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the board or committee.

3.11 Fees and Compensation of Directors. The board of directors shall have the authority to fix the compensation of directors.

3.12 Approval of Loans to Officers. The corporation may lend money to, or guarantee any obligations of, or otherwise assist any officer or other employee of the corporation or any of its subsidiaries, including any officer or employee who is a director of the corporation or any of its subsidiaries, whenever, in the judgment of the directors, such loan, guaranty or assistance, or an employee benefit or employee financial assistance plan adopted by the board of directors or any committee thereof authorizing any such loan, guaranty or assistance, may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such a manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in this section contained shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

3.13 Removal of Directors. Any director or the entire board of directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

3.14 Chairman of the Board of Directors. The corporation may also have, at the discretion of the board of directors, a chairman of the board of directors who may be considered an officer of the corporation.

ARTICLE IV

COMMITTEES

4.1 Committees of Directors. The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors, or in the bylaws of the corporation, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the certificate of incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151(a) of the General Corporation Law of Delaware, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation, or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), adopting an agreement of merger or consolidation under Sections 251 or 252 of the General Corporation Law of Delaware, recommending to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution, or amending the bylaws of the corporation; and, unless the resolution, bylaws or certificate of incorporation expressly so provides, no such committee shall have the power or

authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of Delaware.

4.2 Committee Minutes. Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

4.3 Meetings and Action of Committees. Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Section 3.5 (place of meetings and meetings by telephone), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), and Section 3.10 (action without a meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the board of directors and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

ARTICLE V

OFFICERS

5.1 Officers. The officers of the corporation shall be a president, a chief financial officer (who may be a vice president or treasurer of the corporation) and a secretary. The corporation may also have, at the discretion of the board of directors, a chairman of the board of directors, one or more senior vice presidents and one or more other officers. One or more officers may be appointed in accordance with the provisions of Section 5.3 of these bylaws. Any number of offices may be held by the same person.

5.2 Election of Officers. The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Sections 5.3 or 5.5 of these bylaws, shall be elected by the board of directors.

5.3 Appointed Officers. The chief executive officer of the corporation, or such other officer as the board of directors shall select, may appoint, or the board of directors may appoint, such officers and agents of the corporation as, in his or their judgment, are necessary to conduct the business of the corporation. Each such officer shall hold office for such

period, have such authority, and perform such duties as are provided in these bylaws or as the board of directors or the chief executive officer may from time to time determine.

5.4 Removal and Resignation of Officers. Any officer may be removed, either with or without cause, by an affirmative vote of the majority of the board of directors at any regular or special meeting of the board or, except in the case of an officer elected by the board of directors, by the chief executive officer or such other officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.5 Vacancies in Offices. Any vacancy occurring in any office of the corporation shall be filled by the board of directors, except for vacancies in the offices of subordinate officers which may be filled pursuant to Section 5.3 hereof.

5.6 Chairman of the Board. The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and the stockholders and exercise and perform such other powers and duties as may be from time to time assigned by the board of directors or prescribed by the bylaws.

5.7 President. Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, the president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction, and control of the business and the officers of the corporation. In the absence or nonexistence of a chairman of the board, he shall preside at all meetings of the stockholders and at all meetings of the board of directors. He shall have the general powers and duties of management usually vested in the office of president of a corporation and shall have such other powers and duties as may be prescribed by the board of directors or these bylaws.

5.8 Senior Vice Presidents and Vice Presidents. In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have

such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these bylaws, the president or the chairman of the board.

5.9 Secretary. The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show the time and place of each meeting, the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required to be given by law or by these bylaws. He shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these bylaws.

5.10 Chief Financial Officer. The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

The chief financial officer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors. He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all his transactions as chief financial officer and of the financial condition of the corporation, and shall have other powers and perform such other duties as may be prescribed by the board of directors or the bylaws.

5.11 Representation of Shares of Other Corporations. The chairman of the board, the president, any vice president, the treasurer, the secretary or assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

5.12 Authority and Duties of Officers. In addition to the foregoing authority and duties, all officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be designated from time to time by the board of directors.

ARTICLE VI

RECORDS AND REPORTS

6.1 Maintenance and Inspection of Records. The corporation shall, either at its principal executive offices or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books, and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

6.2 Inspection by Directors. Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders, and its other books and records for a purpose reasonably related to his position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection

sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

ARTICLE VII

GENERAL MATTERS

7.1 Execution of Corporate Contracts and Instruments. The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

7.2 Stock Certificates; Partly Paid Shares. The shares of a corporation shall be represented by certificates, provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by the chairman or vice-chairman of the board of directors, or the president or vice president, and by the chief financial officer, the treasurer, or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid

shares, or upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

7.3 Special Designation on Certificates. If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

7.4 Lost Certificates. The corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or his legal representative to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertified shares.

7.5 Construction; Definitions. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the Delaware General Corporation Law shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

7.6 Dividends. The directors of the corporation, subject to any restrictions contained in the General Corporation Law of Delaware or the certificate of incorporation, may declare and pay dividends upon the shares of its capital stock. Dividends may be

paid in cash, in property, or in shares of the corporation's capital stock.

The directors of the corporation may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve.

7.7 Fiscal Year. The fiscal year of the corporation shall be fixed by resolution of the board of directors and may be changed by the board of directors.

7.8 Seal. The board of directors may adopt a corporate seal, and may use the same by causing it or a facsimile thereof, to be impressed or affixed or in any other manner reproduced.

ARTICLE VIII

AMENDMENTS

8.1 Amendments. The bylaws of the corporation may be altered, amended or repealed or new bylaws may be adopted by the stockholders or by the board of directors.

Exhibit 10.23

AMENDMENT NO. 1 TO CREDIT AGREEMENT

AMENDMENT NO. 1 dated as of February 12, 1996 to the Credit Agreement dated as of September 8, 1994 (the "Agreement") among APPLIED MATERIALS, INC. (the "Company"), the BANKS party thereto on the date hereof (the "Existing Banks"), CITICORP USA, INC. and MELLON BANK, N.A. (the "Additional Banks") and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Agent (the "Agent").

WHEREAS, the parties hereto desire to amend the Agreement to (i) increase the aggregate amount of the Commitments from $125,000,000 to $240,000,000, (ii) add the Additional Banks as parties to the Agreement, (iii) change the Termination Date from September 7, 1998 to February 11, 2000, (iv) lower the applicable rates of interest and facility fees, (v) amend the covenant requiring the Company to maintain a minimum Consolidated Tangible Net Worth, (vi) confirm that the Company may use the Agreement to backstop its commercial paper and eliminate certain conditions to a borrowing for such purpose and (vii) permit the Company to use the proceeds of Loans hereunder to buy its own common stock;

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. Definitions, References. Unless otherwise specifically defined herein, each term used herein which is defined in the Agreement has the meaning assigned to such term in the Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference, and each reference to "this Agreement" and each other similar reference, contained in the Agreement shall on and after the Amendment Effective Date (as defined in Section 11 hereof) refer to the Agreement as amended hereby.

SECTION 2. Increased Commitments. (a) The signature pages of the Agreement are amended by deleting the heading "Commitments" and the dollar amounts set forth under said heading.

(b) The Commitment Schedule attached to this Amendment is added to the Agreement immediately after the signature pages thereof.

(c) The definition of "Commitment" in Section 1.01 of the Agreement is amended to read as follows:

"Commitment" means, with respect to each Bank, the amount set forth opposite the name of such Bank on the Commitment Schedule attached hereto (or, in the case of an Assignee, the portion of the transferor Bank's Commitment assigned to such Assignee pursuant to Section 9.06(c)), in each case as such amount may be reduced from time to time pursuant to Section 2.09 or changed as a result of an assignment pursuant to Section 9.06(c).

SECTION 3. Additional Banks. (a) On the Amendment Effective Date each of Citicorp USA, Inc. and Mellon Bank, N.A. will become a party to the Agreement as a Bank with a Commitment in the amount set forth opposite its name on the Commitment Schedule attached hereto.

(b) The definition of "Bank" in Section 1.01 of the Agreement is amended to read as follows:

"Bank" means each bank listed on the Commitment Schedule attached hereto, each Assignee which becomes a Bank pursuant to Section 9.06(c), and their respective successors; provided that, for purposes of any determination made with respect to Citicorp USA, Inc. under Section 2.13, 8.01, 8.02 or 8.03, the term "Bank" shall be deemed to include Citibank, N.A.

(c) Section 9.06(d) of the Agreement is amended to read as follows:

(d) Any Bank may at any time assign all or any portion of its rights under this Agreement and its Note (i) directly to a Federal Reserve Bank or (ii) to an affiliate of such Bank which in turn assigns such rights to a Federal Reserve Bank. No such assignment shall release the transferor Bank from its obligations hereunder.

SECTION 4. Extension of Term. The definition of "Termination Date" in Section 1.01 of the Agreement is amended by changing "September 7, 1998" to "February 11, 2000".

SECTION 5. Reduced Pricing. The Pricing Schedule attached to the Agreement is deleted and replaced by the Pricing Schedule attached to this Amendment. Interest (if any) and fees accrued prior to the Amendment Effective Date shall be payable at the rates specified in the original Pricing Schedule. Interest and fees accruing on and after the Amendment Effective Date shall be payable at the rates specified in the Pricing Schedule attached hereto.

SECTION 6. Consolidated Tangible Net Worth. (a) The first sentence of Section 5.12(a) of the Agreement is amended to read as follows:

The Company will at all times keep and maintain Consolidated Tangible Net Worth (adjusted as provided in subsections (b) and (c) of this Section, if applicable) at an amount not less than the amount determined by adding (or subtracting in the case of clause (iv) below) the following:

(i) $1,427,000,000 plus

(ii) 50% of Consolidated Net Income (adjusted as provided in subsections (b) and (c) of this Section, if applicable) for the period from October 29, 1995 to and including the date of any calculation hereunder plus

(iii) 100% of the net proceeds of any sales or issuances of capital stock of the Company during the period from October 29, 1995 to and including the date of any calculation hereunder less

(iv) the aggregate amount by which Consolidated Tangible Net Worth is reduced after October 29, 1995 as a result of purchases by the Company of its own common stock, provided that the amount subtracted pursuant to this clause (iv) shall not exceed the sum of (x) the net proceeds (to the extent received by the Company in cash) added pursuant to clause (iii) above plus (y) $143,000,000.

(b) Subsections (b) and (c) of Section 5.12 of the Agreement are amended by changing the date "May 1, 1994", wherever it appears in said subsections, to "October 29, 1995".

SECTION 7. Commercial Paper Backstop. (a) Section 1.01 of the Agreement is amended by adding the following new definition immediately after the definition of "Consolidated Total Assets":

"CP Backstop Borrowing" means a Borrowing the proceeds of which are used solely for the purpose of repaying outstanding commercial paper issued by the Company.

(b) Clause (e) of Section 3.02 is amended to read as follows:

(e) the fact that the representations and warranties of the Company contained in this Agreement (except, in the case of a Refunding Borrowing or a CP Backstop Borrowing, the representations and warranties set forth in Sections 4.04(c) and 4.05 as to any matter which has theretofore been disclosed in writing by the Company to the Banks) shall be true on and as of the date of such Borrowing.

SECTION 8. Use of Proceeds. Section 5.08 of the Agreement is amended to read as follows:

SECTION 5.08. Use of Proceeds. The proceeds of the Loans made under this Agreement will be used by the Company to backstop its commercial paper and for other general corporate purposes. None of such proceeds will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any "margin stock" within the meaning of Regulation U, provided that the Company may use such proceeds to buy and/or carry shares of its own common stock.

SECTION 9. Representations and Warranties. (a) Section 4.04(a) of the Agreement is amended by changing the date "October 31, 1993" to "October 29, 1995" and changing the reference to "the Company's 1993 Form 10-K" to "the Company's 1995 Form 10-K".

(b) The definition of "Company's 1993 Form 10-K" in Section 1.01 of the Agreement is deleted and replaced by the following new definition:

"Company's 1995 Form 10-K" means the Company's annual report on Form 10-K for 1995, as filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934.

(c) Subsections (b) and (c) of Section 4.04 of the Agreement are deleted and replaced by the following new subsection (b):

(b) Since October 29, 1995 there has been no material adverse change in the business, financial position, results of operations or prospects of the Company and its Relevant Subsidiaries, considered as a whole.

(d) Sections 4.05 and 4.07 of the Agreement are each amended by deleting the words "the Company's 1993 Form 10-K and the Company's Latest Form 10-Q" and replacing them with the words "the Company's 1995 Form 10-K".

(e) The definition of "Company's Latest Form 10-Q" in Section 1.01 of the Agreement is deleted.

(f) The Company represents and warrants that each of the representations and warranties contained in Article IV of the Agreement (as amended pursuant to this Section 9) is true on and as of the date of this Amendment and will be true on and as of the Amendment Effective Date immediately after this Amendment becomes effective.

(g) Each of the Existing Banks and Additional Banks represents to the Agent and each of the other Existing Banks and Additional Banks that it in good faith is not relying upon any "margin stock" (as defined in Regulation U) as collateral in the extension or maintenance of the credit provided for in the Agreement as amended by this Amendment.

SECTION 10. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 11. Counterparts; Effectiveness. This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Amendment shall become effective on the date (the "Amendment Effective Date") when the Agent shall have received all of the following:

(i) from each of the Company, the Existing Banks, the Additional Banks and the Agent, either a counterpart hereof signed by such party or telex, facsimile or other written confirmation that such party has signed a counterpart hereof;

(ii) an opinion dated the Amendment Effective Date of James J. DeLong, Director, Legal Affairs for the Company, substantially in the form of Exhibit A hereto and covering such additional matters relating to the transactions contemplated hereby as the Required Banks may reasonably request;

(iii) an opinion dated the Amendment Effective Date of Davis Polk & Wardwell, special counsel for the Agent, substantially in the form of Exhibit B hereto and covering such additional matters relating to the

transactions contemplated hereby as the Required Banks may reasonably request;

(iv) all documents the Agent may reasonably request relating to the existence of the Company, the corporate authority for and the validity of this Amendment, the Agreement as amended hereby and the Notes, and any other matters relevant hereto, all in form and substance satisfactory to the Agent;

(v) a duly executed Note for the account of each Additional Bank, dated on or before the Amendment Effective Date and complying with the provisions of Section 2.05 of the Agreement; and

(vi) payment, for the account of the Existing Banks, of all unpaid facility fees accrued under the Agreement to but excluding the Amendment Effective Date.

When the Amendment Effective Date occurs, the Agent shall promptly notify the Company, the Existing Banks and the Additional Banks thereof, and such notice shall be conclusive and binding on all parties hereto.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the day and year first above written.

APPLIED MATERIALS, INC.

By /s/ Gerald F. Taylor

Title: Senior Vice President and
Chief Financial Officer

By /s/ Nancy H. Handel

Title: Vice President, Corporate
Finance and Treasurer

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK

By /s/ Carl J. Mehldau, Jr.

Title: Associate

BANK OF AMERICA NATIONAL TRUST
AND SAVINGS ASSOCIATION

By /s/ Kevin McMahon

Title: Vice President

ABN AMRO BANK N.V. SAN FRANCISCO
INTERNATIONAL BRANCH
By: ABN AMRO NORTH AMERICA, INC.,
as its agent

By /s/ Bruce Swords

Title: Vice President & Director

By /s/ R. Clay Jackson

Title: SVP & Managing Director

THE BANK OF CALIFORNIA, N.A.

By /s/ Wanda Headrick

Title: Vice President

BANQUE NATIONALE DE PARIS

By /s/ Rafael Lumanlan

Title: Vice President

By /s/ Charles Day

Title: Assistant Vice President

CITICORP USA, INC.

By /s/ Thomas E. McGrath, M.D.

Attorney In Fact

CREDIT SUISSE

By /s/ David J. Worthington

Title:David J. Worthington
Member of Senior Management

By /s/ Marilou Palenzuela

Title: Marilou Palenzuela
Member of Senior Management

DEUTSCHE BANK AG, LOS ANGELES
AND/OR CAYMAN ISLANDS BRANCHES

By /s/ Ross A. Howard

Title: Vice President

By /s/ J. Scott Jessup

Title: Vice President

MELLON BANK, N.A.

By /s/ Jane Westrich

Title: Vice President

UNION BANK

By /s/ Ann Brusati Dias

Title: Vice President and District
Manager

MORGAN GUARANTY TRUST COMPANY
OF NEW YORK, as Agent

By /s/ Carl J. Mehldau, Jr.

Title: Carl J. Mehldau, Jr.
Associate

COMMITMENT SCHEDULE

Name of Bank	Commitment
Morgan Guaranty Trust Company of New York	$45,000,000
Bank of America National Trust and Savings Association	$30,000,000
ABN Amro Bank N.V. San Francisco International Branch	$22,500,000
The Bank of California	$15,000,000
Banque Nationale de Paris	$22,500,000
Citicorp USA, Inc.	$22,500,000
Credit Suisse	$22,500,000
Deutsche Bank AG, Los Angeles and/or Cayman Islands Branches	$22,500,000
Mellon Bank, N.A.	$22,500,000
Union Bank	$15,000,000
Total	$240,000,000

PRICING SCHEDULE

The "Euro-Dollar Margin", "CD Margin" and "Facility Fee Rate" for any day are the respective rates per annum set forth below in the applicable row in the column corresponding to the Pricing Level that applies on such day:

	Level I	Level II	Level III	Level IV	Level V
Euro-Dollar Margin	0.165 %	0.200 %	0.280%	0.375 %	0.500 %
CD Margin	0.290 %	0.325 %	0.405%	0.500 %	0.625 %
Facility Fee Rate	0.085 %	0.100 %	0.120%	0.175 %	0.250 %

For purposes of this Pricing Schedule, the following terms have the following meanings:

"Level I Pricing" applies on any day if, on such day, the Company's long-term debt is rated A- or higher by S&P or A3 or higher by Moody's.

"Level II Pricing" applies on any day if on such day, (i) the Company's long-term debt is rated BBB+ by S&P or Baa1 by Moody's and (ii) Level I Pricing does not apply.

"Level III Pricing" applies on any day if, on such day, (i) the Company's long-term debt is rated BBB by S&P or Baa2 by Moody's and (ii) neither Level I Pricing nor Level II Pricing applies.

"Level IV Pricing" applies on any day if, on such day, (i) the Company's long-term debt is rated BBB- by S&P or Baa3 by Moody's and (ii) none of Level I Pricing, Level II Pricing or Level III Pricing applies.

"Level V Pricing" applies on any day if, on such day, no other Pricing Level applies.

"Moody's" means Moody's Investors Service, Inc.

"Pricing Level" means any one of the five pricing levels represented by Level I Pricing, Level II Pricing, Level III Pricing, Level IV Pricing and Level V Pricing.

"S&P" means Standard & Poor's Ratings Services.

The ratings to be utilized for purposes of this Pricing Schedule are those assigned to the senior unsecured long-term debt securities of the Company without third-party credit enhancement, and any rating assigned to any other debt security of the Company shall be disregarded. The rating in effect on any day is the rating in effect at the close of business on such day.

EXHIBIT A

OPINION OF COUNSEL FOR THE COMPANY

To the Existing Banks, Additional Banks
and Agent Referred to Below
c/o Morgan Guaranty Trust Company
of New York, as Agent
60 Wall Street
New York, New York 10260

Ladies and Gentlemen:

I have acted as counsel to Applied Materials, Inc., a Delaware corporation (the "Company"), in connection with the execution and delivery of Amendment No. 1 dated as of February 12, 1996 ("Amendment No. 1") to the Credit Agreement dated as of September 8, 1994 (the "Credit Agreement") among the Company, the Banks signatory thereto (the "Existing Banks") and Morgan Guaranty Trust Company of New York, as Agent. Except as otherwise defined herein, all terms used herein and defined in the Credit Agreement or in Amendment No. 1 have the meanings assigned to them therein.

In connection with this opinion, I have examined executed originals or copies of Amendment No. 1, the Credit Agreement, the Notes originally issued to the Existing Banks (the "Existing Notes") and the Notes issued to the Additional Banks today (the "Additional Notes") and such other documents, records, agreements and certificates as I have deemed appropriate. I have also reviewed such matters of law as I have considered relevant for the purpose of this opinion.

Based upon the foregoing, I am of the opinion that:

1. Each of the Company and its Restricted Subsidiaries is a corporation duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation; has the corporate power and authority to own its assets and to transact the business in which it is now engaged or proposed to be engaged; and is duly licensed or qualified and is in good standing as a foreign corporation in each jurisdiction wherein the nature of the business transacted by it or the nature of the property owned or leased by it makes such licensing or qualification necessary, except where the failure to be so licensed, qualified or in good standing would not, in the aggregate, have a Material Adverse Effect.

2. The execution and delivery by the Company of Amendment No. 1, the Credit Agreement and the Existing Notes and Additional Notes (collectively, the "Notes") and the performance by the Company of its obligations under the Credit Agreement as amended by Amendment No. 1 and under the Notes (i) are within the Company's corporate powers, (ii) have been duly authorized by all necessary corporate action, (iii) require no action by or in respect of, or filing with, any governmental body, agency or official, (iv) do not contravene, or constitute a default under, any provision of applicable law or regulation or of the certificate of incorporation or by-laws of the Company or, to the best of my knowledge, of any agreement, judgment, injunction, order, decree or other instrument binding upon the Company or any of its Subsidiaries and (v) do not result in the creation or imposition of any Lien on any asset of the Company or any of its Restricted Subsidiaries.

3. To the best of my knowledge, except as set forth under the heading "Legal Proceedings" in the Company's 1995 Form 10-K, there are no pending or threatened actions, suits or proceedings against or affecting the Company or any of its Subsidiaries before any court, governmental agency or arbitrator in which there is a reasonable possibility of an

adverse determination which would have a Material Adverse Effect, or which in any manner draws into question the validity of Amendment No. 1, the Credit Agreement as amended thereby or any of the Notes.

4. Amendment No. 1 and the Credit Agreement as amended thereby constitute valid and binding agreements of the Company and each Note constitutes a valid and binding obligation of the Company, in each case enforceable in accordance with its terms. The Existing Notes evidence the Company's obligation to pay the principal of and interest on any and all Loans made by the Existing Banks under the Credit Agreement as amended from time to time and accordingly they do not need to be replaced in connection with the execution and delivery of Amendment No. 1.

Certain Assumptions

With your permission I have assumed the following: (a) the authenticity of original documents and the genuineness of all signatures; (b) the conformity to the originals of all documents submitted to me as copies and the truth, accuracy, and completeness of the information, representations and warranties contained in the records, documents, instruments and certificates I have reviewed; and (c) the absence of any evidence extrinsic to the provisions of the written agreements between the parties that the parties intended a meaning contrary to that expressed by those provisions.

Certain Limitations and Qualifications

I express no opinion as to laws other than laws of the State of California, the federal law of the United States of America, the General Corporation Law of the State of Delaware and the official statutes of other jurisdictions to the extent necessary to render the opinions as to corporate authority in paragraph 1 above. I am licensed to practice law only in the State of California.

With your permission, I have assumed for the purpose of rendering this opinion that the laws

of the State of California govern the transaction, notwithstanding that Amendment No. 1, the Credit Agreement and the Notes state that they are to be governed by New York law.

My opinion that any document is legal, valid, binding, or enforceable in accordance with its terms is qualified as to:

(a) limitations imposed by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium, or other similar laws relating to or affecting the enforcement of creditors' rights generally;

(b) general principles of equity, including without limitation concepts of mutuality, reasonableness, good faith and fair dealing, and the possible unavailability of specific performance or injunctive relief, regardless of whether such enforceability is considered in a proceeding in equity or at law;

(c) the possibility that certain covenants and provisions for the acceleration of the maturity of the Notes may not be enforceable if enforcement would be unreasonable under the then existing circumstances, but in my opinion acceleration would be available if an event of default occurred as a result of a material breach of a material covenant;

(d) the unenforceability under certain circumstances of provisions imposing penalties, forfeiture, late payment charges or an increase in interest rate upon delinquency in payment or the occurrence of any event of default;

(e) rights to indemnification and contribution which may be limited by applicable law and equitable principles; and

(f) the unenforceability under certain circumstances of provisions expressly or by implication waiving broadly or vaguely stated rights (including, without limitation, waivers of any objection to venue and forum non conveniens and the

right to a jury trial), the benefits of statutory constitutional provisions, unknown future rights, and defenses to obligations or rights granted by law, where such waivers are against public policy or prohibited by law.

The phrase "to the best of my knowledge" is intended to indicate that, during the course of the performance of my duties as Director, Legal Affairs, of the Company, no information that would give me current actual knowledge of the inaccuracy of such statement has come to my attention.

Use of Opinion

This opinion is solely for your benefit (and the benefit of any Assignee which becomes a Bank pursuant to Section 9.06(c) of the Credit Agreement) in connection with the transaction covered by the first paragraph of this letter and may not be relied upon by any other person without my prior written approval. I disclaim any obligation to update this opinion for events occurring or coming to my attention after the date hereof.

Very truly yours,

/s/ James J. DeLong

James J. DeLong
Director, Legal Affairs

EXHIBIT B

OPINION OF DAVIS POLK & WARDWELL,
SPECIAL COUNSEL FOR THE AGENT

To the Existing Banks, Additional Banks
and Agent Referred to Below
c/o Morgan Guaranty Trust Company
of New York, as Agent
60 Wall Street
New York, New York 10260

Dear Sirs:

We have participated in the preparation of Amendment No. 1 dated as of February 12, 1996 ("Amendment No. 1") to the Credit Agreement dated as of September 8, 1994 (the "Credit Agreement") among Applied Materials, Inc., a Delaware corporation (the "Company"), the banks listed on the signature pages thereof (the "Existing Banks") and Morgan Guaranty Trust Company of New York, as Agent (the "Agent"), and have acted as special counsel for the Agent for the purpose of rendering this opinion pursuant to Section 11(iii) of Amendment No. 1. Except as otherwise defined herein, all terms defined in the Credit Agreement or in Amendment No. 1 are used herein as therein defined.

We have examined originals or copies, certified or otherwise identified to our satisfaction, of such documents, corporate records, certificates of public officials and other instruments and have conducted such other investigations of fact and law as we have deemed necessary or advisable for purposes of this opinion.

Upon the basis of the foregoing, we are of the opinion that:

1. The execution and delivery by the Company of Amendment No. 1, the Notes being issued to the Additional Banks today (the "Additional Notes"), the Credit Agreement and the Notes originally issued to the Existing Banks (the "Existing Notes") are within the Company's corporate powers and have been duly authorized by all necessary corporate action.

2. The performance by the Company of its obligations under the Credit Agreement as amended by Amendment No. 1 and the Existing Notes and Additional Notes (collectively, the "Notes") is within the Company's corporate powers and has been duly authorized by all necessary corporate action.

3. Amendment No. 1 and the Credit Agreement as amended thereby constitute valid and binding agreements of the Company and each Note constitutes a valid and binding obligation of the Company, in each case enforceable in accordance with its terms, except as limited by bankruptcy, insolvency or similar laws affecting creditors' rights generally and by general principles of equity.

4. The Existing Notes evidence the Company's obligation to pay the principal of and interest on any and all Loans made by the Existing Banks under the Credit Agreement as amended from time to time, and accordingly they do not need to be replaced in connection with the execution and delivery of Amendment No. 1.

We are members of the Bar of the State of New York and the foregoing opinion is limited to the laws of the State of New York, the federal laws of the United States of America and the General Corporation Law of the State of Delaware. In giving the foregoing opinion, we express no opinion as to the effect (if any) of any law of any jurisdiction (except the State of New York) in which any Bank is located which limits the rate of interest that such Bank may charge or collect.

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This opinion is rendered solely to you in connection with the above matter. This opinion may not be relied upon by you for any other purpose or relied upon by any other person without our prior written consent.

Very truly yours,

Exhibit 12.1

RATIO OF EARNINGS TO FIXED CHARGES

	Fiscal Year				
	1996	1995	1994	1993	1992
Income from consolidated companies before provision for income taxes and cumulative effect of accounting change	$922,436	$698,543	$334,497	$153,558	$58,925
Fixed charges:					
Interest expense	20,733	21,401	15,962	14,206	15,207
Capitalized interest	5,108	--	--	--	--
Interest component of rent expense(1)	22,086	13,103	11,070	9,021	7,197
Total fixed charges	47,927	34,504	27,032	23,227	22,404
Earnings from consolidated companies before income taxes, cumulative effect of accounting change and fixed charges(2)	$965,255	$733,047	$361,529	$176,785	$81,329
Ratio of earnings to fixed charges	20.14x	21.25x	13.37x	7.61x	3.63x

(1) For leases where the interest factor can be specifically identified, the actual interest factor was used. For all other leases, the interest factor is estimated at one-third of total rent expense for the applicable period, which management believes represents a reasonable approximation of the interest factor.

(2) Fixed charges do not include capitalized interest for purposes of this calculation.

EXHIBIT 13

Selected Consolidated Financial Data

Fiscal year ended*	1996	1995	1994	1993	1992
(Dollars in thousands, except per share amounts)					
Net sales	$4,144,817	$3,061,881	$1,659,807	$1,080,047	$751,383
Gross margin	$1,949,739	$1,409,848	$ 768,295	$ 475,684	$308,204
(% of net sales)	47.0	46.0	46.3	44.0	41.0
Research, development and engineering	$ 481,394	$ 329,676	$ 189,126	$ 140,161	$109,196
(% of net sales)	11.6	10.8	11.4	13.0	14.5
Marketing, selling and administrative	$ 539,694	$ 386,240	$ 239,932	$ 174,529	$130,632
(% of net sales)	13.0	12.6	14.4	16.2	17.4
Income from consolidated companies before taxes and cumulative effect of accounting change**	$ 922,436	$ 698,543	$ 334,497	$ 153,558	$ 58,925
(% of net sales)	22.3	22.8	20.2	14.2	7.8
Effective tax rate (%)	35.0	35.0	35.0	33.0	33.0
Net income	$ 599,585	$ 454,053	$ 220,696	$ 99,695	$ 39,480
Earnings per share	$ 3.27	$ 2.56	$ 1.30	$ .61	$ .27
Average common shares and equivalents	183,607	177,348	170,042	164,588	145,360
Order backlog	$1,422,800	$1,508,800	$ 715,200	$ 365,800	$253,900
Working capital	$1,757,842	$1,449,882	$ 734,104	$ 395,388	$333,590
Working capital ratio	2.9	2.7	2.5	2.0	2.3
Long-term debt	$ 275,485	$ 279,807	$ 209,114	$ 121,076	$118,445
Stockholders' equity	$2,370,425	$1,783,503	$ 966,264	$ 598,762	$474,111
Book value per share	$ 13.15	$ 9.95	$ 5.74	$ 3.73	$ 3.03
Total assets	$3,637,987	$2,965,379	$1,702,665	$1,120,152	$853,822
Capital expenditures, net	$ 452,535	$ 265,557	$ 180,440	$ 95,351	$ 60,943
Regular full-time employees	11,403	10,537	6,497	4,739	3,909

* The fiscal year ends on the last Sunday in October of each year. The fiscal year ends for the periods presented are: October 27, 1996, October 29, 1995, October 30, 1994, October 31, 1993 and October 25, 1992.
** Fiscal 1996 includes a restructuring charge of $25,100.

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Applied Materials

Results of Operations

During 1996, the semiconductor industry began a period of significant transition, with reduced fab capacity investment driven by sharply lower memory device prices. This transition resulted in equipment order pushouts and a decrease of approximately 40 percent in new orders received by the Company during the second half of fiscal 1996 when compared to the order level achieved in the first half of fiscal 1996. Expecting the downturn in its business to continue for some time, the Company determined that it needed to align its employment level with the expected size of its operations. Accordingly, in the fourth quarter of fiscal 1996, the Company reduced its workforce by approximately 800 employees and developed plans to consolidate certain facilities. In connection with these actions, a restructuring charge of $25 million was recorded during that period. The restructuring charge consisted of $19 million for costs associated with the workforce reduction, and $6 million for consolidation of facilities. During the fourth quarter of fiscal 1996, approximately $14 million of cash was used for restructuring costs. The remaining cash outlay is expected to occur primarily in the first quarter of fiscal 1997 (see note 9).

The Company's net sales increased by 35 percent for fiscal 1996 compared to fiscal 1995, notwithstanding the slowdown in the Company's business during the second half of fiscal 1996, and net sales for fiscal 1995 increased 84 percent compared to fiscal 1994. This growth was driven by strong worldwide demand for the Company's advanced wafer processing technology, multi-chamber equipment and installed base support services. The increased demand for the Company's advanced equipment reflects the semiconductor industry's need for the technical capability to fabricate advanced device structures and the continued investment in systems capable of performing processes required for smaller device geometries. The increases in installed base support services revenue are attributable to a larger installed systems base and our global customers' requirements for high reliability and uptime.

Information with respect to net sales by geographic region is as follows:

	1996		1995		1994	
(Dollars in thousands)	$	%	$	%	$	%
North America	1,270,359	30.7	988,709	32.3	611,670	36.9
Europe	685,887	16.5	470,609	15.4	292,189	17.6
Japan	1,008,597	24.3	790,773	25.8	454,939	27.4
Korea	567,116	13.7	504,273	16.5	192,260	11.6
Asia-Pacific	612,858	14.8	307,517	10.0	108,749	6.5
	4,144,817	100.0	3,061,881	100.0	1,659,807	100.0

Gross margin as a percentage of net sales was 47 percent in fiscal 1996 compared to 46 percent in 1995 and 1994. Improvements in fiscal 1996 associated with manufacturing efficiencies, reduced cycle times, material cost reductions and increased unit volume were partially offset by product pricing pressures associated with the decreased demand for the Company's equipment.

Operating expenses (excluding the restructuring charge) as a percentage of net sales were 25 percent in fiscal 1996, compared to 23 percent and 26 percent in fiscal 1995 and 1994, respectively. The Company's investments in strategic facilities expansion, information systems technology and personnel are dependent on many factors, including its current and future volumes of business. Thus,

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there can be no assurance that current operating expense levels as a percentage of net sales are indicative of future operating expenses as a percentage of net sales.

The Company's future operating results depend, to a considerable extent, on its ability to maintain a competitive advantage in both the products and services it provides. For this reason, Applied Materials believes it is critical to continue to make substantial investments in research and development to ensure the flow of innovative, productive, high-quality products and support services. Research, development and engineering expenses were 12 percent of net sales in fiscal 1996, compared to 11 percent in fiscal 1995 and 1994. This considerable investment reflects the Company's commitment to total product excellence and leading-edge technology. During fiscal 1996, the Company introduced several new products for the emerging 0.25 micron and below market: the high-throughput Mirra CMP (chemical mechanical polishing) system, HDP-CVD (high density plasma chemical vapor deposition) Centura, Metal Etch DPS (decoupled plasma source) Centura and the Silicon Etch DPS Centura. The Company continued to add to its family of compact, high-productivity implanters in 1996 with the introduction of the Implant xR LEAP (low energy advanced processes) and Implant xR120. In addition, the Company introduced the Liner TxZ Centura, which is an integrated system capable of performing a key process sequence for the most advanced device structures. The Company also enhanced a number of its existing products during 1996 through the application of new processes and technologies. The success of these new and enhanced products in the market has yet to be determined (see "Trends, Risks and Uncertainties").

Marketing, selling and administrative expenses as a percentage of net sales were 13 percent in fiscal 1996 and 1995, and 14 percent in fiscal 1994. During each of these fiscal years, the Company increased spending in marketing and selling programs to support the development of international markets , particularly in the Korea and Asia-Pacific regions, and to increase the awareness of new products. Administrative expenses have increased during each of the last three fiscal years to support the Company's growth, improve information technology capability and protect the Company's intellectual property rights. The growth in spending for marketing, selling and administration has kept pace with the revenue growth, and thus there has not been a significant change in spending as a percentage of sales.

Applied Materials' effective income tax rate was 35 percent for each of the last three fiscal years. The Company adopted Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes," at the beginning of fiscal 1994 and recorded a one-time $7 million credit as the favorable impact of the accounting change. In fiscal 1997, the Company's effective income tax rate is expected to remain at 35 percent.

Financial Condition, Liquidity and Capital Resources

The Company's financial condition remained strong, with a ratio of current assets to current liabilities of 2.9:1 at October 27, 1996, compared to 2.7:1 at October 29, 1995. As of October 27, 1996, the Company had $1,038 million in cash, cash equivalents and short-term investments, compared to $769 million at October 29, 1995.

The Company generated $692 million of cash from operations in fiscal 1996. Net income (plus non-cash depreciation and amortization charges) of $748 million and an increase of $167 million in accounts payable and accrued expenses were partially offset by changes in deferred taxes and income taxes payable of $160 million, and increased levels of accounts receivable and inventories. Accounts receivable increased $44 million from October 29, 1995,

Graph

as geographic regions with longer collection times generated a larger percentage of the Company's revenue in fiscal 1996, and inventories increased $60 million primarily as a result of customers delaying receipt of certain orders at the end of fiscal 1996.

Cash used for investing activities in fiscal 1996 of $603 million consisted of capital expenditures for land, facilities expansion and other capital equipment, and net purchases of short-term investments.

During fiscal 1996, the Company repurchased 1,185,000 shares of its common stock in the open market at an average price of $31.27 per share, for a total cash outlay of $37 million. As of October 27, 1996, the Company is authorized to repurchase additional shares of its common stock in the open market through February 1999 in amounts that will substantially offset the dilution that results from the Company's stock-based employee benefit and incentive plans.

At October 27, 1996, the Company's principal sources of liquidity consisted of $1,038 million of cash, cash equivalents and short-term investments, $194 million of unissued notes registered under the Company's medium-term notes program and $303 million of available credit facilities. In 1996, the Company increased its revolving line of credit agreement to $240 million from $125 million, and extended the agreement's expiration date to February 2000 from September 1998. No amount is outstanding under this line of credit agreement. The Company's liquidity is affected by many factors, some based on the normal ongoing operations of the business and others related to the uncertainties of the industry and global economies. Although the Company's cash requirements will fluctuate based on the timing and extent of these factors, management believes that cash generated from operations, together with the liquidity provided by existing cash balances and borrowing capability, will be sufficient to satisfy commitments for capital expenditures and other cash requirements for the next fiscal year.

Facility improvement and expansion projects in Texas and California are being scheduled for completion based on the Company's anticipated needs, which may change from time to time based on market conditions. This flexibility allows the Company to manage its manufacturing and applications lab capacity to ensure that sufficient capacity will be available to meet customer demands. Capital expenditures are expected to approximate $250 million during fiscal 1997. This amount includes funds for the continuation and completion of facilities expansion and investments in demonstration and test equipment, information systems and other capital equipment.

During the first quarter of fiscal 1997, the Company entered into agreements to acquire two companies for approximately $285 million, consisting primarily of cash. These transactions are expected to be completed during the first quarter of fiscal 1997 (see note 16). In the same quarter, the Company paid $56 million in connection with the early retirement of its unsecured senior notes (see note 15).

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Trends, Risks and Uncertainties

The semiconductor industry has historically been cyclical and subject to periodic downturns associated with changes in supply and demand. During 1996, the semiconductor industry weakened, principally as a result of excess memory capacity and significant memory price reductions. This excess capacity and weakness in memory pricing in turn led to product pricing pressures and reduced demand for the Company's products and services. Semiconductor manufacturers significantly reduced capital spending and investment, and new orders received by the Company decreased significantly during the last half of the Company's 1996 fiscal year. The Company's ability to predict customer investment decisions has been impaired by the uncertainty within the semiconductor industry. The growth rates and results of operations achieved by the Company in fiscal 1996 and 1995 may not be indicative of 1997 growth rates and results of operations.

It is possible that a continued industry downturn and further reductions or delays in semiconductor manufacturers' capital spending and investment could increase pricing pressures, decrease orders and adversely affect the Company's revenue and operating results.

The Company ended the year with a backlog of approximately $1.4 billion as of October 27, 1996, compared to approximately $1.5 billion as of October 29, 1995. The Company schedules production of its systems based upon order backlog and customer commitments. The backlog includes orders for which written authorizations have been accepted and shipment dates within 12 months have been assigned. During the current industry downturn, semiconductor manufacturers have rescheduled or canceled certain orders. Due to possible customer changes in delivery schedules and cancellation of orders, the Company's backlog at any particular date is not necessarily indicative of actual sales for any succeeding period. A reduction of backlog during any particular period could adversely affect the Company's results of operations.

The Company's results of operations are subject to significant fluctuations from period to period, in part because of the cyclical nature of the semiconductor industry and its changes in supply and demand. Moreover, each region in the global semiconductor equipment market exhibits unique characteristics that cause capital equipment investment patterns to vary from period to period. While international markets provide the Company with significant growth opportunities, periodic economic downturns, trade balance issues, political instability and fluctuations in interest and foreign currency exchange rates are all risks that could affect global product and service demand. Although the Company actively manages its exposure to changes in foreign currency exchange rates, there can be no assurance that future changes in foreign currency exchange rates will not have a material effect on its results of operations or financial condition.

The Company operates in a highly competitive industry characterized by increasingly rapid technological changes. The Company's competitive advantage and future success are therefore dependent on its ability to develop new products, to qualify these new products with its customers, to successfully introduce these products to the marketplace on a timely basis, to commence production to meet customer demands and to develop new markets in the semiconductor industry for its products and services. The successful introduction of new technology and products is increasingly complex. If the Company is unable, for whatever reason, to develop and introduce new products in a timely manner in response to changing market conditions or customer requirements, its results of operations could be adversely impacted.

To better address the issues and opportunities presented by the current industry slowdown, the Company has implemented a number of programs to reduce costs and improve productivity, including focusing on manufacturing efficiencies, reduced cycle times and material cost reductions. The inability to satisfactorily achieve the goals of these cost reduction and productivity programs could adversely affect the Company's results of operations.

The Company is currently involved in litigation regarding patents and other intellectual property rights (see note 14 to the consolidated financial statements) and could become involved in additional litigation in the future. Also in the normal course of business, the Company from time to time receives and makes inquiries with regard to possible patent infringement. There can be no assurance about the outcome of current or future litigation or patent infringement inquiries.

When used in this Annual Report, including this Management's Discussion and Analysis, the words "anticipate," "estimate," "expect" and similar expressions are intended to identify forward-looking statements. These statements are subject to certain risks and uncertainties, including, but not limited to, slowing growth in the demand for semiconductors and the Company's systems and services, continuing semiconductor device price declines, semiconductor manufacturers' reduced capital spending, product pricing pressures, challenges from the Company's competition, insufficient cost reduction programs being implemented by the Company and the successful development of new products, services and markets, that could cause actual results to differ materially from those projected. The Company undertakes no obligation to update the information, including the forward-looking statements, in this Annual Report.

Consolidated Statements of Operations

Fiscal year ended	1996	1995	1994
(In thousands, except per share data)			
Net sales	$4,144,817	$3,061,881	$1,659,807
Cost of products sold	2,195,078	1,652,033	891,512
Gross margin	1,949,739	1,409,848	768,295
Operating expenses:			
Research, development and engineering	481,394	329,676	189,126
Marketing and selling	313,631	223,296	157,303
General and administrative	226,063	162,944	82,629
Restructuring	25,100	--	--
Income from operations	903,551	693,932	339,237
Interest expense	20,733	21,401	15,962
Interest income	39,618	26,012	11,222
Income from consolidated companies before taxes and cumulative effect of accounting change	922,436	698,543	334,497
Provision for income taxes	322,851	244,490	117,074
Income from consolidated companies before cumulative effect of accounting change	599,585	454,053	217,423
Equity in net loss of joint venture	--	--	3,727
Income before cumulative effect of accounting change	599,585	454,053	213,696
Cumulative effect of change in accounting for income taxes	--	--	7,000
Net income	$ 599,585	$ 454,053	$ 220,696
Earnings per share:			
Before cumulative effect of accounting change	$ 3.27	$ 2.56	$ 1.26
Net income	$ 3.27	$ 2.56	$ 1.30
Average common shares and equivalents	183,607	177,348	170,042

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

Fiscal year end	1996	1995
(In thousands, except per share amounts)		
Assets		
Current assets:		
Cash and cash equivalents	$ 403,888	$ 285,845
Short-term investments	633,744	483,487
Accounts receivable, less allowance for doubtful accounts of $4,169 and $3,017	822,384	817,730
Inventories	478,552	427,413
Deferred income taxes	281,586	198,888
Other current assets	72,915	98,250
Total current assets	2,693,069	2,311,613
Property, plant and equipment, net of accumulated depreciation	919,038	630,746
Other assets	25,880	23,020
Total assets	$3,637,987	$2,965,379
Liabilities and Stockholders' Equity		
Current liabilities:		
Notes payable	$ 77,522	$ 61,748
Current portion of long-term debt	22,640	21,064
Accounts payable and accrued expenses	791,897	659,572
Income taxes payable	43,168	119,347
Total current liabilities	935,227	861,731
Long-term debt	275,485	279,807
Deferred income taxes	11,607	11,612
Other non-current obligations	45,243	28,726
Total liabilities	1,267,562	1,181,876
Commitments and contingencies	--	--
Stockholders' equity:		
Preferred stock; $.01 par value per share; 1,000 shares authorized; no shares issued	--	--
Common stock; $.01 par value per share; 500,000 shares authorized; 180,235 and 179,278 shares outstanding	1,802	1,792
Additional paid-in capital	763,376	760,057
Retained earnings	1,599,564	999,979
Cumulative translation adjustments	5,683	21,675
Total stockholders' equity	2,370,425	1,783,503
Total liabilities and stockholders' equity	$3,637,987	$2,965,379

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

Fiscal year ended	1996	1995	1994
(In thousands)			
Cash flows from operating activities:			
Net income	$ 599,585	$ 454,053	$ 220,696
Adjustments required to reconcile net income to cash provided by operations:			
Depreciation and amortization	148,865	83,231	59,051
Equity in net loss of joint venture	--	--	3,727
Deferred income taxes	(85,852)	(99,345)	(32,510)
Cumulative effect of change in accounting for income taxes	--	--	(7,000)
Changes in assets and liabilities:			
Accounts receivable	(43,789)	(442,935)	(135,851)
Inventories	(60,036)	(186,412)	(80,507)
Other current assets	23,369	(43,097)	(18,216)
Other assets	(3,183)	(3,462)	(3,733)
Accounts payable and accrued expenses	167,346	304,807	83,119
Income taxes payable	(73,938)	64,246	12,329
Other non-current obligations	19,662	11,613	9,919
Cash provided by operations	692,029	142,699	111,024
Cash flows from investing activities:			
Capital expenditures, net of retirements	(452,535)	(265,557)	(180,440)
Investment in joint venture	--	--	--
Proceeds from sales of short-term investments	707,620	351,230	151,305
Purchases of short-term investments	(857,877)	(572,712)	(266,727)
Cash used for investing	(602,792)	(487,039)	(295,862)
Cash flows from financing activities:			
Short-term borrowings, net	22,360	18,847	(1,420)
Long-term debt borrowings	29,832	134,992	98,594
Long-term debt repayments	(25,164)	(51,303)	(7,256)
Issuances of common stock, net	40,381	370,353	134,263
Repurchases of common stock	(37,052)	--	--
Cash provided by financing	30,357	472,889	224,181
Effect of exchange rate changes on cash	(1,551)	(3,024)	1,380
Increase in cash and cash equivalents	118,043	125,525	40,723
Cash and cash equivalents at beginning of year	285,845	160,320	119,597
Cash and cash equivalents at end of year	$ 403,888	$ 285,845	$ 160,320

Cash payments for interest were $23,708, $22,349 and $14,120 in 1996, 1995 and 1994, respectively.

Cash payments for income taxes were $429,651, $221,430 and $79,498 in 1996, 1995 and 1994, respectively.

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION AND BASIS OF PRESENTATION The consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of all significant intercompany balances and transactions. The Company's 50 percent joint venture investment in Applied Komatsu Technology, Inc. (AKT) is accounted for using the equity method and is included in other long-term assets. The Company's fiscal years presented are the 52 week periods that ended on the last Sunday of October.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

CASH EQUIVALENTS All highly-liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

SHORT-TERM INVESTMENTS All of the Company's short-term investments are classified as available-for-sale as of the balance sheet dates. Investments classified as available-for-sale are recorded at fair value and any material temporary difference between an investment's cost and its fair value is presented as a separate component of stockholders' equity.

INVENTORY VALUATION Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out (FIFO) basis.

PROPERTY, PLANT AND EQUIPMENT Property, plant and equipment is stated at cost. Depreciation is provided using a straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the useful life of the improvement or the lease term, whichever is shorter. Gains and losses on sales or retirements of property, plant and equipment are reflected in income. Maintenance and repairs are charged to income as incurred. Improvements that extend the useful life of property, plant and equipment are capitalized.

REVENUE RECOGNITION Revenue related to systems is generally recognized upon shipment, which usually precedes customer acceptance. A provision for the estimated future cost of system installation and warranty is recorded at the time of revenue recognition. Service revenue is generally recognized ratably over the period of the related contract.

DERIVATIVE FINANCIAL INSTRUMENTS The Company enters into derivative financial instruments such as forward exchange contracts to hedge certain firm commitments denominated in foreign currencies and currency option contracts to hedge certain anticipated, but not yet committed, transactions expected to be denominated in foreign currencies. The purpose of the Company's foreign currency management activity is to protect the Company from the risk that eventual cash flows from foreign currency denominated transactions may be adversely affected by changes in exchange rates. The terms of the currency instruments used are consistent with the timing of the committed or anticipated transactions being hedged. The Company does not use financial instruments for trading or speculative purposes. Deferred results of forward and option contracts are recognized in income when the related transactions being hedged are recognized.

FOREIGN CURRENCY TRANSLATION The Company's subsidiaries located in Japan and Europe operate primarily using local functional currencies. Accordingly, all assets and liabilities of these subsidiaries are translated using exchange rates in effect at the end of the period, and revenues and costs are translated using average exchange rates for the period. The resulting cumulative translation adjustments are presented as a separate component of stockholders' equity.

Subsidiaries in the Korea and Asia-Pacific regions use the U.S. dollar as the functional currency. Accordingly, assets and liabilities are translated using period-end exchange rates, except for inventories and property, plant and equipment, which are translated using historical rates. Revenues and costs are translated using average exchange rates for the period, except for costs related to those balance sheet items that are translated using historical rates. The resulting translation gains and losses are included in income as they are incurred.

EMPLOYEE STOCK PLANS The Company accounts for its stock option and employee stock purchase plans in accordance with provisions of the Accounting Principle Board's Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees." In 1995, the Financial Accounting Standards Board released Statement of Financial Accounting Standard No. 123 (SFAS 123), "Accounting for Stock Based Compensation." SFAS 123 provides an alternative to APB 25 and is effective for fiscal years beginning after December 15, 1995. The Company will continue to account for its employee stock plans in accordance with the provisions of APB 25, and therefore will be required to disclose certain pro-forma information in the notes to its financial statements. SFAS 123 is not expected to have an effect on the Company's financial condition or results of operations.

EARNINGS PER SHARE Earnings per share is computed using the weighted average number of common shares and equivalents outstanding during the period.

RECLASSIFICATIONS Certain amounts in fiscal years prior to 1996 have been reclassified to conform to the 1996 financial statement presentation.

2. Financial Instruments

INVESTMENTS At October 27, 1996 and October 29, 1995, the fair value of the Company's short-term investments approximated cost. Accordingly, temporary differences between the short-term investment portfolio's fair value and its cost have not been presented as a separate component of stockholders' equity. Information about short-term investments is as follows:

(In thousands)	1996	1995
Obligations of states and political subdivisions	$189,566	$120,708
U.S. commercial paper, corporate bonds and medium-term notes	159,929	110,740
Bank certificates of deposit	134,078	97,101
U.S. treasury securities	121,840	137,215
Other debt securities	28,331	17,723
	$633,744	$483,487

$233,485,000 and $201,684,000 of investments in debt and equity securities are included in cash and cash equivalents at October 27, 1996 and October 29, 1995, respectively.

Information about the contractual maturities of short-term investments at October 27, 1996 is as follows:

	Due in One Year or Less	Due After One Year Through Three Years	Due After Three Years
(In thousands)			
Obligations of states and political subdivisions	$ 95,510	$ 50,857	$ 43,199
U.S. commercial paper, corporate bonds and medium-term notes	90,182	19,241	50,506
Bank certificates of deposit	134,078	--	--
U.S. treasury securities	97,747	1,507	22,586
Other debt securities	826	16,299	11,206
	$418,343	$ 87,904	$127,497

Gross unrealized holding gains and losses and gross realized gains and losses on sales of short-term investments were not material as of or for the years ended October 27, 1996 and October 29, 1995. The Company manages its cash equivalents and short-term investments as a single portfolio of highly marketable securities which is intended to be available to meet the Company's current cash requirements.

DERIVATIVE FINANCIAL INSTRUMENTS The notional amounts of derivative financial instruments as of October 27, 1996 and October 29, 1995 were as follows:

	1996	1995
(In thousands)		
Forward exchange contracts to sell U.S. dollars for foreign currency	$330,093	$308,879
Forward exchange contracts to sell foreign currency for U.S. dollars	$504,612	$460,721
Currency option contracts to sell foreign currency for U.S. dollars	$250,000	$400,000

All currency forward and option contracts outstanding at October 27, 1996 have maturities of less than one year and are primarily to buy or sell Japanese yen in exchange for U.S. dollars. Management believes that these contracts should not subject the Company to undue risk from foreign exchange movements because gains and losses on these contracts generally offset gains and losses on the assets, liabilities and transactions being hedged.

CONCENTRATIONS OF CREDIT RISK Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash equivalents, short-term investments, trade accounts receivable and derivative financial instruments used in hedging activities.

The Company invests in a variety of financial instruments such as certificates of deposit, municipal bonds and treasury bills, and, by policy, limits the amount of credit exposure to any one financial institution or commercial issuer.

The Company's customers consist of semiconductor manufacturers located throughout the world. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral to secure the receivables. The Company maintains an allowance for doubtful accounts based upon the expected collectibility of all accounts receivable.

The Company is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments, but does not expect any counterparties to fail to meet their obligations.

FAIR VALUE OF FINANCIAL INSTRUMENTS For certain of the Company's financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, notes payable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their short maturities. Consequently, such instruments are not included in the following table that provides information regarding the carrying amounts and estimated fair values of other financial instruments, both on and off the balance sheets:

	1996		1995	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(In thousands)				
Long-term debt, including current portion	$298,125	$305,593	$300,871	$316,599
Forward exchange contracts:				
Sell foreign currency	$533,893	$534,993	$408,200	$409,397
Buy foreign currency	$318,261	$318,182	$282,978	$283,770
Currency option contracts	$ 2,475	$ 3,344	$ 4,682	$ 29,400

The estimated fair value of long-term debt is based primarily on quoted market prices for the same or similar issues. The fair value of forward exchange and currency option contracts is based on quoted market prices of comparable instruments.

3. Inventories

	1996	1995
(In thousands)		
Customer service spares	$182,320	$131,411
Raw materials	70,959	118,627
Work-in-process	140,964	139,537
Finished goods	84,309	37,838
	$478,552	$427,413

4. Property, Plant and Equipment

(In thousands)	Useful Life In Years	1996	1995
Land		$ 95,739	$ 62,710
Buildings and leasehold improvements	2-65	438,276	342,629
Demonstration and manufacturing equipment	3-5	292,136	174,956
Furniture, fixtures and other equipment	3-20	277,199	176,408
Construction in progress		162,296	102,960
		1,265,646	859,663
Accumulated depreciation		(346,608)	(228,917)
		$ 919,038	$ 630,746

5. Applied Komatsu Technology Joint Venture

In September 1993, the Company entered into an agreement with Komatsu, Ltd. to form Applied Komatsu Technology, Inc. (AKT), a joint venture corporation that develops, manufactures and markets systems used to produce flat panel displays. The Company's initial investment in AKT aggregated $6,916,000, which included contributed cash, the net book value of certain tangible and intangible assets and costs of formation. Komatsu, Ltd. contributed $35,000,000 of cash to AKT. The difference between the Company's investment and its interest in the book value of AKT's net assets will be amortized when AKT achieves sustained profitability. The Company's investment in AKT has been reduced to zero as a result of its share of AKT's net losses since formation. Royalties received by the Company on AKT sales did not materially affect the Company's results of operations in fiscal 1996, 1995 or 1994.

6. Notes Payable

The Company has credit facilities for borrowings in various currencies up to $380,699,000 on an unsecured basis; $240,000,000 represents a revolving credit agreement in the United States with a group of 9 banks. This agreement includes facility fees, allows for borrowings at various rates including the lead bank's prime reference rate, requires compliance with certain covenants and expires in February 2000. The remaining $140,699,000 of credit facilities are primarily with Japanese and European banks at rates indexed to their prime reference rate. At October 27, 1996, $77,522,000 was outstanding under Japanese credit facilities at an average annual interest rate of .8 percent.

7. Long-Term Debt

(In thousands)	Interest Rate	Maturity Date	1996	1995
Secured Japanese debt	1.55-5.55%	1997-2011	$ 72,625	$ 60,371
Unsecured senior notes	9.62%	1997-1999	52,500	67,500
Noncallable unsecured senior notes	8.00%	2004	100,000	100,000
Medium-term notes	6.65-7.00%	2000-2005	73,000	73,000
			298,125	300,871
Current portion			(22,640)	(21,064)
			$275,485	$279,807

Japanese debt is due in equal periodic installments and is secured by property and equipment having an approximate net book value of $78,700,000 at October 27, 1996.

The unsecured senior notes are fixed-rate and require annual principal payments each April 1 until maturity. The notes agreement allows the Company to prepay the notes, subject to certain penalties. The notes agreement requires compliance with certain financial tests and ratios, and limits additional borrowings, liens placed on assets, dividends and certain other major transactions. At the beginning of fiscal 1997, the Company elected to prepay these notes prior to their scheduled maturities (see note 15).

The noncallable unsecured senior notes are fixed-rate and require interest payments on March 1 and September 1 of each year, with the principal payable in 2004. The notes contain covenants that limit additional borrowings by U.S. subsidiaries, liens placed on assets and sale and leaseback transactions.

On August 24, 1995, the Company commenced a program to offer from time to time up to $266,931,000 in medium-term notes, at fixed or variable rates as determined at the time of issuance. The notes contain covenants that limit additional borrowings by U.S. subsidiaries, liens placed on assets and sale and leaseback transactions.

Aggregate principal payments required for long-term debt are:

(In thousands)	
1997	$ 22,640
1998	$ 26,317
1999	$ 30,262
2000	$ 36,396
2001	$ 10,998
Thereafter	$171,512

8. Accounts Payable and Accrued Expenses

(In thousands)	1996	1995
Accounts payable	$192,607	$244,014
Compensation and employee benefits	170,881	109,388
Installation and warranty	187,873	133,035
Other	240,536	173,135
	$791,897	$659,572

9. Restructuring

During the fourth quarter of fiscal 1996, the Company recorded a restructuring charge of $25,100,000 in connection with a reduction of its workforce and related consolidation of facilities. These actions reduced the Company's cost structure and were taken in response to an industry downturn that resulted in a significant reduction in new orders received by the Company.

Restructuring activity in fiscal 1996 was as follows:

(In thousands)	Reduction In Workforce	Facilities
Provision	$ 19,329	$5,771
Amount utilized	(13,238)	(348)
Balance, October 27, 1996	$ 6,091	$5,423

The provision for the reduction in workforce includes severance and other benefits for approximately 800 employees, the majority of whom were based in Santa Clara, California and Austin, Texas. In addition, approximately 870 temporary and contractor positions were eliminated as part of the restructuring.

The provision for facilities includes lease obligations relating to idle or subleased buildings and write-offs of related facility improvements.

The remaining cash outlays of approximately $7,500,000 are expected to occur primarily in the first quarter of fiscal 1997.

10. Stockholders' Equity

During fiscal 1996, the stockholders approved an increase in the authorized number of shares of common stock to 500,000,000.

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Cumulative Translation Adjustments
Balance at October 31, 1993	160,756	$1,608	$255,625	$ 325,230	$ 16,299
Net issuance under stock plans*	2,852	28	23,562	--	--
Stock offering	4,600	46	110,627	--	--
Translation adjustments	--	--	--	--	12,543
Net income	--	--	--	220,696	--
Balance at October 30, 1994	168,208	1,682	389,814	545,926	28,842
Net issuance under stock plans*	3,020	30	49,132	--	--
Stock offering	8,050	80	321,111	--	--
Translation adjustments	--	--	--	--	(7,167)
Net income	--	--	--	454,053	--
Balance at October 29, 1995	179,278	1,792	760,057	999,979	21,675
Net issuance under stock plans*	2,142	21	40,360	--	--
Stock repurchases	(1,185)	(11)	(37,041)	--	--
Translation adjustments	--	--	--	--	(15,992)
Net income	--	--	--	599,585	--
Balance at October 27, 1996	180,235	$1,802	$763,376	$1,599,564	$ 5,683

* Includes 619 and 200 shares of treasury stock issued under stock plans in 1996 and 1994, respectively. Includes tax benefits of $11,894, $36,940 and $27,402 for 1996, 1995 and 1994, respectively.

In fiscal 1995, the Company sold 8,050,000 shares of common stock in a public offering at a price of $41.38 per share prior to underwriters' commissions. Proceeds net of underwriters' commissions and other offering costs were $321,191,000. In fiscal 1994, the Company sold 4,600,000 shares of common stock in a public offering at a price of $25.13 per share prior to underwriters' commissions. Proceeds net of underwriters' commissions and other offering costs were $110,673,000.

STOCK REPURCHASE PROGRAM In March 1996, the Board of Directors authorized a plan that allows the Company to repurchase shares of its common stock in the open market prior to March 1999. The purpose of this plan is to acquire shares to fund the Company's stock-based benefit and incentive plans. In fiscal 1996, 985,000 shares were repurchased under this plan at an average price of $29.95 per share.

In January 1996, the Board of Directors authorized the Company to repurchase 200,000 shares of its common stock in the open market to fund certain stock-based employee benefit plans. All shares under this authorization were purchased in fiscal 1996 at an average price of $37.76 per share.

11. Employee Benefit Plans

STOCK OPTIONS The Company grants options to key employees and non-employee directors to purchase shares of its common stock at the fair market value on the date of grant. Options generally vest over a four-year period. There were 6,277,000, 9,454,000 and 7,310,000 shares available for grant at the end of fiscal 1996, 1995 and 1994, respectively. Stock option activity was as follows:

	1996	1995	1994
(In thousands, except per share data)			
Outstanding, beginning of year	13,969	11,538	10,926
Granted	8,447	5,808	4,582
Exercised	(1,537)	(3,049)	(3,522)
Canceled	(5,597)	(328)	(448)
Outstanding, end of year	15,282	13,969	11,538
Exercisable, end of year	4,792	3,846	3,744
Consideration received for options exercised during the year (ranging from $2.41 to $26.19 per share in 1996, $2.41 to $23.00 per share in 1995 and $1.44 to $18.06 per share in 1994)	$ 10,564	$ 13,545	$ 12,556
Aggregate purchase price of options outstanding at the end of the year (ranging from $2.41 to $52.50 per share in 1996, $2.41 to $52.50 per share in 1995 and $2.38 to $25.50 per share in 1994)	$305,036	$294,585	$112,114

During 1996, the Company canceled options to purchase 4,901,364 shares. The canceled options were originally granted between June 15, 1995 and May 21, 1996 at exercise prices ranging from $26.19 to $52.50 per share. New options to purchase 4,901,364 shares at exercise prices ranging from $23.87 to $28.50 per share were then granted. Executive officers of the Company were not permitted to cancel options.

At October 27, 1996, 21,559,000 common shares were reserved for issuance upon the exercise of outstanding stock options and shares available for future grants.

EMPLOYEE STOCK PURCHASE PLAN On December 1, 1995, the Company established an employee stock purchase plan. Under this plan, substantially all employees may purchase the Company's common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value as of the beginning or end of each six-month offering period. Stock purchases under this plan are limited to 10 percent of an employee's compensation, up to a maximum of $15,000, in any calendar year. During fiscal 1996, 385,673 shares were issued under this plan, and 3,614,327 shares were reserved for future issuance under the plan as of October 27, 1996.

EMPLOYEE BONUS PLANS The Company has various employee bonus plans. A profit sharing plan provides for the distribution of a percentage of pretax profits to substantially all of the Company's employees, up to a maximum percentage of compensation. Another plan awards annual bonuses to the Company's executive staff based on the achievement of profitability and other specific performance criteria. The Company also has agreements with certain key technical employees that provide for additional compensation related to the success of new product development and achievement of specified profitability criteria. Charges to expense under these plans were $112,806,000, $55,805,000 and $31,166,000 in fiscal 1996, 1995 and 1994, respectively.

EMPLOYEE SAVINGS AND RETIREMENT PLAN The Employee Savings and Retirement Plan is qualified under Section 401(k) of the Internal Revenue Code. The Company contributes a percentage of the amount of salary deferral contributions made by each participating employee. Company contributions are invested in the Company's common stock and become 20 percent vested after an employee's third year of service, and fully vest after seven years of service. Expenses associated with this plan were $26,095,000, $14,837,000 and $6,417,000 for fiscal 1996, 1995 and 1994, respectively.

DEFINED BENEFIT PLANS OF FOREIGN SUBSIDIARIES Certain of the Company's foreign subsidiaries have defined benefit pension plans covering substantially all of their eligible employees. The benefits under these plans are based on years of service and final average compensation levels. Funding is limited by the local statutory requirements of the countries in which the subsidiaries are located. Expenses under these plans were $6,709,000, $4,240,000 and $3,344,000, consisting principally of service cost, for fiscal 1996, 1995 and 1994, respectively. The aggregate accumulated benefit obligation, projected benefit obligation and fair value of plan assets at October 27, 1996 were $18,626,000, $32,097,000 and $6,703,000, respectively.

12. Income Taxes

Effective the beginning of fiscal 1994, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes." The cumulative effect of adopting SFAS 109 resulted in a one-time credit of $7,000,000, or $.04 per share, and is presented separately in the consolidated statement of operations.

U.S. income taxes have not been provided for approximately $41,000,000 of cumulative undistributed earnings of certain non-U.S. subsidiaries. The Company intends to reinvest these earnings indefinitely in operations outside the United States.

The components of income from consolidated companies before taxes and cumulative effect of accounting change were as follows:

(In thousands)	1996	1995	1994
U.S.	$697,659	$584,804	$276,483
Foreign	224,777	113,739	58,014
Income from consolidated companies before taxes and cumulative effect of accounting change	$922,436	$698,543	$334,497

The components of the provision for income taxes were as follows:

(In thousands)	1996	1995	1994
Current:			
U.S.	$266,693	$243,576	$ 96,106
Foreign	99,739	62,627	32,343
State	39,122	37,378	17,083
	405,554	343,581	145,532
Deferred:			
U.S.	(70,382)	(90,264)	(21,672)
Foreign	(6,289)	(4,179)	(4,555)
State	(6,032)	(4,648)	(2,231)
	(82,703)	(99,091)	(28,458)
Provision for income taxes	$322,851	$244,490	$117,074*

*Before cumulative effect of accounting change.

The provision for income taxes differs from the amount computed by applying the statutory U.S. federal income tax rate of 35 percent as follows:

(In thousands)	1996	1995	1994
Tax provision at U.S. statutory rate	$322,851	$244,490	$117,074
Effect of foreign operations taxed at various rates	18,261	16,457	7,480
State income taxes, net of federal benefit	21,509	21,274	9,654
Research tax credits	(3,624)	(4,273)	(3,063)
FSC benefit	(24,266)	(14,770)	(6,900)
Tax exempt interest	(2,674)	(2,514)	(1,600)
Foreign tax credits	(17,264)	(18,352)	(6,808)
Other	8,058	2,178	1,237
Provision for income taxes	$322,851	$244,490	$117,074*

* Before cumulative effect of accounting change.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of the net deferred income tax assets were as follows:

(In thousands)	1996	1995
Deferred income tax assets:		
Inventory reserves and basis difference	$ 58,576	$ 41,203
Warranty and installation reserves	75,264	51,594
Accrued liabilities	113,323	85,152
Other	34,423	20,939
Deferred income tax liabilities:		
Depreciation	(11,063)	(9,636)
Other	(544)	(1,976)
Net deferred income tax assets	$269,979	$187,276

13. Industry Segment and Foreign Operations

The Company operates exclusively in the semiconductor wafer fabrication equipment industry. The Company's selling and support services operations are its principal revenue-producing activities. For geographical reporting, revenues are attributed to the geographic location of the sales and service organizations, and costs directly and indirectly incurred in generating revenues are similarly attributed. Corporate assets consist primarily of cash, cash equivalents and short-term investments. Corporate operating expenses consist primarily of general and administrative expenses not allocable to specific geographic regions.

During fiscal years 1996, 1995 and 1994, no sales to individual customers were greater than 10 percent of net sales.

(In thousands)	Net Sales	Income from Operations	Total Assets
1996:			
North America	$1,270,359	$344,343	$1,566,000
Europe	685,887	113,865	291,223
Japan	1,008,597	288,853	614,805
Korea	567,116	124,866	118,159
Asia-Pacific	612,858	189,092	180,571
Corporate	--	(157,468)	867,229
Consolidated	$4,144,817	$903,551	$3,637,987
1995:			
North America	$ 988,709	$228,247	$1,226,231
Europe	470,609	103,617	249,216
Japan	790,773	150,893	574,914
Korea	504,273	205,766	46,557
Asia-Pacific	307,517	120,002	183,290
Corporate	--	(114,593)	685,171
Consolidated	$3,061,881	$693,932	$2,965,379
1994:			
North America	$ 611,670	$139,562	$ 724,093
Europe	292,189	77,956	121,822
Japan	454,939	75,324	378,571
Korea	192,260	57,374	30,996
Asia-Pacific	108,749	38,101	52,809
Corporate	--	(49,080)	394,374
Consolidated	$1,659,807	$339,237	$1,702,665

Intercompany transfers of products from North America to other regions were $1,789,000,000, $1,267,077,000 and $538,442,000 in fiscal years 1996, 1995 and 1994, respectively, and from Europe were $122,000,000, $81,429,000 and $67,934,000 in 1996, 1995 and 1994, respectively. Transfers and commission arrangements between geographic areas are at prices sufficient to recover a reasonable profit. At October 27, 1996, net accounts receivable from customers located in North America were $116,016,000, while net accounts receivable from customers located in Europe, Japan, Korea and Asia-Pacific were $167,942,000, $383,047,000, $37,396,000 and $117,983,000, respectively.

14. Commitments and Contingencies

The Company leases certain of its facilities and equipment under noncancelable operating leases and has options to renew most leases, with rentals to be negotiated. The Company also leases certain office and general operating facilities in Santa Clara, California, under agreements that provide for monthly payments based on the London interbank offering rate (LIBOR). In accordance with these agreements, the Company must maintain compliance with covenants similar to those contained in its credit facilities. At the end of these leases, the Company has to acquire the properties at their original cost or arrange for these properties to be acquired. The Company is contingently liable under 85 percent first-loss clauses for up to approximately $53,000,000 at October 27, 1996. Management believes that these contingent liabilities should not have a material adverse effect on the Company's financial condition or results of operations.

Total rent expense in fiscal 1996, 1995 and 1994 was $66,227,000, $41,672,000 and $28,083,000, respectively. Aggregate minimum future rental commitments are:

(In thousands)	
1997	$40,892
1998	$30,197
1999	$22,839
2000	$16,185
2001	$11,697
Thereafter	$66,757

Trade notes and accounts receivable from certain Japanese customers are sold with recourse and at a discount to financial institutions. As of October 27, 1996, $161,325,000 of such receivables were outstanding.

The Company is the plaintiff in two patent infringement lawsuits against another company. The defendant has filed a counterclaim in one of these lawsuits and has other claims against the Company in three other patent infringement lawsuits. The Company has also filed a declaratory judgment action against the aforementioned company which has been consolidated with one of the three suits. Trials have been successfully completed in the two lawsuits initiated by the Company, in which the Court found certain of the Company's patents to be valid and infringed. The Company has also obtained summary judgment in its favor dismissing the first of the three other suits. In the second of such suits, the Company has obtained partial rulings in its favor, though additional proceedings are ongoing. The third suit is continuing through pre-trial discovery. The Company has also initiated another patent infringement suit on these patents against another company. An appeal of the Company's first successful trial has been decided in the Company's favor, resulting in the accused infringer's products being permanently enjoined from sale in the United States. An appeal from the Company's second successful trial is still pending. The Company has recently agreed to stay these litigation proceedings to engage in negotiations with said company. The Company is also involved in two lawsuits including multiple claims and counterclaims for patent infringement with a third company. Discovery is complete d in the first and is commencing in the second, with trials scheduled for March 1997 and August 1997, respectively. Finally, the Company is named as a defendant in a lawsuit in which the plaintiff alleges the Company infringes five patents. This lawsuit is proceeding through active discovery, and a trial date has been set for January 21, 1997. The Company is also named as a defendant in other litigation arising in the normal course of business. Also in the normal course of business, the Company from time to time receives and makes inquiries with regard to possible patent infringement. Management believes it has meritorious defenses and intends to vigorously pursue these matters.

Notes to Consolidated Financial Statements

15. Subsequent Event

On November 18, 1996, the Company notified its unsecured senior noteholders of its intention to repay the notes prior to their scheduled maturities, as provided under the terms of the agreement. The noteholders received approximately $56,000,000, representing principal, accrued interest and prepayment charges, on December 19, 1996.

16. Unaudited Subsequent Event

On November 24, 1996, the Company announced that it entered into an agreement to acquire Opal, Inc., a supplier of CD-SEM (critical dimension scanning electron microscope) systems for use in semiconductor manufacturing, for approximately $175,000,000. The Company will tender an offer for any and all outstanding shares of Opal's common stock at $18.50 per share net to the seller in cash. Opal's revenues for the 12-month period ended September 30, 1996 were $62,000,000.

On the same day, the Company also announced that it entered into an agreement to acquire Orbot Instruments, Ltd., a supplier of wafer and reticle inspection systems for use in the production of semiconductors, for approximately $110,000,000 in cash. Orbot's revenues for the 12-month period ended September 30, 1996 were $36,000,000.

These two acquisitions would mark the Company's entry into the metrology and inspection semiconductor equipment market. Each acquisition has been approved by the boards of directors of the respective companies, and both transactions are expected to be completed during the Company's first fiscal quarter of 1997 ending January 26, 1997.

17. Unaudited Quarterly Consolidated Financial Data

	Quarter				Fiscal
	First	Second	Third	Fourth	Year
(In thousands, except per share amounts)					
1996:					
Net sales	$1,040,580	$1,127,855	$1,115,424	$860,958	$4,144,817
Gross margin	$ 496,800	$ 541,291	$ 531,976	$379,672	$1,949,739
Net income*	$ 171,626	$ 185,821	$ 169,066	$ 73,072	$ 599,585
Earnings per share	$ .93	$ 1.01	$ .92	$ .40	$ 3.27

* Included in the fourth quarter is a pre-tax restructuring charge of $25,100.

	Quarter				Fiscal
	First	Second	Third	Fourth	Year
(In thousands, except per share amounts)					
1995:					
Net sales	$506,108	$675,439	$897,684	$982,650	$3,061,881
Gross margin	$238,012	$305,010	$408,428	$458,398	$1,409,848
Net income	$ 65,808	$ 93,635	$139,212	$155,398	$ 454,053
Earnings per share	$ .38	$ .54	$ .78	$ .84	$ 2.56

Report of Independent Accountants

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS OF APPLIED MATERIALS, INC.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and cash flows present fairly, in all material respects, the financial position of Applied Materials, Inc. and its subsidiaries at October 27, 1996 and October 29, 1995 and the results of their operations and their cash flows for each of the three years in the period ended October 27, 1996, 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.

As discussed in note 12 to the consolidated financial statements, the Company changed its method of accounting for income taxes effective November 1, 1993.

/s/ Price Waterhouse LLP

San Jose, California
November 20, 1996

STOCKHOLDERS' INFORMATION

LEGAL COUNSEL

Orrick, Herrington & Sutcliffe
San Francisco, California

INDEPENDENT ACCOUNTANTS

Price Waterhouse LLP
San Jose, California

Number of Registered Stockholders: 3,770

STOCK LISTING

Applied Materials, Inc. is traded on the Nasdaq National Market, Nasdaq Symbol:AMAT

TRANSFER AGENT

Harris Trust Company of California Los Angeles, California

FORM 10-K

A copy of Applied Materials' Annual Report on Form 10-K, filed with the Securities and Exchange Commission, contains additional information relating to the Company, and is available without charge. We welcome questions from potential and existing stockholders.

PLEASE CONTACT:

Investor Relations
Applied Materials, Inc.
3050 Bowers Avenue
Santa Clara, California 95054-3299
(800) 882-0373

STOCK PRICE HISTORY

Fiscal Year	1996		1995	
	High	Low	High	Low
First quarter	55 3/8	31 3/8	26 1/4	19 1/2
Second quarter	44 1/8	32	30 13/16	19 1/4
Third quarter	40 1/2	22 1/2	53 11/16	30 1/16
Fourth quarter	29 3/4	23	59 1/8	45 3/8

The preceding table sets forth the high and low closing sale prices as reported on the Nasdaq National Market during the last two years.

Applied Materials

APPENDIX TO 1996 ANNUAL REPORT
DESCRIPTION OF GRAPHS

In this Appendix, the following descriptions of certain graphs in the Company's 1996 Annual Report that are omitted from the EDGAR version are more specific with respect to the actual numbers, amounts and percentages than is determinable from the graphs themselves. The Company submits such more specific descriptions only for the purpose of complying with the requirements for transmitting this Annual Report on Form 10-K electronically via EDGAR; such more specific descriptions are not intended in any way to provide information that is additional to the information otherwise provided in the Annual Report.

Page Number 26
Graph Title: REVENUE PER EMPLOYEE
(Dollars in thousands)
Bar graph with horizontal axis containing years 1996, 1995, 1994, 1993, and 1992 and vertical axis containing thousands of dollars. Revenue per employee is $363, $291, $255, $228, and $192 thousand for 1996, 1995, 1994, 1993, and 1992, respectively.

Page Number 26
Graph Title: RETURN ON ASSETS
(Dollars in millions)
Bar graph with horizontal axis containing years 1996, 1995, 1994, 1993, and 1992 and vertical axis containing percent. Return on assets is 18%, 19%, 16%, 11% and 11% for 1996, 1995, 1994, 1993 and 1992, respectively.

Page Number 26
Graph Title: DEBT TO EQUITY RATIO
(Percent)
Bar graph with horizontal axis containing years 1996, 1995, 1994, 1993, and 1992 and vertical axis containing percent. Debt to equity ratio is 14%, 17%, 22%, 22%, and 24%, for 1996, 1995, 1994, 1993, and 1992, respectively.

Page Number 27
Graph Title: SALES BY GEOGRAPHIC REGION
(Dollars in millions)

Bar graph with horizontal axis containing years 1996, 1995, 1994, 1993, and 1992 and vertical axis containing dollars in millions. Each bar is split by North America, Japan, Europe, Korea, and Asia-Pacific. The following table lists the amount of net sales by geographic region in millions of dollars:

SALES BY GEOGRAPHIC REGION	1992	1993	1994	1995	1996
North America	$296.7	$406.0	$611.7	$988.7	$1,270.4
Japan	227.3	269.6	455.0	790.8	1,008.6
Europe	136.1	218.7	292.1	470.6	685.9
Korea	46.7	105.4	192.2	504.2	567.1
Asia-Pacific	44.6	80.3	108.8	307.5	612.8
Total	$751.4	$1,080.0	$1,659.8	$3,061.8	$4,144.8

Page Number 28
Graph Title: R D & E EXPENSES
(Dollars in millions)
Bar graph with horizontal axis containing years 1996, 1995, 1994, 1993, and 1992 and vertical axis containing dollars in millions. Data contained in the graph is located on page 26 of the 1996 Annual Report in the Selected Consolidated Financial Data Table on the Research, development and engineering line item.

Page Number 28
Graph Title: WORKING CAPITAL
(Dollars in millions)
Bar graph with horizontal axis containing years 1996, 1995, 1994, 1993, and 1992, and vertical axis containing dollars in millions. Data contained in the graph is located on page 26 of the 1996 Annual Report in the Selected Consolidated Financial Data Table on the Working capital line item.

Page Number 29
Graph Title: CAPITAL EXPENDITURES
(Dollars in millions)
Bar graph with horizontal axis containing years 1996, 1995, 1994, 1993, and 1992 and vertical axis containing dollars in millions. Capital expenditures are split by Land, Buildings and Improvements and Other. Land, Buildings and Improvements are $227, $118, $107, $49, and $33 million for 1996, 1995, 1994, 1993, and 1992, respectively. Other is $225, $148, $73, $46, and $28 million for 1996, 1995, 1994, 1993, and 1992, respectively.

Exhibit 21

SUBSIDIARIES OF APPLIED MATERIALS, INC.

Subsidiaries of Applied Materials, Inc.		State or Country of Incorporation or Organization
Applied Materials Japan, Inc.		Japan
Applied Materials Europe BV	(1)	Netherlands
Applied Materials International BV		Netherlands
Applied Acquisition Subsidiary		California
Applied Materials International, Inc.		California
Applied Materials (Holdings)	(2)	California
Applied Materials Asia-Pacific, Ltd.	(3)	Delaware
Applied Materials Israel, Ltd.		Israel
Opal, Inc.	(4)	Delaware
Orbot Instruments, Ltd.	(5)	Israel
(1) Applied Materials Europe BV owns the following subsidiaries:		
Applied Materials GmbH		Germany
Applied Materials France SARL		France
Applied Materials Ltd.		England
Applied Materials Ireland Ltd.		Ireland
Applied Materials Sweden AB		Sweden
Applied Materials Israel Services (1994) Ltd.		Israel
Applied Materials Srl.		Italy
(2) Applied Materials (Holdings) owns the following subsidiary:		
Applied Implant Technology, Ltd.		California
(3) Applied Materials Asia-Pacific, Ltd. owns the following subsidiaries:.		
Applied Materials Korea, Ltd.		Korea
Applied Materials Taiwan, Ltd.		Taiwan
Applied Materials South East Asia Pte., Ltd.		Singapore
Applied Materials China, Ltd.		Hong Kong
AMAT (Thailand) Limited		Thailand
(4) Opal, Inc. owns the following subsidiaries:		
Opal Technologies Ltd.		Israel
ICT Integrated Circuit Testing GmbH*		Germany
(5) Orbot Instruments, Ltd. owns the following subsidiaries:		
Orbot Instruments, Inc.		Delaware
Orbot Instruments Europe, S.A.		Belgium
Orbot Instruments Pacific, Ltd.		Hong Kong
50-50 joint venture between Applied Materials, Inc. and Komatsu Ltd.:		
Applied Komatsu Technology, Inc.		Japan

* Wholly-owned subsidiary of Opal Technologies Ltd.

Exhibit 23

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 2-69114; 2-77988; 2-77987; 2-85545; 2-94205; 33-24530; 33-24531; 33-52072; 33-52076; 33-63847; 33-64285) and to the incorporation by reference in the Prospectus constituting part of the Registration Statement on Form S-3 (No. 33-60301) of Applied Materials, Inc. of our report dated November 20, 1996 appearing on page 50 of the Annual Report to Stockholders which is incorporated in this Annual Report on Form 10-K. We also consent to the inclusion of our report on the Financial Statement Schedule, which appears on page 22 of this Annual Report on Form 10-K.

/s/ Price Waterhouse LLP
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Price Waterhouse LLP
San Jose, California
January 23, 1997

Exhibit 24

POWER OF ATTORNEY

The undersigned directors and officers of Applied Materials, Inc., a Delaware corporation (the "Company") hereby constitute and appoint James C. Morgan and Gerald F. Taylor, and each of them with full power to act without the other, the undersigned's true and lawful attorney-in-fact, with full power of substitution and resubstitution, for the undersigned and in the undersigned's name, place and stead in the undersigned's capacity as an officer and/or director of the Company, to execute in the name and on behalf of the undersigned an annual report of the Company on Form 10-K for the fiscal year ended October 27, 1996 (the "Report"), under the Securities and Exchange Act of 1934, as amended, and to file such Report, with exhibits thereto and other documents in connection therewith and any and all amendments thereto, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing necessary or desirable to be done and to take any other action of any type whatsoever in connection with the foregoing which, in the opinion of such attorney-in-fact, may be of benefit to, in the best interest of, or legally required of, the undersigned, it being understood that the documents executed by such attorney-in-fact on behalf of the undersigned pursuant to this Power of Attorney shall be in such form and shall contain such terms and conditions as such attorney-in-fact may approve in such attorney-in-fact's discretion.

IN WITNESS WHEREOF, I have hereunto set my hand this 13th day of December, 1996.

/s/Michael H. Armacost
- ----------
Michael H. Armacost
Director

/s/James C. Morgan

James C. Morgan
Chairman, Chief Executive Officer and Director
(Principal Executive Officer)

/s/Herbert M. Dwight, Jr.
- ----------
Herbert M. Dwight, Jr.
Director

/s/Dan Maydan

Dan Maydan
Chairman, Chief Executive Officer and Director
(Principal Executive Officer)

/s/George B. Farnsworth
- ----------
George B. Farnsworth
Director

/s/Gerald F. Taylor

Gerald F. Taylor
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

/s/Philip V. Gerdine
- ----------
Philip V. Gerdine
Director

/s/Michael K. O'Farrell

Michael K. O'Farrell
Vice President and
Corporate Controller
(Chief Accounting Officer)

/s/Tsuyoshi Kawanishi
- ----------
Tsuyoshi Kawanishi
Director

/s/Paul R. Low
- ----------
Paul R. Low
Director

/s/Alfred J. Stein
- ----------
Alfred J. Stein
Director

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED OCTOBER 27, 1996.

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YEAR	
	OCT-27-1996
	OCT-27-1996
	403,888
	633,744
	822,384
	0
	478,552
	2,693,069
	1,265,646
	346,608
	3,637,987
	935,227
	275,485
	0
	0
	1,802
	2,368,623
	3,637,987
	4,144,817
	4,144,817
	2,195,078
	0
	481,394
	0
	20,733
	922,436
	322,851
	599,585
	0
	0
	0
	599,585
	3.27
	3.27