UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended July 30, 2006

or

o **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 000-06920

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, P.O. Box 58039 Santa Clara, California	**95052-8039**
(Address of principal executive offices)	*(Zip Code)*

(408) 727-5555
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☑

Number of shares outstanding of the issuer's common stock as of July 30, 2006: 1,533,915,756

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended		Nine Months Ended	
	July 31, 2005	July 30, 2006	July 31, 2005	July 30, 2006
	(Unaudited) (In thousands, except per share amounts)			
Net sales	$ 1,631,938	$ 2,543,443	$ 5,273,703	$ 6,648,721
Cost of products sold	914,849	1,320,089	2,947,959	3,543,043
Gross margin	717,089	1,223,354	2,325,744	3,105,678
Operating expenses:				
Research, development and engineering	236,448	304,326	703,799	853,086
Marketing and selling	98,366	123,810	268,644	322,289
General and administrative	79,578	117,083	256,876	333,889
Restructuring and asset impairments	—	(2,646)	—	210,623
Income from operations	302,697	680,781	1,096,425	1,385,791
Interest expense	9,338	8,848	28,425	26,788
Interest income	45,948	50,578	123,055	147,899
Income before income taxes	339,307	722,511	1,191,055	1,506,902
Provision for/(benefit from) income taxes	(30,284)	210,471	227,869	439,268
Net income	$ 369,591	$ 512,040	$ 963,186	$ 1,067,634
Earnings per share:				
Basic	$ 0.23	$ 0.33	$ 0.58	$ 0.68
Diluted	$ 0.23	$ 0.33	$ 0.58	$ 0.67
Weighted average number of shares:				
Basic	1,630,895	1,550,744	1,654,740	1,571,534
Diluted	1,641,818	1,562,615	1,666,720	1,586,878

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS*

	October 30, 2005*	July 30, 2006
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 990,342	$ 1,308,457
Short-term investments	2,342,952	1,524,319
Accounts receivable, net	1,615,504	2,294,318
Inventories	1,034,093	1,341,918
Deferred income taxes	581,183	610,757
Assets held for sale	—	43,662
Other current assets	271,003	284,248
Total current assets	6,835,077	7,407,679
Long-term investments	2,651,927	2,324,505
Property, plant and equipment	3,011,110	2,741,702
Less: accumulated depreciation and amortization	(1,736,086)	(1,711,035)
Net property, plant and equipment	1,275,024	1,030,667
Goodwill, net	338,982	548,848
Purchased technology and other intangible assets, net	81,093	210,790
Investment in joint venture	—	147,280
Deferred income taxes and other assets	87,054	104,088
Total assets	$ 11,269,157	$ 11,773,857
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 7,574	$ 2,550
Accounts payable and accrued expenses	1,618,042	2,189,539
Income taxes payable	139,798	239,718
Total current liabilities	1,765,414	2,431,807
Long-term debt	407,380	406,970
Other liabilities	167,814	269,136
Total liabilities	2,340,608	3,107,913
Stockholders' equity:		
Common stock	16,067	15,339
Additional paid-in capital	721,937	—
Retained earnings	8,227,793	8,692,135
Accumulated other comprehensive loss	(37,248)	(41,530)
Total stockholders' equity	8,928,549	8,665,944
Total liabilities and stockholders' equity	$ 11,269,157	$ 11,773,857

* Amounts as of July 30, 2006 are unaudited. Amounts as of October 30, 2005 are derived from the October 30, 2005 audited consolidated financial statements. Certain amounts in the October 30, 2005 Consolidated Condensed Balance Sheet have been reclassified to conform to the 2006 presentation.

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	July 31, 2005	July 30, 2006
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net income	$ 963,186	$ 1,067,634
Adjustments required to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	226,120	197,385
Loss on fixed asset retirements	17,851	26,181
Non-cash portion of restructuring and asset impairments	—	210,623
Acquired in-process research and development expense	—	14,000
Deferred income taxes	(21,699)	(45,885)
Excess tax benefit from equity-based compensation plans	—	(25,103)
Amortization of deferred compensation	96	—
Equity-based compensation	—	160,716
Changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable	177,664	(661,419)
Inventories	91,026	(154,974)
Other current assets	27,483	(1,438)
Other assets	(44,640)	(17,659)
Accounts payable and accrued expenses	(261,494)	394,822
Income taxes payable	(130,237)	122,828
Other liabilities	4,006	(11,079)
Cash provided by operating activities	1,049,362	1,276,632
Cash flows from investing activities:		
Capital expenditures	(136,766)	(120,103)
Cash paid for acquisitions, net of cash acquired	(101,793)	(329,326)
Investment in joint venture	—	(147,280)
Proceeds from disposition of assets held for sale	—	16,206
Proceeds from sales and maturities of investments	2,497,677	1,800,595
Purchases of investments	(2,396,433)	(674,225)
Cash flows from (used for) investing activities	(137,315)	545,867
Cash flows from financing activities:		
Repayments of short-term debt and credit facilities	(13,290)	(5,399)
Repayments of long-term debt	(2,924)	—
Proceeds from common stock issuances	165,752	172,076
Common stock repurchases	(1,250,000)	(1,522,105)
Excess tax benefit from equity-based compensation plans	—	25,103
Payments of dividends to stockholders	(49,330)	(174,069)
Cash used for financing activities	(1,149,792)	(1,504,394)
Effect of exchange rate changes on cash and cash equivalents	199	10
Increase (decrease) in cash and cash equivalents	(237,546)	318,115
Cash and cash equivalents — beginning of period	1,493,292	990,342
Cash and cash equivalents — end of period	$ 1,255,746	$ 1,308,457
Supplemental cash flow information:		
Cash payments for income taxes, net	$ 319,107	$ 370,674
Cash payments for interest	$ 16,619	$ 14,190

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Basis of Presentation and Equity-Based Compensation

Basis of Presentation

In the opinion of management, the unaudited interim consolidated condensed financial statements of Applied Materials, Inc. and its subsidiaries (Applied or the Company) included herein have been prepared on a basis consistent with the October 30, 2005 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These unaudited interim consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Applied's Form 10-K for the fiscal year ended October 30, 2005 (2005 Form 10-K). Applied's results of operations for the three and nine months ended July 30, 2006 are not necessarily indicative of future operating results.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (United States) requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

Reclassifications

The accompanying consolidated condensed financial statements for fiscal 2005 contain certain reclassifications to conform to the fiscal 2006 presentation. These consist of the reclassification to long-term investments of $2.6 billion of certain fixed-income securities, excluding auction rate securities and variable rate demand notes, previously reported in short-term investments in fiscal 2005. The reclassifications resulted from a change in accounting for fixed-income investments based on contractual maturity dates. In connection with these reclassifications, short-term deferred taxes have been reclassified to long-term deferred taxes. In addition, $50 million of long-term equity securities, previously reported in other long-term assets, are also now included in long-term investments. There have been no changes in Applied's investment policies or practices associated with this change in accounting method (see Note 2).

Equity-Based Compensation

Applied has adopted equity-based compensation plans that provide for the grant to employees of equity-based awards, including stock options and, beginning in fiscal 2005, restricted stock units (also referred to as performance shares under the Applied Materials, Inc. Employee Stock Incentive Plan). In addition, certain of these plans provide for the automatic grant of stock options to non-employee directors and permit the grant of equity-based awards to consultants. Applied also has two Employee Stock Purchase Plans (ESPP) for United States and international employees, respectively, which enable substantially all employees to purchase Applied common stock.

On October 31, 2005, Applied implemented the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payments" (SFAS 123(R)), using the modified prospective transition method. SFAS 123(R) requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant-date fair value of those awards. Using the modified prospective transition method of adopting SFAS 123(R), Applied began recognizing compensation expense for stock options and ESPP shares granted after October 30, 2005, plus equity-based awards granted prior to, and unvested as of October 31, 2005. As provided under this method of implementation, prior periods have not been restated. The estimated fair value of Applied's equity-based awards, less expected forfeitures, is amortized over the awards' vesting period on a straight-line basis.

The equity-based compensation expense for the three and nine months ended July 30, 2006 included $9 million and $20 million, respectively, related to restricted stock units. The expense related to restricted stock units would have been included in Applied's Consolidated Condensed Statements of Operations under the provisions of

Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and is therefore excluded from the impact of the implementation of SFAS 123(R) for the three and nine months ended July 30, 2006. As a result of adopting SFAS 123(R), Applied's income before taxes and net income for the three months ended July 30, 2006 were reduced by $44 million and $40 million, respectively, and Applied's income before taxes and net income for the nine months ended July 30, 2006 were reduced by $141 million and $113 million, respectively. The implementation of SFAS 123(R), which resulted in the expensing of stock options and the ESPP over the vesting or purchase period, as applicable, reduced basic and fully diluted earnings per share by $0.03 for the three months ended July 30, 2006, and $0.07 for the nine months ended July 30, 2006.

Total equity-based compensation expense recognized in the Consolidated Condensed Statements of Operations consists of charges associated with stock options, restricted stock units and the ESPP. Equity-based compensation expense and the related income tax benefit for the three months ended July 30, 2006 were $54 million (or $0.03 per diluted share) and $5 million, respectively. During the first nine months of fiscal 2006, Applied recognized total equity-based compensation expense of $161 million (or $0.08 per diluted share) and a tax benefit of $31 million.

Prior to October 31, 2005, Applied measured compensation expense for its employee equity-based compensation plans using the intrinsic value method under APB 25 and related interpretations. As the exercise price of all options granted under these plans was not below the fair market price of the underlying common stock on the grant date, no equity-based compensation cost for stock options was recognized in the Consolidated Condensed Statements of Operations under the intrinsic value method.

Stock Options

The exercise price of each stock option equals the market price of Applied's stock on the date of grant. Most options are scheduled to vest over four years and expire no later than seven years from the grant date. Applied estimates the fair value of each option grant on the date of grant using the Black-Scholes option pricing model. This model was developed for use in estimating the value of publicly traded options that have no vesting restrictions and are fully transferable. Applied's employee stock options have characteristics significantly different from those of publicly traded options. The weighted average assumptions used in the model are outlined in the following table:

	Three Months Ended July 30, 2006	Nine Months Ended July 30, 2006
Stock Options:		
Dividend yield	1.23%	0.70%
Expected volatility	36%	37%
Risk-free interest rate	5.0%	4.5%
Expected life (in years)	3.8	3.8

The computation of the expected volatility assumption used in the Black-Scholes calculations for new grants is based on a combination of historical and implied volatilities. When establishing the expected life assumption, Applied annually reviews historical employee exercise behavior of option grants with similar vesting periods.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

A summary of the changes in stock options outstanding under Applied's equity-based compensation plans during the nine months ended July 30, 2006 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
		(In thousands, except per share amounts)		
Options outstanding at October 30, 2005	200,007	$ 18.67	3.4	$ 317,162
Granted	11,397	17.02		
Exercised	(9,929)	14.34		
Canceled	(14,404)	18.95		
Options outstanding at July 30, 2006	187,071	18.77	3.0	$ 79,618
Options exercisable and expected to become exercisable at July 30, 2006	184,920	18.78	3.0	$ 79,582
Options exercisable at July 30, 2006	151,837	19.45	2.4	$ 38,908

The weighted average grant date fair value of options granted during the three and nine months ended July 30, 2006 was $5.07 and $5.94, respectively. The total intrinsic value of options exercised during the three and nine months ended July 30, 2006 was $3 million and $43 million, respectively. The total fair value of options that vested during the three and nine months ended July 30, 2006 was $238 million and $242 million, respectively. At July 30, 2006, Applied had $158 million of total unrecognized compensation expense, net of estimated forfeitures, related to stock options that is expected to be recognized over the weighted average period of 1.1 years. Cash received from stock option exercises was $10 million and $142 million during the three and nine months ended July 30, 2006, respectively. During the third quarter of fiscal 2006, as part of the acquisition of Applied Films Corporation (Applied Films), Applied assumed outstanding options to purchase Applied Films common stock that, at the acquisition date, had a fair value of $26 million, including $6 million of total unrecognized compensation expense, net of $2 million of estimated forfeitures (see Note 12). The total stock options assumed by Applied were converted into options to purchase 3 million shares of Applied common stock.

Employee Stock Purchase Plans

Under the ESPP, substantially all employees may purchase Applied common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value at the beginning of the offering period or at the end of each applicable purchase period. No shares were issued under the ESPP during the third quarter of fiscal 2006. Based on the Black-Scholes option pricing model, the weighted average estimated fair value of purchase rights under the ESPP was $5.34 for the nine months ended July 30, 2006. Compensation expense is calculated using the fair value of the employee's purchase rights per the Black-Scholes model. Underlying assumptions used in the model are outlined in the following table:

	Nine Months Ended July 30, 2006
ESPP:	
Dividend yield	0.04%
Expected volatility	31.9%
Risk-free interest rate	3.19%
Expected life (in years)	1.25

Restricted Stock Units

Restricted stock units (also referred to as performance shares) are converted into shares of Applied common stock upon vesting on a one-for-one basis. Typically, vesting of restricted stock units occurs over four years and is subject to the employee's continuing service to Applied. The compensation expense related to these awards was

determined using the fair market value of Applied's common stock on the date of the grant and is recognized over the vesting period.

A summary of the changes in restricted stock units outstanding under Applied's equity-based compensation plans during the nine months ended July 30, 2006 is presented below:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
	(In thousands, except per share amounts)			
Non-vested restricted stock units at October 30, 2005	75	$ 17.47	3.9	$ 1,384
Granted	5,625	17.96		
Vested	(33)	18.33		
Canceled	(293)	18.05		
Non-vested restricted stock units at July 30, 2006	5,374	17.96	3.1	$ 83,773
Non-vested restricted stock units expected to vest at July 30, 2006	4,755	17.95	3.4	$ 74,133

At July 30, 2006, Applied had $67 million of total unrecognized compensation expense, net of estimated forfeitures, related to restricted stock unit grants, which is expected to be recognized over the weighted average period of 1.5 years. During the third quarter of fiscal 2006, as part of the acquisition of Applied Films, Applied assumed Applied Films' outstanding restricted stock awards that, at the acquisition date, had a fair value of $298,000, including $130,000 of total unrecognized equity-based compensation expense, net of estimated forfeitures. The Applied Films restricted stock awards assumed are expected to convert into 19,000 shares of Applied common stock upon vesting.

Pro Forma Information under SFAS 123 for Periods Prior to Fiscal 2006

Prior to fiscal 2006, Applied followed the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), as amended. The following table illustrates the effect on net income and earnings per share for the three and nine months ended July 31, 2005 if the fair value recognition provisions of SFAS 123, as amended, had been applied to options granted under Applied's equity-based compensation plans. For purposes of this pro forma disclosure, the estimated value of the options is recognized over the options' vesting periods. If Applied had recognized the expense of equity-based compensation programs in the Consolidated Condensed Statements of Operations, additional paid-in capital would have increased by a corresponding amount, net of applicable taxes.

	Three Months Ended July 31, 2005	Nine Months Ended July 31, 2005
	(In thousands, except per share amounts)	
Reported net income	$ 369,591	$ 963,186
Equity-based compensation expense, net of tax	(53,517)	(164,675)
Pro forma net income	$ 316,074	$ 798,511
Earnings per share as reported:		
Basic	$ 0.23	$ 0.58
Diluted	$ 0.23	$ 0.58
Pro forma earnings per share:		
Basic	$ 0.19	$ 0.48
Diluted	$ 0.19	$ 0.48

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

For purposes of the weighted average estimated fair value calculations, the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model and the following assumptions:

	Three Months Ended July 31, 2005	Nine Months Ended July 31, 2005
Stock Options:		
Dividend yield	0.70%	0.04%
Expected volatility	39%	44%
Risk-free interest rate	3.90%	3.35%
Expected life (in years)	4.00	4.00
ESPP:		
Dividend yield	None	None
Expected volatility	34%	52%
Risk-free interest rate	3.05%	2.40%
Expected life (in years)	1.25	1.25

Based on the Black-Scholes option pricing model, the weighted average estimated fair value of employee stock option grants was $5.83 and $6.53 for the three and nine months ended July 31, 2005, respectively. The weighted average estimated fair value of purchase rights under the ESPP was $5.52 and $5.71, respectively, for the three and nine months ended July 31, 2005.

Note 2 Financial Instruments

Applied regularly reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair market value has been lower than the cost basis, the financial condition and near-term prospects of the investee, credit quality, and Applied's ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair market value. Generally, the contractual terms of the investments do not permit settlement at prices less than the amortized cost of the investments. Applied has determined that the gross unrealized losses on its investments at July 30, 2006 are temporary in nature. The gross unrealized losses related to investments are primarily due to a decrease in the fair market value of fixed-rate debt securities as a result of increases in interest rates. Accordingly, Applied does not consider the investments to be other-than-temporarily impaired at July 30, 2006 as it has the ability and intent to hold the investments for a period of time that may be sufficient for anticipated recovery in fair market value.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

The following table provides the gross unrealized losses and the fair market value of Applied's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of July 30, 2006.

	In Loss Position for Less Than 12 Months		In Loss Position for 12 Months or Greater		Total	
Description of Securities	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Obligations of state and political subdivisions	$ 545,883	$ (5,727)	$ 41,532	$ (1,024)	$ 587,415	$ (6,751)
U.S. commercial paper, corporate bonds and medium-term notes	324,158	(3,887)	170,213	(3,643)	494,371	(7,530)
U.S. Treasury and agency securities	561,744	(6,671)	328,601	(6,218)	890,345	(12,889)
Other debt securities	373,114	(5,769)	270,715	(7,308)	643,829	(13,077)
Total	$ 1,804,899	$ (22,054)	$ 811,061	$ (18,193)	$ 2,615,960	$ (40,247)

During the second quarter of fiscal 2006, Applied changed its accounting method for certain fixed-income investments, which resulted in the reclassification of these investments from current assets to long-term investments. As a result, prior period balances have been reclassified to conform to the current period's presentation. This accounting method is based on the contractual maturity dates of fixed-income securities as current or long-term, while the prior classification was based on the nature of the securities and the availability for use in current operations. Applied believes this method is preferable as it is more reflective of Applied's assessment of the timing of when such securities are expected to be converted to cash. Accordingly, certain fixed-income investments of $2.6 billion have been reclassified from short-term investments to long-term investments in the October 30, 2005 Consolidated Condensed Balance Sheet to conform to the fiscal 2006 financial statement presentation. In connection with this reclassification, short-term deferred taxes have been reclassified to long-term deferred taxes. There have been no changes in Applied's investment policies or practices associated with this change in accounting method.

In addition, $50 million of long-term equity securities previously reported in other long-term assets have been reclassified to long-term investments in the October 30, 2005 Consolidated Condensed Balance Sheet to conform to the fiscal 2006 financial statement presentation. Applied continues to classify auction rate securities and variable rate demand notes as current assets, notwithstanding the underlying contractual term of such investments, since the highly liquid nature of these investments enables them to be readily convertible to cash.

Applied's derivative financial instruments, consisting of currency forward and option contracts, are recorded at fair value on the consolidated balance sheet, either in other current assets or accounts payable and accrued expenses. Changes in the fair value of derivatives that do not qualify for hedge accounting treatment, as well as the ineffective portion of any hedges, are recognized in the Consolidated Condensed Statements of Operations. The effective portion of the gain/(loss) on cash flow hedges is reported as a component of accumulated other comprehensive income in stockholders' equity, and is reclassified into results of operations when the hedged transaction affects income/(loss). The majority of the deferred gain/(loss) included in accumulated other comprehensive income as of July 30, 2006 is expected to be reclassified into earnings within 12 months. Changes in the fair value of currency forward and option contracts due to changes in time value are excluded from the assessment of effectiveness, and

are recognized in cost of products sold or expensed. The change in option and forward time value was not material for all periods presented. If the transaction being hedged fails to occur, or if a portion of any derivative is deemed to be ineffective, Applied promptly recognizes the gain/(loss) on the associated financial instrument in general and administrative expenses. The amounts recognized due to the anticipated transactions failing to occur or ineffective hedges were not material for all periods presented.

Accumulated other comprehensive income related to derivative activities for the three months ended July 30, 2006 increased by $3 million due to a net increase in the intrinsic value of derivatives as a result of the movement in foreign exchange rates. Accumulated other comprehensive income related to derivative activities for the nine months ended July 30, 2006 decreased by $5 million due primarily to the maturity of derivative instruments during the period and the resulting realization of foreign currency gains and losses.

Note 3 Earnings Per Share

Basic earnings per share is determined using the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined using the weighted average number of common shares and potential common shares (representing the dilutive effect of stock options, restricted stock units and ESPP shares) outstanding during the period. Applied's net income has not been adjusted for any period presented for purposes of computing basic or diluted earnings per share.

For purposes of computing diluted earnings per share, weighted average potential common shares do not include stock options with an exercise price that exceeded the average fair market value of Applied's common stock for the period, as the effect would be anti-dilutive. Options to purchase shares of common stock that were excluded from the computation were as follows:

	Three Months Ended		Nine Months Ended	
	July 31, 2005	July 30, 2006	July 31, 2005	July 30, 2006
	(In thousands, except prices)			
Number of shares excluded	134,463	133,936	134,477	132,287
Average exercise price	$ 21.07	$ 20.50	$ 21.08	$ 20.50

Note 4 Accounts Receivable, Net

Applied has agreements with various financial institutions to sell accounts receivable from selected customers. Applied also discounts letters of credit through various financial institutions. Under these agreements, Applied sold accounts receivable and discounted letters of credit in the amounts of $22 million and $49 million for the three months ended July 31, 2005 and July 30, 2006, respectively, and in the amounts of $112 million and $140 million for the nine months ended July 31, 2005 and July 30, 2006, respectively. Discounting fees were not material for all periods presented. As of July 30, 2006, the amount of sold accounts receivable that remained outstanding under these agreements was immaterial. A portion of these sold accounts receivable is subject to certain recourse provisions. Applied has not experienced any losses under these recourse provisions.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Note 5 Inventories

Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out (FIFO) basis. Components of inventories were as follows:

	October 30, 2005	July 30, 2006
	(In thousands)	
Customer service spares	$ 383,003	$ 446,462
Raw materials	136,371	207,981
Work-in-process	129,778	260,667
Finished goods	384,941	426,808
	$ 1,034,093	$ 1,341,918

Finished goods inventory included $117 million at October 30, 2005 and $188 million at July 30, 2006 of newly introduced systems at customer locations where the sales transaction did not meet Applied's revenue recognition criteria, described in Note 1 of the Notes to the Consolidated Financial Statements in Applied's 2005 Form 10-K.

Note 6 Goodwill, Purchased Technology and Other Intangible Assets

Details of unamortized intangible assets were as follows:

	October 30, 2005			July 30, 2006		
	Goodwill	Other Intangible Assets	Total	Goodwill	Other Intangible Assets	Total
	(In thousands)					
Gross carrying amount	$ 384,852	$ 17,860	$ 402,712	$ 594,718	$ 17,860	$ 612,578
Accumulated amortization	(45,870)	—	(45,870)	(45,870)	—	(45,870)
	$ 338,982	$ 17,860	$ 356,842	$ 548,848	$ 17,860	$ 566,708

In accordance with accounting principles generally accepted in the United States, goodwill and other unamortized intangible assets are no longer subject to amortization, but are subject to annual review for impairment, which Applied performs during the fourth quarter of each fiscal year. Applied conducted goodwill impairment tests in fiscal 2005, and the results of these tests indicated that Applied's goodwill and other unamortized intangible assets were not impaired. Goodwill and other unamortized intangible assets are also subject to review for impairment when circumstances or events occur throughout the year that indicate that the assets may be impaired. From October 30, 2005 to July 30, 2006, the increase in goodwill was approximately $210 million, primarily due to the acquisitions of Applied Films, completed in the third quarter of fiscal 2006, and of ChemTrace Corporation and ChemTrace Precision Cleaning, Inc. (collectively, ChemTrace), completed in the first quarter of fiscal 2006 (see Note 12), offset in part by other immaterial adjustments associated with previous acquisitions. Other intangible assets that are not subject to amortization consisted primarily of a trade name.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Details of amortized intangible assets were as follows:

	October 30, 2005			July 30, 2006		
	Purchased Technology	Other Intangible Assets	Total	Purchased Technology	Other Intangible Assets	Total
	(In thousands)					
Gross carrying amount	$ 356,933	$ 37,270	$ 394,203	$ 469,683	$ 74,337	$ 544,020
Accumulated amortization	(308,816)	(22,154)	(330,970)	(323,200)	(27,890)	(351,090)
	$ 48,117	$ 15,116	$ 63,233	$ 146,483	$ 46,447	$ 192,930

Purchased technology and other intangible assets are amortized over their estimated useful lives of 2 to 15 years using the straight-line method. From October 30, 2005 to July 30, 2006, the change in the gross carrying amount of amortized intangible assets was approximately $150 million, primarily due to the acquisitions of Applied Films and ChemTrace (see Note 12). Aggregate amortization expense was $5 million and $6 million for the three months ended July 31, 2005 and July 30, 2006, respectively, and was $18 million and $20 million for the nine months ended July 31, 2005 and July 30, 2006, respectively. As of July 30, 2006, future estimated amortization expense is expected to be $10 million for the remainder of fiscal 2006, $32 million for fiscal 2007, $27 million for fiscal 2008, $25 million for fiscal 2009, $22 million for fiscal 2010, and $76 million thereafter.

Note 7 Accounts Payable, Accrued Expenses, Guarantees and Contingencies

Components of accounts payable and accrued expenses were as follows:

	October 30, 2005	July 30, 2006
	(In thousands)	
Accounts payable	$ 347,559	$ 505,222
Deferred revenue	318,106	439,208
Compensation and employee benefits	291,721	400,332
Installation and warranty	171,419	214,486
Other accrued taxes	159,368	116,389
Customer deposits	50,291	96,052
Dividends payable	48,237	76,696
Restructuring reserve	69,482	57,423
Other	161,859	283,731
	$ 1,618,042	$ 2,189,539

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Changes in the warranty reserves during the three and nine months ended July 31, 2005 and July 30, 2006 were as follows:

	Three Months Ended		Nine Months Ended	
	July 31, 2005	July 30, 2006	July 31, 2005	July 30, 2006
	(In thousands)			
Beginning balance	$ 174,958	$ 150,461	$ 178,918	$ 136,613
Provisions for warranty	30,434	54,831	117,284	162,548
Consumption of reserves	(55,242)	(40,041)	(146,052)	(133,910)
Ending balance	$ 150,150	$ 165,251	$ 150,150	$ 165,251

Products are generally sold with a 12-month warranty period following installation. The provision for the estimated cost of warranty is recorded when revenue is recognized. Parts and labor are covered under the terms of the warranty agreement. The warranty provision is based on historical experience by product, configuration and geographic region. Quarterly consumption of warranty reserves is generally associated with sales that occurred during the preceding four quarters, and quarterly warranty provisions are generally related to the current quarter's sales.

In the ordinary course of business, Applied also provides standby letters of credit or other guarantee instruments to certain parties as required for certain transactions initiated by either Applied or its subsidiaries. As of July 30, 2006, the maximum potential amount of future payments that Applied could be required to make under these guarantee arrangements was approximately $96 million. Applied has not recorded any liability in connection with these guarantee arrangements beyond that required to appropriately account for the underlying transaction being guaranteed. Applied does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee arrangements.

Applied also has agreements with various global banks to facilitate subsidiary banking operations world-wide, including overdraft arrangements, bank guarantees and letters of credit. As of July 30, 2006, Applied has provided parent guarantees to banks for approximately $80 million to cover these arrangements.

Applied is subject to various legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. Applied from time to time is, and in the future may be, involved in legal proceedings or claims regarding patent infringement, intellectual property rights, antitrust, environmental regulations, securities, contracts, product performance, product liability, unfair competition, employment and other matters. In addition, Applied on occasion receives notification from customers who believe that Applied owes them indemnification or other obligations related to infringement claims made against the customers by third parties. Applied evaluates, among other factors, the degree of probability of an unfavorable outcome and reasonably estimates the amount of the loss. Significant judgment is required in determining both the probability and whether an exposure can be reasonably estimated. When Applied determines that a loss is probable and the amount of the loss is reasonably estimable, the effect is promptly recorded in the consolidated financial statements. Significant changes in legal proceedings and claims or the factors considered in the evaluation of those matters could have a material adverse effect on Applied's business, financial position and results of operations. Discussion of legal matters is incorporated by reference from Part II, Item 1, Legal Proceedings, of this quarterly report, and should be considered as an integral part of the Consolidated Condensed Financial Statements and these Notes.

Note 8 Restructuring and Asset Impairments

On January 24, 2006, Applied's Board of Directors approved a plan to disinvest a portion of Applied's real estate and facilities portfolio (the Plan). Under the Plan, during the first quarter of fiscal 2006, properties with an estimated fair value of $56 million were reported as assets held-for-sale and reclassified from property, plant and equipment on the Consolidated Condensed Balance Sheet. Applied recorded a pre-tax asset impairment charge of

$124 million during the first quarter of fiscal 2006 to write down the following properties to fair value: facilities in Narita, Japan; Chunan, Korea; Danvers, Massachusetts; and 26 acres of unimproved land in Hillsboro, Oregon. During the first quarter of fiscal 2006, Applied also recorded a pre-tax charge in the amount of $91 million for future lease obligations that continue through fiscal 2014 related to the closure of its Hayward, California facility as part of the Plan. During the third quarter of fiscal 2006, Applied sold the Danvers, Massachusetts facility for net proceeds of $16 million and recognized a gain of $4 million. Applied is actively marketing the remaining properties, and management believes that they will be sold within 12 months of the date that they were classified as held-for-sale.

During the third quarter of fiscal 2006, Applied recognized a net benefit of $3 million, consisting of a $4 million gain on the Danvers sale, partially offset by $1 million in costs associated with the facilities disinvestment under the Plan initiated in the first quarter of fiscal 2006. During the second quarter of fiscal 2006, Applied recognized a net benefit of $2 million, consisting of $4 million in adjustments associated with fiscal 2003 and 2004 restructuring actions (described below), partially offset by $2 million in costs associated with the Plan.

In fiscal 2003 and 2004, Applied implemented restructuring actions to align the Company's cost structure with prevailing market conditions due to an industry downturn. These actions, which were necessary as a result of reduced business volume, decreased Applied's global workforce and consolidated Applied's global facilities. As of July 30, 2006, the majority of the fiscal 2003 and 2004 restructuring activities were completed. Restructuring reserve balances as of July 30, 2006 consisted principally of facility lease commitments that continue through fiscal 2014.

Changes in restructuring reserves for facilities for the nine months ended July 30, 2006 were as follows:

	(In thousands)
Balance, October 30, 2005	$ 69,482
Restructuring charges	92,325
Consumption of reserves	(12,128)
Balance, January 29, 2006	149,679
Adjustment of restructuring reserves	(3,626)
Consumption of reserves	(7,283)
Balance, April 30, 2006	138,770
Consumption of reserves	(7,070)
Balance, July 30, 2006	131,700
Less current portion	(57,423)
Long-term portion	$ 74,277

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Note 9 Stockholders' Equity

Comprehensive Income

Components of comprehensive income, on an after-tax basis where applicable, were as follows:

	Three Months Ended		Nine Months Ended	
	July 31, 2005	July 30, 2006	July 31, 2005	July 30, 2006
	(In thousands)			
Net income	$ 369,591	$ 512,040	$ 963,186	$ 1,067,634
Change in unrealized net gain/(loss) on investments	(5,394)	10,168	(21,754)	(169)
Change in unrealized net gain/(loss) on derivative instruments qualifying as cash flow hedges	7,025	2,734	6,586	(5,220)
Foreign currency translation adjustments	(17,585)	10,246	(4,919)	8,176
Change in minimum pension liability	—	—	—	(7,069)
Comprehensive income	$ 353,637	$ 535,188	$ 943,099	$ 1,063,352

Components of accumulated other comprehensive loss, on an after-tax basis where applicable, were as follows:

	October 30, 2005	July 30, 2006
	(In thousands)	
Unrealized net loss on investments	$ (21,618)	$ (21,787)
Unrealized net gain on derivative instruments qualifying as cash flow hedges	9,207	3,987
Minimum pension liability	(17,868)	(24,937)
Cumulative translation adjustments	(6,969)	1,207
Accumulated other comprehensive loss	$ (37,248)	$ (41,530)

Stock Repurchase Program

Since March 1996, Applied has systematically repurchased shares of its common stock in the open market. On March 22, 2006, the Board of Directors approved a new stock repurchase program authorizing up to $5.0 billion in repurchases of Applied common stock over the next three years ending in March 2009. With the adoption of this program, the Board terminated the $4.0 billion stock repurchase program authorized in March 2005 prior to its expiration, subject to the execution of then outstanding repurchase orders, which were completed before April 30, 2006. Under the new authorization, Applied is continuing a systematic stock repurchase program and may also make additional stock repurchases from time to time, depending on market conditions, stock price and other factors.

During the three months ended July 31, 2005 and July 30, 2006, respectively, Applied repurchased 27,069,000 shares of its common stock at an average price of $16.62 for a total cash outlay of $450 million, and 30,658,000 shares of its common stock at an average price of $16.30 for a total cash outlay of $500 million. During the nine months ended July 31, 2005 and July 30, 2006, respectively, Applied repurchased 75,306,000 shares of its common stock at an average price of $16.60 for a total cash outlay of $1.3 billion, and 84,722,000 shares of its common stock at an average price of $17.70 for a total cash outlay of $1.5 billion.

Dividends

On December 14, 2005, Applied's Board of Directors declared a quarterly cash dividend in the amount of $0.03 per share, payable on March 9, 2006 to stockholders of record as of February 16, 2006, for a total of $48 million. On March 21, 2006, Applied's Board of Directors declared a quarterly cash dividend of $0.05 per share, an increase from the previous $0.03 per share, payable on June 8, 2006 to stockholders of record as of May 18, 2006, for a total of $78 million. On June 13, 2006, Applied's Board of Directors declared a quarterly cash dividend of $0.05 per share payable on September 7, 2006 to stockholders of record as of August 17, 2006, for a total of $77 million. The declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on Applied's financial condition, results of operations, capital requirements, business conditions and other factors.

Note 10 Employee Benefit Plans

Applied sponsors a number of employee benefit plans, including defined benefit plans of certain foreign subsidiaries. The components of the net periodic pension costs of these defined benefit plans for the three and nine months ended July 31, 2005 and July 30, 2006 were as follows:

	Three Months Ended		Nine Months Ended	
	July 31, 2005	July 30, 2006	July 31, 2005	July 30, 2006
	(In thousands)		(In thousands)	
Service cost	$ 3,480	$ 3,599	$ 10,441	$ 10,797
Interest cost	1,765	2,045	5,294	6,135
Expected return on plan assets	(691)	(1,058)	(2,072)	(3,174)
Amortization of transition obligation	14	16	42	48
Amortization of prior service costs	35	34	105	102
Amortization of net (gain)/loss	387	620	1,160	1,860
Net periodic pension cost	$ 4,990	$ 5,256	$ 14,970	$ 15,768

Note 11 Borrowing Facilities

Applied has credit facilities for unsecured borrowings in various currencies of up to approximately $412 million, of which $250 million is comprised of a revolving credit agreement in the United States with a group of banks that is scheduled to expire in September 2006. The agreement provides for borrowings at various rates, including the lead bank's prime reference rate, and includes financial and other covenants with which Applied was in compliance at October 30, 2005 and July 30, 2006. No amounts were outstanding under this agreement at October 30, 2005 or at July 30, 2006. Applied does not expect to replace the revolving credit agreement upon its expiration. The remaining credit facilities of approximately $162 million are with Japanese banks at rates indexed to their prime reference rate and are denominated in Japanese yen. No amounts were outstanding under these Japanese credit facilities at October 30, 2005 or at July 30, 2006.

Note 12 Business Combinations and Investment in Joint Venture

On July 20, 2006, Applied and Dainippon Screen Mfg. Co., Ltd. (Screen) completed the formation of Sokudo Co., Ltd. (Sokudo), a Japanese joint venture company, to deliver advanced track solutions for customers' critical semiconductor manufacturing requirements. Track systems are a key part of semiconductor manufacturing and are used before and after photolithography to deposit, bake and develop the photoresist layer that defines circuit patterns. Screen owns 52% and Applied owns 48% of Sokudo, as such Screen has the controlling interest in Sokudo. Screen transferred into Sokudo its existing track business and related intellectual property, including employees, products and its installed base of systems. Applied paid $147 million for its investment in Sokudo. Additionally,

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

Applied contributed to Sokudo certain technology and related intellectual property and will provide key development employees. Screen will perform manufacturing for Sokudo under an outsourcing agreement. Applied accounts for its interest in Sokudo under the equity method of accounting. Under this accounting method, Applied's exposure to loss from ongoing operations is limited to $147 million as of July 30, 2006, which represents Applied's investment in Sokudo. Applied's investment in Sokudo is classified in Investment in Joint Venture on the Consolidated Condensed Balance Sheet. The results of operations from the Sokudo joint venture from the date of acquisition were not material for the third quarter of fiscal 2006 and have not been included in the Condensed Consolidated Statement of Operations; these results will be included in Applied's fourth quarter of fiscal 2006.

On July 7, 2006, Applied completed its acquisition of Applied Films Corporation, a Colorado corporation (Applied Films) and leading supplier of thin film deposition equipment used in manufacturing flat panel displays (FPDs), solar cells, flexible electronics and energy-efficient glass. Applied paid $28.50 per share in cash for each outstanding share of Applied Films. The total purchase price was approximately $484 million, or $328 million net of Applied Films' existing cash and marketable securities. As part of the acquisition, Applied assumed Applied Films' outstanding stock options and restricted stock awards that, at the acquisition date, had a total fair value of $26 million, of which $18 million was allocated to the purchase price and the remainder to unearned compensation. Upon the acquisition and subject to vesting, Applied Films stock options became exercisable for shares of Applied common stock and Applied Films restricted stock awards became payable in shares of Applied common stock totaling, in the aggregate, 3 million shares of Applied common stock. The fair value of Applied Films' stock options assumed was determined using a Black-Scholes model. The use of the Black-Scholes model and method of determining the variables is consistent with Applied's valuation of equity-based compensation awards in accordance with SFAS 123(R) (see Note 1). Applied recorded an in-process research and development expense of $14 million, reported as research, development and engineering expense in the Consolidated Condensed Statements of Operations; goodwill of $201 million; and other intangible assets of $140 million. The acquired in-process research and development expense was determined by identifying research projects for which technological feasibility had not been established and no alternative future use existed. The value of the projects identified as in-process was determined by estimating the future cash flows from the projects once commercially feasible, discounting the net cash flows back to their present value at a rate commensurate with the level of risk and maturity of the projects, and then applying a percentage of completion to the calculated value. The allocation of the purchase price was based on estimates of the fair value of the assets acquired and is subject to adjustment upon finalization of the purchase price allocation. The results of operations from Applied Films were not material for the third quarter of fiscal 2006 and have not been included in the Condensed Consolidated Statement of Operations; these results will be included in Applied's fourth quarter of fiscal 2006.

On December 23, 2005, Applied acquired all of the outstanding shares of ChemTrace Corporation and ChemTrace Precision Cleaning, Inc. (collectively, ChemTrace) for a total purchase price of approximately $22 million in cash, of which $18 million was paid upon closing. ChemTrace provides customers with precision parts cleaning and materials testing solutions. In connection with this acquisition, Applied recorded goodwill of $12 million and other intangible assets of $8 million.

On June 28, 2005, Applied purchased certain assets of SCP Global Technology, Inc., consisting of single wafer HF-last immersion technology and Marangoni clean/dry intellectual property, for approximately $24 million in cash. In connection with this asset purchase, Applied recorded purchased technology and other intangible assets of $20 million and other items of $4 million.

On December 16, 2004, Applied acquired the assets of ATMI, Inc.'s Treatment Systems (EcoSys) business, which supports the gas abatement requirements of process equipment for semiconductor manufacturing and other industrial applications, for approximately $16 million in cash. In connection with this acquisition, Applied recorded goodwill of $5 million, purchased technology and other intangible assets of $8 million and other items of $3 million, including liabilities assumed upon acquisition.

On December 14, 2004, Applied acquired substantially all of the operating subsidiaries and businesses of Metron Technology N.V., which provides a wide range of outsource solutions to the semiconductor industry, for approximately $85 million in cash. In connection with this acquisition, Applied recorded goodwill of $76 million and other intangible assets of $31 million, partially offset by other items of $22 million, primarily for net liabilities assumed upon acquisition.

For the acquisitions discussed above, comparative proforma financial information has not been presented, as the effects on results of operations were not material to Applied's Consolidated Condensed Financial Statements for any of the periods presented. The in-process research and development expenses related to these transactions were not material. Goodwill is not amortized but is reviewed periodically for impairment, and purchased technology and other intangible assets are amortized over their estimated useful lives of 2 to 15 years.

Note 13 Income Taxes

The income tax rate for the third quarter of fiscal 2006 was 29.1 percent and included benefits of $34 million due primarily to a favorable resolution of audits of prior years' income tax filings. Applied's effective income tax provision rate for the comparable quarter of fiscal 2005 was 8.9 percent, which included benefits of $118 million due to a favorable resolution of audits of prior years' income tax filings and $14 million relating to a change in estimate with respect to export tax benefits. The effective income tax rate is highly dependent on the geographic composition of worldwide earnings, tax regulations for each region, non-tax deductible expenses incurred in connection with acquisitions, and availability of tax credits. Management carefully monitors these factors and timely adjusts the effective income tax rate accordingly.

Note 14 Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation 48, "Accounting for Income Tax Uncertainties" (FIN 48). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties.

Beginning in fiscal 2008, FIN 48 will become effective for Applied. Any differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. Applied is evaluating the potential impact of the implementation of FIN 48 on its financial position and results of operations.

In April 2006, FASB issued FSP FIN 46(R)-6, "Determining the Variability to Be Considered in Applying FASB Interpretation No. 46(R)" (FIN 46(R)-6), which requires the variability of an entity to be analyzed based on the design of the entity. The nature and risks in the entity, as well as the purpose for the entity's creation, are examined to determine the variability in applying FIN 46(R). The variability is used in applying FIN 46(R) to determine whether an entity is a variable interest entity, which interests are variable interests in the entity, and who is the primary beneficiary of the variable interest entity. This statement is effective for all reporting periods beginning after June 15, 2006. Applied does not expect that the implementation of FIN 46(R)-6 will have a material impact on its financial position or results of operations.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

In May 2005, FASB issued SFAS No. 154, "Accounting Changes and Error Corrections — a Replacement of APB Opinion No. 20 and FASB Statement No. 3" (SFAS 154), which requires retrospective application to prior periods' financial statements of voluntary changes in accounting principle unless it is impracticable to do so. SFAS 154 is effective for accounting changes and corrections of errors beginning in Applied's fiscal 2007. Applied does not expect the adoption of this standard to have a material effect on Applied's financial position or results of operations.

Note 15 Subsequent Event

On August 14, 2006, Applied's wholly-owned subsidiary, Metron Technology, Inc. (Metron), purchased certain parts cleaning and recycling assets in Singapore from UMS Solutions Pte. Ltd. (UMS Solutions), a wholly-owned subsidiary of Norelco UMS Holdings Limited, for $9 million. The acquisition enhances Metron's capabilities in Southeast Asia to provide advanced, high-quality parts cleaning services to support its customers' integrated circuit manufacturing requirements.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

Certain information contained in this Quarterly Report on Form 10-Q is forward-looking in nature. All statements in this Quarterly Report on Form 10-Q, including those made by management of Applied Materials, Inc. and its subsidiaries (Applied or the Company), other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding Applied's future financial results, operating results, business strategies, cash generation, cash deployment strategies, projected costs, products, competitive positions, management's plans and objectives for future operations, acquisitions and joint ventures, growth opportunities, and legal proceedings, as well as industry trends. These forward-looking statements are based on management's estimates, projections and assumptions as of the date hereof and include the assumptions that underlie such statements. Forward-looking statements may contain words such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential," and "continue," the negative of these terms, or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed below and in Part II, Item 1A, Risk Factors. Other risks and uncertainties are disclosed in Applied's prior Securities and Exchange Commission (SEC) filings, including its Annual Report on Form 10-K for the fiscal year ended October 30, 2005. These and many other factors could affect Applied's future financial operating results and could cause actual results to differ materially from expectations based on forward-looking statements made in this report or elsewhere by Applied or on its behalf. Applied undertakes no obligation to revise or update any forward-looking statements.

Overview

Applied develops, manufactures, markets and services integrated circuit fabrication equipment, providing nanomanufacturing technology™ solutions for the global semiconductor and semiconductor-related industry. Product development and manufacturing activities occur primarily in North America, Europe and Israel. Applied's broad range of equipment, service and related products are highly technical and, as a result, are sold through a direct sales force. Customer demand for spare parts and services is fulfilled through a global spare parts distribution system and by trained service engineers located in close proximity to customer sites around the world.

As a supplier to the global semiconductor and semiconductor-related industry, Applied's results are driven primarily by worldwide demand for integrated circuits, which in turn depends on end-user demand for electronic products. The global semiconductor and semiconductor-related industry is volatile, and consequently Applied's operating results have reflected this volatility.

The following table presents certain significant measurements for the three and nine months ended July 31, 2005 and July 30, 2006:

	Three Months Ended			Nine Months Ended		
	July 31, 2005	July 30, 2006	% Change	July 31, 2005	July 30, 2006	% Change
	(In millions, except per share amounts and percentages)			(In millions, except per share amounts and percentages)		
New orders	$ 1,468	$ 2,670	82%	$ 4,696	$ 7,199	53%
Net sales	$ 1,632	$ 2,543	56%	$ 5,274	$ 6,649	26%
Gross margin	$ 717	$ 1,223	71%	$ 2,326	$ 3,106	34%
Gross margin percent	43.9%	48.1%	10%	44.1%	46.7%	6%
Net income	$ 370	$ 512	39%	$ 963	$ 1,068	11%
Earnings per diluted share	$ 0.23	$ 0.33	46%	$ 0.58	$ 0.67	16%

Operating results for fiscal 2005 reflected decreased global customer fab utilization and reduced or delayed capacity additions as a result of excess inventories and slowing demand for integrated circuits. During this period, Applied focused on lowering costs, improving efficiencies, reducing cycle time, and bringing new products to market. Applied also generated strong cash flow and returned value to stockholders by repurchasing stock and paying cash dividends. During the fourth quarter of fiscal 2005, customer demand began to increase.

Customer demand further improved in the first nine months of fiscal 2006, resulting in higher orders and revenues. During this period, Applied's customers increased both high-volume production and leading-edge 65 nanometer (nm) and 45nm chip development. Results for this period also reflected Applied's continued focus on cost controls. Operating performance was offset during the nine months in part by restructuring and asset impairment charges associated with the real estate and facilities disinvestment that commenced during the first fiscal quarter, by equity-based compensation expenses and by an in-process research and development expense (see Notes 1, 8 and 12 of the Notes to Consolidated Condensed Financial Statements).

During the third quarter of fiscal 2006, Applied completed certain transactions in support of the Company's long-term growth strategy. Management believes that these transactions will enhance Applied's ability to extend its nanomanufacturing capabilities into adjacent and new markets, including: color filters for flat panel displays, solar energy, flexible electronics, energy-efficient glass and track solutions for semiconductor manufacturing. These transactions included the acquisition of Applied Films Corporation (Applied Films), and the formation of a joint venture with Dainippon Screen Mfg. Co., Ltd. (Screen) (see Note 12 of the Notes to Consolidated Condensed Financial Statements). The results of operations of these companies subsequent to the acquisition dates were not material for the third quarter of fiscal 2006. During the fourth quarter of fiscal 2006, Applied purchased certain parts cleaning and recycling assets in Singapore from UMS Solutions Pte. Ltd. (UMS Solutions) a wholly-owned subsidiary of Norelco UMS Holdings Limited (see Note 15 of the Notes to Consolidated Condensed Financial Statements).

Applied's long-term opportunities depend in part on the successful execution of its growth strategy, including increasing market share in existing markets, expanding into related markets, and cultivating new markets and business models. These opportunities are also subject to: (1) global economic conditions; (2) advanced technology and/or capacity requirements of integrated circuit manufacturers and their capital investment trends; (3) the profitability of integrated circuit manufacturers; (4) supply and demand for integrated circuits; (5) realization of the anticipated benefits of business combinations; (6) continued investment in research, development and engineering (RD&E); and (7) the relative competitiveness of Applied's equipment and service products. For these and other reasons set forth in Part II, Item 1A, Risk Factors, which are incorporated by this reference, Applied's prior consolidated results of operations are not necessarily indicative of future operating results.

Results of Operations

Applied received new orders of $2.7 billion for the third quarter of fiscal 2006, compared to $2.5 billion for the second quarter of fiscal 2006 and $1.5 billion for the third quarter of fiscal 2005. New orders for the third quarter of fiscal 2006 increased by 7 percent from the preceding quarter and increased by 82 percent from the third quarter of fiscal 2005. The increase in new orders from the previous quarter was broad-based for virtually all products, and was primarily attributable to increased customer demand from memory manufacturers and foundries. Orders increased in Japan, Taiwan, Southeast Asia and China, North America and Europe, and decreased in Korea.

New orders by region for the past two consecutive quarters were as follows:

	Three Months Ended			
	April 30, 2006		July 30, 2006	
	($)	(%)	($)	(%)
	(In millions, except percentages)			
Taiwan	479	19	566	21
Japan	434	17	534	20
North America(*)	444	18	475	18
Korea	542	22	435	16
Southeast Asia and China	350	14	418	16
Europe	239	10	242	9
Total	2,488	100	2,670	100

(*) Primarily the United States.

Applied's backlog for the most recent three fiscal quarters was as follows: $3.3 billion at July 30, 2006, $2.9 billion at April 30, 2006 and $2.7 billion at January 29, 2006. Backlog has been adjusted to reflect the acquisition of Applied Films. Backlog consists only of orders for which written authorizations have been accepted, shipment dates within 12 months have been assigned and revenue has not been recognized. Due to the potential for customer changes in delivery schedules or cancellation of orders, Applied's backlog at any particular time is not necessarily indicative of actual sales for any future periods.

Demand for integrated circuit manufacturing equipment has historically been volatile as a result of sudden changes in integrated circuit supply and demand and other factors, including rapid technological advances in the integrated circuit fabrication process. As a result of these conditions, there were fluctuations in Applied's net sales throughout fiscal year 2005. During fiscal 2005, net sales increased from $1.8 billion in the first fiscal quarter to $1.9 billion in the second fiscal quarter, decreased to $1.6 billion in the third fiscal quarter, and increased to $1.7 billion in the fourth fiscal quarter. Net sales during the first fiscal quarter of 2006 increased to $1.9 billion and then to $2.2 billion during the second fiscal quarter of 2006, and then to $2.5 billion during the third fiscal quarter of 2006 due to broad-based customer demand resulting from rising fab utilization and investments in advanced technology.

Net sales by region for the three and nine months ended July 31, 2005 and July 30, 2006 were as follows:

	Three Months Ended				Nine Months Ended			
	July 31, 2005		July 30, 2006		July 31, 2005		July 30, 2006	
	($)	(%)	($)	(%)	($)	(%)	($)	(%)
	(In millions, except percentages)							
Taiwan	381	23	688	27	1,199	23	1,515	23
North America(*)	351	22	418	17	1,053	20	1,197	18
Japan	333	20	415	16	1,000	19	1,074	16
Korea	248	15	412	16	867	16	1,307	20
Southeast Asia and China	141	9	382	15	473	9	807	12
Europe	178	11	228	9	682	13	749	11
Total	1,632	100	2,543	100	5,274	100	6,649	100

(*) Primarily the United States.

Gross margin percentage was 48.1 percent for the third quarter of fiscal 2006, compared to 46.5 percent for the second quarter of fiscal 2006 and 43.9 percent for the third quarter of fiscal 2005. Gross margin during the three and nine months ended July 30, 2006 included $9 million and $27 million of equity-based compensation expense, respectively. The increase in the gross margin percentage for the third quarter of fiscal 2006 from that of the previous quarter and from the third quarter of fiscal 2005 was principally attributable to the combination of improved revenue levels, decreased product costs and increased manufacturing volume and absorption, partially offset by increased variable compensation.

Operating expenses include expenses related to RD&E, marketing and selling (M&S), general and administrative (G&A), and restructuring and asset impairments. Expenses related to RD&E, M&S and G&A were $545 million for the third quarter of fiscal 2006, compared to $485 million for the second quarter of fiscal 2006 and $414 million for the third quarter of fiscal 2005. Higher total operating expenses during the three and nine months ended July 30, 2006 as compared to the same periods in 2005, were principally attributable to increased variable compensation, equity-based compensation, and early spending on the Company's business transformation initiative, partially offset by savings resulting from Applied's continued focus on controlling its overall cost structure. Equity-based compensation expenses for the three and nine months ended July 30, 2006 totaled $45 million and $134 million, respectively. During the third quarter of fiscal 2006, Applied launched the planning stage of its multi-year business transformation initiative, which is expected to include the design of new company-wide business processes and the transition to a single-vendor software system to perform various functions, such as order management and manufacturing control.

During the third quarter of fiscal 2006, Applied recorded an in-process research and development (IPR&D) expense in the amount of $14 million related to the acquisition of Applied Films that was reported as RD&E in the Consolidated Condensed Statement of Operations. Applied's methodology for allocating the purchase price relating to purchase acquisitions to IPR&D was determined through established valuation techniques. The IPR&D was expensed upon acquisition because technological feasibility had not been established and no future alternative uses existed. No IPR&D expense was recorded during the nine months ended July 31, 2005 (see Note 12 of the Notes to Consolidated Condensed Financial Statements).

The results of operations from Applied Films and the Sokudo joint venture were not material for the third quarter of fiscal 2006 and have not been included in the Condensed Consolidated Statement of Operations; these results will be included in Applied's fourth quarter of fiscal 2006.

On January 24, 2006, Applied's Board of Directors approved a plan to disinvest a portion of Applied's real estate and facilities portfolio (the Plan). Under the Plan, during the first quarter of fiscal 2006, properties with an estimated fair value of $56 million were reported as assets held-for-sale and reclassified from property, plant and equipment on the Consolidated Condensed Balance Sheet. Applied recorded a pre-tax asset impairment charge of $124 million during the first quarter of fiscal 2006 to write down the following properties to fair value: facilities in Narita, Japan; Chunan, Korea; Danvers, Massachusetts; and 26 acres of unimproved land in Hillsboro, Oregon. During the first quarter of fiscal 2006, Applied also recorded a pre-tax charge in the amount of $91 million for future lease obligations that were scheduled to continue through fiscal 2014 related to the closure of its Hayward, California facility as part of the Plan. During the third quarter of fiscal 2006, Applied sold the Danvers, Massachusetts facility for net proceeds of $16 million and recognized a gain of $4 million. Applied is actively marketing the remaining properties, and management believes that they will be sold within 12 months of the date that they were classified as held-for-sale.

During the third quarter of fiscal 2006, Applied recognized a net benefit of $3 million, consisting of a $4 million gain on the Danvers sale, partially offset by $1 million in costs associated with the facilities disinvestment under the Plan initiated in the first quarter of fiscal 2006. During the second quarter of fiscal 2006, Applied recognized a net benefit of $2 million, consisting of $4 million in adjustments associated with fiscal 2003 and 2004 restructuring actions, partially offset by $2 million in costs associated with the Plan.

Net interest income was $42 million and $37 million for the three months ended July 30, 2006 and July 31, 2005, respectively, and $121 million and $95 million for the nine months ended July 30, 2006 and July 31, 2005, respectively. Higher net interest income during the nine months ended July 30, 2006 was primarily due to higher average portfolio yields, as well as a decrease in interest expense as a result of the repayment of scheduled debt maturities in September 2005.

The income tax rate for the third quarter of fiscal 2006 was 29.1 percent, compared to 31.3 percent for the second quarter of fiscal 2006 and 22.4 percent for the first quarter of fiscal 2006. The income tax rate for the third quarter of fiscal 2006 included benefits of $34 million due primarily to a favorable resolution of audits of prior years' income tax filings. The first quarter tax rate includes the tax impact of the restructuring and asset impairment charges related to the real estate and facilities disinvestment plan (see Note 8 of Notes to Consolidated Condensed Financial Statements). The income tax rate for the third quarter of fiscal 2005 was a benefit of 8.9 percent, which included benefits of $118 million due to a favorable resolution of audits of prior years' income tax filings and $14 million relating to a change in estimate with respect to export tax benefits. The effective income tax rate is highly dependent on the geographic composition of worldwide earnings, tax regulations for each region, non-tax deductible expenses incurred in connection with acquisitions and the availability of tax credits. Management carefully monitors these factors and timely adjusts the effective income tax rate accordingly.

Financial Condition, Liquidity and Capital Resources

During the nine months ended July 30, 2006, cash, cash equivalents and investments decreased by $828 million from $6.0 billion as of October 30, 2005 to $5.2 billion as of July 30, 2006.

Cash, cash-equivalents and investments consisted of the following:

	October 30, 2005	July 30, 2006
	(In millions)	
Cash and cash equivalents	$ 990	$ 1,308
Short-term investments	2,343	1,524
Long-term investments	2,652	2,325
Total cash, cash-equivalents and investments	$ 5,985	$ 5,157

During the second quarter of fiscal 2006, Applied changed its accounting method for certain fixed-income investments, which resulted in the reclassification of these investments from current assets to long-term investments. As a result, prior period balances have been reclassified to conform to the current period's presentation. This accounting method is based on the contractual maturity dates of fixed-income securities as current or long-term, while the prior classification was based on the nature of the securities and the availability for use in current operations. Applied believes this method is preferable as it is more reflective of Applied's assessment of the timing of when such securities are expected to be converted to cash. Accordingly, certain fixed-income investments of $2.6 billion have been reclassified from short-term investments to long-term investments in the October 30, 2005 Consolidated Condensed Balance Sheet to conform to the fiscal 2006 financial statement presentation. In connection with this reclassification, short-term deferred taxes have been reclassified to long-term deferred taxes. There have been no changes in Applied's investment policies or practices associated with this change in accounting method.

In addition, $50 million of long-term equity securities previously reported in other long-term assets have been reclassified to long-term investments in the October 30, 2005 Consolidated Condensed Balance Sheet to conform to the fiscal 2006 financial statement presentation.

Applied continues to classify auction rate securities and variable rate demand notes as current assets, notwithstanding the underlying contractual term of such investments, since the highly liquid nature of these investments enables them to be readily convertible to cash.

Applied generated $1.3 billion of cash from operating activities during the nine months ended July 30, 2006. The primary sources of operating cash flow for the nine months ended July 30, 2006 were (1) net income, adjusted to exclude the effect of non-cash charges including depreciation, amortization, equity-based compensation, asset impairments and restructuring and IPR&D expenses; and (2) increases in accounts payable, other accrued expenses and income taxes payable, which were partially offset by increases in accounts receivable, inventories, other current assets and other assets and decreases in other liabilities. Applied utilized programs to sell accounts receivable and to discount letters of credit, which amounted to $140 million for the nine months ended July 30, 2006. The sales of these accounts receivable increased cash and reduced accounts receivable and days sales outstanding. Days sales outstanding was 82 days at the end of the third quarter of fiscal 2006, compared to 79 days at the end of the second quarter of fiscal 2006 and 85 days at the end of fiscal 2005, due principally to the volume and timing of shipments. Availability and usage of these accounts receivable sale programs depend on many factors, including the willingness of financial institutions to purchase accounts receivable and the cost of such arrangements. For further details regarding accounts receivable sales, see Note 4 of Notes to Consolidated Condensed Financial Statements.

Applied generated $546 million of cash from investing activities during the nine months ended July 30, 2006. Proceeds from sales and maturities of investments, net of purchases of investments, totaled $1.1 billion. Capital expenditures totaled $120 million and included purchases of lab equipment and network infrastructure, as well as $18 million to acquire three buildings at Applied's headquarters site in Santa Clara, California that Applied had previously leased. During the first three quarters of fiscal 2006, Applied utilized $477 million in cash for acquisitions and an investment in a joint venture. During the third quarter of fiscal 2006, Applied acquired the

outstanding stock of Applied Films for a purchase price of $328 million, consisting of $310 million in cash, net of cash and marketable securities acquired, and the assumption of $18 million of equity-based compensation. In addition, Applied formed a joint venture, Sokudo, with Screen for which Applied paid $147 million in cash and contributed other assets. In the first quarter of fiscal 2006, Applied acquired ChemTrace Corporation and ChemTrace Precision Cleaning, Inc. (collectively, ChemTrace) for $22 million in cash, net of cash acquired, of which $18 million was paid upon closing. For additional information regarding business combinations, see Note 12 of Notes to Consolidated Condensed Financial Statements.

Applied used $1.5 billion of cash for financing activities during the nine months ended July 30, 2006. Expenditures for these activities consisted of $1.5 billion for common stock repurchases, $174 million for cash dividends, and $5 million for repayment of short-term debt, partially offset by $172 million of cash generated by the issuance of common stock under equity-based compensation plans.

On December 14, 2005, Applied's Board of Directors declared a quarterly cash dividend in the amount of $0.03 per share, payable on March 9, 2006 to stockholders of record as of February 16, 2006, for a total of $48 million. On March 21, 2006, Applied's Board of Directors declared a quarterly cash dividend of $0.05 per share, an increase from the previous $0.03 per share, payable on June 8, 2006 to stockholders of record as of May 18, 2006, for a total of $78 million. On June 13, 2006, Applied's Board of Directors declared a quarterly cash dividend of $0.05 per share payable on September 7, 2006 to stockholders of record as of August 17, 2006, for a total of $77 million. The declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on Applied's financial condition, results of operations, capital requirements, business conditions and other factors.

Applied has credit facilities for unsecured borrowings in various currencies of up to approximately $412 million, of which $250 million is comprised of a revolving credit agreement in the United States with a group of banks that is scheduled to expire in September 2006. Applied does not expect to replace the revolving credit agreement upon its expiration.

Although cash requirements will fluctuate based on the timing and extent of many factors such as those discussed above and in "Risk Factors" below, Applied's management believes that cash generated from operations, together with the liquidity provided by existing cash balances and borrowing capability, will be sufficient to satisfy Applied's liquidity requirements for the next 12 months.

In the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to certain parties as required for certain transactions initiated by either Applied or its subsidiaries. As of July 30, 2006, the maximum potential amount of future payments that Applied could be required to make under these guarantee arrangements was approximately $96 million. Applied has not recorded any liability in connection with these guarantee arrangements beyond that required to appropriately account for the underlying transaction being guaranteed. Applied does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee arrangements.

For further details regarding Applied's operating, investing and financing activities, see the Consolidated Condensed Statements of Cash Flows.

Critical Accounting Policies

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported. Certain of these significant accounting policies are considered to be critical accounting policies, as defined below.

A critical accounting policy is defined as one that is both material to the presentation of Applied's consolidated financial statements and requires management to make difficult, subjective or complex judgments that could have a material effect on Applied's financial condition or results of operations. Specifically, these policies have the following attributes: (1) Applied is required to make assumptions about matters that are highly uncertain at the time of the estimate; and (2) different estimates Applied could reasonably have used, or changes in the estimates that are reasonably likely to occur, would have a material effect on Applied's financial condition or results of operations.

Estimates and assumptions about future events and their effects cannot be determined with certainty. Applied bases its estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as Applied's operating environment changes. These changes have historically been minor and have been included in the consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and may not be known for prolonged periods of time. These uncertainties are discussed in the section below entitled "Risk Factors." Based on a critical assessment of its accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that Applied's consolidated financial statements are fairly stated in accordance with accounting principles generally accepted in the United States of America, and provide a meaningful presentation of Applied's financial condition and results of operations.

During the first quarter of fiscal 2006, Applied implemented the following new critical accounting policy.

Equity-Based Compensation — Employee Stock Option Plans and Employee Stock Purchase Plans: Beginning on October 31, 2005, Applied began accounting for stock options and ESPP shares under the provisions of SFAS 123(R), which requires the recognition of the fair value of equity-based compensation. The fair value of stock options and ESPP shares was estimated using a Black-Scholes option valuation model. This methodology requires the use of subjective assumptions in implementing SFAS 123(R), including expected stock price volatility and estimated life of each award. The fair value of equity-based compensation awards less estimated forfeitures is amortized over the vesting period of the award, and Applied has elected to use the straight-line method. Applied makes quarterly assessments of the adequacy of the tax credit pool to determine if there are any deficiencies that require recognition in the consolidated condensed statements of operations. Prior to the implementation of SFAS 123(R), Applied accounted for stock options and ESPP shares under the provisions of APB 25 and made pro forma footnote disclosures as required by SFAS No. 148, "Accounting For Stock-Based Compensation — Transition and Disclosure — an Amendment of FASB Statement No. 123," which amended SFAS No. 123, "Accounting For Stock-Based Compensation." Pro forma net income and pro forma net income per share disclosed in the footnotes to the Consolidated Condensed Financial Statements were estimated using a Black-Scholes option valuation model. The fair value of restricted stock units was calculated based upon the fair market value of Applied's common stock at the date of grant (see Note 1 of Notes to Consolidated Condensed Financial Statements).

For further information about other critical accounting policies, see the discussion of critical accounting policies in Applied's 2005 Form 10-K for the fiscal year ended October 30, 2005.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Applied's investment portfolio includes fixed-income securities that had a fair value of approximately $4.3 billion at July 30, 2006. These securities are subject to interest rate risk and will decline in value as interest rates increase. Based on Applied's investment portfolio at July 30, 2006, an immediate 100 basis point increase in interest rates would result in a decrease in the fair value of the portfolio of approximately $57 million. While an increase in interest rates reduces the fair value of the investment portfolio, Applied would not realize the losses in its Consolidated Condensed Statement of Operations unless the individual fixed-income securities are sold prior to recovery.

Certain operations of Applied are conducted in foreign currencies. Applied enters into currency forward and option contracts to hedge a portion of, but not all, existing and anticipated foreign currency denominated transactions expected to occur within 12 months. Gains and losses on these contracts are generally recognized in income at the time that the related transactions being hedged are recognized. Because the effect of movements in currency exchange rates on currency forward exchange and option contracts generally offsets the related effect on the underlying items being hedged, these financial instruments are not expected to subject Applied to risks that would otherwise result from changes in currency exchange rates. Applied does not use derivative financial instruments for trading or speculative purposes. Net foreign currency gains and losses were not material for the three or nine months ended July 31, 2005 and July 30, 2006.

Item 4. ***Controls and Procedures***

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act), Applied's management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation, as of the end of the period covered by this report, of the effectiveness of Applied's disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Applied's disclosure controls and procedures were effective as of the end of the period covered by this report. As required by Exchange Act Rule 13a-15(d), Applied's management, including the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation to determine whether any changes occurred in Applied's internal control over financial reporting during the fiscal quarter that have materially affected, or are reasonably likely to materially affect, Applied's internal control over financial reporting. Based on that evaluation, there has been no such change during the fiscal quarter.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

David Scharf

On July 31, 2001, David Scharf, an individual, filed a lawsuit against Applied in the United States District Court for the Central District of California, captioned David Scharf v. Applied Materials, Inc. (case no. 01-06580 AHM). The lawsuit alleges that Applied has infringed, has induced others to infringe and has contributed to others' infringement of a patent concerning color synthesizing scanning electron microscope technology. Mr. Scharf seeks a preliminary and permanent injunction, a finding of willful infringement, damages (including treble damages), and costs. Applied has answered the complaint and counterclaimed for declaratory judgment of non-infringement and invalidity. On May 10, 2002, Mr. Scharf filed a request for re-examination of his patent with the Patent and Trademark Office (PTO). On June 26, 2002, the case was removed from the Court's active docket after the parties stipulated to stay the case pending the results of that re-examination. On July 11, 2002, Applied filed its own request for re-examination of Mr. Scharf's patent with the PTO. Applied's request for re-examination was granted on September 19, 2002. On April 23, 2004, the PTO notified Applied that it intended to issue a re-examination certificate. On June 14, 2004, Applied filed a second request for re-examination of Mr. Scharf's patent with the PTO. The second request was denied on September 1, 2004. On October 1, 2004, Applied filed a petition for reconsideration of that denial, which subsequently was denied. The lawsuit was returned to the active docket of the District Court for the Central District of California in January 2006, and is scheduled to commence trial on April 3, 2007. Applied believes it has meritorious defenses and counterclaims and intends to pursue them vigorously.

Linear Technology

On March 12, 2002, Linear Technology Corp. (LTC) filed a complaint against Applied in the Superior Court for the County of Santa Clara, captioned Linear Technology Corp. v. Applied Materials, Inc., Novellus Systems, Inc. and Tokyo Electron Ltd. (case no. CV806004), alleging claims for breach of contract, fraud and deceit, negligent misrepresentation, suppression of fact, unfair competition, breach of warranty, express contractual indemnity, implied equitable indemnity and declaratory relief. The complaint alleged, among other things, that Applied is obligated to indemnify and defend LTC for certain claims in an underlying patent infringement lawsuit brought by Texas Instruments, Inc. (TI) against LTC. On November 12, 2002, LTC filed an amended complaint in the Santa Clara action asserting essentially the same claims as in the original complaint, but adding an additional assertion that LTC and TI have settled their litigation. Applied's motion to dismiss the amended complaint was granted in part. LTC filed Second and Third Amended Complaints, each of which was dismissed upon Applied's motion. On February 13, 2004, LTC filed a Fourth Amended Complaint, which Applied moved to dismiss. LTC then filed a motion to amend its Fourth Amended Complaint, which the Court granted. On July 7, 2004, LTC filed a Fifth Amended Complaint. On October 5, 2004, Applied's motion to dismiss LTC's Fifth Amended Complaint was

granted with prejudice. On January 11, 2005, LTC filed a notice of appeal of the dismissal of its complaint. Applied believes it has meritorious defenses and intends to pursue them vigorously.

Jusung

On December 24, 2003, Applied filed a lawsuit against Jusung Engineering Co., Ltd. (Jusung Engineering) and Jusung Pacific Co., Ltd. (Jusung Pacific, referred to together with Jusung Engineering as Jusung) in Tao-Yuan District Court in Taiwan, captioned Applied Materials, Inc. v. Jusung Engineering Co., Ltd. (case no. 92 Tsai-chuan Tzi No. 6388). The lawsuit alleges that Jusung is infringing a patent related to chemical vapor deposition owned by Applied. In the lawsuit, Applied seeks a provisional injunction prohibiting Jusung from importing, using, manufacturing, servicing or selling in Taiwan certain flat panel display manufacturing equipment. On December 25, 2003, the Tao-Yuan District Court ruled in favor of Applied's request for a provisional injunction and, on January 14, 2004, the Court issued a provisional injunction order against Jusung Pacific. Jusung Pacific appealed those decisions, and the decisions were affirmed on appeal. On January 30, 2004, Jusung Pacific requested permission to post a counterbond to have the Jusung Pacific injunction lifted. Jusung Pacific's counterbond request was granted and, on March 30, 2004, the provisional injunction order was lifted. At Applied's request, on December 11, 2004, the District Court issued a provisional injunction order against Jusung Engineering. Jusung Engineering appealed that order, and the order was affirmed on appeal. Jusung Engineering also requested permission to post a counterbond to have the Jusung Engineering injunction lifted. Jusung Engineering's counterbond request was granted, and, on April 25, 2005, the provisional injunction order against Jusung Engineering was lifted. Applied has appealed both counterbond decisions. On June 30, 2004, Applied filed a "main action" patent infringement complaint against Jusung in the Hsinchu District Court in Taiwan, captioned Applied Materials, Inc. v. Jusung Engineering Co., Ltd. (case no. 93 Zhong Zhi No. 3). In the lawsuit, Applied seeks damages and a permanent injunction for infringement of the same patent. The decisions regarding the provisional injunction and counterbond have no effect on the separate patent infringement lawsuit filed by Applied against Jusung in the Hsinchu Court. Applied believes it has meritorious claims and intends to pursue them vigorously.

On June 13, 2006, AKT filed an action in the Taiwanese Patent and Trademark Office challenging the validity of a patent owned by Jusung Engineering (Taiwanese Patent No. 249186) related to the severability of the transfer chamber. On June 20, 2006, Jusung Engineering filed a lawsuit against Applied and Applied's subsidiary, AKT, in Hsinchu District Court in Taiwan, captioned Jusung Engineering, Co. Ltd. v. AKT America, Inc. and Applied Materials, Inc., alleging infringement of this patent. Jusung Engineering's lawsuit seeks damages, costs and attorneys' fees, but does not seek injunctive relief. Applied also believes that it has other meritorious defenses that it intends to pursue vigorously.

Taiwan Fair Trade Commission

On April 10, 2004, the Taiwan Fair Trade Commission (TFTC) notified Applied's subsidiary, AKT, in Taiwan that, pursuant to a complaint filed by Jusung, the TFTC had begun an investigation into whether AKT had violated the Taiwan Fair Trade Act. The investigation focused on whether AKT violated the Taiwan Guidelines for the Review of Cases Involving Enterprises Issuing Warning Letters for Infringement on Copyright, Trademark and Patent Rights by allegedly notifying customers about AKT's patent rights and the infringement of those rights by Jusung. On June 15, 2004, the TFTC notified Applied that Applied also was the subject of the investigation. By letter dated April 15, 2005, the TFTC notified Applied and AKT that there was insufficient evidence to support a claim against either company. Jusung appealed the TFTC's decision, and the appeals court affirmed the decision of the TFTC in favor of Applied on February 7, 2006. Jusung has appealed the appeals court's affirmation of the decision of the TFTC.

Silicon Services Consortium, et al.

On January 19, 2006, five companies that sell refurbished Applied tools (Silicon Services Consortium Inc., Semiconductor Support Services Co., OEM Surplus, Inc., Precision Technician Inc., and Semiconductor Equipment Specialist, Inc.) filed a lawsuit against Applied in federal court in Austin, Texas, captioned Silicon Services Consortium, Inc., et al. v. Applied Materials, Inc. (case no. A06CA051 LY). The plaintiffs claim that a policy that Applied announced in January 2005 of limiting the sale of certain parts to them constituted an unlawful attempt to

monopolize the refurbishment business, an interference with existing contracts, and an interference with prospective business relationships. The suit seeks injunctive relief, damages, costs and attorneys' fees. After Applied filed a motion to dismiss the original complaint, the plaintiffs filed an amended complaint alleging similar conduct. Applied filed a motion to dismiss the amended complaint on April 7, 2006, and a hearing was conducted on August 22, 2006. Applied believes it has meritorious defenses and counterclaims and intends to pursue them vigorously.

Applied does not believe that the outcome of any of the above matters will have a material adverse effect on its financial position or results of operations.

Other Legal Matters

From time to time, Applied receives notification from third parties, including customers and suppliers, seeking indemnification, litigation support, payment of money or other actions by Applied in connection with claims made against them by third parties. In addition, from time to time, Applied receives notification from third parties claiming that Applied may be or is infringing their intellectual property or other rights. Applied also is subject to various other legal proceedings and claims, both asserted and unasserted, that arise in the ordinary course of business. Although the outcome of these claims and proceedings cannot be predicted with certainty, Applied does not believe that any of these other existing proceedings or claims will have a material adverse effect on its consolidated financial condition or results of operations.

Item 1A. ***Risk Factors***

The industry that Applied serves is volatile and unpredictable.

As a supplier to the global semiconductor and semiconductor-related industry, Applied is subject to the industry's business cycles, the timing, length and volatility of which are difficult to predict. The industry has historically been cyclical due to sudden changes in demand for integrated circuits and manufacturing capacity, including capacity using the latest technology. The effect on Applied of these changes in demand, including end-customer demand, is occurring more rapidly, exacerbating the volatility of these cycles. These changes have affected the timing and amounts of customers' purchases and investments in technology, and continue to affect Applied's orders, net sales, gross margin and results of operations.

Applied must effectively manage its resources and production capacity to meet changing demand. During periods of increasing demand, Applied must have sufficient manufacturing capacity and inventory to meet customer demand and must be able to attract, retain and motivate a sufficient number of qualified individuals and effectively manage its supply chain. During periods of decreasing demand for integrated circuit manufacturing equipment, Applied must be able to appropriately align its cost structure with prevailing market conditions, effectively motivate and retain key employees, and effectively manage its supply chain. If Applied is not able to timely and appropriately align its cost structure with business conditions and/or to effectively manage its resources and production capacity, including its supply chain, during changes in demand, Applied's business, financial condition or results of operations may be materially and adversely affected.

Applied is exposed to risks as a result of ongoing changes in the industry.

The global semiconductor and semiconductor-related industry is characterized by ongoing changes, including: (1) changes in customers' capacity requirements, capacity utilization and capital spending, which depend in part on the demand for customers' products and customers' inventory levels relative to demand; (2) the importance of reducing the cost of system ownership, due in part to the increasing significance of consumer electronics as a driver for integrated circuit demand and the related focus on lower prices; (3) varying levels of business information technology spending; (4) increasingly complex technology requirements, including a significant rise in the number and importance of new materials and the increasing importance of expertise in device structure; (5) the growing types and varieties of integrated circuits and expanding number of applications across multiple substrate sizes, resulting in customers' divergent technical demands and different rates of spending on capital equipment; (6) customers' varying adoption rates of new technology; (7) a rising percentage of business from customers in Asia and the emergence of customers, competitors and suppliers in new geographical regions; (8) demand for

shorter cycle times for the development, manufacture and installation of integrated circuit manufacturing equipment; (9) the heightened importance to customers of system reliability and productivity, and the effect on demand for systems as a result of their increasing productivity, device yield and reliability; (10) differing technical requirements of, rates of market growth for, and capital investments by, various device makers such as memory (including NAND flash and DRAM), logic and foundry; (11) customers' increasing use of partnerships, alliances, joint ventures and industry consortia that has increased the influence of key integrated circuit manufacturers in technology decisions made by their global partners; (12) higher capital requirements for building and operating new integrated circuit fabrication plants; (13) the increasing difficulty for customers to move from product design to volume manufacturing; (14) the challenge to customers of moving volume manufacturing from one technology node to the next smaller technology node and the resulting impact on the technology transition rate; (15) the increasing cost and reduced affordability of research and development due to many factors including decreasing linewidths, increasing number of materials, expanding number of applications and increasing number and complexity of process steps; (16) the rate of growth in the industry; (17) the increasing importance of the availability of spare parts to assure maximum system uptime; (18) concern among U.S. governmental agencies regarding possible national commercial and/or security issues posed by the growing manufacturing business in Asia; (19) the need to effectively manage a growing number of products in more varied competitive environments; and (20) the increasing importance of operating flexibility to enable different responses to different markets, customers and applications. If Applied does not successfully manage the risks resulting from the ongoing changes occurring in the industry, its business, financial condition and results of operations could be materially and adversely affected.

Applied must adapt its business and product offerings to respond to competition and rapid technological changes in the industry.

As Applied operates in a highly competitive environment, its future success heavily depends on effective development, commercialization and customer acceptance of its nanomanufacturing technology equipment, service and related products. In addition, Applied must successfully execute its growth strategy, including increasing market share in existing markets, expanding into related markets, and cultivating new markets and new business models, while constantly improving its operational performance. Applied's success is subject to many risks, including but not limited to its ability to timely, cost-effectively and successfully: (1) develop and market new products and price products appropriately; (2) improve existing products, develop new applications for existing products, and increase market share in its existing markets; (3) expand into or develop related and new markets for its nanomanufacturing technology; (4) anticipate and capitalize on opportunities in new markets such as solar; (5) appropriately allocate RD&E funding; (6) achieve market acceptance of, and accurately forecast demand and meet production schedules for, its products; (7) achieve cost efficiencies across product offerings; (8) adapt to technology changes in related markets, such as lithography; (9) develop, market and price similar products for use by customers in different applications and/or in related markets that may have varying technical requirements; (10) adapt to changes in value offered by companies in different parts of the supply chain; (11) qualify products for volume manufacturing with its customers; (12) implement changes in its design engineering methodology, including those that enable significant decreases in material costs and cycle time, greater commonality of platforms and types of parts used in different systems, and effective product life cycle management; (13) improve its manufacturing processes; and (14) deploy initiatives to transform the Company's information technology systems and business processes, including transition to a single-vendor enterprise resource planning (ERP) software system. The development, introduction and support of an increasingly broad set of products, including those enabling the transition to smaller device feature sizes and incorporation of new materials, have grown increasingly complex and expensive over time. Furthermore, new or improved products may involve higher costs and reduced efficiencies compared to Applied's more established products and could adversely affect Applied's gross margins. In addition, Applied must regularly reassess the size, capability and location of its global infrastructure and timely make appropriate changes in its real estate and facilities portfolio. If Applied does not successfully manage these challenges, its business, financial condition and results of operations could be materially and adversely affected.

Applied is exposed to the risks of operating a global business.

In the third quarter of fiscal 2006, more than 80 percent of Applied's net sales were to regions outside the United States. Certain manufacturing facilities and suppliers of Applied are also located outside the United States. Managing Applied's global operations presents challenges, including but not limited to those arising from: (1) varying regional and geopolitical business conditions and demands; (2) global trade issues; (3) variations in protection of intellectual property and other legal rights in different countries; (4) rising raw material and energy costs; (5) variations in the ability to develop relationships with suppliers and other local businesses; (6) changes in laws and regulations of the United States (including export restrictions) and other countries, as well as their interpretation and application; (7) fluctuations in interest rates and currency exchange rates; (8) the need to provide sufficient levels of technical support in different locations; (9) political instability, natural disasters (such as earthquakes, floods or storms), pandemics, terrorism or acts of war where Applied has operations, suppliers or sales; (10) cultural differences; (11) special government-supported efforts to promote local integrated circuit manufacturing equipment companies; and (12) shipping delays. Many of these challenges are present in China, which is experiencing significant growth of suppliers and prospective competitors to Applied and which Applied believes presents a large potential market for integrated circuit equipment and opportunity for growth over the long term. These challenges, as well as global uncertainties with respect to: (1) economic growth rates in various countries; (2) consumer confidence; (3) the sustainability, timing, rate and amount of demand for electronics products and integrated circuits; (4) capital and operational spending by integrated circuit manufacturers; and (5) price trends for certain integrated circuit devices, may materially and adversely affect Applied's business, financial condition and results of operations.

Applied is exposed to risks associated with a highly concentrated customer base.

Applied's customer base is and has been highly concentrated. Orders from a relatively limited number of manufacturers of integrated circuits have accounted for, and likely will continue to account for, a substantial portion of Applied's net sales. In addition, the mix and type of customers, and sales to any single customer, may vary significantly from quarter to quarter and from year to year. If customers do not place orders, or delay or cancel orders, Applied may not be able to replace the business. As Applied's products are configured to customer specifications, changing, rescheduling or canceling orders may result in significant non-recoverable costs. Major customers may also seek and on occasion receive pricing, payment terms or other conditions that are less favorable to Applied. In addition, certain customers have formed strategic alliances or collaborative efforts that result in additional complexities in managing individual customer relationships and transactions. These factors could have a material adverse effect on Applied's business, financial condition and results of operations.

Applied is exposed to risks associated with acquisitions and strategic investments.

Applied has made, and may in the future make, acquisitions of, or investments in, companies, technologies or products in existing, related or new markets for Applied. Acquisitions involve numerous risks, including but not limited to: (1) diversion of management's attention from other operational matters; (2) inability to complete acquisitions as anticipated or at all; (3) inability to realize anticipated benefits; (4) failure to commercialize purchased technologies; (5) inability to capitalize on characteristics of new markets that may be significantly different from Applied's existing market; (6) inability to obtain and protect intellectual property rights in key technologies; (7) ineffectiveness of an acquired company's internal controls; (8) impairment of acquired intangible assets as a result of technological advancements or worse-than-expected performance of the acquired company or its product offerings; (9) unknown, underestimated and/or undisclosed commitments or liabilities; (10) failure to integrate and retain key employees; (11) excess or underutilized facilities; and (12) ineffective integration of operations, technologies, products or employees of the acquired companies. Applied also makes strategic investments in other companies, including companies formed as a joint venture, which may decline in value and/or not meet desired objectives. The success of these investments depends on various factors over which Applied may have limited or no control and, particularly with respect to joint ventures, requires ongoing and effective cooperation with strategic partners. Mergers and acquisitions and strategic investments are inherently subject to significant risks, and the inability to effectively manage these risks could materially and adversely affect Applied's business, financial condition and results of operations.

Manufacturing interruptions or delays could affect Applied's ability to meet customer demand, while the failure to estimate customer demand accurately could result in excess or obsolete inventory.

Applied's business depends on its ability to supply equipment, services and related products that meet the rapidly changing requirements of its customers, which depends in part on the timely delivery of parts, components and subassemblies (collectively, parts) from suppliers. Some key parts may be subject to long lead-times and/or obtainable only from a single supplier or limited group of suppliers, and some sourcing or subassembly is provided by suppliers in developing regions, including China. In addition, Applied has implemented several key operational initiatives, including integrate-to-order, module-final-test and merge-in-transit programs that are intended to improve manufacturing efficiency, as well as the transition to a single-vendor software system to perform various functions, such as order management and manufacturing control. Significant interruptions of manufacturing operations or the delivery of services as a result of (1) the failure or inability of suppliers to timely deliver quality parts; (2) volatility in the availability and cost of materials; (3) difficulties or delays in obtaining required export approvals; (4) information technology or infrastructure failures; (5) difficulties related to planning or effecting business process changes and implementing a new ERP system; (6) natural disasters (such as earthquakes, floods or storms); or (7) other causes (such as regional economic downturns, pandemics, political instability, terrorism or acts of war), could result in delayed deliveries, manufacturing inefficiencies, increased costs or order cancellations. Moreover, if actual demand for Applied's products is different than expected, Applied may purchase more/fewer parts than necessary or incur costs for canceling, postponing or expediting delivery of parts. Any or all of these factors could materially and adversely affect Applied's business, financial condition and results of operations.

The failure to successfully implement outsourcing activities could adversely affect results of operations.

To better align costs with market conditions and to increase productivity and operational efficiency, Applied outsources certain functions to third parties, including companies in India, China and other countries. These include engineering, manufacturing, customer support, software development and administrative activities. The expanding role of third party providers has required changes to Applied's existing operations and the adoption of new procedures and processes for retaining and managing these providers in order to protect its intellectual property. If Applied does not effectively develop and implement its outsourcing strategy, if required export approvals are not timely obtained, or if third party providers do not perform as anticipated, Applied may not realize productivity improvements or cost efficiencies and may experience operational difficulties, increased costs, manufacturing interruptions or delays and/or loss of its intellectual property rights, which could materially and adversely affect Applied's business, financial condition and results of operations.

The ability to attract, retain and motivate key employees is vital to Applied's success.

Applied's success and competitiveness depend in large part on its ability to attract, retain and motivate key employees. Achieving this objective may be difficult due to many factors, including fluctuations in global economic and industry conditions, changes in Applied's management or leadership, competitors' hiring practices, and the effectiveness of Applied's compensation programs, including its equity-based programs. Applied regularly evaluates its overall compensation programs and makes adjustments, as appropriate, to enhance their competitiveness, such as instituting broad-based grants of restricted stock units in fiscal 2006. If Applied's compensation practices or employee benefit programs do not successfully attract, retain and motivate key employees, Applied's ability to capitalize on its opportunities and optimize its operating results may be materially and adversely affected.

Changes in tax rates or tax liabilities could affect results.

As a global company, Applied is subject to taxation in the United States and various other countries. Significant judgment is required to determine and estimate worldwide tax liabilities. Applied's future tax rates could be affected by various factors, including changes in the (1) applicable tax laws; (2) composition of earnings in countries with differing tax rates; or (3) valuation of Applied's deferred tax assets and liabilities. In addition, Applied is subject to regular examination of its income tax returns by the Internal Revenue Service and other tax authorities. Applied regularly assesses the likelihood of favorable or unfavorable outcomes resulting from these examinations to determine the adequacy of its provision for income taxes. Although Applied believes its tax estimates are reasonable, there can be no assurance that any final determination will not be materially different from

the treatment reflected in Applied's historical income tax provisions and accruals, which could materially and adversely affect Applied's results of operations.

Applied is exposed to various risks related to legal proceedings or claims and protection of intellectual property rights.

Applied from time to time is, and in the future may be, involved in legal proceedings or claims regarding patent infringement, intellectual property rights, antitrust, environmental regulations, securities, contracts, product performance, product liability, unfair competition, employment and other matters. In addition, Applied on occasion receives notification from customers who believe that Applied owes them indemnification or other obligations related to claims made against customers by third parties. These legal proceedings and claims, whether with or without merit, may be time-consuming and expensive to prosecute or defend and also divert management's attention and resources. There can be no assurance regarding the outcome of current or future legal proceedings or claims. Applied previously entered into a mutual covenant-not-to-sue arrangement with one of its competitors to decrease the risk of patent infringement lawsuits in the future. There can be no assurance that the intended results of this arrangement will be achieved or that Applied will be able to adequately protect its intellectual property rights with the restrictions associated with such a covenant. In addition, Applied's success depends in part on the protection of its intellectual property and other rights. Infringement of Applied's rights by a third party, such as the unauthorized manufacture or sale of equipment or spare parts, could result in uncompensated lost market and revenue opportunities for Applied. Applied's intellectual property rights may not provide significant competitive advantages if they are circumvented, invalidated, rendered obsolete by the rapid pace of technological change, or if Applied does not adequately assert these rights. Furthermore, the laws and practices of other countries, including China, Taiwan and Korea, permit the protection and enforcement of Applied's rights to varying extents, which may not be sufficient to protect Applied's rights. If Applied is not able to resolve a claim, negotiate a settlement of the matter, obtain necessary licenses on commercially reasonable terms, and/or successfully prosecute or defend its position, Applied's business, financial condition and results of operations could be materially and adversely affected.

Applied is subject to risks of non-compliance with environmental and safety regulations.

Applied is subject to environmental and safety regulations in connection with its global business operations, including but not limited to regulations related to the development, manufacture and use of its products, the operation of its facilities, and the use of its real property. Failure or inability to comply with existing or future environmental and safety regulations could result in significant remediation liabilities, the imposition of fines and/or the suspension or termination of development, manufacture or use of certain of its products, or may affect the operation of its facilities or use of its real property, each of which could have a material adverse effect on Applied's business, financial condition and results of operations.

Applied is exposed to various risks related to the regulatory environment.

Applied is subject to various risks related to: (1) new, different, inconsistent or even conflicting laws, rules and regulations that may be enacted by legislative bodies and/or regulatory agencies in the countries in which Applied operates and with which Applied must comply; (2) disagreements or disputes between national or regional regulatory agencies related to international trade; and (3) the interpretation and application of laws, rules and regulations. If Applied is found by a court or regulatory agency not to be in compliance with applicable laws, rules or regulations, Applied's business, financial condition and results of operations could be materially and adversely affected.

Applied is subject to internal control evaluations and attestation requirements of Section 404 of the Sarbanes-Oxley Act.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, Applied must include in its annual report on Form 10-K a report of management on the effectiveness of Applied's internal control over financial reporting and an attestation by Applied's independent registered public accounting firm to the adequacy of management's assessment of Applied's internal control. Ongoing compliance with these requirements is complex, costly and time-

consuming. If (1) Applied fails to maintain effective internal control over financial reporting; (2) Applied's management does not timely assess the adequacy of such internal control; or (3) Applied's independent registered public accounting firm does not timely attest to the evaluation, Applied could be subject to regulatory sanctions and the public's perception of Applied may decline.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

The following table provides information as of July 30, 2006 with respect to the shares of common stock repurchased by Applied during the third quarter of fiscal 2006:

Period	Total Number of Shares Purchased (Shares in thousands)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans* (Shares in thousands)	Maximum Dollar Value of Shares That May yet be Purchased Under the Plans* (Dollars in thousands)
Month #1				
(May 1, 2006 to May 28, 2006)	4,025	$ 16.80	4,025	$ 4,932
Month #2				
(May 29, 2006 to June 25, 2006)	13,368	$ 16.58	13,368	$ 4,711
Month #3				
(June 26, 2006 to July 30, 2006)	13,265	$ 15.88	13,265	$ 4,500
Total	30,658	$ 16.30	30,658	

* On March 22, 2006, the Board of Directors approved a new stock repurchase program authorizing up to $5.0 billion in repurchases over the next three years ending in March 2009. With the adoption of this program, the Board terminated the $4.0 billion stock repurchase program authorized in March 2005 prior to its expiration, subject to the execution of then outstanding repurchase orders, which were completed before April 30, 2006.

Item 3. ***Defaults Upon Senior Securities***

None.

Item 4. ***Submission of Matters to a Vote of Security Holders***

None.

Item 5. ***Other Information***

None.

Item 6. ***Exhibits***

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

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated May 4, 2006, among Applied Materials, Inc. Applied Films Corporation, and Blue Acquisition, Inc.*
10.52	Adjustments to Nonemployee Director Cash Compensation.
10.53	Form of Non-Qualified Stock Option Grant Agreement for use under Applied Materials, Inc.'s Employee Stock Incentive Plan, as amended.
10.54	Form of Non-Qualified Stock Option Grant Agreement for use under Applied Materials, Inc.'s 2000 Global Equity Incentive Plan, as amended.
10.55	Form of Performance Shares Agreement for use under Applied Materials, Inc.'s Employee Stock Incentive Plan, as amended.

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Ratio of Earnings to Fixed Charges.

* Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Applied Materials, Inc. hereby undertakes to furnish supplementally copies of any of the omitted schedules and exhibits upon request by the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements 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/ Nancy H. Handel
Nancy H. Handel
Senior Vice President,
Chief Financial Officer

August 31, 2006

By: /s/ Yvonne Weatherford
Yvonne Weatherford
Corporate Vice President,
Corporate Controller

August 31, 2006

INDEX TO EXHIBITS

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Exhibit 2.1

AGREEMENT AND PLAN OF MERGER

among:

APPLIED MATERIALS, INC.,
a Delaware corporation;

BLUE ACQUISITION, INC.,
a Colorado corporation;

and

APPLIED FILMS CORPORATION,
a Colorado corporation

Dated as of May 4, 2006

* Schedules and exhibits to the Agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Applied Materials, Inc. hereby undertakes to furnish supplementally copies of any of the omitted schedules and exhibits upon request by the Securities and Exchange Commission.

Table Of Contents

EXECUTION COPY

AGREEMENT AND PLAN OF MERGER

This Agreement and Plan of Merger is made and entered into as of May 4, 2006, by and among **Applied Materials, Inc.**, a Delaware corporation ("Parent"), **Blue Acquisition, Inc.**, a Colorado corporation and a wholly-owned subsidiary of Parent ("Merger Sub"), and **Applied Films Corporation**, a Colorado corporation (the "Company"). Certain capitalized terms used in this Agreement are defined in Exhibit A.

Recitals

A. Parent, Merger Sub and the Company intend to effect a merger of Merger Sub with and into the Company in accordance with this Agreement, the CBCA and the CCAA (the "Merger"). Upon consummation of the Merger, Merger Sub will cease to exist, and the Company will become a wholly-owned subsidiary of Parent.

B. The respective boards of directors of Parent, Merger Sub and the Company have approved this Agreement, the Merger and the Contemplated Transactions.

Agreement

The parties to this Agreement, intending to be legally bound, agree as follows:

SECTION 1. Description of Transaction

1.1 Merger of Merger Sub into the Company. Upon the terms and subject to the conditions set forth in this Agreement, at the Effective Time (as defined in Section 1.3), Merger Sub shall be merged with and into the Company, and the separate existence of Merger Sub shall cease. The Company will continue as the surviving corporation in the Merger (the "Surviving Corporation").

1.2 Effect of the Merger. The Merger shall have the effects set forth in this Agreement and in the applicable provisions of the CBCA and the CCAA.

1.3 Closing; Effective Time. The closing of the Merger and the consummation of those transactions contemplated by this Agreement that are to be consummated at the time of the Merger (the "Closing") shall take place at the offices of Cooley Godward LLP, 3175 Hanover Street, Palo Alto, California, on a date to be designated by Parent (the "Closing Date"), which shall be no later than the fifth business day after the satisfaction or waiver of the last to be satisfied or waived of the conditions set forth in Sections 6 and 7 (other than the conditions set forth in Sections 6.5 and 7.4, which by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions). The Merger shall become effective at the time of the filing of a statement of merger with the Secretary of State of the State of Colorado in accordance with the CBCA and the CCAA or at such later time as may be specified in such statement of merger with the consent of Parent (the time as of which the Merger becomes effective being referred to as the "Effective Time").

1.4 Articles of Incorporation and Bylaws; Directors and Officers. Unless otherwise determined by Parent prior to the Effective Time:

(a) the Articles of Incorporation of the Surviving Corporation shall be amended and restated immediately after the Effective Time in a form acceptable to Parent;

(b) the Bylaws of the Surviving Corporation shall be amended and restated as of the Effective Time to conform to the Bylaws of Merger Sub as in effect immediately prior to the Effective Time; and

(c) the directors and officers of the Surviving Corporation immediately after the Effective Time shall be the respective individuals who are directors and officers of Merger Sub immediately prior to the Effective Time.

1.5 Effect on Capital Stock.

(a) At the Effective Time, by virtue of, and simultaneously with, the Merger and without any further action on the part of Parent, Merger Sub, the Company or any shareholder of the Company:

(i) any shares of Company Common Stock held by the Company or any wholly owned Subsidiary of the Company immediately prior to the Effective Time shall be canceled and retired and shall cease to exist, and no consideration shall be delivered in exchange therefor;

(ii) any shares of Company Common Stock held by Parent, Merger Sub or any other wholly-owned Subsidiary of Parent immediately prior to the Effective Time shall be canceled and retired and shall cease to exist, and no consideration shall be delivered in exchange therefor;

(iii) except as provided in clauses "(i)" and "(ii)" above, and subject to Section 1.5(b), each share of Company Common Stock outstanding immediately prior to the Effective Time shall be converted into the right to receive $28.50 in cash, without any interest thereon (the "Merger Consideration");

(iv) all Company Options and Company Stock Awards shall be treated in accordance with Section 5.3; and

(v) each share of common stock, without par value, of Merger Sub outstanding immediately prior to the Effective Time shall be converted into one share of common stock of the Surviving Corporation.

(b) If, during the period commencing on the date of this Agreement and ending at the Effective Time, the outstanding shares of Company Common Stock are changed into a different number or class of shares by reason of any stock split, division or subdivision of shares, stock dividend, issuance of bonus shares, reverse stock split, consolidation

of shares, reclassification, recapitalization or other similar transaction, or if a stock dividend is declared by the Company during such period, or a record date with respect to any such event shall occur during such period, then the Merger Consideration shall be adjusted to the extent appropriate.

(c) If any shares of Company Common Stock outstanding immediately prior to the Effective Time are unvested or are subject to a repurchase option or obligation, risk of forfeiture or other condition under any applicable restricted stock purchase agreement or other Contract with the Company or under which the Company has any rights, then the Merger Consideration payable in exchange for such shares of Company Common Stock will also be unvested and subject to the same repurchase option or obligation, risk of forfeiture or other condition and need not be paid until such time as such repurchase option, risk of forfeiture or other condition lapses or otherwise terminates. Without limiting the generality of the foregoing, the Merger Consideration payable in exchange for the shares of Company Common Stock subject to those certain Pledge Agreements as set forth in Part 1.5(c) of the Company Disclosure Schedule shall become subject to the terms of such Pledge Agreements as of the Effective Time. Prior to the Effective Time, the Company shall take all action that may be necessary to ensure that, from and after the Effective Time, Parent is entitled to exercise any such repurchase option or other right set forth in any such restricted stock purchase agreement or other Contract.

1.6 Closing of the Company's Transfer Books. At the Effective Time: (a) all shares of Company Common Stock outstanding immediately prior to the Effective Time shall automatically be canceled and retired and shall cease to exist, and all holders of certificates representing shares of Company Common Stock that were outstanding immediately prior to the Effective Time shall cease to have any rights as shareholders of the Company, other than the right of the holders of shares of Company Common Stock to receive the Merger Consideration set forth herein; and (b) the stock transfer books of the Company shall be closed with respect to all shares of Company Common Stock outstanding immediately prior to the Effective Time. No further transfer of any shares of Company Common Stock shall be made on such stock transfer books after the Effective Time. If, after the Effective Time, a valid certificate previously representing any shares of Company Common Stock outstanding immediately prior to the Effective Time (a "Company Stock Certificate") is presented to the Paying Agent (as defined in Section 1.7) or to the Surviving Corporation or Parent, such Company Stock Certificate shall be canceled and shall be exchanged as provided in Section 1.7.

1.7 Exchange of Certificates.

(a) On or prior to the Closing Date, Parent shall select a reputable bank or trust company to act as the paying agent in connection with the Merger (the "Paying Agent"). Prior to or at the Closing, Parent shall deposit with the Paying Agent, in trust for the benefit of the Persons who were record holders of Company Stock Certificates immediately prior to the Effective Time, cash in an amount equal to the aggregate consideration payable pursuant to Section 1.5(a)(iii). The cash amount so deposited with the Paying Agent is referred to as the "Payment Fund."

(b) As soon as practicable following the Effective Time, the Paying Agent will mail to the Persons who were record holders of Company Stock Certificates immediately prior to the Effective Time: (i) a letter of transmittal in customary form and containing such provisions as Parent may reasonably specify (including a provision confirming that delivery of Company Stock Certificates shall be effected, and risk of loss and title to Company Stock Certificates shall pass, only upon delivery of such Company Stock certificates to the Paying Agent); and (ii) instructions for use in effecting the surrender of Company Stock Certificates in exchange for the Merger Consideration. Upon surrender of a Company Stock Certificate to the Paying Agent for exchange, together with a duly executed letter of transmittal and such other documents as may be reasonably required by the Paying Agent or Parent: (A) the holder of such Company Stock Certificate shall be entitled to receive in exchange therefor the Merger Consideration multiplied by the number of shares of Company Common Stock represented by the Company Stock Certificate; and (B) the Company Stock Certificate so surrendered shall be canceled. If any cash is to be paid to a Person other than the record holder of a Company Stock Certificate, it shall be a condition of such payment that the Company Stock Certificate so surrendered shall be properly endorsed (with such signature guarantees as may be required by the letter of transmittal) or otherwise in proper form for transfer, and that the Person requesting payment shall: (1) pay to the Paying Agent any transfer or other Taxes required by reason of such payment to a Person other than the record holder of the Company Stock Certificate surrendered; or (2) establish to the satisfaction of Parent that such Tax has been paid or is not required to be paid. Until surrendered as contemplated by this Section 1.7(b), each Company Stock Certificate shall be deemed, from and after the Effective Time, to represent only the right to receive cash in an amount equal to the Merger Consideration multiplied by the number of shares of Company Common Stock represented by such Company Stock Certificate, without interest thereon. If any Company Stock Certificate shall have been lost, stolen or destroyed, Parent may, in its discretion and as a condition precedent to the delivery of any Merger Consideration, require the owner of such lost, stolen or destroyed Company Stock Certificate to provide an appropriate affidavit and to deliver a bond, in such sum as Parent may reasonably direct, as indemnity against any claim that may be made against the Paying Agent, Parent, the Surviving Corporation or any affiliated party with respect to such Company Stock Certificate.

(c) Any portion of the Payment Fund that remains undistributed to holders of Company Stock Certificates as of the date 180 days after the Closing Date shall be delivered by the Paying Agent to Parent upon demand, and any holders of Company Stock Certificates who have not theretofore surrendered their Company Stock Certificates in accordance with this Section 1.7 shall thereafter look only to Parent for satisfaction of their claims for Merger Consideration, without any interest thereon.

(d) Each of the Paying Agent, Parent and the Surviving Corporation shall be entitled to deduct and withhold from any consideration payable pursuant to this Agreement to any holder or former holder of shares of Company Common Stock such amounts as Parent determines in good faith may be required to be deducted or withheld therefrom under the Code, or under any provision of state, local or non-U.S. Tax law or under any other applicable Legal Requirement. To the extent such amounts are so deducted or withheld, such

amounts shall be treated for all purposes under this Agreement as having been paid to the Person to whom such amounts would otherwise have been paid.

(e) Neither Parent nor the Surviving Corporation shall be liable to any holder or former holder of shares of Company Common Stock or to any other Person with respect to any Merger Consideration delivered to any public official pursuant to any applicable abandoned property law, escheat law or other Legal Requirement.

1.8 Dissenting Shares. Notwithstanding anything in this Agreement to the contrary, any share of Company Common Stock that is issued and outstanding immediately prior to the Effective Time and which is held by a shareholder who is entitled to exercise, and who has made a demand for, dissenters' rights in accordance with Article 113 of the CBCA (such share being a "Dissenting Share," and such shareholder being a "Dissenting Shareholder") shall not be converted into the right to receive the Merger Consideration, but rather shall be converted into the right to receive such consideration as may be determined to be due with respect to such Dissenting Share pursuant to the CBCA. If any Dissenting Shareholder fails to perfect such shareholder's dissenters' rights under the CBCA or effectively withdraws or otherwise loses such rights with respect to any Dissenting Shares, then as of the later of the Effective Time or the date of loss of such rights, such Dissenting Shares shall automatically be converted into the right to receive the Merger Consideration, without interest thereon, upon surrender of the Company Stock Certificate representing such Dissenting Shares. The Company shall give Parent: (a) prompt notice of any demand for payment of the fair value of any shares of Company Common Stock or any attempted withdrawal of any such demand for payment and any other instrument served pursuant to the CBCA and received by the Company relating to any shareholder's dissenters' rights; and (b) the opportunity to participate in all negotiations and proceedings with respect to any such demands for payment under the CBCA. The Company shall not make any payment with respect to, or settle or make an offer to settle, any such demand for payment at any time prior to the Effective Time, unless the Company shall have first obtained Parent's consent.

1.9 Further Action. If, at any time after the Effective Time, any further action is determined by Parent or the Surviving Corporation to be necessary or desirable to carry out the purposes of this Agreement or to vest the Surviving Corporation with full right, title and possession of and to all rights and property of Merger Sub and the Company, the officers and directors of the Surviving Corporation and Parent shall be fully authorized (in the name of Merger Sub, in the name of the Company and otherwise) to take such action.

SECTION 2. Representations and Warranties of the Company

The Company represents and warrants to Parent and Merger Sub as follows (it being understood that: (i) each representation and warranty contained in this Section 2 is subject to the exceptions and disclosures set forth in the Company Disclosure Schedule; (ii) disclosure anywhere in the Company Disclosure Schedule shall constitute an exception or qualification to each of the representations and warranties of the Company if the disclosure contains sufficient detail to enable a reasonable person to recognize the relevance of such disclosure to the other representations and warranties; (iii) a representation that a document or material required to be delivered or otherwise provided to Parent shall be deemed satisfied if such document or material was made available to Parent in the Intralinks online due diligence data room for the

Contemplated Transactions by 11:59 p.m. on May 1, 2006 (California Time); and (iv) the mere inclusion of an item in the Company Disclosure Schedule shall not be deemed an admission by the Company that such item represents a material exception or fact, event or circumstance or that such item is reasonably likely to have a Company Material Adverse Effect):

2.1 Subsidiaries; Due Organization; Qualification to do Business.

(a) The Company has no Subsidiaries, except for the Entities identified in Exhibit 21.1 of the Company's Annual Report on Form 10-K for the fiscal year ended July 2, 2005 or in Part 2.1(a) of the Company Disclosure Schedule (the "Company Subsidiaries"). Except for marketable securities held in the Company's investment portfolio consistent with the Company's past practices of cash management, neither the Company nor any of the Company Subsidiaries owns any capital stock of, or any equity interest of any nature in, any other Entity, other than the Company Subsidiaries. Except as set forth in Part 2.1(a) of the Company Disclosure Schedule, neither the Company nor any of the Company Subsidiaries has agreed or is obligated to make, or is bound by any Contract under which it may become obligated to make, any future investment in or capital contribution to any other Entity.

(b) Each of the Company and the Company Subsidiaries is a corporation or other Entity duly organized, validly existing and, in jurisdictions that recognize the concept, in good standing under the laws of the jurisdiction of its incorporation and has all necessary power and authority to: (i) conduct its business in the manner in which its business is currently being conducted; (ii) own and use its assets in the manner in which its assets are currently owned and used; and (iii) perform its obligations under all Contracts by which it is bound.

(c) Each of the Company and the Company Subsidiaries is qualified to do business as a foreign corporation or other Entity, and is in good standing, under the laws of all jurisdictions where the nature of its business requires such qualification, except where the failure to be so qualified or in good standing could not reasonably be expected to have or result in a Company Material Adverse Effect.

2.2 Articles of Incorporation and Bylaws. The Company has delivered to Parent accurate and complete copies of the articles of incorporation and bylaws of the Company and the charter and other organizational documents of each of the other Acquired Corporations, including all amendments thereto, in each case except to the extent that such documents are filed as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended July 2, 2005. The Company has delivered to Parent accurate and complete copies of: (a) the charters of all committees of the Company's board of directors; and (b) any code of conduct, investment policy, whistleblower policy, disclosure committee policy or similar policy adopted by any of the Acquired Corporations or by the board of directors, or any committee of the board of directors, of any of the Acquired Corporations, except to the extent that such documents are filed as part of the Company's definitive proxy statement filed with the SEC on September 30, 2005.

2.3 Capitalization; Rights to Acquire Stock.

(a) The authorized capital stock of the Company consists of: (i) 40,000,000 shares of Company Common Stock, without par value, of which 15,708,938 shares have been issued and are outstanding as of the date preceding the date of this Agreement; and (ii) 1,000,000 shares of Preferred Stock, without par value, of which no shares are outstanding. No shares of Company Common Stock have been issued from the date preceding the date of this Agreement to the date of this Agreement, except pursuant to the exercise of Company Options in the ordinary course of business consistent with past practices. All of the outstanding shares of Company Common Stock have been duly authorized and validly issued, and are fully paid and nonassessable. None of the Acquired Corporations holds any shares of Company Common Stock or any rights to acquire shares of Company Common Stock. None of the outstanding shares of Company Common Stock is entitled or subject to any preemptive right, right of participation, right of maintenance or any similar right. None of the outstanding shares of Company Common Stock is subject to any right of first refusal in favor of any of the Acquired Corporations. Except as set forth in Part 2.3(a) of the Company Disclosure Schedule, there is no Company Contract relating to the voting or registration of, or restricting any Person from purchasing, selling, pledging or otherwise disposing of (or from granting any option or similar right with respect to), any shares of Company Common Stock. Except as set forth in Part 2.3(a) of the Company Disclosure Schedule, none of the Acquired Corporations is under any obligation, or is bound by any Contract pursuant to which it may become obligated, to repurchase, redeem or otherwise acquire any outstanding capital stock of the Company or other securities.

(b) As of the date of this Agreement, 2,214,272 shares of Company Common Stock were subject to issuance pursuant to Company Options granted and outstanding under the Company Option Plans, and 12,250 shares of Company Common Stock were subject to issuance pursuant to Company Stock Awards granted and outstanding under the Company Option Plans. As of the date of this Agreement: (A) there is no participant in the Company's Employee Stock Purchase Plan (the "Company ESPP") and there is no ongoing offering or purchase period; and (B) 973,984 shares of Company Common Stock are reserved for future issuance pursuant to stock options not yet granted under the Company Option Plans. Part 2.3(b) of the Company Disclosure Schedule sets forth the following information with respect to each Company Option outstanding as of the date of this Agreement: (1) the particular Company Option Plan (if any) pursuant to which such Company Option was granted; (2) the name of the optionee; (3) the number of shares of Company Common Stock subject to such Company Option; (4) the exercise price of such Company Option; (5) the date on which such Company Option was granted; (6) the applicable vesting schedule, and the extent to which such Company Option is vested and exercisable; (7) the date on which such Company Option expires; (8) whether such Company Option is an "incentive stock option" (as defined in the Code) or a non-qualified stock option; and (9) whether the vesting of such Company Option would be accelerated, in whole or in part, as a result of the Merger or any of the other Contemplated Transactions, alone or in combination with any termination of employment or other event. Part 2.3(b) of the Company Disclosure Schedule sets forth the following information with respect to each Company Stock Award outstanding as of the date of this Agreement: (1) the particular Company Option Plan (if any) pursuant to which such Company Stock Award was granted; (2)

the number of shares of Company Common Stock subject to such Company Stock Award; (3) the consideration, if any, to be paid upon the issuance of shares of Company Common Stock subject to such Company Stock Award; (4) the date on which such Company Stock Award was granted; (5) the applicable vesting schedule, and the extent to which such Company Stock Award is vested; (6) the date on which such Company Stock Award expires; and (7) whether the vesting of such Company Stock Award would be accelerated, in whole or in part, as a result of the Merger or any of the other Contemplated Transactions, alone or in combination with any termination of employment or other event. Each outstanding share of Company Common Stock that is or was subject to a repurchase right in favor of the Company is fully vested as of the date of this Agreement. The Company has delivered to Parent accurate and complete copies of: (v) each Company Option Plan; (w) each other stock option plan pursuant to which any of the Acquired Corporations has ever granted stock options to the extent that any options remain outstanding thereunder; (x) each stock option plan under which any Entity has granted stock options that were ever assumed by any of the Acquired Corporations to the extent that any options remain outstanding thereunder; (y) the forms of all stock option agreements evidencing options to purchase stock of any of the Acquired Corporations; and (z) the form of all stock award agreements evidencing awards to purchase stock of any of the Acquired Corporations. All Company Options and Company Stock Awards are evidenced by stock option agreements or stock award agreements, as applicable, in each case substantially identical to the forms delivered to Parent, and no stock option agreement or stock award agreement contains terms that are inconsistent with, or in addition to, the terms contained in such forms.

(c) Each Company Option intended to qualify as an "incentive stock option" under the Code so qualifies and the exercise price of each such Company Option is no less than the fair market value of a share of Company Common Stock as determined on the date of grant of such Company Option. As of and after the date of this Agreement, there are (and will be) no payroll deductions under, or shares issued pursuant to, the Company ESPP. Each Company Option and each Company Stock Award may be treated in accordance with Section 5.3 without the consent of the holder of such Company Option or Company Stock Award. No holder of any Company Option or any Company Stock Award is entitled to any treatment of such Company Option or Company Stock Award, as applicable, other than as provided in Section 5.3.

(d) Except as set forth in Part 2.3(b) of the Company Disclosure Schedule, there is no: (i) outstanding subscription, option, call, warrant or right (whether or not currently exercisable) to acquire any shares of the capital stock or other securities of any of the Acquired Corporations; (ii) outstanding security, instrument or obligation that is or may become convertible into or exchangeable for any shares of the capital stock or other securities of any of the Acquired Corporations; (iii) shareholder rights plan (or similar plan commonly referred to as a "poison pill") or Contract under which any of the Acquired Corporations is or may become obligated to sell or otherwise issue any shares of its capital stock or any other securities; or (iv) condition or circumstance that could reasonably be expected to give rise to or provide a basis for the assertion of a claim by any Person to the effect that such Person is entitled to acquire or receive any shares of the capital stock or other securities of any of the Acquired Corporations.

(e) All outstanding shares of Company Common Stock, all outstanding Company Options, all outstanding Company Stock Awards and all outstanding shares of the capital stock and other securities of the Acquired Corporations have been issued and granted in compliance with: (i) all applicable securities laws and other applicable Legal Requirements; and (ii) all requirements set forth in applicable Contracts.

(f) All of the outstanding shares of the capital stock or other equity interests of each of the Company Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and free of preemptive rights, with no personal liability attaching to the ownership thereof, and are owned beneficially and of record by the Company or by a Company Subsidiary, free and clear of any Encumbrances. There are no bonds, debentures, notes or other indebtedness of the Company issued and outstanding having the right to vote (or convertible or exercisable or exchangeable for securities having the right to vote) on any matters on which shareholders of the Company may vote.

2.4 SEC Filings; Financial Statements.

(a) The Company has delivered (or made available via the SEC EDGAR database) to Parent accurate and complete copies of all registration statements, proxy statements and other statements, reports, schedules, forms and other documents, and all Company Certifications (as defined below in this Section), filed or furnished by the Company with or to the SEC since July 2, 2005, including all amendments thereto (collectively, the "Company SEC Documents"). Except as set forth in Part 2.4(a) of the Company Disclosure Schedule, all statements, reports, schedules, forms and other documents required to have been filed or furnished by the Company or its officers with or to the SEC have been so filed or furnished on a timely basis. None of the Company Subsidiaries is required to file or furnish any documents with or to the SEC. As of the time it was filed with or furnished to the SEC (or, if amended or superseded by a filing prior to the date of this Agreement, then on the date of such filing): (i) each of the Company SEC Documents complied in all material respects with the applicable requirements of the Securities Act or the Exchange Act (as the case may be); and (ii) none of the Company SEC Documents contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Each of the certifications and statements relating to the Company SEC Documents required by: (A) the SEC's Order dated June 27, 2002 pursuant to Section 21(a)(1) of the Exchange Act (File No. 4-460); (B) Rule 13a-14 or 15d-14 under the Exchange Act; or (C) 18 U.S.C. §1350 (Section 906 of the Sarbanes-Oxley Act) (collectively, the "Company Certifications") is accurate and complete, and complied as to form and content with all applicable Legal Requirements.

(b) The Acquired Corporations maintain disclosure controls and procedures required by Rule 13a-15 or 15d-15 under the Exchange Act. Such disclosure controls and procedures are designed to ensure that all material information concerning the Acquired Corporations required to be disclosed by the Company in the reports that it is required to file, submit or furnish under the Exchange Act is recorded, processed, summarized and reported on a timely basis to the individuals responsible for the preparation of the Company's

filings with the SEC and other public disclosure documents. The Company has delivered to Parent accurate and complete copies of all written descriptions of, and all policies, manuals and other documents promulgating, such disclosure controls and procedures. The Company is, and has at all times been, in compliance with the applicable listing and other rules and regulations of the NASDAQ National Market and has not received any notice from the NASDAQ National Market asserting any non-compliance with any of such rules and regulations.

(c) Except as set forth in Part 2.4(c) of the Company Disclosure Schedule, the consolidated financial statements (including any related notes) contained or incorporated by reference in the Company SEC Documents, and the unaudited consolidated financial statements as of April 1, 2006 attached to Part 2.4(c) of the Company Disclosure Schedule: (i) complied as to form in all material respects with the published rules and regulations of the SEC applicable thereto, except to the extent subsequently modified or restated in any Company SEC Documents filed or furnished prior to the date of this Agreement; (ii) were prepared in accordance with GAAP applied on a consistent basis throughout the periods covered (except as may be indicated in the notes to such financial statements or, in the case of unaudited financial statements, as permitted by Form 10-Q of the SEC, and except that the unaudited financial statements may not contain footnotes and are subject to normal and recurring adjustments that will not, individually or in the aggregate, be material in amount); and (iii) fairly present, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of the respective dates thereof and the consolidated results of operations and cash flows of the Company and its consolidated subsidiaries for the periods covered thereby. No financial statements of any Person other than the Acquired Corporations are required by GAAP to be included in the consolidated financial statements of the Company.

(d) To the Knowledge of the Company, the Company's auditor has at all times since the date of enactment of the Sarbanes-Oxley Act been: (i) a registered public accounting firm (as defined in Section 2(a)(12) of the Sarbanes-Oxley Act); (ii) "independent" with respect to the Company within the meaning of Regulation S-X under the Exchange Act; and (iii) in compliance with subsections (g) through (l) of Section 10A of the Exchange Act and the rules and regulations promulgated by the SEC and the Public Company Accounting Oversight Board thereunder. All non-audit services (as defined in Section 2(a)(8) of the Sarbanes-Oxley Act) performed by the Company's auditors for the Acquired Corporations were approved as required by Section 202 of the Sarbanes-Oxley Act.

(e) The Acquired Corporations maintain a system of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Without limiting the generality of the foregoing, except as set forth in Part 2.4(e) of the Company Disclosure Schedule, there are no significant deficiencies or material weaknesses in the design or operation of the Acquired Corporations' internal controls over financial reporting that could reasonably be expected to adversely affect the ability of the

Acquired Corporations to record, process, summarize and report financial information. The Company has delivered to Parent accurate and complete copies of, all written descriptions of, and all policies, manuals and other documents promulgating, such internal accounting controls.

(f) Part 2.4(f) of the Company Disclosure Schedule lists, and the Company has delivered to Parent accurate and complete copies of the documentation creating or governing, all securitization transactions and "off-balance sheet arrangements" (as defined in Item 303(a)(4)(ii) of Regulation S-K under the Exchange Act) currently in effect or effected by any of the Acquired Corporations since January 1, 2002.

2.5 Absence of Changes. Between January 1, 2006 and the date of this Agreement, except as set forth in Part 2.5 of the Company Disclosure Schedule:

(a) there has not been any Company Material Adverse Effect, and no event has occurred or circumstance has arisen that, in combination with any other events or circumstances, could reasonably be expected to have or result in a Company Material Adverse Effect;

(b) there has not been any material loss, damage or destruction to, or any material interruption in the use of, any of the material assets of any of the Acquired Corporations (whether or not covered by insurance);

(c) none of the Acquired Corporations has: (i) except as set forth in Part 2.5(c) of the Company Disclosure Schedule, declared, accrued, set aside or paid any dividend or made any other distribution in respect of any capital stock or other securities, other than intercompany dividends and distributions in the ordinary course of business consistent with past practices; or (ii) repurchased, redeemed or otherwise reacquired any capital stock or other securities;

(d) none of the Acquired Corporations has sold, issued or granted, or authorized the issuance of: (i) any capital stock or other security (except for shares of Company Common Stock issued upon the valid exercise of outstanding Company Options); (ii) any option, warrant or right to acquire any capital stock or any other security (except for Company Options identified in Part 2.3(b) of the Company Disclosure Schedule); or (iii) any instrument convertible into or exchangeable for any capital stock or other security;

(e) the Company has not amended or waived any of its rights or obligations under, or permitted the acceleration of vesting under: (i) any provision of any of the Company Option Plans; (ii) any provision of any Contract evidencing any outstanding Company Option or Company Stock Award; (iii) any restricted stock agreement; or (iv) any other Contract evidencing or relating to any equity award (whether payable in cash or stock);

(f) none of the Acquired Corporations has effected or been a party to any merger, consolidation, share exchange, business combination, recapitalization,

reclassification of shares, stock split, reverse stock split, issuance of bonus shares or similar transaction;

(g) none of the Acquired Corporations has made any capital expenditure which, when added to all other capital expenditures made on behalf of the Acquired Corporations between January 1, 2006 and the date of this Agreement, exceeds $6,500,000 in the aggregate;

(h) none of the Acquired Corporations has written off as uncollectible, or established any extraordinary reserve with respect to, any account receivable or other indebtedness, other than in amounts consistent with the Company's historical practices generally;

(i) none of the Acquired Corporations has: (i) lent money to any Person (other than routine travel advances made to employees in the ordinary course of business); or (ii) incurred or guaranteed any indebtedness for borrowed money except to secure bonds or letters of credit to support customer deposits in the ordinary course of business consistent with past practices;

(j) none of the Acquired Corporations has materially increased the amount of the wages, salary, commissions, fringe benefits or other compensation or remuneration payable to any of its directors or officers or generally to other employees;

(k) none of the Acquired Corporations has changed any of its methods of accounting or accounting practices in any material respect, except as required by concurrent changes in GAAP or SEC rules and regulations;

(l) none of the Acquired Corporations has made any material Tax election or asked for or received any ruling in respect of any Tax, or entered into any Contract with any Governmental Body with respect to any Tax;

(m) none of the Acquired Corporations has entered into any material transaction or taken any other material action outside the ordinary course of business or inconsistent with past practices; and

(n) none of the Acquired Corporations has agreed or committed to take any of the actions referred to in clauses "(c)" through "(m)" above.

2.6 Title to Assets. The Acquired Corporations own, and have good and valid title to, all material assets purported to be owned by them, including: (a) all assets reflected on the Unaudited Interim Balance Sheet (except for assets sold or otherwise disposed of in the ordinary course of business since the date of the Unaudited Interim Balance Sheet); and (b) all other assets reflected in the books and records of the Acquired Corporations as being owned by the Acquired Corporations. All of said assets are owned by the Acquired Corporations free and clear of any Encumbrances, except for: (i) any lien for current taxes not yet due and payable; (ii) minor liens or other Encumbrances that have arisen in the ordinary course of business and that do not (in any case or in the aggregate) materially detract from the value of the assets subject

thereto or materially impair the operations of any of the Acquired Corporations; and (iii) liens or other Encumbrances described in Part 2.6 of the Company Disclosure Schedule. The Acquired Corporations are the lessees of, and hold valid leasehold interests in, all material assets purported to have been leased by them, including: (A) all assets reflected as leased on the Unaudited Interim Balance Sheet; and (B) all other assets reflected in the books and records of the Acquired Corporations as being leased to the Acquired Corporations. The Acquired Corporations enjoy undisturbed possession of such leased assets.

2.7 Real Property; Equipment; Real Property Leases.

(a) Part 2.7(a) of the Company Disclosure Schedule identifies all parcels of real property and all buildings and similar structures owned by the respective Acquired Corporations (the real property and all buildings and structures described in Part 2.7(a) of the Disclosure Schedule are referred to as the "Owned Real Property.") The Acquired Corporations have good, marketable and indefeasible fee title to the Owned Real Property. The Acquired Corporations own the Owned Real Property free and clear of any Encumbrances, except for: (i) any lien for current taxes not yet due and payable; (ii) minor liens or other Encumbrances that have arisen in the ordinary course of business and that do not (in any case or in the aggregate) materially detract from the value of the Owned Real Property or materially impair the operations of any of the Acquired Corporations; and (iii) the Encumbrances identified in Part 2.7(a) of the Company Disclosure Schedule. All water, sewer, gas, electricity, telephone and other utilities and utility services required by applicable Legal Requirements to be provided with respect to the Owned Real Property, and all such utilities and utility services necessary for the conduct of the businesses of the Acquired Corporations at or upon the Owned Real Property, are being supplied to the Owned Real Property and are presently installed and operating properly in all material respects.

(b) Part 2.7(b) of the Disclosure Schedule identifies each real property lease (collectively, the "Leases") pursuant to which any of the Acquired Corporations leases real property from any other Person. (All real property leased to the Acquired Corporations, including all buildings, structures, fixtures and other improvements leased to the Acquired Corporations, are referred to as the "Leased Real Property." and, together with the Owned Real Property, as the "Company Real Property.") The present use and operation of the Company Real Property are authorized by, and are in full compliance with, all applicable zoning, land use, building, fire, health, labor, safety and Environmental Laws (as defined in Section 2.16(f)) and other Legal Requirements. There is no Legal Proceeding pending or, to the Knowledge of the Company, threatened, that challenges or adversely affects, or would challenge or adversely affect, the continuation of the present ownership, use or operation of any Company Real Property. To the Knowledge of the Company, there is no existing plan or study by any Governmental Body or by any other Person that challenges or otherwise adversely affects the continuation of the present ownership, use or operation of any Company Real Property. Except as set forth in Part 2.7(b) of the Company Disclosure Schedule, there are no subleases, licenses, occupancy agreements or other contractual obligations that grant the right of use or occupancy of any of the Company Real Property to any Person other than the Acquired Corporations, and there is no Person in possession of any of the Company Real Property other than the Acquired Corporations.

(c) All material items of equipment and other tangible assets owned by or leased to the Acquired Corporations are adequate for the uses to which they are being put, are in good and safe condition and repair (ordinary wear and tear excepted) and, with due regard to the age thereof, are adequate for the conduct of the businesses of the Acquired Corporations in the manner in which such businesses are currently being conducted.

2.8 Intellectual Property.

(a) Part 2.8(a) of the Company Disclosure Schedule accurately identifies:

(i) in Part 2.8(a)(i) of the Company Disclosure Schedule: (A) each domain name or item of Registered IP in which any of the Acquired Corporations has or purports to have an ownership interest of any nature (whether exclusively, jointly with another Person or otherwise); (B) the jurisdiction in which such item of Registered IP has been registered or filed and the applicable registration or serial number; and (C) any other Person that has an ownership interest in such domain name or item of Registered IP and the nature of such ownership interest; and

(ii) in Part 2.8(a)(ii) of the Company Disclosure Schedule: (A) each Contract pursuant to which any Intellectual Property Rights or Intellectual Property is licensed to any Acquired Corporation (other than software license agreements for any third-party non-customized software that is generally available to the public, for the scope of use currently exercised by such Acquired Corporation, at a cost of less than $25,000); and (B) whether these licenses are exclusive or nonexclusive (for purposes of this Agreement, a covenant not to sue or not to assert infringement claims shall be deemed to be equivalent to a license).

(b) The Company has delivered to Parent an accurate and complete copy of each standard form of the following documents and Contracts used by any Acquired Corporation at any time since January 1, 2002: (i) terms and conditions pursuant to which any customer or other Person acquires, uses, licenses or otherwise receives the benefit of any Company Product; (ii) employee agreement or similar Contract containing any assignment or license of Intellectual Property or Intellectual Property Rights or any confidentiality provision; (iii) consulting or independent contractor agreement or similar Contract containing any assignment or license of Intellectual Property or Intellectual Property Rights or any confidentiality provision; or (iv) confidentiality or nondisclosure agreement or similar Contract.

(c) Except as set forth in Part 2.8(c) of the Company Disclosure Schedule, the Acquired Corporations exclusively own all right, title and interest to and in the Company IP (other than Intellectual Property Rights or Intellectual Property licensed to the Company, as identified in Part 2.8(a)(ii) of the Company Disclosure Schedule or pursuant to license agreements for non-customized third-party software that is generally available to the public, for the scope of use currently exercised by such Acquired Corporation, at a cost of less than $25,000) free and clear of any Encumbrances (other than non-exclusive licenses granted by any Acquired Corporation in connection with the sale or license of Company Products in the

ordinary course of business). Without limiting the generality of the foregoing, except as set forth in Part 2.8(c) of the Company Disclosure Schedule:

(i) all documents and instruments necessary to perfect the rights of the Acquired Corporations in the Company IP that is Registered IP have been validly executed, delivered and filed in a timely manner with the appropriate Governmental Body;

(ii) each Company Associate who is or was involved in the creation or development of any Company IP, Company Product or Company Product Software has signed a valid and enforceable agreement containing: (A) an irrevocable assignment of Intellectual Property Rights to, and a waiver of moral rights and other non-assignable Intellectual Property Rights in favor of, the appropriate Acquired Corporation; and (B) confidentiality provisions protecting the Company IP;

(iii) no Company Associate has any claim, right (whether or not currently exercisable) or interest to or in any Company IP, including any claims under Germany's Act of Employee's Inventions or any similar Legal Requirement;

(iv) no funding, facilities or personnel of any Governmental Body or any university, college, research institute or other educational institution have been or are being, or are expected to be, used, directly or indirectly, to develop or create, in whole or in part, any Company IP, Company Product or Company Product Software, and no Company Associate who was involved in, or who contributed to, the creation or development of any Company IP performed services for any Governmental Body, university, college, research institute or other educational institution during a period of time during which such Company Associate was also performing services for any Acquired Corporation, except in each case for such funding, facilities, personnel or other involvements that have not resulted, and are not reasonably likely to result, in any material interference with or restriction on the Company's ability to use any of the Company IP or in any material right, claim or interest in any of the Company IP on the part of any Governmental Body or any other Person;

(v) each Acquired Corporation has taken reasonable steps to maintain the confidentiality of and otherwise protect and enforce its rights in all material proprietary information held (or purported to be held) by any of the Acquired Corporations as a trade secret, including: (A) obtaining an appropriate binding non-disclosure agreement prior to disclosing to any third party (or permitting any third party to access) any trade secrets of any Acquired Corporation; and (B) imposing restrictions on unauthorized copying, unauthorized sale or transfer, recompilation, disassembly or reverse-engineering and other industry-standard restrictions on use prior to providing a third party with access to Company IP;

(vi) none of the Acquired Corporations is now or has ever been a member or promoter of, or a contributor to, any industry standards body or any similar organization that could reasonably be expected to require or obligate any of the Acquired

Corporations to grant or offer to any other Person any license or right to any Company IP; and

(vii) the Acquired Corporations own or otherwise have, and after the Closing the Surviving Corporation will continue to have, all Intellectual Property Rights needed to conduct the business of the Acquired Corporations as currently conducted and currently planned by the Company to be conducted without any additional expenditures or payments for such Intellectual Property Rights.

(d) All Company IP that is Registered IP (other than pending applications) is, to the Knowledge of the Company, valid, subsisting and enforceable. Without limiting the generality of the foregoing, to the Knowledge of the Company and except as disclosed in Part 2.8(d) of the Company Disclosure Schedule:

(i) all filings, payments and other actions required to be made or taken to maintain each item of Company IP that is Registered IP in full force and effect have been properly made and taken;

(ii) no application for a patent or for a copyright or trademark registration or any other type of Registered IP, in each case that is material to the business of any of the Acquired Corporations as currently conducted and currently planned by the Company to be conducted, and that has been filed by or on behalf of, or assigned to, any of the Acquired Corporations has been abandoned, allowed to lapse or rejected;

(iii) no interference, opposition, reissue, reexamination, cancellation or other Legal Proceeding of any nature is or has been pending or, to the Knowledge of the Company, threatened, in which the scope, validity or enforceability of any Company IP that is Registered IP is being, has been or could reasonably be expected to be contested or challenged; and

(iv) to the Knowledge of the Company, there is no basis for a non-frivolous claim that could reasonably be expected to result in a ruling, judgment or determination by any Governmental Body that any Company IP that is Registered IP that is material to the business of any of the Acquired Corporations as currently conducted and currently planned by the Company to be conducted is invalid or unenforceable.

(e) To the Knowledge of the Company, neither the execution, delivery or performance of this Agreement nor the consummation of any of the Contemplated Transactions will, or could reasonably be expected to, with or without notice or the lapse of time, result in or give any other Person the right or option to cause, create, impose or declare: (i) a loss of, or Encumbrance on, any Company IP; (ii) the release, disclosure, or delivery of any Company IP by or to any escrow agent or other Person; or (iii) the grant, assignment or transfer to any other Person of, or the right of any Person to exercise, any license or other right or interest under, to or in any of the Company IP.

(f) To the Knowledge of the Company, except as set forth in Part 2.8(f) of the Company Disclosure Schedule, since January 1, 2003, no Person has infringed, misappropriated or otherwise violated, and no Person is infringing, misappropriating or otherwise violating, any Company IP.

(g) To the Knowledge of the Company, except as set forth in Part 2.8(g) of the Company Disclosure Schedule, none of the Acquired Corporations and none of the Company IP, Company Products or Company Product Software has ever infringed (directly, contributorily, by inducement or otherwise), misappropriated or otherwise violated any Intellectual Property Right of any other Person. Without limiting the generality of the foregoing, to the Knowledge of the Company: (i) no Company Product, and no method or process used in the development, manufacturing or servicing of any Company Product, infringes, violates or makes unlawful use of any Intellectual Property Right of, or contains any Intellectual Property misappropriated from, any other Person; (ii) there is no legitimate basis for a claim that: (A) any Acquired Corporation or any Company Product has infringed or misappropriated any Intellectual Property Right of another Person or engaged in unfair competition; or (B) any Company Product (or any method or process used in the development, manufacturing, or servicing of any Company Product) infringes, violates or makes unlawful use of any Intellectual Property Right of, or contains any Intellectual Property misappropriated from, any other Person.

(h) The Company is not bound by any obligation to indemnify, defend, hold harmless or reimburse any other Person with respect to, and otherwise has not assumed or agreed to discharge or otherwise take responsibility for, any existing or potential infringement or misappropriation of any Intellectual Property Rights, except for those express obligations undertaken by the Company in the ordinary course of business and consistent with past practices to indemnify its customers for any infringement of Intellectual Property Rights by the Company Products.

(i) No infringement, misappropriation or similar claim or Legal Proceeding is or has been pending or, to the Knowledge of the Company, threatened in writing against any Acquired Corporation or against any other Person who is, or has asserted or could reasonably be expected to assert that it is, entitled to be indemnified, defended, held harmless or reimbursed by any Acquired Corporation with respect to such claim or Legal Proceeding (including any claim or Legal Proceeding that has been settled, dismissed or otherwise concluded).

(j) Since January 1, 2002, none of the Acquired Corporations has received any written notice or other written communication relating to any actual, alleged or suspected infringement, misappropriation or violation of any Intellectual Property Right of another Person by any of the Acquired Corporations, the Company Products or the Company Product Software.

(k) To the Knowledge of the Company, no claim or Legal Proceeding involving any Intellectual Property or Intellectual Property Right licensed to an Acquired Corporation is pending or has been threatened, except for any such claim or Legal Proceeding that, if adversely determined, would not adversely affect: (i) the use or exploitation of such

Intellectual Property or Intellectual Property Right by such Acquired Corporation; or (ii) the design, development, manufacturing, marketing, distribution, provision, licensing, or sale of any Company Product.

(l) To the Knowledge of the Company, none of the Company Product Software contains any bug, defect or error (including any bug, defect or error relating to or resulting from the display, manipulation, processing, storage, transmission or use of data) that materially and adversely affects the use, functionality or performance of such Company Product Software or any Company Product using, containing or including such Company Product Software.

(m) None of the Company Product Software is subject to any "copyleft" or other obligation or condition (including any obligation or condition under any "open source" license such as the GNU Public License, Lesser GNU Public License or Mozilla Public License) that: (i) requires or could reasonably be expected to require, or conditions or could reasonably be expected to condition, the use, distribution or availability of such Company Product Software on, the disclosure, licensing or distribution of any Company Source Code for any portion of such Company Product Software; or (ii) otherwise imposes or could reasonably be expected to impose any material limitation, restriction or condition on the right or ability of the Company to use, distribute or make available any Company Product Software.

(n) To the Knowledge of the Company, except as set forth in Part 2.8(n) of the Company Disclosure Schedule, no Company Source Code has been delivered, licensed or made available to any escrow agent or other Person (other than employees of the Acquired Corporations), and none of the Acquired Corporations has any duty or obligation (whether present, contingent or otherwise) to deliver, license or make available any Company Source Code to any escrow agent or other Person.

2.9 Contracts.

(a) Part 2.9 of the Company Disclosure Schedule identifies each Company Contract that constitutes a Significant Contract, disclosed in subsections corresponding to the list set forth below. For purposes of this Agreement, each of the following shall be deemed to constitute a "Significant Contract":

(i) any Contract constituting a Company Employee Agreement providing for annual compensation to any individual in excess of $200,000, other than Contracts with German employees substantially in the form of the Company's standard Contract for such employees attached to Part 2.9(a) of the Company Disclosure Schedule;

(ii) any Contract: (A) with any works council, labor union or similar organization or body; (B) pursuant to which any of the Acquired Corporations is or may become obligated to make any severance, termination or similar payment to any Company Associate or any spouse, heir or Representative of any Company Associate; (C) pursuant to which any of the Acquired Corporations is or may become obligated to make any bonus or similar payment (other than payments constituting base salary or commissions paid in the ordinary course of business) in excess of $25,000 to any

Company Associate; or (D) pursuant to which any of the Acquired Corporations is or may become obligated to accelerate the vesting of, or otherwise modify, any stock option, restricted stock, stock appreciation right or other equity interest in any of the Acquired Corporations;

(iii) any Contract identified or required to be identified in Part 2.8 of the Company Disclosure Schedule;

(iv) any Contract relating to the acquisition, transfer, use, development, sharing or license of any technology or any Intellectual Property or Intellectual Property Right, other than: (A) Contracts pursuant to which the Company obtains a license from a third party only to general-purpose, non-customized business application software that is not incorporated into any Company Product and is generally available to the public pursuant to a shrink-wrap, click-wrap or other similar mass-market license agreement; (B) standard forms of the type described in Section 2.8(b); and (C) Contracts entered into in the ordinary course of business with customers for the sale of Company Products;

(v) any Contract creating or relating to any partnership or joint venture or requiring any Acquired Corporation to share any revenues with any other Person (it being understood that "sharing of revenues" as contemplated by this clause "(v)" is not intended to include employee bonuses that are determined in part by the revenues of the Acquired Corporations);

(vi) any Contract that provides for: (A) reimbursement of any Company Associate for, or advancement to any Company Associate of, legal fees or other expenses associated with any Legal Proceeding or the defense thereof; or (B) indemnification of any Company Associate;

(vii) any Contract imposing any restriction on the right or ability of any Acquired Corporation: (A) to compete with any other Person; (B) to acquire any product or other asset or any services from any other Person; (C) to solicit, hire or retain any Person as a director, an officer or other employee, or as a consultant or an independent contractor; (D) to develop, sell, supply, distribute, offer, support or service any product or any technology or other asset to or for any other Person; (E) to perform services for any other Person; or (F) to transact business or deal in any other manner with any other Person;

(viii) any Contract pursuant to which any Acquired Corporation grants or receives marketing, distribution, system integration, OEM or any other similar rights for any product or service;

(ix) any Contract creating a joint development, cooperative development, collaborative research or other similar arrangement with any Person;

(x) any Contract (other than Contracts evidencing Company Options or Company Stock Awards): (A) relating to the acquisition, issuance, voting,

registration, sale or transfer of any securities; (B) providing any Person with any preemptive right, right of participation, right of maintenance or similar right with respect to any securities; or (C) providing any of the Acquired Corporations with any right of first refusal with respect to, or right to repurchase or redeem, any securities;

(xi) any Contract incorporating or relating to any guaranty, any warranty (other than warranties included in service contracts from suppliers which require annual payments of $25,000 or less and other than warranties in Contracts for the sale of Company Products), any sharing of liabilities or any indemnity (including any indemnity with respect to Intellectual Property or Intellectual Property Rights) or similar obligation, other than Contracts that do not deviate in any material respect from the standard forms referred to in Section 2.8(b);

(xii) any Contract with a Person that supplies products or services (excluding Intellectual Property) to any Acquired Corporation where such products or services are not, as of the date of this Agreement, commercially available from another Person;

(xiii) any Contract relating to the lease or sublease by any of the Acquired Corporations of any real property involving rents of more than $25,000 per year;

(xiv) any Contract (including Contracts relating to the sale, lease, license, installation, evaluation, testing, maintenance, repair or support of any Company Product) that contemplates or involves the future payment or delivery of cash or other consideration (to or by any Acquired Corporation) in an amount or having a value in excess of $500,000 in the aggregate under such Contract (other than Contracts to purchase components for any Company Product if there is a Contract from a customer to purchase such Company Product), or contemplates or involves the performance of services (to or by any Acquired Corporation) having a value in excess of $500,000 in the aggregate under such Contract;

(xv) any Contract that has a term of more than one year and that may not be terminated by an Acquired Corporation (without penalty in excess of $25,000) within 60 days after the delivery of a termination notice by such Acquired Corporation (other than: (A) confidentiality or nondisclosure agreements entered into by any Acquired Corporation in the ordinary course of business consistent with past practices; (B) Contracts to sell Company Products entered into in the ordinary course of business consistent with past practices; (C) Contracts to purchase components for any Company Product if there is a Contract from a customer to purchase such Company Product; and (D) Contracts for the sale by the Company of spare parts in the ordinary course of business consistent with past practices);

(xvi) any Contract relating to the acquisition, development, sale or disposition of any business unit or product line of any of the Acquired Corporations or of any Company IP;

(xvii) any Contract relating to the acquisition of a material portion of the assets of, or a material equity or other interest in, any other Entity or any business conducted by any other Entity; and

(xviii) any Contract: (A) requiring that any of the Acquired Corporations give any notice or provide any information to any Person prior to considering or accepting any Acquisition Proposal or similar proposal, or prior to entering into any discussions, agreement, arrangement or understanding relating to any Acquisition Transaction or similar transaction; or (B) that could reasonably be expected to have a material effect on the ability of the Company to perform any of its obligations under this Agreement, or to consummate any of the Contemplated Transactions.

The Company has delivered to Parent an accurate and complete copy of each Company Contract that constitutes a Significant Contract.

(b) Each Company Contract that constitutes a Significant Contract is valid and in full force and effect, and is enforceable in accordance with its terms, subject to: (i) laws of general application relating to bankruptcy, insolvency and the relief of debtors; and (ii) rules of law governing specific performance, injunctive relief and other equitable remedies.

(c) Except as set forth in Part 2.9(c) of the Company Disclosure Schedule: (i) to the Knowledge of the Company, none of the Acquired Corporations has violated or breached in any material respect, or committed any default in any material respect under, any Company Contract; (ii) to the Knowledge of the Company, no other Person has violated or breached in any material respect, or committed any default in any material respect under, any Company Contract; (iii) to the Knowledge of the Company, no event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time) could reasonably be expected to: (A) result in a violation or breach in any material respect of any of the provisions of any Company Contract; (B) give any Person the right to declare a default in any material respect under any Company Contract; (C) give any Person the right to receive or require a rebate, chargeback, penalty or change in delivery schedule under any Company Contract; (D) give any Person the right to accelerate the maturity or performance of any Company Contract that constitutes a Significant Contract; or (E) give any Person the right to cancel, terminate or modify any Company Contract that constitutes a Significant Contract; and (iv) since January 1, 2003, none of the Acquired Corporations has received any notice or other communication regarding any actual or possible violation or breach of, or default under, any Company Contract that constitutes a Significant Contract.

2.10 Customers; Company Products; Services

(a) Part 2.10(a) of the Company Disclosure Schedule accurately identifies the ten largest customers of the Acquired Corporations by consolidated revenues for the fiscal year ended July 2, 2005 and for the nine months ended April 1, 2006, and specifies the revenues received from each such customer for the fiscal year ended July 2, 2005 and for the nine months ended April 1, 2006. The Company has not received any written notice or other written communication (and no employee of any of the Acquired Corporations at the level of first line manager or above has received any oral notice or other communication) indicating that

any customer or other Person identified or required to be identified in Part 2.10(a) of the Company Disclosure Schedule intends to cease dealing, or materially reduce its business, with any of the Acquired Corporations.

(b) Except as set forth in Part 2.10(b) of the Company Disclosure Schedule or as readily ascertainable by reference to the express terms of a Significant Contract, no Acquired Corporation is obligated to, and no Acquired Corporation has indicated that it would: (i) provide any recipient of any Company Product or prototype (or any other Person) with any upgrade, improvement or enhancement of a Company Product or prototype; or (ii) design or develop a new product, or a customized, improved or new version of a Company Product, for any other Person.

(c) Except as set forth in Part 2.10(c) of the Company Disclosure Schedule and except for any obligations fully reserved for on the Unaudited Interim Balance Sheet, each Company Product sold, leased, licensed, delivered, installed, provided or otherwise made available by any Acquired Corporation or accepted by any customer of any of the Acquired Corporations since January 1, 2002: (i) conformed and complied in all material respects with the terms and requirements of any applicable warranty or other Contract and with all applicable Legal Requirements, other than any non-conformity or non-compliance that has been cured prior to the date of this Agreement or that has not had and could not reasonably be expected to result in a material liability to any Acquired Corporation; and (ii) was free of any design defect, manufacturing or construction defect or other defect or deficiency at the time it was sold, leased, licensed, delivered, installed, provided or otherwise made available, other than any defect that has been cured prior to the date of this Agreement or that has not had and could not reasonably be expected to result in a material liability to any Acquired Corporation. No Company Product has ever been the subject of any recall or other similar action of any Governmental Body.

(d) All installation services, repair services, maintenance services, support services and other services that have been performed by any of the Acquired Corporations since January 1, 2002 were performed properly and in conformity with the terms and requirements of all applicable warranties and other Contracts and with all applicable Legal Requirements, other than any non-conformity that has been cured prior to the date of this Agreement, has been fully reserved for in the Unaudited Interim Balance Sheet or has not had or could not reasonably be expected to result in a material liability to any Acquired Corporation.

(e) Except as set forth in Part 2.10(e) of the Company Disclosure Schedule, since January 1, 2005, no customer or other Person has asserted in writing or threatened in writing to assert any claim against any of the Acquired Corporations involving more than $50,000: (i) under or based upon any warranty provided by or on behalf of any of the Acquired Corporations; or (ii) based upon any services performed by any of the Acquired Corporations.

2.11 Liabilities. None of the Acquired Corporations has, and none of the Acquired Corporations is or may become responsible for performing or discharging, any material accrued, contingent or other liabilities of any nature, either matured or unmatured, except for: (a)

liabilities identified as such in the Unaudited Interim Balance Sheet; (b) liabilities that have been incurred by the Acquired Corporations since the date of the Unaudited Interim Balance Sheet in the ordinary course of business and consistent with past practices; (c) liabilities for performance of obligations of the Acquired Corporations pursuant to the express terms of Company Contracts; and (d) liabilities to pay legal, investment banking and other professional advisory fees incurred by the Acquired Corporations in connection with the Contemplated Transactions or other out-of-pocket expenses related to the Contemplated Transactions.

2.12 Compliance with Legal Requirements; Certain Business Practices.

(a) Except as set forth in Part 2.12(a) of the Company Disclosure Schedule, each of the Acquired Corporations is, and has at all times since January 1, 2004 been, in compliance in all material respects with all applicable Legal Requirements. Since January 1, 2004, none of the Acquired Corporations has received any written notice or other written communication (and no employee of any Acquired Corporation at a level of first line manager or above has received any oral notice or other communication) from any Governmental Body or other Person regarding any actual or possible violation of, or failure to comply with, any Legal Requirement.

(b) Since January 1, 2001, except as set forth in Part 2.12(b) of the Company Disclosure Schedule, no Acquired Corporation has ever exported or re-exported, directly or indirectly, any item to any destination in any countries set forth in Part 2.12(b) of the Company Disclosure Schedule.

(c) To the Knowledge of the Company, none of the Acquired Corporations, and no Representative of any of the Acquired Corporations with respect to any matter relating to any of the Acquired Corporations, has: (a) used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses relating to political activity; (b) made any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns or violated any provision of the Foreign Corrupt Practices Act of 1977, as amended; or (c) made any other unlawful payment.

2.13 Governmental Authorizations.

(a) The Acquired Corporations hold all material Governmental Authorizations necessary to enable the Acquired Corporations to conduct their respective businesses in the manner in which such businesses are currently being conducted. All such Governmental Authorizations are valid and in full force and effect. Each Acquired Corporation is, and at all times since January 1, 2004 has been, in compliance in all material respects with the terms and requirements of such Governmental Authorizations. Since January 1, 2004, none of the Acquired Corporations has received any notice or other communication from any Governmental Body regarding: (i) any actual or possible violation of or failure to comply with any term or requirement of any material Governmental Authorization; or (ii) any actual or possible revocation, withdrawal, suspension, cancellation, termination or modification of any material Governmental Authorization.

(b) Part 2.13(b) of the Company Disclosure Schedule provides a complete list of, and a description of the terms of, all pending and outstanding grants, incentives, qualifications and subsidies (collectively, "Grants") from the Government of the Republic of Germany or any agency thereof, or from any other Governmental Body, granted or made available to any of the Acquired Corporations involving an amount in excess of $50,000 in any individual case or $500,000 in the aggregate. The Acquired Corporations are in compliance in all material respects with all of the terms, conditions and requirements of their respective Grants and have duly fulfilled all the undertakings relating thereto. To the Knowledge of the Company, the applicable Governmental Body has no intention to revoke or materially modify any of the Grants. Neither the execution, delivery or performance of this Agreement, nor the consummation of the Merger or any of the other Contemplated Transactions, does, will or could reasonably be expected to (with or without notice or lapse of time) give any Person the right to revoke, withdraw, suspend, cancel, terminate or modify any Grant identified or required to be identified in Part 2.13(b) of the Company Disclosure Schedule.

2.14 Tax Matters.

(a) Each of the Tax Returns required to be filed by or on behalf of the respective Acquired Corporations with any Governmental Body on or before the Closing Date (the "Acquired Corporation Returns"): (i) has been or will be filed on or before the applicable due date (including any extensions of such due date); and (ii) has been, or will be when filed, prepared in all material respects in compliance with all applicable Legal Requirements. All amounts shown on the Acquired Corporation Returns to be due on or before the Closing Date have been or will be paid on or before the Closing Date.

(b) The Unaudited Interim Balance Sheet fully accrues all liabilities for Taxes with respect to all periods through the date of this Agreement in accordance with GAAP, except for liabilities for Taxes incurred since the date of the Unaudited Interim Balance Sheet in the operation of the business of the Acquired Corporations. The Company will establish, prior to the Closing Date, in the ordinary course of business and consistent with its past practices, reserves adequate for the payment of all Taxes for the period from the date of the Unaudited Interim Balance Sheet through the Closing Date. Part 2.14(b) of the Company Disclosure Schedule sets forth the gain, if any, recognized by the Company for U.S. federal income Tax purposes attributable to the acquisition, sale and lease back after July 2, 2005 of certain Company facilities located in the State of Colorado.

(c) Except as set forth in 2.14(c) of the Company Disclosure Schedule, no Acquired Corporation and no Acquired Corporation Return is currently subject to or has been subject since January 1, 2000 to any Tax examination or audit by any Governmental Body. No extension or waiver of the limitation period applicable to any of the Acquired Corporation Returns has been granted (by the Company or any other Person), and no such extension or waiver has been requested from any Acquired Corporation.

(d) No claim or Legal Proceeding is pending or, to the Knowledge of the Company, has been threatened against or with respect to any Acquired Corporation in respect of any material Tax. There are no unsatisfied liabilities for material Taxes with respect to any

notice of deficiency or similar document received by any Acquired Corporation with respect to any material Tax (other than liabilities for Taxes asserted under any such notice of deficiency or similar document which are being contested in good faith by the Acquired Corporations and with respect to which adequate reserves for payment have been established on the Unaudited Interim Balance Sheet). There are no liens or other Encumbrances for material Taxes upon any of the assets of any of the Acquired Corporations except liens for current Taxes not yet due and payable. None of the Acquired Corporations has been, and none of the Acquired Corporations will be, required to include any adjustment in taxable income for any tax period (or portion thereof) ending after the Closing Date pursuant to Section 481 or 263A of the Code (or any comparable provision of U.S. state or local or non-U.S. Tax Legal Requirements) as a result of transactions or events occurring, or accounting methods employed, prior to the Closing.

(e) No claim has ever been delivered by any Governmental Body to an Acquired Corporation in a jurisdiction where an Acquired Corporation does not file a Tax Return that it is or may be subject to taxation by that jurisdiction which has resulted or could reasonably be expected to result in an obligation to pay material Taxes.

(f) There are no Contracts relating to allocating or sharing of Taxes to which any Acquired Corporation is a party. None of the Acquired Corporations is liable for Taxes of any other Person pursuant to any Contract or any Legal Requirement (including pursuant to Treasury Regulation Section 1.1506-6 or any similar U.S. state or local or non-U.S. Legal Requirement), or is currently under any contractual obligation to indemnify any Person with respect to any amounts of such Person's Taxes (except for customary agreements to indemnify lenders or security holders in respect of Taxes) or is a party to any Contract providing for payments by an Acquired Corporation with respect to any amount of Taxes of any other Person.

(g) No Acquired Corporation has constituted either a "distributing corporation" or a "controlled corporation" within the meaning of Section 355(a)(1)(A) of the Code. No Acquired Corporation is or has been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code.

(h) No Acquired Corporation has been a member of an affiliated group of corporations within the meaning of Section 1504 of the Code or within the meaning of any similar Legal Requirement to which an Acquired Corporation may be subject, other than the affiliated group of which the Company is the common parent.

(i) The Company has delivered to Parent accurate and complete copies of all income Tax Returns of the Acquired Corporations for all Tax years that remain open or are otherwise subject to audit (or the reopening of an audit), and all other material Tax Returns of the Acquired Corporations filed since July 1, 2000.

(j) The Company has disclosed on its income Tax Returns all positions that could give rise to a material understatement penalty within the meaning of Section 6662 of the Code or any similar Legal Requirement.

(k) No Acquired Corporation has participated in, or is currently participating in, a "Listed Transaction" or a "Reportable Transaction" within the meaning of Treasury Regulation Section 1.6011-4(b)(2) or similar transaction under any corresponding or similar Legal Requirement.

(l) None of the tax attributes (including net operating loss carryforwards and general business tax credits) of the Acquired Corporations is limited by Section 382, 383 or 1502 of the Code (or any corresponding or similar U.S. state or local or non-U.S. Legal Requirement which, with Sections 382, 383 and 1502 of the Code, are collectively referred to as the "Section 382 and Related Provisions") for any period ending on or prior to the Closing Date. The Company had: (i) as of December 31, 2005, €28,168 of German corporation tax loss carryforwards, €17,227 of German trade tax loss carryforwards and BEF 1,019,551 of net operating loss carryforwards in Belgium, each of which has an indefinite life; (ii) RMB 1,399,539 of net operating loss carryforwards in the People's Republic of China as of July 2, 2005, which expire in 2009, JPY 124,016,253 of net operating loss carryforwards in Japan as of December 31, 2005, which have an indefinite life, and TWD 182,304,913 of net operating loss carryforwards in Taiwan as of December 31, 2005, which expire in June 2010; and (iii) the tax basis set forth in Part 2.14(l) of the Company Disclosure Schedule for U.S. federal income Tax purposes attributable to the assets (including stock of any subsidiaries) held by the Company or used by the Company as set forth in Part 2.14(l) of the Company Disclosure Schedule. Except for the Section 382 and Related Provisions, the consummation of the Merger will not result in the loss of any favorable Tax holiday, increase in any Tax rate applicable to the Surviving Corporation, or otherwise adversely affect the Surviving Corporation's Tax position after the Closing Date.

(m) Each of the Acquired Corporations has withheld from each payment or deemed payment made to Company Associates or to its past or present suppliers, creditors, shareholders or other third parties all material Taxes and other deductions required to be withheld and has, within the time and in the manner required by applicable Legal Requirements, paid such withheld amounts to the proper Governmental Bodies.

(n) The Acquired Corporations are in compliance with all material transfer pricing requirements in all jurisdictions in which the Acquired Corporations do business. None of the transactions between the Acquired Corporations and other related Persons (including the Acquired Corporations) is subject to adjustment, apportionment, allocation or recharacterization under Section 482 of the Code or any similar U.S. state or local or non-U.S. Legal Requirement, and all of such transactions have been effected on an arm's length basis. The Acquired Corporations have appropriate documentation of all transfer pricing methodologies.

2.15 Employee and Labor Matters; Benefit Plans.

(a) Except as set forth in Part 2.15(a) of the Company Disclosure Schedule, the employment of each of the Acquired Corporations' employees who perform services primarily within the United States is terminable by the applicable Acquired Corporation "at will."

(b) To the Knowledge of the Company, immediately prior to the execution of this Agreement, except as set forth in Part 2.15(b) of the Company Disclosure Schedule: (i) no officer or other employee at the level of first line manager or above intends to, or has communicated any intention to, terminate his or her employment with any of the Acquired Corporations; and (ii) no officer or other employee of any of the Acquired Corporations at the level of first line manager or above is a party to or is bound by any confidentiality agreement, non-competition agreement or other Contract (with any Person) that may have a material effect on the business or operations of any of the Acquired Corporations.

(c) Except as set forth in Part 2.15(c) of the Company Disclosure Schedule, as of the date of this Agreement, none of the Acquired Corporations is a party to, or has a duty to bargain for, any collective bargaining agreement or other Contract with a labor organization or works council representing any of its employees and there are no labor organizations or works councils representing, purporting to represent or, to the Knowledge of the Company, seeking to represent any employees of any of the Acquired Corporations. Without limiting the generality of the foregoing, except as set forth in Part 2.15(c) of the Company Disclosure Schedule, none of the German Employees (as defined in Section 2.15(q)) and none of the Acquired Corporations in Germany are subject to any collective bargaining agreement (*Tarifvertrag*), shop agreement (*Betriebsvereinbarungen*), company practice (*betriebliche Übungen*), collective promise (*Gesamtzusagen*) or other Contract with any labor union, works council or other body of employee representation, relating to the German Employees voluntarily or not, or by which the business of the Acquired Corporations is affected. Except as set forth in Part 2.15(c) of the Company Disclosure Schedule, since January 1, 2001, there has not been any strike, slowdown, work stoppage, lockout, job action, picketing, labor dispute, question concerning representation, union organizing activity, or any threat thereof, or any similar activity or dispute, affecting any of the Acquired Corporations or any of their employees. Except as set forth in Part 2.15(c) of the Company Disclosure Schedule, there is not now pending, and, to the Knowledge of the Company, since January 1, 2001, no Person has threatened to commence, any such strike, slowdown, work stoppage, lockout, job action, picketing, labor dispute, question regarding representation or union organizing activity or any similar activity or dispute. No event has occurred, and no condition or circumstance exists, that might directly or indirectly give rise to or provide a basis for the commencement of any such strike, slowdown, work stoppage, lockout, job action, picketing, labor dispute, question regarding representation or union organizing activity or any similar activity or dispute. There is no claim or grievance (other than immaterial and routine claims or grievances) pending or, to the Knowledge of the Company, threatened relating to any employment Contract, wages and hours, plant closing notification, employment statute or regulation, privacy right, labor dispute, workers' compensation policy or long-term disability policy, safety, retaliation, immigration or discrimination matters involving any Company Associate, including charges of unfair labor practices or harassment complaints.

(d) Except as set forth in Part 2.15(d) of the Company Disclosure Schedule, since January 1, 2004, none of the current or former independent contractors of any of the Acquired Corporations could be reclassified as an employee, except as could not reasonably be expected to result in a material liability to any Acquired Corporation.

(e) Part 2.15(e) of the Company Disclosure Schedule contains an accurate and complete list, by country and as of the date hereof, of each Company Employee Plan. Except as set forth in Part 2.15(e) of the Company Disclosure Schedule, none of the Acquired Corporations intends, and none of the Acquired Corporations has committed, to establish or enter into any new Company Employee Plan or Company Employee Agreement, or to modify any Company Employee Plan or Company Employee Agreement in any material respect (except to conform any such Company Employee Plan or Company Employee Agreement to the requirements of any applicable Legal Requirements, in each case as previously disclosed to Parent in writing or as required by this Agreement).

(f) The Company has delivered to Parent accurate and complete copies of: (i) all documents setting forth the terms of each Company Employee Plan and each Company Employee Agreement, including all amendments thereto and all related trust documents; (ii) the four most recent annual reports (Form Series 5500 and all schedules and financial statements attached thereto), if any, required under applicable Legal Requirements in connection with each Company Employee Plan; (iii) if the Company Employee Plan is subject to the minimum funding standards of Section 302 of ERISA, the most recent annual and periodic accounting of Company Employee Plan assets, if any; (iv) the most recent summary plan description together with the summaries of material modifications thereto, if any, required under ERISA or any similar Legal Requirement with respect to each Company Employee Plan; (v) all material written Contracts relating to each Company Employee Plan, including administrative service agreements and group insurance contracts; (vi) all written materials provided to any Company Associate relating to any Company Employee Plan and any proposed Company Employee Plans, in each case, relating to any amendments, terminations, establishments, increases or decreases in benefits, acceleration of payments or vesting schedules or other events that could reasonably be expected to result in any material liability to any of the Acquired Corporations or any Company Affiliate; (vii) all material correspondence since January 1, 2005 to or from any Governmental Body relating to any Company Employee Plan; (viii) all discrimination tests required under the Code for each Company Employee Plan intended to be qualified under Section 401(a) of the Code for the four most recent plan years; and (ix) the most recent IRS determination or opinion letter issued with respect to each Company Employee Plan intended to be qualified under Section 401(a) of the Code.

(g) Each of the Acquired Corporations and Company Affiliates has performed in all material respects all obligations required to be performed by it under each Company Employee Plan, and each Company Employee Plan has been established and maintained in all material respects in accordance with its terms and with all applicable provisions of ERISA, the Code and other Legal Requirements. Any Company Employee Plan intended to be qualified under Section 401(a) of the Code has obtained a favorable determination letter (or opinion letter, if applicable) as to its qualified status under the Code. All Company Pension Plans required to have been approved by any non-U.S. Governmental Body have been so approved, no such approval has been revoked (or, to the Knowledge of the Company, has revocation been threatened) and no event has occurred since the date of the most recent approval or application therefor relating to any such Company Pension Plan that would reasonably be expected to materially affect any such approval relating thereto or materially increase the costs relating thereto. Each Company Employee Plan intended to be tax qualified under applicable

Legal Requirements is so tax qualified, and no event has occurred and no circumstance or condition exists that could reasonably be expected to result in the disqualification of any such Company Employee Plan. Except as set forth in Part 2.15(g) of the Company Disclosure Schedule, no Company Employee Plan intended to be qualified under Section 401(a) of the Code has: (i) been terminated; or (ii) incurred a partial termination as determined under applicable Legal Requirements within the last six years. No "prohibited transaction," within the meaning of Section 4975 of the Code or Sections 406 and 407 of ERISA, and not otherwise exempt under Section 408 of ERISA, has occurred with respect to any Company Employee Plan. There are no claims or Legal Proceedings pending, or, to the Knowledge of the Company, threatened or reasonably anticipated (other than routine claims for benefits), against any Company Employee Plan or against the assets of any Company Employee Plan. Except as set forth in Part 2.15(g) of the Company Disclosure Schedule, each Company Employee Plan (other than any Company Employee Plan to be terminated prior to the Effective Time in accordance with this Agreement) can be amended, terminated or otherwise discontinued after the Closing in accordance with its terms, without liability to Parent, any of the Acquired Corporations or any Company Affiliate (other than any liability for ordinary administration expenses). There are no audits or inquiries pending or, to the Knowledge of the Company, threatened by the IRS, the United States Department of Labor or any other Governmental Body with respect to any Company Employee Plan. None of the Acquired Corporations, and no Company Affiliate, has ever incurred: (i) any material penalty or tax with respect to any Company Employee Plan under Section 502(i) of ERISA or Sections 4975 through 4980 of the Code; or (ii) any material penalty or Tax under applicable Legal Requirements. Each of the Acquired Corporations and Company Affiliates has made all contributions and other payments required by and due under the terms of each Company Employee Plan. Each "nonqualified deferred compensation plan" (as defined in Section 409A(d)(1) of the Code) has been operated since January 1, 2005 in good faith compliance with Section 409A of the Code and IRS Notice 2005-1. No nonqualified deferred compensation plan has been "materially modified" (within the meaning of IRS Notice 2005-1) at any time after October 3, 2004.

(h) None of the Acquired Corporations, and no Company Affiliate, has ever maintained, established, sponsored, participated in or contributed to any: (i) Company Pension Plan subject to Title IV of ERISA; (ii) "multiemployer plan" within the meaning of Section (3)(37) of ERISA; or (iii) plan described in Section 413 of the Code. No Company Employee Plan is or has been funded by, associated with or related to a "voluntary employees' beneficiary association" within the meaning of Section 501(c)(9) of the Code. None of the Acquired Corporations, and no Company Affiliate, has ever maintained, established, sponsored, participated in or contributed to any Company Pension Plan in which stock of any of the Acquired Corporations or any Company Affiliate is or was held as a plan asset. The fair market value of the assets of each funded Foreign Plan, the liability of each insurer for any Foreign Plan funded through insurance, or the book reserve established for any Foreign Plan, together with any accrued contributions, is sufficient to procure or provide in full for the accrued benefit obligations, with respect to all current and former participants in such Foreign Plan according to the reasonable actuarial assumptions and valuations most recently used to determine employer contributions to and obligations under such Foreign Plan, and no Contemplated Transaction will cause any such assets or insurance obligations to be less than such benefit obligations. There are no liabilities of the Acquired Corporations with respect to any Company Employee Plan that are

not properly accrued and reflected in the financial statements of the Company in accordance with GAAP.

(i) None of the Acquired Corporations, and no Company Affiliate, maintains, sponsors or contributes to any Company Employee Plan that is an employee welfare benefit plan (as such term is defined in Section 3(1) of ERISA) and that is, in whole or in part, self-funded or self-insured. No Company Employee Plan provides (except at no cost to the Acquired Corporations or any Company Affiliate), or reflects or represents any liability of any of the Acquired Corporations or any Company Affiliate to provide, post-termination or retiree life insurance, post-termination or retiree health benefits or other post-termination or retiree employee welfare benefits to any Person for any reason, except as may be required by COBRA or other applicable Legal Requirements. Other than commitments made that involve no future costs to any of the Acquired Corporations or any Company Affiliate, none of the Acquired Corporations nor any Company Affiliate has ever represented, promised or contracted (whether in oral or written form) to any Company Associate (either individually or to Company Associates as a group) or any other Person that such Company Associate(s) or other Person would be provided with post-termination or retiree life insurance, post-termination or retiree health benefit or other post-termination or retiree employee welfare benefits, except to the extent required by applicable Legal Requirements.

(j) Except as expressly required or provided by this Agreement or as set forth in Part 2.15(j) of the Company Disclosure Schedule, neither the execution of this Agreement nor the consummation of any of the Contemplated Transactions could reasonably be expected to (either alone or upon the occurrence of termination of employment) constitute an event under any Company Employee Plan, Company Employee Agreement, trust or loan that may result (either alone or in connection with any other circumstance or event) in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits with respect to any Company Associate.

(k) Each of the Acquired Corporations and Company Affiliates: (i) is, and at all times has been, in compliance in all material respects with all Legal Requirements respecting employment, terms and conditions of employment, employment practices or other labor related matters, including applicant and employee background checking, immigration laws, discrimination laws, verification of employment eligibility, employee leave laws, classification of Company Associates as employees and independent contractors, classification of Company Associates as exempt or non-exempt, applicable wage and hour laws, occupational safety and health laws; and (ii) has withheld and reported all amounts required by applicable Legal Requirements or by Contract to be withheld and reported with respect to wages, salaries and other payments to Company Associates. No Acquired Corporation or Company Affiliate: (A) is liable for any arrears of wages or any taxes or any interest or penalty for failure to comply with the Legal Requirements applicable of the foregoing; or (B) is liable for any payment to any trust or other fund governed by or maintained by or on behalf of any Governmental Body with respect to unemployment compensation benefits, social security, social charges or other benefits or obligations for Company Associates (other than routine payments to be made in the normal course of business and consistent with past practices). Except as set forth in Part 2.15(k) of the

Company Disclosure Schedule, there are no pending or, to the Knowledge of the Company, threatened or reasonably anticipated claims or Legal Proceedings against any of the Acquired Corporations or any Company Affiliate under any worker's compensation policy or long-term disability policy.

(l) Except as set forth in Part 2.15(l) of the Company Disclosure Schedule, there is no agreement, plan, arrangement or other Contract covering any Company Associate, and no payments have been made or will be made to any Company Associate, that, considered individually or considered collectively with any other such Contracts or payments, will, or could reasonably be expected to, be characterized as a "parachute payment" within the meaning of Section 280G(b)(2) of the Code or give rise directly or indirectly to the payment of any amount that would not be deductible pursuant to Section 162(m) of the Code (or any comparable provision under U.S. state or local or non-U.S. Tax Legal Requirements). No Acquired Corporation is a party to or has any obligation under any Contract to compensate any Person for excise taxes payable pursuant to Section 4999 of the Code or for additional taxes payable pursuant to Section 409A of the Code.

(m) To the Knowledge of the Company, no Company Associate is obligated under any Contract or subject to any Order of any court or other Governmental Body that would interfere with such Company Associate's efforts to promote the interests of the Acquired Corporations or that would interfere with the businesses of the Acquired Corporations or any Company Affiliate. To the Knowledge of the Company, neither: (i) the execution or delivery of this Agreement; nor (ii) the carrying on of the business of any Acquired Corporation or any Company Affiliate as presently conducted or any activity of any Company Associate in connection with the carrying on of the business of any Acquired Corporation or any Company Affiliate as currently conducted, will or could reasonably be expected to, to the Knowledge of the Company, conflict with, result in a breach of the terms, conditions or provisions of or constitute a default under any Contract by which any such Company Associate is now bound.

(n) Except as set forth in Part 2.15(n) of the Company Disclosure Schedule, since January 1, 2003, none of the Acquired Corporations has effectuated a "plant closing," partial "plant closing," "relocation", "mass layoff" or "termination" (as defined in the Worker Adjustment and Retraining Notification Act or any similar Legal Requirement) affecting any site of employment or one or more facilities or operating units within any site of employment or facility of any of the Acquired Corporations.

(o) Part 2.15(o) of the Company Disclosure Schedule, identifies each option re-pricing or option exchange program undertaken by any Acquired Corporation. Each option re-pricing or exchange program identified in Part 2.15(o) of the Company Disclosure Schedule: (i) was effected in compliance in all material respects with all applicable Contracts; and (ii) has been accurately reflected in accordance with GAAP in the financial statements contained or incorporated by reference in the Company SEC Documents.

(p) Part 2.15(p) of the Company Disclosure Schedule identifies each loan or other advance made by any of the Acquired Corporations to any Company Associate

since January 1, 2003 or that is currently outstanding, other than routine travel advances made to employees in the ordinary course of business.

(q) Part 2.15(q) of the Company Disclosure Schedule sets forth an accurate and complete list of all employees (including directors and officers (*Geschaeftsfuehrer und leitende Angestellte*)) of the Acquired Corporations (without names) who reside or work in Germany as of the date of this Agreement (such employees, together with the consultants and freelancers referred to below in this Section, the "German Employees"), together in each case with the following information with respect to such employees: (i) current position; (ii) total current annual compensation (including bonus for which such German Employee is eligible); (iii) outstanding promises of additional remuneration (other than remuneration payable pursuant to Legal Requirements in Germany); and (iv) years of service. The Company has delivered to Parent accurate and complete copies of all types of standard employment agreements (including consultant and freelance agreements) in relation to the German Employees or copies of actual employment agreements if no such standard employment agreement is used (or if a standard employment agreement that deviates in any material respect from such standard employment agreement is used) or a description of the terms of employment if there exists no written employment agreement. Except as set forth in Part 2.15(q) of the Company Disclosure Schedule: (A) all obligations and liabilities of the Acquired Corporations to provide pensions and pension benefits to all German Employees pursuant to German Legal Requirements, practice or otherwise are accrued on the Unaudited Interim Balance Sheet in accordance with GAAP; and (B) there are no unwritten policies, practices or customs of the Acquired Corporations that are not accrued for in the Unaudited Interim Balance Sheet and, by extension, could reasonably be expected to entitle the German Employees in general to benefits in addition to what such German Employees are entitled to by applicable Legal Requirements or under the terms of such German Employees' employment Contracts (including unwritten customs or practices concerning the payment of severance pay when it is not required under applicable Legal Requirements). For purposes of this Agreement (other than the first full sentence of this Section 2.15(q)), the term "German Employee" shall be construed to include consultants and freelancers who devote a majority of their working time in Germany to the business of an Acquired Corporation or, due to the circumstances of their engagement, could otherwise be reasonably deemed to be subject to German Legal Requirements with respect to labor matters (excluding any external temporary workers).

2.16 Environmental Matters.

(a) Each of the Acquired Corporations: (i) is and has been in compliance in all material respects with, and has not been and is not in material violation of or subject to any material liability under, any applicable Environmental Laws; and (ii) possesses all permits and other Governmental Authorizations required under applicable Environmental Laws, and is in compliance with the terms and conditions thereof.

(b) Since January 1, 2003, none of the Acquired Corporations has received any notice or other communication, whether from a Governmental Body, citizens group, Company Associate or otherwise, that alleges that any of the Acquired Corporations is not or might not be in compliance with any Environmental Law, and, to the Knowledge of the

Company, there are no circumstances that may prevent or interfere with the compliance by any of the Acquired Corporations with any Environmental Law in the future.

(c) Except as set forth in Part 2.16(c) of the Company Disclosure Schedule (and except as would not, and could not reasonably be expected to, result in a material liability or obligation of any Acquired Corporation, including any material remediation): (i) all Company Real Property and any other property that is or was leased to or controlled or used by any of the Acquired Corporations, and all surface water, groundwater and soil associated with or adjacent to such property, is free of proscribed levels of any Materials of Environmental Concern (as defined in Section 2.16(f)) or material environmental contamination of any nature; (ii) none of the Company Real Property or any other property that is or was leased to or controlled or used by any of the Acquired Corporations contains any underground storage tanks, asbestos, equipment using PCBs or underground injection wells; and (iii) none of the Company Real Property or any other property that is or was leased to or controlled or used by any of the Acquired Corporations contains any septic tanks in which process wastewater or any Materials of Environmental Concern have been Released (as defined in Section 2.16(f)).

(d) To the Knowledge of the Company, no Acquired Corporation has ever Released any Materials of Environmental Concern except in compliance in all material respects with all applicable Environmental Laws.

(e) No Acquired Corporation has ever sent or transported, or arranged to send or transport, any Materials of Environmental Concern to a site that, pursuant to any applicable Environmental Law: (i) has been placed on the "National Priorities List" of hazardous waste sites or any similar U.S. state or local or non-U.S. list; (ii) is otherwise designated or identified as a potential site for remediation, cleanup, closure or other environmental remedial activity; or (iii) is subject to a Legal Requirement to take "removal" or "remedial" action as detailed in any applicable Environmental Law or to make payment for the cost of cleaning up any site.

(f) For purposes of this Agreement: (i) "Environmental Law" means any Legal Requirement relating to pollution or protection of human health or the environment (including ambient air, surface water, ground water, land surface or subsurface strata), including any Legal Requirement relating to emissions, discharges, releases or threatened releases of Materials of Environmental Concern, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Materials of Environmental Concern; (ii) "Materials of Environmental Concern" include chemicals, pollutants, contaminants, wastes, toxic substances, petroleum and petroleum products and any other substance that is now or hereafter regulated by any Environmental Law or that is otherwise a danger to health, reproduction or the environment; and (iii) "Release" means any spilling, leaking, emitting, discharging, depositing, escaping, leaching, dumping or other releasing into the environment, whether intentional or unintentional.

2.17 Insurance. The Company has delivered to Parent copies of all material insurance policies and material self-insurance programs or arrangements relating to the business, assets or operations of any of the Acquired Corporations. Each of such insurance policies,

programs and arrangements is in full force and effect. None of the Acquired Corporations has received any notice or other communication regarding any actual or possible: (a) cancellation or invalidation of any insurance policy; (b) refusal of any coverage or rejection of any material claim under any insurance policy; or (c) material adjustment in the amount of the premiums payable with respect to any insurance policy. There is no pending workers' compensation or other claim under or based upon any insurance policy of any of the Acquired Corporations involving an amount in excess of $50,000 in any individual case or $100,000 in the aggregate. With respect to each claim or Legal Proceeding that has been asserted or filed against any Acquired Corporation, the Company has provided written notice of such claim or Legal Proceeding to the appropriate insurance carrier(s), if any, and no such carrier has issued a denial of coverage or a reservation of rights with respect to any such claim or Legal Proceeding, or informed any Acquired Corporation of its intent to do so.

2.18 Transactions with Affiliates. Except as set forth in the Company SEC Documents filed with the SEC prior to the date of this Agreement, during the period commencing on the date of the Company's last proxy statement filed with the SEC through the date of this Agreement, no event has occurred and no circumstance has existed that would be required to be reported by the Company pursuant to Item 404 of Regulation S-K promulgated by the SEC.

2.19 Legal Proceedings; Orders.

(a) Part 2.19(a) of the Company Disclosure Schedule identifies each pending Legal Proceeding, and (to the Knowledge of the Company) each Legal Proceeding that any Person has threatened in writing to commence: (i) that involves: (A) any of the Acquired Corporations; (B) any business or securities of any of the Acquired Corporations; (C) any of the assets owned, leased or used by any of the Acquired Corporations; or (D) any alleged action or omission on the part of any director or officer of any Acquired Corporation in his or her capacity as such; or (ii) that challenges, or that may have the effect of preventing, delaying, making illegal or otherwise interfering with, the Merger or any of the other Contemplated Transactions. To the Knowledge of the Company, no event has occurred, and no claim, dispute or other condition or circumstance exists, that could reasonably be expected to give rise to or serve as a basis for the commencement of any Legal Proceeding of the type described in clause "(i)" or clause "(ii)" of the first sentence of this Section 2.19(a).

(b) There is no Order to which any of the Acquired Corporations, or any of the assets owned or used by any of the Acquired Corporations, is subject. To the Knowledge of the Company, no officer or other key employee of any of the Acquired Corporations is subject to any Order that prohibits such officer or other employee from engaging in or continuing any conduct, activity or practice relating to the business of any of the Acquired Corporations.

2.20 Authority; Inapplicability of Anti-takeover Statutes; Binding Nature of Agreement. The Company has the corporate right, power and authority to enter into and to perform its obligations under this Agreement. The board of directors of the Company (at a meeting duly called and held) has: (a) unanimously determined that the Merger is fair to, and in

the best interests of, the Company and its shareholders; (b) unanimously authorized and approved the execution, delivery and performance of this Agreement by the Company and unanimously adopted this Agreement, the Merger and the other Contemplated Transactions; and (c) unanimously recommended the approval of this Agreement, the Merger and the other Contemplated Transactions (as applicable) by the holders of shares of Company Common Stock and directed that this Agreement, the Merger and the other Contemplated Transactions (as applicable) be submitted for consideration by the Company's shareholders at the Company Shareholders' Meeting (as defined in Section 5.2(a)). This Agreement has been duly and validly executed and delivered by the Company and, assuming the due authorization, execution and delivery of this Agreement by Parent and Merger Sub, constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to: (i) laws of general application relating to bankruptcy, insolvency and the relief of debtors; and (ii) rules of law governing specific performance, injunctive relief and other equitable remedies. No state takeover statute or similar Legal Requirement applies or purports to apply to the Merger, this Agreement or any of the Contemplated Transactions.

2.21 Vote Required. The affirmative vote of not less than two–thirds of the voting power of the issued and outstanding shares of Company Common Stock on the record date for the Company Shareholders' Meeting (the "Required Company Shareholder Vote") is the only vote of the holders of any class or series of the Company's capital stock necessary to approve this Agreement and the Merger.

2.22 Non-Contravention; Consents. Except as set forth in Part 2.22 of the Company Disclosure Schedule, neither (1) the execution, delivery or performance of this Agreement, nor (2) the consummation of the Merger or any of the other Contemplated Transactions, will or could reasonably be expected to, directly or indirectly (with or without notice or lapse of time):

(a) contravene, conflict with or result in a violation of: (i) any of the provisions of the articles of incorporation and bylaws of the Company or the charter or other organizational documents of any of the other Acquired Corporations; or (ii) any resolution adopted by the shareholders, the board of directors or any committee of the board of directors of any of the Acquired Corporations;

(b) contravene, conflict with or result in a violation of any Legal Requirement or any Order to which any of the Acquired Corporations, or any of the assets owned or used by any of the Acquired Corporations, is subject;

(c) contravene, conflict with or result in a violation of any of the terms or requirements of, or give any Governmental Body the right to revoke, withdraw, suspend, cancel, terminate or modify, any Grant or other Governmental Authorization that is held by any of the Acquired Corporations or that otherwise relates to the business of any of the Acquired Corporations or to any of the assets owned or used by any of the Acquired Corporations;

(d) contravene, conflict with or result in a violation or breach of, or result in a default under, any provision of any Company Contract, or give any Person the

right to: (i) declare a default or exercise any remedy under any such Company Contract; (ii) claim a rebate, chargeback, penalty or change in delivery schedule under any such Company Contract; (iii) accelerate the maturity or performance of any such Company Contract; or (iv) cancel, terminate or modify any right, benefit, obligation or other term of such Company Contract;

(e) result in the imposition or creation of any Encumbrance upon or with respect to any asset owned or used by any of the Acquired Corporations (except for minor liens that will not, in any case or in the aggregate, materially detract from the value of the assets subject thereto or materially impair the operations of any of the Acquired Corporations); or

(f) result in, or increase the likelihood of, the disclosure or delivery to any escrowholder or other Person of any Company IP, or the transfer of any material asset of any of the Acquired Corporations to any Person.

Except as may be required by the Exchange Act, the CBCA, the CCAA, the HSR Act, any non-U.S. Antitrust Law, and the rules and regulations of the NASDAQ National Market (as they relate to the Proxy Statement), none of the Acquired Corporations was, is or will be required to make any filing with or give any notice to, or to obtain any Consent from, any Person in connection with: (x) the execution, delivery or performance of this Agreement; or (y) the consummation of the Merger or any of the other Contemplated Transactions.

2.23 Fairness Opinion. The Company's board of directors has received the written opinion of Citigroup Global Markets, Inc. ("Citigroup"), financial advisor to the Company, dated May 3, 2006, to the effect that the Merger Consideration is fair, from a financial point of view, to the shareholders of the Company. The Company has furnished an accurate and complete copy of said written opinion to Parent.

2.24 Financial Advisor. Except for Citigroup, no broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the Merger or any of the other Contemplated Transactions based upon arrangements made by or on behalf of any of the Acquired Corporations. The total of all fees, commissions and other amounts that have been paid by the Company to Citigroup and its affiliates and all fees, commissions and other amounts that may become payable to Citigroup and its affiliates by the Acquired Corporations if the Merger is consummated will not exceed the amount set forth in Part 2.24 of the Company Disclosure Schedule. The Company has furnished to Parent accurate and complete copies of all agreements under which any such fees, commissions or other amounts have been paid or may become payable and all indemnification and other agreements related to the engagement of Citigroup.

2.25 Full Disclosure. The Proxy Statement, at the time it is mailed to the shareholders of the Company or at the time of the Company Shareholders' Meeting (or any adjournment or postponement thereof), 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 the light of the circumstances under which they are made, not misleading,

except that the Company makes no representation as to the accuracy of information, if any, provided by Parent to be incorporated in the Proxy Statement.

SECTION 3. Representations and Warranties of Parent and Merger Sub

Parent and Merger Sub represent and warrant to the Company as follows:

3.1 Due Organization; Etc.. Parent is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Merger Sub is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Colorado.

3.2 Authority. Subject to obtaining the vote of Parent as the sole shareholder of Merger Sub with respect to the Merger, each of Parent and Merger Sub has the corporate right, power and authority to enter into and to perform its respective obligations under this Agreement. The execution, delivery and performance by Parent and Merger Sub of this Agreement have been duly authorized by all necessary action on the part of Parent and Merger Sub and their respective boards of directors.

3.3 Binding Nature of Agreement. This Agreement has been duly and validly executed and delivered by Parent and Merger Sub and, assuming the due authorization, execution and delivery of this Agreement by the Company, constitutes the legal, valid and binding obligation of Parent and Merger Sub, enforceable against them in accordance with its terms, subject to: (a) laws of general application relating to bankruptcy, insolvency and the relief of debtors; and (b) rules of law governing specific performance, injunctive relief and other equitable remedies.

3.4 No Vote Required. No vote of the holders of Parent Common Stock is required to authorize the Merger.

3.5 Financing. As of the date hereof Parent has, and as of the Effective Time Parent will have, sufficient cash, available lines of credit or other sources of readily available funds to enable it to pay all amounts required to be paid as Merger Consideration in the Merger.

3.6 Disclosure. None of the information to be supplied by or on behalf of Parent to the Company specifically for inclusion in the Proxy Statement will, at the time the Proxy Statement is mailed to the shareholders of the Company or at the time of the Company Shareholders' Meeting (or any adjournment or postponement thereof), 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 the light of the circumstances under which they are made, not misleading.

SECTION 4. Certain Covenants of the Company

4.1 Access and Investigation. During the period commencing on the date of this Agreement and ending as of the earlier of the Effective Time and the valid termination of this Agreement (the "Pre-Closing Period"), the Company shall, and the Company shall cause the

respective Representatives of the Acquired Corporations to: (a) provide Parent and Parent's Representatives with reasonable access to the Acquired Corporations' Representatives, personnel and assets and to all existing books, records, Tax Returns, work papers and other documents and information relating to the Acquired Corporations; and (b) provide Parent and Parent's Representatives with such copies of the existing books, records, Tax Returns, work papers and other documents and information relating to the Acquired Corporations as Parent may reasonably request; *provided*, *however*, that Parent and Parent's Representatives shall provide reasonable advance notice of such requested access and requested documents and shall not materially disrupt the business operations of any of the Acquired Corporations. During the Pre-Closing Period, the Company shall, and the Company shall cause the Representatives of each of the Acquired Corporations to, permit Parent's senior officers to meet, upon reasonable notice and during normal business hours, with the chief financial officer and other officers of the Company responsible for the Company's financial statements and the internal controls of the Acquired Corporations to discuss such matters as Parent may deem necessary or appropriate in order to enable Parent, after the Closing, to satisfy its obligations under the Sarbanes-Oxley Act and the rules and regulations relating thereto. Without limiting the generality of any of the foregoing, during the Pre-Closing Period, the Company shall promptly provide Parent with copies of: (i) all material operating and financial reports prepared by the Acquired Corporations for the Company's senior management, including copies of the unaudited monthly consolidated balance sheets of the Acquired Corporations and the related unaudited monthly consolidated statements of operations, statements of stockholders' equity and statements of cash flows; (ii) any written materials or communications sent by or on behalf of the Company to its shareholders; (iii) any material written notice, document or other communication (or any material oral notice or other communication sent or received by any employee of any Acquired Corporation at the level of first line manager or above) (other than any communication that relates solely to routine commercial transactions and that is of the type sent in the ordinary course of business and consistent with past practices) sent by or on behalf of any of the Acquired Corporations to any party to any Significant Contract or sent to any of the Acquired Corporations by any party to any Significant Contract; (iv) any notice, report or other document filed with or sent to any Governmental Body on behalf of any of the Acquired Corporations in connection with the Merger or any of the other Contemplated Transactions; and (v) any material notice, report or other document received by any of the Acquired Corporations from any Governmental Body. During the Pre-Closing Period, the Company shall, and the Company shall cause the Representatives of each of the Acquired Corporations to, provide any documents or information to Parent, and take any other actions, as Parent may reasonably request in order for Parent to elect to treat the Merger as a "qualified stock purchase" within the meaning of Section 338 of the Code in the event that Parent determines that it might desire to do so.

4.2 Operation of the Company's Business.

(a) During the Pre-Closing Period: (i) the Company shall ensure that each of the Acquired Corporations conducts its business and operations in the ordinary course and in accordance with past practices; (ii) the Company shall use commercially reasonable efforts to cause each of the Acquired Corporations to conduct its business and operations in compliance with all applicable Legal Requirements and the requirements of all Significant Contracts, to preserve intact its current business organization, to keep available the services of its

current officers and other employees and to maintain its relations and goodwill with all suppliers, customers, landlords, creditors, licensors, licensees, employees and other Persons having business relationships with the respective Acquired Corporations and with all Governmental Bodies; (iii) the Company shall promptly notify Parent of any claim asserted or Legal Proceeding commenced, or, to the Knowledge of the Company, threatened against, relating to, involving or otherwise affecting any of the Acquired Corporations that relates to any of the Contemplated Transactions; (iv) the Company shall consult with Parent (and take Parent's views into account) in determining whether to take any action (and in connection with any action taken by any of the Acquired Corporations) relating to any of the matters described in Item 2 of Part A of the Company Disclosure Schedule; and (v) the Company shall use its reasonable efforts to settle the matter identified in Part 4.2(a) of the Company Disclosure Schedule in the manner set forth therein (it being understood that the Company shall consult with Parent (and take Parent's views into account) in connection with any such settlement).

(b) During the Pre-Closing Period, the Company shall not, without the prior written consent of Parent (which consent shall not be unreasonably withheld with respect to the matters described in clauses "(iv)," "(vi)," "(vii)," "(x)," "(xi)," "(xii)," "(xiii)," "(xiv)," "(xv)," "(xvi)" and "(xviii)" of this sentence), and the Company shall ensure that each of the other Acquired Corporations does not, without the prior written consent of Parent which consent shall not be unreasonably withheld with respect to the matters described in clauses "(iv)," "(vi)," "(vii)," "(x)," "(xi)," "(xii)," "(xiii)," "(xiv)" "(xv)," "(xvi)" and "(xviii)" of this sentence):

(i) declare, accrue, set aside or pay any dividend or make any other distribution in respect of any shares of capital stock, or repurchase, redeem or otherwise reacquire any shares of capital stock or other securities, other than intercompany payments made under any arrangements among any Acquired Corporations that are existing on the date of this Agreement and that are consistent with past practices;

(ii) sell, issue, grant or authorize the sale, issuance or grant of: (A) any capital stock or other security; (B) any option, call, warrant or right to acquire any capital stock or other security; or (C) any instrument convertible into or exchangeable for any capital stock or other security (except that: (1) the Company may issue shares of Company Common Stock upon the valid exercise of Company Options or Company Stock Awards outstanding as of the date of this Agreement; and (2) the Company may, in the ordinary course of business and consistent with the past practices set forth in Part 4.2(b)(ii) of the Company Disclosure Schedule, grant Company Options one time each quarter to employees (including officers) of the Company, provided that such Company Options: (x) shall have an exercise price equal to the fair market value of the Company Common Stock covered by such options determined as of the time of the grant of such options; (y) shall not contain any "single-trigger," "double-trigger" or other vesting acceleration provisions and shall not be subject to acceleration (in whole or in part) as a result of the Merger or any of the other Contemplated Transactions (whether alone or in combination with any termination of employment or other event); and (z) shall contain the Company's standard vesting schedule;

(iii) amend or waive any of its rights under, or accelerate the vesting under, any provision of any of the Company Option Plans or any provision of any agreement evidencing any outstanding stock option or any restricted stock purchase agreement, or otherwise modify any of the terms of any outstanding option, warrant or other security or any related Contract, except as set forth in Part 4.2(b)(iii) of the Company Disclosure Schedule or as required by applicable Legal Requirements;

(iv) amend or permit the adoption of any amendment to its articles of incorporation and bylaws of the Company or the charter or other organizational documents of any of the other Acquired Corporations or form any Subsidiary;

(v) except as set forth in Part 4.2(b)(v) of the Company Disclosure Schedule: (A) acquire any equity interest or other interest in any other Entity; or (B) effect or become a party to any merger, consolidation, plan of arrangement, share exchange, business combination, amalgamation, recapitalization, reclassification of shares, stock split, reverse stock split, issuance of bonus shares, division or subdivision of shares, consolidation of shares or similar transaction;

(vi) make any capital expenditure (except that the Acquired Corporations may make capital expenditures that do not exceed the amount set forth in Part 4.2(b)(vi) of the Company Disclosure Schedule);

(vii) (A) enter into or become bound by, or permit any of the assets owned or used by it to become bound by: (1) any Significant Contract of the type described in clauses "(ii)," "(v)," "(vii)," "(x)," "(xvi)," "(xvii)" or "(xviii)" of Section 2.9(a); (2) any Contract (or series of related Contracts) that: (x) contemplate(s) or involve(s) the development of a new product and the possible future payment of cash or other consideration to any of the Acquired Corporations in an amount or having a value in excess of $15 million in the aggregate under such Contract or Contracts; and (y) is or are determined by Parent in good faith to impair the value of the Acquired Corporations taken as a whole or the Merger to Parent (it being understood that Parent's reasonableness in deciding whether to consent to any matter referred to in this clause "(2)" shall take into account the extent of any such impairment); or (3) other than in the ordinary course of business and consistent with past practices, any other Significant Contract; or (B) other than in the ordinary course of business consistent with past practices, amend or terminate, or waive any material right or remedy under, any Significant Contract;

(viii) acquire, lease or license any right or other asset from any other Person or sell or otherwise dispose of, or lease or license, any right or other asset to any other Person (except in each case for assets acquired, leased, licensed or disposed of by the Company in the ordinary course of business and consistent with past practices);

(ix) make any pledge of any of its material assets or permit any of its material assets to become subject to any Encumbrances, except for Encumbrances

that do not materially detract from the value of such assets or materially impair the operations of any of the Acquired Corporations;

(x) lend money to any Person (other than routine travel expense advances made to directors or officers or other employees in the ordinary course of business), or, except in the ordinary course of business and consistent with past practices, incur or guarantee any indebtedness;

(xi) except as set forth in Part 4.2(b)(xi) of the Company Disclosure Schedule, establish, adopt, enter into or amend any Company Employee Plan or Company Employee Agreement, pay any bonus or make any profit-sharing or similar payment to, or increase the amount of the wages, salary, commissions, fringe benefits or other compensation (including equity-based compensation, whether payable in stock, cash or other property) or remuneration payable to, any of its directors or any of its officers or other employees (except that the Company: (A) may provide routine, reasonable salary increases to employees in the ordinary course of business and in accordance with past practices in connection with the Company's customary employee review process; (B) may amend the Company Employee Plans referred to in Part 2.15(e) of the Company Disclosure Schedule to the extent required by applicable Legal Requirements; and (C) may make customary bonus payments and profit sharing payments consistent with past practices in accordance with bonus and profit sharing plans referred to in Part 2.15(e) of the Company Disclosure Schedule that are existing on the date of this Agreement);

(xii) (A) promote any employee to the level of first line manager or above or change any such employee's title; or (B) hire any employee at the level of first line manager or above, in each case except in order to fill a position at (but not higher than) the level of first line manager vacated after the date of this Agreement or as set forth in Part 4.2(b)(xii) of the Company Disclosure Schedule;

(xiii) other than as required by concurrent changes in GAAP or SEC rules and regulations, change any of its methods of accounting or accounting practices in any material respect;

(xiv) make any material Tax election or request any material Tax ruling;

(xv) commence any Legal Proceeding, except with respect to routine collection matters in the ordinary course of business and consistent with past practices and except for any Legal Proceeding against Parent in connection with this Agreement or the Contemplated Transactions;

(xvi) except as set forth in Part 4.2(b)(xvi) of the Company Disclosure Schedule, settle any Legal Proceeding or other material claim, except pursuant to a settlement that does not involve any liability or obligation on the part of any Acquired Corporation or involves only the payment of monies by the Acquired Corporations of not more than $250,000 in the aggregate for all such settlements;

(xvii) except as set forth in Part 4.2(b)(xvii) of the Company Disclosure Schedule, enter into any Contract covering any Company Associate, or make any payment to any Company Associate, that, considered individually or considered collectively with any other such Contracts or payments, will, or would reasonably be expected to, be characterized as a "parachute payment" within the meaning of Section 280G(b)(2) of the Code or give rise directly or indirectly to the payment of any amount that would not be deductible pursuant to Section 162(m) of the Code (or any comparable provision under U.S. state or local or non-U.S. Tax Legal Requirements);

(xviii) except pursuant to arrangements that are in effect as of the date of this Agreement or applications on file as of the date of this Agreement and described in Part 4.2(b)(xviii) of the Company Disclosure Schedule, apply for funding, support, benefits or incentives from any Governmental Body; or

(xix) agree or commit to take any of the actions described in clauses "(i)" through "(xviii)" of this Section 4.2(b).

(c) During the Pre-Closing Period, the Company shall promptly notify Parent in writing of: (i) the discovery by any member of the Company's executive team or board of directors of any event, condition, fact or circumstance that occurred or existed on or prior to the date of this Agreement and that caused or constitutes a material inaccuracy in any representation or warranty made by the Company in this Agreement; (ii) any event, condition, fact or circumstance that occurs, arises or exists after the date of this Agreement and that would cause or constitute a material inaccuracy in any representation or warranty made by the Company in this Agreement if: (A) such representation or warranty had been made as of the time of the occurrence, existence or discovery of such event, condition, fact or circumstance; or (B) such event, condition, fact or circumstance had occurred, arisen or existed on or prior to the date of this Agreement; (iii) any material breach of any covenant or obligation of the Company; and (iv) any event, condition, fact or circumstance that would make the timely satisfaction of any of the conditions set forth in Section 6 impossible or unlikely. Without limiting the generality of the foregoing, the Company shall promptly advise Parent in writing of any Legal Proceeding or material claim threatened, commenced or asserted against or with respect to any of the Acquired Corporations. No notification given to Parent pursuant to this Section 4.2(c) shall limit or otherwise affect any of the representations, warranties, covenants or obligations of the Company contained in this Agreement.

4.3 No Solicitation.

(a) During the Pre-Closing Period, the Company shall not, directly or indirectly, and the Company shall ensure that its Subsidiaries and the respective directors, officers and financial advisors of the Acquired Corporations do not (and the Company shall use its reasonable efforts to ensure that the other Representatives of the Acquired Corporations do not, which reasonable efforts shall include using its best efforts to cause the following actions to cease after any member of the executive team of any Acquired Corporation becomes aware of such action), directly or indirectly:

(i) solicit, initiate, induce, facilitate or encourage the making, submission or announcement of any Acquisition Proposal or Acquisition Inquiry or take any action that could reasonably be expected to lead to an Acquisition Proposal or Acquisition Inquiry;

(ii) furnish any nonpublic information regarding any of the Acquired Corporations to any Person in connection with or in response to an Acquisition Proposal or Acquisition Inquiry;

(iii) engage in discussions or negotiations with any Person with respect to any Acquisition Proposal or Acquisition Inquiry;

(iv) approve, endorse or recommend any Acquisition Proposal or Acquisition Inquiry; or

(v) enter into any letter of intent or similar document or any Contract contemplating or otherwise relating to any Acquisition Transaction (other than a confidentiality agreement of the type described in, and only if in accordance with, the proviso below in this Section 4.3(a));

provided, *however*, that prior to the approval of this Agreement by the Required Company Shareholder Vote, this Section 4.3(a) shall not prohibit the Company from: (A) furnishing nonpublic information regarding the Acquired Corporations to, or entering into discussions or negotiations with, any Person in response to an Acquisition Proposal submitted to the Company by such Person (and not withdrawn) that is reasonably expected to result in a Superior Offer by such Person; or (B) withdrawing or modifying the Company Board Recommendation and/or endorsing or recommending any Acquisition Proposal, in any case under clause "(A)" or "(B)" of this proviso if: (1) neither the Company nor any Representative of any of the Acquired Corporations shall have breached or taken any action inconsistent with any of the provisions set forth in this Section 4.3; (2) the board of directors of the Company concludes in good faith, after consultation with its outside legal counsel, that such action is required in order for the board of directors of the Company to comply with its fiduciary obligations to the Company's shareholders under applicable law; (3) prior to furnishing any such nonpublic information to, or entering into discussions or negotiations with, such Person, the Company gives Parent written notice of the identity of such Person and of the Company's intention to furnish nonpublic information to, or enter into discussions or negotiations with, such Person, and the Company receives from such Person an executed confidentiality agreement containing customary provisions; (4) prior to furnishing any such nonpublic information to such Person, the Company furnishes such nonpublic information to Parent (to the extent such nonpublic information has not been previously furnished by the Company to Parent); and (5) prior to withdrawing or modifying the Company Board Recommendation and/or endorsing or recommending any Acquisition Proposal, the Company complies with Section 5.2(c) and notifies Parent in writing that it intends to so withdraw or modify the Company Board Recommendation and/or endorse or recommend such Acquisition Proposal. Without limiting the generality of the foregoing, the Company shall ensure that no director, officer or financial advisor of any of the Acquired Corporations (and the Company shall use its reasonable efforts to ensure that no other Representatives of any of the Acquired Corporations) takes any action inconsistent with any of the provisions set forth in the preceding sentence, and the Company acknowledges and agrees that any action inconsistent with any of the provisions set forth in the preceding sentence by any director, officer or financial advisor of any of the

Acquired Corporations, whether or not such director, officer or financial advisor is purporting to act on behalf of any of the Acquired Corporations, and any action inconsistent with any of the provisions set forth in the preceding sentence by any other Representative of any of the Acquired Corporations if the Company has not used reasonable efforts to ensure that such Representative not to take such action, shall be deemed to constitute a breach of this Section 4.3 by the Company.

(b) If any Acquisition Proposal or Acquisition Inquiry is made or submitted by any Person during the Pre-Closing Period, then the Company shall promptly (and in no event later than 24 hours after receipt of such Acquisition Proposal or Acquisition Inquiry) advise Parent orally and in writing of such Acquisition Proposal or Acquisition Inquiry (including the identity of the Person making or submitting such Acquisition Proposal or Acquisition Inquiry, and the terms thereof). The Company shall keep Parent informed with respect to: (i) the status of any such Acquisition Proposal or Acquisition Inquiry; and (ii) the status and terms of any modification or proposed modification thereto.

(c) The Company shall immediately cease and cause to be terminated any existing discussions with any Person that relate to any Acquisition Proposal or Acquisition Inquiry.

(d) The Company agrees not to release or permit the release of any Person from, or to waive or permit the waiver of any provision of, any confidentiality, non-solicitation, no hire or similar Contract to which any of the Acquired Corporations is a party or under which any of the Acquired Corporations has any rights, and will cause each such agreement to be enforced to the extent requested by Parent. The Company also shall promptly request each Person that has executed a confidentiality or similar agreement in connection with its consideration of a possible Acquisition Transaction or a possible equity investment in any Acquired Corporation to return to the Acquired Corporations all confidential information heretofore furnished to such Person by or on behalf of any of the Acquired Corporations.

SECTION 5. Additional Covenants of the Parties

5.1 Proxy Statement.

(a) As promptly as practicable after the date of this Agreement, the Company shall prepare the Proxy Statement which shall be in form and substance reasonably satisfactory to Parent. The Company shall: (i) cause the Proxy Statement to comply with the rules and regulations promulgated by the SEC and other applicable Legal Requirements; (ii) provide Parent with a reasonable opportunity to review and comment on drafts of the Proxy Statement, and include in the Proxy Statement all changes reasonably proposed by Parent; (iii) promptly cause the Proxy Statement to be filed with the SEC; (iv) promptly provide Parent with copies of all correspondence between the Company or any of its Representatives, on the one hand, and the SEC or its staff, on the other hand; (v) promptly notify Parent upon the receipt of

any comments or requests from the SEC or its staff with respect to the Proxy Statement; (vi) provide Parent with a reasonable opportunity to review and comment on any subsequent drafts of the Proxy Statement and any related correspondence and filings, and include in the Proxy Statement and in any such correspondence and filings all changes reasonably proposed by Parent; (vii) promptly respond to any comments or requests of the SEC or its staff; and (viii) cause the Proxy Statement to be mailed to the Company's shareholders as promptly as practicable following the date of this Agreement. To the extent practicable, the Company and its outside counsel shall permit Parent and its outside counsel to participate in all communications with the SEC and its staff (including all meetings and telephone conferences) relating to the Proxy Statement, this Agreement or any of the Contemplated Transactions.

(b) If any event relating to any of the Acquired Corporations occurs, or if the Company becomes aware of any information, that should be disclosed in an amendment or supplement to the Proxy Statement, then the Company shall promptly inform Parent of such event or information and shall, in accordance with the procedures set forth in Section 5.1(a): (i) prepare and file with the SEC such amendment or supplement as promptly thereafter as practicable; and (ii) if appropriate, cause such amendment or supplement to be mailed to the shareholders of the Company as promptly as practicable.

5.2 Company Shareholders' Meeting.

(a) The Company shall take all action necessary under all applicable Legal Requirements to call (promptly after the execution and delivery of this Agreement), give notice of and hold a meeting of the holders of shares of Company Common Stock to vote on the approval of this Agreement, the Merger and the other Contemplated Transactions (the "Company Shareholders' Meeting"). The Company Shareholders' Meeting shall be held (on a date selected by the Company in consultation with Parent) as promptly as practicable after the date of this Agreement, and in any event no later than the date 40 days after the date on which the staff of the SEC communicates its final clearance of the mailing of the Proxy Statement. The Company shall ensure that all proxies solicited in connection with the Company Shareholders' Meeting are solicited in compliance with all applicable Legal Requirements. In the event that Parent shall cast any votes in respect of the Merger, Parent shall disclose to the Company its interest in such shares so voted.

(b) Subject to Section 5.2(c): (i) the Proxy Statement shall include a statement to the effect that the board of directors of the Company recommends that the Company's shareholders vote to approve this Agreement and the Merger at the Company Shareholders' Meeting (the recommendation of the Company's board of directors that the Company's shareholders vote to approve this Agreement and the Merger being referred to as the "Company Board Recommendation"); and (ii) the Company Board Recommendation shall not be withdrawn or modified in a manner adverse to Parent, and no resolution by the board of directors of the Company or any committee thereof to withdraw the Company Board Recommendation or modify the Company Board Recommendation in a manner adverse to Parent shall be adopted. The Proxy Statement shall include the opinion of Citigroup referred to in Section 2.23.

(c) Notwithstanding anything to the contrary contained in Section 5.2(b), at any time prior to the approval of this Agreement by the Required Company Shareholder Vote, the Company Board Recommendation may be withdrawn or modified in a manner adverse to Parent if: (i) on the date that the Company provides notice to the Company's board of directors of any meeting of the Company's board of directors at which such board of directors considers the possibility of withdrawing the Company Board Recommendation or modifying the Company Board Recommendation in a manner adverse to Parent (and, in any event, at least 24 hours prior to the date of such meeting), the Company shall have provided to Parent written notice of such meeting together with reasonably detailed information regarding the circumstances giving rise to the consideration of such possibility; and (ii) the Company's board of directors determines in good faith, after taking into account the written advice of the Company's outside legal counsel, that the withdrawal or modification of the Company Board Recommendation is required in order for the Company's board of directors to comply with its fiduciary obligations to the Company's shareholders under applicable law. The Company shall notify Parent promptly (and in any event within two hours) of: (A) any withdrawal of or modification to the Company Board Recommendation; and (B) the circumstances surrounding such withdrawal or modification.

(d) The Company's obligation to call, give notice of and hold the Company Shareholders' Meeting in accordance with Section 5.2(a) shall not be limited or otherwise affected by the commencement, disclosure, making, announcement or submission of any Superior Offer or other Acquisition Proposal, or by any withdrawal or modification of the Company Board Recommendation; *provided*, *however*, that the Company shall not be required to hold the Company Shareholders' Meeting during any period where the Company Board Recommendation is withdrawn or modified in a manner adverse to Parent.

5.3 Stock Options, Stock Awards and Company ESPP.

(a) At the Effective Time, each Company Option that is outstanding and unexercised immediately prior to the Effective Time, whether or not vested, shall be converted into and become an option to purchase Parent Common Stock, and Parent shall either: (i) assume such Company Option converted as provided above; or (ii) replace such Company Option by issuing a reasonably equivalent replacement stock option to purchase Parent Common Stock in substitution therefor, in either case, subject to the remainder of this Section 5.3(a), in accordance with the same terms (as in effect as of the date of this Agreement) of the applicable Company Option Plan and the same terms of the stock option agreement by which such Company Option is evidenced, except as such terms may be modified pursuant to a mutual agreement between Parent and the holder of such Company Option (all Company Options that are assumed or replaced pursuant to this Section 5.3(a) are hereafter referred to as "Assumed Options"). All rights to purchase shares of Company Common Stock under Assumed Options shall thereupon be converted into rights to purchase Parent Common Stock. Accordingly, from and after the Effective Time: (A) each Assumed Option may be exercised solely for shares of Parent Common Stock; (B) the number of shares of Parent Common Stock subject to each Assumed Option shall be determined by multiplying the number of shares of Company Common Stock that were subject to such Assumed Option immediately prior to the Effective Time by the Conversion Ratio (as defined below in this Section), and rounding the resulting number down to

the nearest whole number of shares of Parent Common Stock; (C) the per share exercise price for the Parent Common Stock issuable upon exercise of each Assumed Option shall be determined by dividing the per share exercise price of shares of Company Common Stock subject to such Assumed Option, as in effect immediately prior to the Effective Time, by the Conversion Ratio, and rounding the resulting exercise price up to the nearest whole cent; and (D) any restriction on the exercise of any Assumed Option shall continue in full force and effect and the term, exercisability, vesting schedule and other provisions of such Assumed Option shall otherwise remain unchanged as a result of the assumption or replacement of such Assumed Option; *provided, however,* that: (1) each Assumed Option shall, in accordance with its terms, be subject to further adjustment as appropriate to reflect any stock split, division or subdivision of shares, stock dividend, issuance of bonus shares, reverse stock split, consolidation of shares, reclassification, recapitalization or other similar transaction with respect to Parent Common Stock subsequent to the Effective Time; and (2) Parent's board of directors or a committee thereof shall succeed to the authority and responsibility of the Company's board of directors or any committee thereof with respect to each Assumed Option. For the purpose of this Section 5.3(a), the "Conversion Ratio" shall mean the fraction (rounded to the nearest 1/10,000) having a numerator equal to the Merger Consideration and having a denominator equal to the average closing price of Parent Common Stock as reported on the NASDAQ National Market for the period of ten consecutive trading days ending on (and including) the second trading day prior to the Closing Date (adjusted to the extent appropriate to reflect any stock split, division or subdivision of shares, stock dividend, issuance of bonus shares, reverse stock split, consolidation of shares, reclassification, recapitalization or other similar transaction with respect to Parent Common Stock).

(b) Parent shall file with the SEC, no later than the Filing Date (as defined below in this section), a registration statement on Form S-8 (or any successor form), if available for use by Parent, relating to the shares of Parent Common Stock issuable with respect to such Assumed Options eligible for registration on Form S-8. For purposes of this Section 5.3(b), "Filing Date" shall mean the later of: (i) 10 business days after the date on which the Effective Time occurs; or (ii) 10 business days after the date on which the Company provides to Parent all information reasonably requested by Parent in connection with the filing of the Form S-8 and the integration of the employees of the Company into Parent's stock option exercise program, including information with respect to the number of outstanding options and the exercise prices thereof immediately prior to the Effective Time. The Company shall use commercially reasonable efforts to provide to Parent or its Representatives the information set forth in clause "(ii)" of the preceding sentence and to otherwise cooperate with Parent and its Representative in connection with the filing of the Form S-8 and the integration of the employees of the Company into Parent's stock option exercise program promptly following a request by Parent.

(c) At the Effective Time, Parent may (but shall not be obligated to) assume any or all of the Company Option Plans or merge any of such Company Option Plans into any stock option plan of Parent. If Parent elects to so assume or merge any Company Option Plan, then, under such Company Option Plan, Parent shall be entitled to grant stock awards, to the extent permissible under applicable Legal Requirements, using the share reserves of such Company Option Plan as of the Effective Time (including any shares subsequently

returned to such share reserves as a result of the termination of Assumed Options), except that: (i) stock covered by such awards shall be shares of Parent Common Stock; (ii) all references in such Company Option Plan to a number of shares of Company Common Stock shall be deemed amended to refer instead to a number of shares of Parent Common Stock determined by multiplying the number of referenced shares of Company Common Stock by the Conversion Ratio, and rounding the resulting number down to the nearest whole number of shares of Parent Common Stock; and (iii) Parent's board of directors or a committee thereof shall succeed to the authority and responsibility of the Company's board of directors or any committee thereof with respect to the administration of such Company Option Plan.

(d) At the Effective Time, each Company Stock Award that is outstanding and unvested immediately prior to the Effective Time shall be converted into and become a stock award of Parent Common Stock, and Parent shall either: (i) assume such Company Stock Award converted as provided above; or (ii) replace such Company Stock Award by issuing a reasonably equivalent replacement stock award of Parent Common Stock in substitution therefor, in either case, subject to the remainder of this Section 5.3(d), in accordance with the same terms (as in effect as of the date of this Agreement) of the applicable Company Option Plan and the same terms of the stock award agreement by which such Company Stock Award is evidenced, except as such terms may be modified pursuant to a mutual agreement between Parent and the holder of such Company Stock Award (all Company Stock Awards that are assumed or replaced pursuant to this Section 5.3(d) are hereafter referred to as "Assumed Stock Awards"). All rights to receive shares of Company Common Stock under Assumed Stock Awards shall thereupon be converted into rights to receive Parent Common Stock. Accordingly, from and after the Effective Time: (A) each Assumed Stock Award will be a stock award solely for the right to receive shares of Parent Common Stock; (B) the number of shares of Parent Common Stock subject to each Assumed Stock Award shall be determined by multiplying the number of shares of Company Common Stock that were subject to such Assumed Stock Award immediately prior to the Effective Time by the Conversion Ratio, and rounding the resulting number down to the nearest whole number of shares of Parent Common Stock; and (C) any restriction on the exercise of any Assumed Stock Award shall continue in full force and effect and the vesting schedule and other terms and provisions of such Assumed Stock Award shall otherwise remain unchanged as a result of the assumption or replacement of such Assumed Stock Award; *provided, however,* that: (1) each Assumed Stock Award shall, in accordance with its terms, be subject to further adjustment as appropriate to reflect any stock split, division or subdivision of shares, stock dividend, issuance of bonus shares, reverse stock split, consolidation of shares, reclassification, recapitalization or other similar transaction with respect to Parent Common Stock subsequent to the Effective Time; and (2) Parent's board of directors or a committee thereof shall succeed to the authority and responsibility of the Company's board of directors or any committee thereof with respect to each Assumed Stock Award.

(e) Prior to the Effective Time, the Company shall take all action that may be necessary (under the Company Option Plans and otherwise), including the issuance to the holders of Company Stock Awards of an assumption confirmation notice, to effectuate the provisions of this Section 5.3 and to ensure that, from and after the Effective Time, holders of Company Options or Company Stock Awards have no rights with respect thereto other than those specifically provided in this Section 5.3.

(f) Prior to the Effective Time, the Company shall take all action that may be necessary to cause all participants' rights under all current offering periods under the Company's ESPP to terminate on or prior to the day immediately preceding the Closing Date, and on such date all accumulated payroll deductions allocated to each participant's account under the ESPP shall thereupon be returned to each participant as provided by the terms of the ESPP and no shares of Company Common Stock shall be purchased under the ESPP for such final offering period. As of the close of business on the day immediately prior to the Closing Date, the Company shall have terminated the ESPP after having provided the notice of such termination as required by the terms of the ESPP. The form and substance of the notice regarding the ESPP termination shall be subject to the review and approval of Parent.

5.4 Employee Matters.

(a) Effective as of no later than the day immediately preceding the Closing Date, each of the Acquired Corporations and Company Affiliates shall terminate any and all Company Employee Plans intended to include a Code Section 401(k) arrangement (each an "Acquired Corporation 401(k) Plan") (unless Parent provides written notice to the Company that any such Acquired Corporation 401(k) Plan(s) shall not be terminated). Unless Parent provides such written notice to the Company, no later than five business days prior to the Closing Date, the Company shall provide Parent with evidence that such Acquired Corporation 401(k) Plan(s) have been terminated (effective as of no later than the day immediately preceding the Closing Date) pursuant to resolutions of the board of directors of the Company, any Acquired Corporation or Company Affiliate, as the case may be. The form and substance of such resolutions shall be subject to the prior review and approval of Parent. The Company also shall take such other actions in furtherance of terminating such Acquired Corporation 401(k) Plan(s) as Parent may reasonably request.

(b) To the extent any employee notification or consultation requirements are imposed by applicable Legal Requirements with respect to any of the Contemplated Transactions, the Company shall cooperate with Parent to ensure that such requirements are complied with prior to the Effective Time. Prior to the Effective Time, neither the Company nor any of the other Acquired Corporations shall communicate with any employees of any of the Acquired Corporations regarding post-Closing employment matters, including post-Closing employee benefits and compensation, without the prior approval of Parent unless such communication is made in accordance with the terms of a written plan mutually agreed upon by Parent and the Company prior to such communication (it being understood that it shall not be deemed to be a breach of this Section 5.4(b) for an Acquired Corporation to communicate with an employee of such Acquired Corporation who contacts such Acquired Corporation to discuss an offer proposed by, or other statement made by, Parent as long as such communication is limited to a discussion of such offer or statement).

5.5 Indemnification of Officers and Directors.

(a) All rights to indemnification by the Company existing in favor of those Persons who are directors and officers of the Company as of the date of this Agreement (the "Indemnified Persons") for their acts and omissions as directors and officers of the Company occurring prior to the Effective Time, as provided in the

Company's articles of incorporation and bylaws (as in effect as of the date of this Agreement) and as provided in any indemnification agreements between the Company and said Indemnified Persons (as in effect as of the date of this Agreement) identified in Part 2.9(a)(vi) of the Company Disclosure Schedule, shall survive the Merger and be observed by the Surviving Corporation to the fullest extent available under Colorado law for a period of six years from the date on which the Merger becomes effective, and Parent shall cause the Surviving Corporation to so observe such rights (including, to the extent necessary, by providing funds to ensure such observance).

(b) From the Effective Time until the sixth anniversary of the date on which the Merger becomes effective, the Surviving Corporation shall maintain in effect, for the benefit of the Indemnified Persons with respect to their acts and omissions as directors and officers of the Company occurring prior to the Effective Time, the existing policy of directors' and officers' liability insurance maintained by the Company as of the date of this Agreement in the form delivered by the Company to Parent prior to the date of this Agreement (the "Existing D&O Policy"), to the extent that directors' and officers' liability insurance coverage is commercially available; *provided*, *however*, that the Surviving Corporation may substitute for the Existing D&O Policy a policy or policies of comparable coverage or a "tail" policy with comparable coverage.

5.6 Regulatory Approvals; Additional Agreements.

(a) Each party shall use commercially reasonable efforts to file, as soon as practicable after the date of this Agreement, all notices, reports and other documents required to be filed by such party with any Governmental Body with respect to the Merger and the other Contemplated Transactions, and to submit promptly any additional information requested by any such Governmental Body. Without limiting the generality of the foregoing, the Company and Parent shall, promptly after the date of this Agreement, prepare and file notifications under the HSR Act in connection with the Merger. The Company and Parent shall respond as promptly as practicable to: (i) any inquiries or requests received from the Federal Trade Commission or the Department of Justice for additional information or documentation; and (ii) any inquiries or requests received from any state attorney general, foreign antitrust authority or other Governmental Body in connection with antitrust or related matters.

(b) Subject to the confidentiality provisions of the Nondisclosure Agreement, Parent and the Company each shall promptly supply the other with any information which may be required in order to effectuate any filings (including applications) pursuant to (and to otherwise comply with its obligations set forth in) Section 5.6(a). Except where prohibited by applicable Legal Requirements or any Governmental Body, and subject to the confidentiality provisions of the Nondisclosure Agreement, each of Parent and the Company shall: (i) consult with the other prior to taking a position with respect to any such filing; (ii) permit the other to review and discuss in advance, and consider in good faith the views of the other in connection with, any analyses, appearances, presentations, memoranda, briefs, white papers, arguments, opinions and proposals before making or submitting any of the foregoing to any Governmental Body by or on behalf of any party hereto in connection with any Legal Proceeding related solely to this Agreement or the Contemplated Transactions (including any such Legal Proceeding

relating to any Antitrust Law); (iii) coordinate with the other in preparing and exchanging such information; and (iv) promptly provide the other (and its counsel) with copies of all filings, notices, analyses, presentations, memoranda, briefs, white papers, opinions, proposals and other submissions (and a summary of any oral presentations) made or submitted by such party with or to any Governmental Body related solely to this Agreement or the Contemplated Transactions.

(c) Each of Parent and the Company shall notify the other promptly upon the receipt of: (i) any communication from any official of any Governmental Body in connection with any filing made pursuant to this Agreement; (ii) Knowledge of the commencement or threat of commencement of any Legal Proceeding by or before any Governmental Body with respect to the Merger or any of the other Contemplated Transactions (and shall keep the other party informed as to the status of any such Legal Proceeding or threat); and (iii) any request by any official of any Governmental Body for any amendment or supplement to any filing made pursuant to this Agreement or any information required to comply with any Legal Requirements applicable to the Merger or any of the other Contemplated Transactions. Whenever any event occurs that is required to be set forth in an amendment or supplement to any filing made pursuant to Section 5.6(a), Parent or the Company, as the case may be, shall (promptly upon learning of the occurrence of such event) inform the other of the occurrence of such event and cooperate in filing with the applicable Governmental Body such amendment or supplement.

(d) Subject to Section 5.6(e), Parent and the Company shall use commercially reasonable efforts to take, or cause to be taken, all actions necessary to consummate the Merger and make effective the other Contemplated Transactions. Without limiting the generality of the foregoing, but subject to Section 5.6(e), each party to this Agreement: (i) shall make all filings (if any) and give all notices (if any) required to be made and given by such party in connection with the Merger and the other Contemplated Transactions; (ii) shall use commercially reasonable efforts to obtain each Consent (if any) required to be obtained (pursuant to any applicable Legal Requirement or Contract, or otherwise) by such party in connection with the Merger or any of the other Contemplated Transactions; and (iii) shall use commercially reasonable efforts to lift any restraint, injunction or other legal bar to the Merger.

(e) Notwithstanding anything to the contrary contained in Section 5.6 or elsewhere in this Agreement, neither Parent nor Merger Sub shall have any obligation under this Agreement: (i) to divest or agree to divest (or cause any of its Subsidiaries or any of the Acquired Corporations to divest or agree to divest) any of its respective businesses, product lines or assets, or to take or agree to take (or cause any of its Subsidiaries or any of the Acquired Corporations to take or agree to take) any other action or agree (or cause any of its Subsidiaries or any of the Acquired Corporations to agree) to any limitation or restriction on any of its respective businesses, product lines or assets; or (ii) to contest any Legal Proceeding relating to the Merger or any of the other transactions contemplated by this Agreement.

5.7 Disclosure. During the Pre-Closing Period, Parent and the Company shall consult with each other before issuing any press release or otherwise making any public statement with respect to the Merger or any of the other Contemplated Transactions. Without limiting the generality of the foregoing, the Company shall not, and shall not permit any of the Acquired Corporations or any Representative of any of the

Acquired Corporations to, make any disclosure to the public regarding the Merger or any of the other Contemplated Transactions unless: (a) Parent shall have approved such disclosure (such approval not to be unreasonably withheld); or (b) the Company shall have been advised by its outside legal counsel that such disclosure is required by applicable law and shall have provided Parent with reasonable advance notice of the Company's intention to make such disclosure and the content of such disclosure; *provided*, *however*, that the Company is permitted to make disclosure to the public regarding the Merger or any of the other Contemplated Transactions in accordance with the terms of the press release and the analyst scripts previously approved by Parent.

5.8 Resignation of Directors. The Company shall use commercially reasonable efforts to obtain and deliver to Parent at or prior to the Closing the resignation of each director of each of the Acquired Corporations, which resignation shall be effective upon the Effective Time.

5.9 Internal Controls. If, during the Pre-Closing Period, the Company or the Company's auditors identify any significant deficiencies or material weaknesses (or a series of control deficiencies that collectively are deemed to constitute a significant deficiency or a material weakness) in the effectiveness of the Company's internal control over financial reporting, then the Company shall notify Parent as promptly thereafter as practicable and shall use its reasonable best efforts during the Pre-Closing Period to rectify such significant deficiency or material weakness, as the case may be.

5.10 Parent Approval. Promptly after the execution of this Agreement by the parties hereto, Parent, as the sole shareholder of Merger Sub, shall approve this Agreement and the Merger and provide written confirmation thereof to the Company.

SECTION 6. Conditions Precedent to Obligations of Parent and Merger Sub

The obligations of Parent and Merger Sub to cause the Merger to be effected and otherwise cause the transactions contemplated by this Agreement to be consummated are subject to the satisfaction, at or prior to the Closing, of each of the following conditions:

6.1 Accuracy of Representations.

(a) Each of the Specified Representations shall have been accurate in all material respects as of the date of this Agreement and shall be accurate in all material respects as of the Closing Date as if made on and as of the Closing Date (except for any Specified Representation made as of a specific date, which shall have been accurate in all material respects as of such date); *provided*, *however*, that, for purposes of determining the accuracy of the Specified Representations as of the foregoing dates, any update of or modification to the Company Disclosure Schedule made or purported to have been made after the execution of this Agreement shall be disregarded.

(b) The Other Company Representations shall have been accurate in all respects as of the date of this Agreement and shall be accurate in all respects as of the Closing Date as if made on and as of the Closing Date (except for any Other Company Representation made as of a specific date, which shall have been accurate in all respects as of such date); *provided*, *however*, that: (i) for purposes of determining the accuracy of the Other Company Representations as of the foregoing dates (and for purposes of determining the accuracy of the Other Company Representations for purposes of clause "(ii)" of this proviso): (A) all "Company Material Adverse Effect" and other "materiality" qualifications limiting the scope of the Other Company Representations or limiting the scope of any defined terms used in the Other Company Representations shall be disregarded; and (B) any update of or modification to the Company Disclosure Schedule made or purported to have been made after the execution of this Agreement shall be disregarded; and (ii) any inaccuracies in the Other Company Representations will be disregarded if all circumstances constituting such inaccuracies (considered collectively) do not constitute, and could not reasonably be expected to have or result in, a Company Material Adverse Effect.

6.2 Performance of Covenants. All of the covenants and obligations in this Agreement that the Company is required to comply with or to perform at or prior to the Closing shall have been complied with and performed in all material respects.

6.3 Antitrust Approvals.

(a) The waiting period applicable to the consummation of the Merger under the HSR Act shall have expired or been terminated.

(b) Any waiting period applicable to the consummation of the Merger under any applicable non-U.S. Legal Requirement relating to antitrust or competition matters shall have expired or been terminated.

(c) Any Governmental Authorization or other Consent required to be obtained with respect to the Merger under any applicable Antitrust Law shall have been obtained and shall remain in full force and effect, and no such Governmental Authorization or other Consent so obtained shall require, contain or contemplate any term, limitation, condition or restriction that Parent determines in good faith to be materially burdensome.

6.4 Shareholder Approval. This Agreement shall have been duly approved by the Required Company Shareholder Vote.

6.5 Certificate. Parent shall have received a certificate executed by the Chief Executive Officer of the Company confirming that the conditions set forth in Sections 6.1(a), 6.1(b), 6.2, 6.6, 6.8, 6.9 and 6.10 have been duly satisfied.

6.6 No Company Material Adverse Effect. Since the date of this Agreement, there shall not have occurred any Company Material Adverse Effect, and no event shall have occurred or circumstance shall exist that, in combination with any other events or circumstances, could reasonably be expected to have or result in a Company Material Adverse Effect.

6.7 No Restraints. No temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the Merger shall have been issued by any court of competent jurisdiction or other Governmental Body and remain in effect, and there shall not be any Legal Requirement enacted or deemed applicable to the Merger that makes the consummation of the Merger illegal.

6.8 No Governmental Litigation. There shall not be pending or threatened any Legal Proceeding in which a Governmental Body is or is threatened to become a party or is otherwise involved: (a) challenging or seeking to restrain, prohibit, rescind or unwind the consummation of the Merger or any of the other Contemplated Transactions; (b) relating to the Merger or any of the other Contemplated Transactions and seeking to obtain from Parent or any of its Subsidiaries or any of the Acquired Corporations any damages or other relief that could reasonably be expected to be material to Parent or constitute (or be reasonably expected to result in) a Company Material Adverse Effect; (c) seeking to prohibit or limit in any material respect the ability of Parent to vote, transfer, receive dividends with respect to or otherwise exercise ownership rights with respect to the stock of the Surviving Corporation; (d) that could materially and adversely affect the right or ability of Parent or any of the Acquired Corporations to own the assets or operate the business of any of the Acquired Corporations; (e) seeking to compel any of the Acquired Corporations, Parent or any Subsidiary of Parent to dispose of or hold separate any material assets or business as a result of the Merger or any of the other Contemplated Transactions; or (f) seeking to impose (or that, if adversely determined, could reasonably be expected to result in the imposition of) any criminal sanctions or liability on any of the Acquired Corporations.

6.9 No Other Litigation. There shall not be pending any Legal Proceeding in which there is a reasonable expectation of an outcome that is adverse to Parent, Merger Sub, any affiliate of Parent or any of the Acquired Corporations: (a) challenging or seeking to restrain, prohibit, rescind or unwind the consummation of the Merger or any of the other Contemplated Transactions; (b) relating to the Merger or any of the other Contemplated Transactions and seeking to obtain from Parent, any affiliate of Parent or any of the Acquired Corporations any damages or other relief that could reasonably be expected to be material to Parent or the Acquired Corporations; (c) seeking to prohibit or limit in any material respect ability of Parent to vote, transfer, receive dividends with respect to or otherwise exercise ownership rights with respect to the stock of any of the Acquired Corporations; (d) that could materially and adversely affect the right or ability of Parent, any affiliate of Parent or any of the Acquired Corporations to own the assets or operate the business of any of the Acquired Corporations in a manner reasonably expected to result in a Company Material Adverse Effect; or (e) seeking to compel any of the Acquired Corporations, Parent or any Subsidiary of Parent to dispose of or hold separate any material assets or business as a result of the Merger or any of the other Contemplated Transactions.

6.10 Sarbanes-Oxley Certifications. Neither the chief executive officer nor the chief financial officer of the Company shall have failed to provide, with respect to any Company SEC Document filed (or required to be filed) with the SEC on or after the date of this Agreement, any necessary certification as and in the form required under Rule 13a-14 or Rule 15d-14 under the Exchange Act or 18 U.S.C. §1350.

SECTION 7. Conditions Precedent to Obligation of the Company

The obligation of the Company to effect the Merger and otherwise consummate the transactions contemplated by this Agreement is subject to the satisfaction, at or prior to the Closing, of the following conditions:

7.1 Accuracy of Representations.

(a) Each of the representations and warranties of Parent and Merger Sub contained in Sections 3.2, 3.3, 3.4 and 3.5 shall have been accurate in all material respects as of the date of this Agreement and shall be accurate in all material respects as of the Closing Date as if made on and as of the Closing Date.

(b) Each of the representations and warranties of Parent and Merger Sub contained in Sections 3.1 and 3.6 shall have been accurate in all respects as of the date of this Agreement and shall be accurate in all respects as of the Closing Date as if made on and as of the Closing Date (except for any such representations and warranties made as of a specific date, which shall have been accurate in all respects as of such date); *provided*, *however*, that: (i) for purposes of determining the accuracy of such representations and warranties as of the foregoing dates (and for purposes of determining the accuracy of such representations and warranties for purposes of clause "(ii)" of this proviso), all "materiality" qualifications limiting the scope of such representations and warranties shall be disregarded; and (ii) any inaccuracies in such representations and warranties will be disregarded if all circumstances constituting such inaccuracies (considered collectively) do not constitute, and could not reasonably be expected to have or result in, a material adverse effect on the ability of Parent or Merger Sub to consummate the Merger.

7.2 Performance of Covenants. All of the covenants and obligations in this Agreement that Parent and Merger Sub are required to comply with or to perform at or prior to the Closing shall have been complied with and performed in all material respects.

7.3 Shareholder Approval. This Agreement shall have been duly approved by the Required Company Shareholder Vote.

7.4 Certificate. The Company shall have received a certificate executed by an executive officer of Parent confirming that the conditions set forth in Sections 7.1 and 7.2 have been duly satisfied.

7.5 Antitrust Approval. The waiting period applicable to the consummation of the Merger under the HSR Act shall have expired or been terminated.

7.6 No Restraints. No temporary restraining order, preliminary or permanent injunction or other Order against the Company preventing the consummation of the Merger by the Company under U.S. law shall have been issued by any U.S. court of competent jurisdiction or other U.S. Governmental Body and remain in effect, and there shall not be any U.S. Legal Requirement enacted or deemed applicable to the Merger that makes the consummation of the Merger by the Company illegal under U.S. law.

7.7 No Governmental Litigation. There shall not be pending or threatened any Legal Proceeding in which a Governmental Body is or is threatened to become a party and in which there is a reasonable expectation of any criminal sanctions or criminal liability being imposed on any of the directors or executive officers of the Company.

SECTION 8. TERMINATION

8.1 Termination. This Agreement may be terminated prior to the Effective Time (whether before or after approval of the Merger by the Required Company Shareholder Vote):

(a) by mutual written consent of Parent and the Company;

(b) by either Parent or the Company if the Merger shall not have been consummated by September 30, 2006; *provided, however*, that: (i) a party shall not be permitted to terminate this Agreement pursuant to this Section 8.1(b) if the failure to consummate the Merger by September 30, 2006 is attributable to a failure on the part of such party to perform any covenant or obligation in this Agreement required to be performed by such party at or prior to the Effective Time; and (ii) the Company shall not be permitted to terminate this Agreement pursuant to this Section 8.1(b) unless the Company shall have made any payment required to be made to Parent pursuant to Section 8.3(a);

(c) by Parent or the Company if a court of competent jurisdiction or other Governmental Body shall have issued a final and nonappealable Order or shall have taken any other final and nonappealable action, having the effect of permanently restraining, enjoining or otherwise prohibiting the consummation of the Merger;

(d) by either Parent or the Company if: (i) the Company Shareholders' Meeting (including any adjournments and postponements thereof) shall have been held and completed and the Company's shareholders shall have taken a final vote on a proposal to approve this Agreement and the Merger; and (ii) this Agreement and the Merger shall not have been approved at the Company Shareholders' Meeting (and shall not have been approved at any adjournment or postponement thereof) by the Required Company Shareholder Vote; *provided, however,* that: (A) a party shall not be permitted to terminate this Agreement pursuant to this Section 8.1(d) if the failure to have this Agreement approved by the Required Company Shareholder Vote is attributable to a failure on the part of such party to perform any covenant or obligation in this Agreement required to be performed by such party at or prior to the Effective Time; and (B) the Company shall not be permitted to terminate this Agreement pursuant to this Section 8.1(d) unless the Company shall have paid to Parent any fee required to be paid to Parent pursuant to Section 8.3(c);

(e) by Parent (at any time prior to the approval of this Agreement by the Required Company Shareholder Vote) if a Triggering Event shall have occurred;

(f) by Parent if: (i) any of the Specified Representations shall have been inaccurate as of the date of this Agreement or shall have become inaccurate as of a date subsequent to the date of this Agreement (as if made on such subsequent date), such that the condition set forth in Section 6.1(a) would not be satisfied (it being understood that, for purposes of determining the accuracy of the Specified Representations as of the date of this Agreement or as of any subsequent date, any update of or modification to the Company Disclosure Schedule made or purported to have been made after the execution of this Agreement shall be disregarded); (ii) any of the Other Company Representations shall have been inaccurate as of the date of this Agreement or shall have become inaccurate as of a date subsequent to the date of this Agreement (as if made on such subsequent date), such that the condition set forth in Section 6.1(b) would not be satisfied (it being understood that, for purposes of determining the accuracy of the Other Company Representations as of the date of this Agreement or as of any subsequent date, and for purposes of determining the accuracy of the Other Company Representations for purposes of clause "(ii)" of the proviso to Section 6.1(b): (A) all "Company Material Adverse Effect" and other "materiality" qualifications limiting the scope of the Other Company Representations or limiting the scope of the defined terms used in the Other Company Representations shall be disregarded; and (B) any update of or modification to the Company Disclosure Schedule made or purported to have been made after the execution of this Agreement shall be disregarded); or (iii) any of the Company's covenants or obligations contained in this Agreement shall have been breached such that the condition set forth in Section 6.1(a) would not be satisfied; *provided*, *however*, that if an inaccuracy in any of the Company's representations and warranties as of a date subsequent to the date of this Agreement or a breach of a covenant or obligation by the Company is curable by the Company and the Company is continuing to exercise commercially reasonable efforts to cure such inaccuracy or breach, then Parent may not terminate this Agreement under this Section 8.1(f) on account of such inaccuracy or breach unless such inaccuracy or breach shall remain uncured for a period of 30 days commencing on the date that Parent gives the Company written notice of such inaccuracy or breach;

(g) by the Company if: (i) any of the representations and warranties of Parent and Merger Sub in Sections 3.2, 3.3, 3.4 and 3.5 shall have been inaccurate as of the date of this Agreement or shall have become inaccurate as of a date subsequent to the date of this Agreement (as if made on such subsequent date), such that the condition set forth in Section 7.1(a) would not be satisfied; (ii) any of the other representations and warranties of Parent and Merger Sub shall have been inaccurate as of the date of this Agreement or shall have become inaccurate as of a date subsequent to the date of this Agreement (as if made on such subsequent date), such that the condition set forth in Section 7.1(b) would not be satisfied (it being understood that, for purposes of determining the accuracy of the representations and warranties of Parent and Merger Sub in Sections 3.2, 3.3 and 3.4 as of the date of this Agreement or as of any subsequent date, and for purposes of determining the accuracy of such other representations and warranties of Parent and Merger Sub for purposes of clause "(ii)" of the proviso to Section 7.1(b): (A) all "materiality" qualifications limiting the scope of such other representations and warranties shall be disregarded; or (iii) any of Parent's covenants or

obligations contained in this Agreement shall have been breached such that the condition set forth in Section 7.2 would not be satisfied; *provided*, *however*, that if an inaccuracy in any of Parent's representations and warranties as of a date subsequent to the date of this Agreement or a breach of a covenant or obligation by Parent is curable by Parent and Parent is continuing to exercise commercially reasonable efforts to cure such inaccuracy or breach, then the Company may not terminate this Agreement under this Section 8.1(g) on account of such inaccuracy or breach unless such inaccuracy or breach shall remain uncured for a period of 30 days commencing on the date that the Company gives Parent written notice of such inaccuracy or breach; or

(h) by the Company (at any time prior to the approval of this Agreement by the Required Company Shareholder Vote), in order to accept a Superior Offer and enter into a Specified Definitive Acquisition Agreement (as defined below) relating to such Superior Offer, if: (i) there shall not have been any breach in any material respect of any obligations contained in Section 4.3; (ii) the board of directors of the Company shall have authorized the Company to enter into a binding, written, definitive acquisition agreement providing for the consummation of the transaction contemplated by such Superior Offer (the "Specified Definitive Acquisition Agreement"); (iii) the Company shall have delivered to Parent a written notice (that includes a copy of the Specified Definitive Acquisition Agreement as an attachment) containing the Company's representation and warranty that: (A) the Specified Definitive Acquisition Agreement has been duly executed and delivered to the Company by the other party thereto and the offer thereby made by such other party cannot be withdrawn by such other party at any time during the period of two days commencing on the date of Parent's receipt of such notice; (B) the board of directors of the Company has authorized the execution and delivery of the Specified Definitive Acquisition Agreement on behalf of the Company and the termination of this Agreement pursuant to this Section 8.1(h); and (C) the Company intends to enter into the Specified Definitive Acquisition Agreement contemporaneously with the termination of this Agreement pursuant to this Section 8.1(h); (iv) a period of at least three business days shall have elapsed since the receipt by Parent of such notice, and the Company shall have made its Representatives available during such period for the purpose of engaging in negotiations with Parent regarding a possible amendment to this Agreement or a possible alternative transaction; (v) the Company shall have promptly advised Parent of any modification proposed to be made to the Specified Definitive Acquisition Agreement by the other party thereto; (vi) any written proposal by Parent to amend this Agreement or enter into an alternative transaction shall have been considered by the board of directors of the Company in good faith, and such board of directors shall have determined in good faith, after having obtained and taken into account a written opinion of an independent financial advisor of nationally recognized reputation, that the terms of the proposed amendment to this Agreement (or other alternative transaction) are not as favorable to the Company's shareholders, from a financial point of view, as the terms of the transaction contemplated by the Specified Definitive Acquisition Agreement as modified to the extent that the Company has advised Parent pursuant to clause (v) of this Section 8.1(h); and (vii) the Company shall have paid to Parent the fee required to be paid to Parent pursuant to Section 8.3(e).

8.2 Effect of Termination. In the event of the termination of this Agreement as provided in Section 8.1, this Agreement shall be of no further force or effect; *provided*, *however*, that: (a) this Section 8.2, Section 8.3 and Section 9 shall survive the termination of this Agreement and shall remain in full force and effect; (b) the Nondisclosure Agreement shall survive the termination of this Agreement and shall remain in full force and effect in accordance with their terms; and (c) the termination of this Agreement shall not relieve any party from any liability for: (i) any knowing inaccuracy in or breach of any representation or warranty contained in this Agreement or any other inaccuracy in or breach of any representation or warranty contained in this Agreement to the extent that such inaccuracy or breach: (A) in the case of the Company had (or would be reasonably expected to have) a Company Material Adverse Effect; and (B) in the case of Parent or Merger Sub, had (or would reasonably be expected to have) a material adverse effect on the ability of Parent or Merger Sub to consummate the Merger; or (ii) any breach of any covenant or obligation contained in this Agreement.

8.3 Expenses; Termination Fees.

(a) Except as set forth in this Section 8.3, all fees and expenses incurred in connection with this Agreement and the Contemplated Transactions shall be paid by the party incurring such expenses, whether or not the Merger is consummated; *provided*, *however*, that:

(i) Parent shall pay all fees and expenses, other than the Company's attorneys' fees, incurred in connection with the filing by the parties hereto of the premerger notification and report forms relating to the Merger under the HSR Act and the filing of any notice or other document under any applicable non U.S. Antitrust Law; and

(ii) if: (A) this Agreement is terminated by Parent or the Company pursuant to Section 8.1(b); (B) at or prior to the time of the termination of this Agreement, an Acquisition Proposal shall have been disclosed, announced, commenced, submitted or made; (C) prior to the time of the termination of this Agreement the Company Shareholders' Meeting shall not have been held; and (D) at or prior to the time of the termination of this Agreement the condition set forth in Section 6.3 shall have been satisfied, then (without limiting any obligation of the Company to pay any fee payable pursuant to Section 8.3(d)), the Company shall make a nonrefundable cash payment to Parent, at the time specified in the next sentence, in an amount equal to the aggregate amount of all fees and expenses (including all attorneys' fees, accountants' fees, financial advisory fees and filing fees) that have been paid or that may become payable by or on behalf of Parent in connection with the preparation and negotiation of this Agreement and the other agreements referred to in this Agreement and otherwise in connection with the Merger and the other transactions contemplated by this Agreement; *provided*, *however*, that the amount payable pursuant to this Section 8.3(a) shall in no event exceed $3,000,000.

In the case of termination of this Agreement by the Company pursuant to Section 8.1(b), any nonrefundable payment required to be made pursuant to clause "(ii)" of the proviso to the

preceding sentence shall be made by the Company prior to the time of such termination; and in the case of termination of this Agreement by Parent pursuant to Section 8.1(b), any nonrefundable payment required to be made pursuant to clause "(ii)" of the proviso to the preceding sentence shall be made by the Company within two business days after such termination.

(b) If this Agreement is terminated by Parent pursuant to Section 8.1(e), then the Company shall pay to Parent in cash a nonrefundable fee in the amount of $18,100,000 within two business days after such termination, less any expense reimbursement paid by the Company pursuant to Section 8.3(a)(ii).

(c) If: (i) any Specified Action shall have occurred; and (ii) following such Specified Action, this Agreement is terminated by Parent or the Company pursuant to Section 8.1(d), then the Company shall pay to Parent, in cash at the time specified in the next sentence, a nonrefundable fee in the amount of $18,100,000. In the case of termination of this Agreement by the Company pursuant to Section 8.1(d), the fee referred to in the preceding sentence shall be paid by the Company prior to the time of such termination; and in the case of termination of this Agreement by Parent pursuant to Section 8.1(d), the fee referred to in the preceding sentence shall be paid by the Company within two business days after such termination.

(d) If: (i) this Agreement is terminated by Parent or the Company pursuant to Section 8.1(b) or Section 8.1(d); (ii) at or prior to the time of the termination of this Agreement an Acquisition Proposal shall have been disclosed, announced, commenced, submitted or made; and (iii) on or prior to the first anniversary of such termination of this Agreement, either: (A) an Acquisition Transaction is consummated; or (B) a definitive agreement with respect to an Acquisition Transaction is entered into by an Acquired Corporation, then the Company shall pay to Parent, in cash on the earlier of the consummation of such Acquisition Transaction or the execution of such definitive agreement (and in addition to any amounts payable pursuant to Section 8.3(a)), a nonrefundable fee in the amount of $18,100,000, less any expense reimbursement that was paid by the Company pursuant to Section 8.3(a)(ii).

(e) If this Agreement is terminated by the Company pursuant to Section 8.1(h), then, prior to the time of such termination, the Company shall pay to Parent a nonrefundable fee in the amount of $18,100,000 in cash.

(f) If the Company fails promptly to pay when due any amount payable by the Company under this Section 8.3, then: (i) the Company shall reimburse Parent for all costs and expenses (including fees and disbursements of counsel) incurred in connection with the collection of such overdue amount and the enforcement by Parent of its rights under this Section 8.3; and (ii) the Company shall pay to Parent interest on such overdue amount (for the period commencing as of the date such overdue amount was originally required to be paid through the date such overdue amount is actually paid to Parent in full) at a rate per annum equal to the lower of: (i) 175 basis points over the "prime rate" (as announced by Citibank, N.A. or any

successor thereto) in effect on the date such overdue amount was originally required to be paid; or (ii) the maximum rate permitted by applicable Legal Requirements.

SECTION 9. Miscellaneous Provisions

9.1 Amendment. This Agreement may be amended with the approval of the respective boards of directors of the Company, Parent and Merger Sub at any time (whether before or after the approval of this Agreement by the shareholders of the Company); *provided, however,* that after approval of this Agreement by the Company's shareholders, no amendment shall be made which by law requires further approval of the shareholders of the Company without the further approval of such shareholders. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

9.2 Waiver. No failure on the part of any party to exercise any power, right, privilege or remedy under this Agreement, and no delay on the part of any party in exercising any power, right, privilege or remedy under this Agreement, shall operate as a waiver of such power, right, privilege or remedy; and no single or partial exercise of any such power, right, privilege or remedy shall preclude any other or further exercise thereof or of any other power, right, privilege or remedy. No party shall be deemed to have waived any claim arising out of this Agreement, or any power, right, privilege or remedy under this Agreement, unless the waiver of such claim, power, right, privilege or remedy is expressly set forth in a written instrument duly executed and delivered on behalf of such party; and any such waiver shall not be applicable or have any effect except in the specific instance in which it is given.

9.3 No Survival of Representations and Warranties. None of the representations and warranties contained in this Agreement or in any certificate delivered pursuant to this Agreement shall survive the Merger.

9.4 Entire Agreement; Counterparts; Exchanges by Facsimile or Electronic Delivery. This Agreement and the other agreements referred to herein constitute the entire agreement and supersede all prior agreements and understandings, both written and oral, among or between any of the parties with respect to the subject matter hereof and thereof; *provided*, *however*, that the Nondisclosure Agreement shall not be superseded and shall remain in full force and effect and shall apply to: (a) all Confidential Information (as defined in the Nondisclosure Agreement) relating to the Acquired Corporations provided by or on behalf of the Company to Parent and its Representatives after the date hereof; and (b) all Confidential Information (as defined in the Nondisclosure Agreement) relating to Parent and its affiliates provided by or on behalf of Parent to the Company and its Representatives after the date hereof. This Agreement may be executed in several counterparts, each of which shall be deemed an original and all of which shall constitute one and the same instrument. The exchange of a fully executed Agreement (in counterparts or otherwise) by facsimile or by electronic delivery in .pdf format shall be sufficient to bind the parties to the terms and conditions of this Agreement.

9.5 Applicable Law; Jurisdiction. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Delaware, regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof. In any action or suit between any of the parties arising out of or relating to this Agreement or any of the

Contemplated Transactions: (a) each of the parties irrevocably and unconditionally consents and submits to the exclusive jurisdiction and venue of the Chancery Court of the State of Delaware; and (b) each of the parties irrevocably waives the right to trial by jury.

9.6 Disclosure Schedule. The Company Disclosure Schedule shall be arranged in separate parts corresponding to the numbered and lettered sections contained in Section 2. For purposes of this Agreement, each statement or other item of information set forth in the Company Disclosure Schedule or in any update to the Company Disclosure Schedule shall be deemed to be a representation and warranty made by the Company in Section 2.

9.7 Attorneys' Fees. In any action at law or suit in equity to enforce this Agreement or the rights of any of the parties hereunder, the prevailing party in such action or suit shall be entitled to receive a reasonable sum for its attorneys' fees and all other reasonable costs and expenses incurred in such action or suit.

9.8 Assignability; No Third Party Rights . This Agreement shall be binding upon, and shall be enforceable by and inure solely to the benefit of, the parties hereto and their respective successors and assigns; *provided*, *however*, that neither this Agreement nor any party's rights or obligations hereunder may be assigned or delegated by such party without the prior written consent of the other party, and any attempted assignment or delegation of this Agreement or any of such rights or obligations by a party without the other party's prior written consent shall be void and of no effect. Except as specifically provided in Section 5.5, nothing in this Agreement, express or implied, is intended to or shall confer upon any Person (other than the parties hereto) any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

9.9 Notices. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given or made as follows: (a) if sent by registered or certified mail in the United States return receipt requested, upon receipt; (b) if sent designated for overnight delivery by nationally recognized overnight air courier (such as DHL or Federal Express), two business days after delivery to such courier; (c) if sent by facsimile transmission before 5:00 p.m. in California, when transmitted and receipt is confirmed; (d) if sent by facsimile transmission after 5:00 p.m. in California and receipt is confirmed, on the following business day; and (e) if otherwise actually personally delivered, when delivered, provided that such notices, requests, demands and other communications are delivered to the address set forth below, or to such other address as any party shall provide by like notice to the other parties to this Agreement:

if to Parent or Merger Sub:

Applied Materials, Inc.
2881 Scott Boulevard, M/S 2064
Santa Clara, CA 95050
Attention: Joseph Sweeney, Senior Vice President, General
Counsel and Corporate Secretary
Facsimile: (408) 563-4635

and to:

Applied Materials, Inc.
3050 Bowers Avenue, M/S 0105
Santa Clara, CA 95054
Attention: Greg Psihas, Managing Director, Corporate
Business Development
Facsimile: (408) 986-7260

if to the Company:

Applied Films Corporation
9586 E. I-25 Frontage Road, Suite 200
Longmont, Colorado 80504
Attention: Lawrence D. Firestone, Senior Vice President, Chief Financial
Officer, Treasurer and Secretary
Facsimile: (303) 678-9275

with a copy (which shall not constitute notice) to:

Varnum Riddering Schmidt & Howlett LLP
Bridgewater Place
333 Bridge Street, N.W.
P.O. Box 352
Grand Rapids, MI 49501
Attention: Daniel C. Molhoek, Esq.
Facsimile: (616) 336-7000

9.10 Cooperation. The Company agrees to cooperate fully with Parent and to execute and deliver such further documents, certificates, agreements and instruments and to take such other actions as may be reasonably requested by Parent to evidence or reflect the Contemplated Transactions and to carry out the intent and purposes of this Agreement.

9.11 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions of this Agreement or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If a final judgment of a court of competent jurisdiction declares that any term or provision of this Agreement is invalid or unenforceable, the parties hereto agree that the court making such determination shall have the power to limit such term or provision, to delete specific words or phrases or to replace such 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, and this Agreement shall be valid and enforceable as so modified. In the event such court does not exercise the power granted to it in the prior sentence, the parties hereto agree to replace such invalid or unenforceable term or provision with a valid and enforceable term or provision that

will achieve, to the extent possible, the economic, business and other purposes of such invalid or unenforceable term or provision.

9.12 Construction.

(a) For purposes of Section 2, the Company shall be deemed to have "delivered" a document to Parent if the Company: (i) lists such document in the index posted on the online data room; and (ii) includes the document in the online data room by 11:59 p.m. on May 1, 2006 (California Time).

(b) For purposes of this Agreement, whenever the context requires: the singular number shall include the plural, and vice versa; the masculine gender shall include the feminine and neuter genders; the feminine gender shall include the masculine and neuter genders; and the neuter gender shall include masculine and feminine genders.

(c) The parties hereto agree that any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be applied in the construction or interpretation of this Agreement.

(d) As used in this Agreement, the words "include" and "including," and variations thereof, shall not be deemed to be terms of limitation, but rather shall be deemed to be followed by the words "without limitation."

(e) Except as otherwise indicated, all references in this Agreement to "Sections," "Exhibits" and "Schedules" are intended to refer to Sections of this Agreement and Exhibits or Schedules to this Agreement.

(f) The bold-faced headings contained in this Agreement are for convenience of reference only, shall not be deemed to be a part of this Agreement and shall not be referred to in connection with the construction or interpretation of this Agreement.

(g) Where monetary thresholds set forth in Section 2 and 4 are denominated in U.S. dollars and not in any non-U.S. dollar currency, applicable expenditures, revenues, payments or other matters to be used in determining whether such threshold has been attained or exceeded shall include the amounts of all such expenditures, payments, revenues or costs made, earned, paid or otherwise denominated in non-U.S. dollar currencies, as such amounts are converted into U.S. dollars at the applicable exchange rate reported in the Wall Street Journal on: (i) with respect to thresholds set forth in Section 2, the date of this Agreement; and (ii) with respect to thresholds set forth in Section 4, the date that the applicable expenditure or payment is made.

(h) All references to "business days" shall mean days on which banks are open for business in California and in Colorado.

In Witness Whereof, the parties have caused this Agreement to be executed as of the date first above written.

Applied Materials, Inc.

By: /s/ Michael R. Splinter
Name: Michael R. Splinter
Title: President and Chief Executive Officer

Blue Acquisition, Inc.

By: /s/ George S. Davis
Name: George S. Davis
Title: President

Applied Films Corporation

By: /s/ Thomas T. Edman
Name: Thomas T. Edman
Title: President and Chief Executive Officer

EXHIBIT A

CERTAIN DEFINITIONS

For purposes of the Agreement (including this Exhibit A):

Acquired Corporations. "Acquired Corporations" shall mean: (a) the Company; (b) each of the Company Subsidiaries; and (c) any other Entity that has been merged with or into, or that is a predecessor to, any of the Entities identified in clauses "(a)" or "(b)" above.

Acquisition Inquiry. "Acquisition Inquiry" shall mean an inquiry, indication of interest or request for information (other than an inquiry, indication of interest or request for information made or submitted by Parent) that could reasonably be expected to lead to an Acquisition Proposal.

Acquisition Proposal. "Acquisition Proposal" shall mean any offer or proposal (other than an offer or proposal made or submitted by Parent) contemplating or otherwise relating to any Acquisition Transaction.

Acquisition Transaction. "Acquisition Transaction" shall mean any transaction or series of transactions involving:

(a) any merger, exchange, consolidation, business combination, plan of arrangement, issuance of securities, acquisition of securities, reorganization, recapitalization, takeover offer, tender offer, exchange offer or other similar transaction: (i) in which any of the Acquired Corporations is a constituent corporation; (ii) in which a Person or "group" (as defined in the Exchange Act and the rules promulgated thereunder) of Persons directly or indirectly acquires beneficial or record ownership of securities representing more than 10% of the outstanding securities of any class of voting securities of any of the Acquired Corporations; or (iii) in which any of the Acquired Corporations issues securities representing more than 10% of the outstanding securities of any class of voting securities of any of the Acquired Corporations;

(b) any sale, lease, exchange, transfer, license, acquisition or disposition of any business or businesses or assets that constitute or account for 10% (the reference to "10%" in this clause "(b)" shall be replaced by "20%" solely for the purpose of Section 8.3(d) of the Agreement) or more of the consolidated net revenues of the Acquired Corporations during the twelve months period preceding such transaction or series of transactions or consolidated assets of the Acquired Corporations as of the date of such transaction or series of transactions; or

(c) any liquidation or dissolution of any of the Acquired Corporations.

Agreement. "Agreement" shall mean the Agreement and Plan of Merger to which this Exhibit A is attached, as it may be amended from time to time.

Antitrust Laws. "Antitrust Laws" shall mean all Legal Requirements that are designed to

prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade.

CBCA. “CBCA” shall mean the Colorado Business Corporation Act, as it may be amended from time to time.

CCAA. “CCAA” shall mean the Colorado Corporations and Associations Act, as it may be amended from time to time.

COBRA. **“**COBRA**”** shall mean the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

Code. “Code” shall mean the United States Internal Revenue Code of 1986, as amended.

Company Affiliate. “Company Affiliate” shall mean any Person under common control with any of the Acquired Corporations within the meaning of Section 414(b), Section 414(c), Section 414(m) or Section 414(o) of the Code, and the regulations issued thereunder or any similar provisions under non-U.S. Legal Requirements, including Sec. 15 et seq. of the German Corporations Act (*Aktiengesetz*).

Company Associate. “Company Associate” shall mean any current or former officer or other employee, or current or former independent contractor, consultant or director, of or to any of the Acquired Corporations or any Company Affiliate.

Company Common Stock. “Company Common Stock” shall mean the Common Stock, without par value, of the Company.

Company Contract. “Company Contract” shall mean any Contract: (a) to which any of the Acquired Corporations is a party; (b) by which any of the Acquired Corporations or any Company IP or any other asset of any of the Acquired Corporations is or may become bound or under which any of the Acquired Corporations has, or may become subject to, any obligation; or (c) under which any of the Acquired Corporations has or may acquire any right or interest.

Company Disclosure Schedule. “Company Disclosure Schedule” shall mean the Company Disclosure Schedule that has been prepared by the Company in accordance with the requirements of Section 9.6 of the Agreement and that has been delivered by the Company to Parent on the date of the Agreement.

Company Employee Agreement. “Company Employee Agreement” shall mean any management, employment, severance, retention, transaction bonus, change in control, consulting, relocation, repatriation or expatriation agreement or other similar Contract between any of the Acquired Corporations or any Company Affiliate and any current or former director, officer or employee of any of the Acquired Corporations or any Company Affiliate, other than any such Contract that is terminable “at will” (or, with respect to non-U.S. Persons, otherwise similarly terminable) without any obligation on the part of any Acquired Corporation or any Company Affiliate to make any severance, termination, change in control or similar payment or

to provide any benefit other than severance payments required to be made by any Acquired Corporation under applicable non-U.S. law.

Company Employee Plan. "Company Employee Plan" shall mean any plan, program, policy, practice or Contract providing for compensation, severance, termination pay, deferred compensation, performance awards, stock or stock-related awards, fringe benefits, retirement benefits or other benefits or remuneration of any kind, whether or not in writing and whether or not funded, including each "employee benefit plan," within the meaning of Section 3(3) of ERISA (whether or not ERISA is applicable to such plan): (a) that is or has been maintained or contributed to, or required to be maintained or contributed to, by any of the Acquired Corporations or any Company Affiliate for the benefit of any Company Associate; or (b) with respect to which any of the Acquired Corporations or any Company Affiliate has or may incur or become subject to any liability or obligation; *provided, however,* that a Company Employee Agreement shall not be considered a Company Employee Plan.

Company IP. "Company IP" shall mean: (a) all Intellectual Property Rights in or to the Company Products and all Intellectual Property Rights in or to Company Product Software; and (b) all other Intellectual Property Rights and Intellectual Property with respect to which any of the Acquired Corporations has (or purports to have) an ownership interest or an exclusive license or similar exclusive right.

Company Material Adverse Effect. "Company Material Adverse Effect" shall mean any effect, change, claim, event or circumstance (each, an "**Effect**") that, considered together with all other Effects, is materially adverse to, or has a material adverse effect on: (a) the business, condition, operations or financial performance of the Acquired Corporations taken as a whole, other than: (i) any Effect resulting from conditions generally affecting the industries in which the Company participates, to the extent that such conditions do not have a disproportionate impact on the Acquired Corporations; (ii) any Effect resulting from conditions generally affecting the global or any country's economy as a whole (whether such conditions affecting the global economy as a whole result from a natural disaster, an act of terrorism, sabotage, military action or war or otherwise), to the extent that such conditions do not have a disproportionate impact on the Acquired Corporations; (iii) any Effect resulting from the payment by the Acquired Corporations of the legal, investment banking and other professional advisory fees and out-of-pocket expenses incurred by the Acquired Corporations in connection with the preparation and negotiation of this Agreement and the other agreements referred to in this Agreement and otherwise in connection with the Merger in an amount not to exceed the amount set forth in Item 1 of Part A of the Company Disclosure Schedule; (iv) any Effect resulting from any changes by an Acquired Corporation in its methods of accounting or accounting practices to the extent such changes are required by concurrent changes in GAAP; or (v) any Effect resulting from the circumstances described in Item 2 or Item 3 of Part A of the Company Disclosure Schedule; (b) the ability of the Company to consummate the Merger or any of the other Contemplated Transactions or to perform any of its covenants or obligations under the Agreement; or (c) the ability of Parent to vote, transfer, receive dividends with respect to or otherwise exercise ownership rights with respect to the stock of the Surviving Corporation.

Company Option Plans. “Company Option Plans” shall mean: (a) the Company’s 1993 Stock Option Plan; (b) the Company’s 1997 Stock Option Plan; (c) the Company’s Outside Director Stock Option Plan; (d) the Company’s Non-Employee, Non-Director Officer and Consultant Non-Qualified Stock Option Plan; and (e) the Company’s Long Term Incentive Plan.

Company Options. “Company Options” shall mean options to purchase shares of Company Common Stock from the Company (whether granted by the Company pursuant to the Company Option Plans, assumed by the Company or otherwise).

Company Pension Plan. “Company Pension Plan” shall mean each: (a) Company Employee Plan that is an “employee pension benefit plan,” within the meaning of Section 3(2) of ERISA; or (b) other occupational pension plan, including any final salary or money purchase plan.

Company Product. “Company Product” shall mean any product or service: (a) developed, manufactured, marketed, distributed, provided, leased, licensed, sold or made available, directly or indirectly, by or on behalf of any Acquired Corporation; or (b) currently under development by or for any Acquired Corporation (whether or not in collaboration with another Person).

Company Product Software. “Company Product Software” shall mean any software (regardless of whether such software is owned by an Acquired Corporation or licensed to an Acquired Corporation by a third party) contained or included in (or material to the operation of) any Company Product or used directly in the development, manufacturing, maintenance, repair, support, testing or performance of any Company Product.

Company Stock Award. “Company Stock Award” shall mean an award of shares, or awards representing the right to receive in the future shares of Company Common Stock from the Company in accordance with a vesting schedule or issuance schedule (whether awarded by the Company pursuant to the Company Option Plans, assumed by the Company or otherwise awarded by the Company).

Consent. “Consent” shall mean any approval, consent, ratification, permission, waiver or authorization (including any Governmental Authorization).

Contemplated Transactions. “Contemplated Transactions” shall mean the Merger and the other transactions contemplated by the Agreement.

Contract. “Contract” shall mean any written, oral or other agreement, contract, subcontract, lease, understanding, arrangement, instrument, note, option, warranty, purchase order, license, sublicense, insurance policy, benefit plan or legally binding commitment or undertaking of any nature.

Encumbrance. “Encumbrance” shall mean any lien, pledge, hypothecation, charge, mortgage, easement, encroachment, imperfection of title, title exception, title defect, right of possession, lease, tenancy license, security interest, encumbrance, claim, infringement, interference, option, right of first refusal, preemptive right, community property interest or

restriction of any nature (including any restriction on the voting of any security, any restriction on the transfer of any security or other asset, any restriction on the receipt of any income derived from any asset, any restriction on the use of any asset and any restriction on the possession, exercise or transfer of any other attribute of ownership of any asset).

Entity. "Entity" shall mean any corporation (including any non-profit corporation), general partnership, limited partnership, limited liability partnership, joint venture, estate, trust, company (including any company limited by shares, limited liability company or joint stock company), firm, society or other enterprise, association, organization or entity.

ERISA. "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

Exchange Act. "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

Foreign Plan. **"**Foreign Plan" shall mean any: (a) plan, program, policy, practice, Contract or other arrangement of any Acquired Corporation mandated by a Governmental Body outside the United States; (b) Company Employee Plan that is subject to any of the Legal Requirements of any jurisdiction outside the United States; or (c) Company Employee Plan that covers or has covered any Company Associate whose services are or have been performed primarily outside the United States.

GAAP. "GAAP" shall mean generally accepted accounting principles in the United States.

Governmental Authorization. "Governmental Authorization" shall mean any: (a) permit, license, certificate, franchise, permission, variance, clearance, registration, qualification or authorization issued, granted, given or otherwise made available by or under the authority of any Governmental Body or pursuant to any Legal Requirement; or (b) right under any Contract with any Governmental Body.

Governmental Body. "Governmental Body" shall mean any: (a) nation, state, commonwealth, province, territory, county, municipality, district or other jurisdiction of any nature; (b) U.S. federal, state, local or municipal, non-U.S. or other government; (c) governmental or quasi-governmental authority of any nature (including any governmental division, department, agency, commission, instrumentality, official, ministry, fund, foundation, center, organization, unit, body or Entity and any court or other tribunal); or (d) self-regulatory organization (including the NASDAQ National Market).

HSR Act. "HSR Act" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

Intellectual Property. "Intellectual Property" shall mean algorithms, apparatus, databases, data collections, designs, diagrams, drawings, formulae, inventions (whether or not patentable and including any inventions under Germany's Act of Employee's Inventions or any similar Legal Requirement), know-how, logos, marks (including brand names, product names,

logos, and slogans), methods, processes, proprietary information, protocols, schematics, specifications, software, software code (in any form, including source code and executable or object code), techniques, user interfaces, URLs, web sites, works of authorship and other forms of technology (whether or not embodied in any tangible form and including all tangible embodiments of the foregoing, such as instruction manuals, laboratory notebooks, prototypes, samples, studies and summaries).

Intellectual Property Rights. "Intellectual Property Rights" shall mean all rights of the following types, which may exist or be created under the laws of any jurisdiction in the world: (a) rights associated with works of authorship, including exclusive exploitation rights, copyrights, moral rights and mask works; (b) trademark, trade name, service name and domain name rights and similar rights; (c) trade secret rights; (d) patent and industrial property rights, including design rights; (e) other proprietary rights in Intellectual Property; and (f) rights in or relating to registrations, renewals, extensions, combinations, continuations, divisions and reissues of, and applications for, any of the rights referred to in clauses "(a)" through "(e)" above.

IRS. "IRS" shall mean the United States Internal Revenue Service.

Knowledge. "Knowledge," when used in relation to the Company, means the actual knowledge of any officer of the Company or of the Company's outside legal counsel at Varnum Riddering Schmidt & Howlett LLP, in each case after reasonable inquiry. For the avoidance of doubt, without limiting any provision of the Agreement, for purposes of the Agreement, including Section 6.1 thereof, the Company shall be deemed to have Knowledge of a particular circumstance, condition or other fact if any Representative of Parent (whether before or after the execution of the Agreement) notifies any officer of the Company of such circumstance, condition or fact.

Legal Proceeding. "Legal Proceeding" shall mean any action, suit, litigation, arbitration, proceeding (including any civil, criminal, administrative, investigative or appellate proceeding), hearing, inquiry, audit, examination or investigation commenced, brought, conducted or heard by or before, or otherwise involving, any court or other Governmental Body or any arbitrator or arbitration panel.

Legal Requirement. "Legal Requirement" shall mean any U.S. federal, state, local, municipal or other (and any non-U.S.) law, statute, constitution, principle of common law, resolution, ordinance, code, edict, decree, rule, regulation, order, award, ruling or requirement issued, enacted, adopted, promulgated, implemented or otherwise put into effect by or under the authority of any Governmental Body (or under the authority of the NASD or the NASDAQ Stock Market).

Nondisclosure Agreement. "Nondisclosure Agreement" shall mean that certain Mutual Nondisclosure Agreement entered into in November 2005 between the Company and Parent, as amended.

Order. "Order" shall mean any order, writ, injunction, judgment or decree.

Other Company Representations. “Other Company Representations” shall mean the representations and warranties of the Company contained in the Agreement, other than the Specified Representations.

Parent Common Stock. “Parent Common Stock” shall mean the Common Stock, par value $0.01 per share, of Parent.

Person. “Person” shall mean any individual, Entity or Governmental Body.

Proxy Statement. “Proxy Statement” shall mean the proxy statement to be sent to the Company’s shareholders in connection with the Company Shareholders’ Meeting.

Registered IP. “Registered IP” shall mean all Intellectual Property Rights that are registered, filed or issued with, by or under the authority of any Governmental Body, including all patents, registered copyrights, registered mask works and registered trademarks and all applications for any of the foregoing.

Representatives. “Representatives” shall mean directors, officers, other employees, agents, attorneys, accountants, advisors and representatives.

Sarbanes-Oxley Act. “Sarbanes-Oxley Act” shall mean the Sarbanes-Oxley Act of 2002, as it may be amended from time to time.

SEC. “SEC” shall mean the United States Securities and Exchange Commission.

Securities Act. “Securities Act” shall mean the Securities Act of 1933, as amended.

Specified Action. “Specified Action” shall mean any action taken by the Company, the board of directors of the Company or any member of the board of directors of the Company, which action becomes known to any Person other than the officers and directors of the Company and the Company’s professional advisors, from which a reasonable person would conclude that one or more directors of the Company do not support the Merger or do not believe that the Merger is fair to and in the best interests of the Company’s shareholders.

Specified Representations. “Specified Representations” shall mean the representations and warranties of the Company contained in Section 2.3 (except for the first two sentences of Section 2.3(c)), Sections 2.12(b), 2.20, 2.21 and 2.23 of the Agreement.

Subsidiary. An Entity shall be deemed to be a “Subsidiary” of another Person if such Person directly or indirectly owns or purports to own, beneficially or of record: (a) an amount of voting securities of or other interests in such Entity that is sufficient to enable such Person to elect at least a majority of the members of such Entity’s board of directors or other governing body; or (b) at least 50% of the outstanding equity, voting or financial interests in such Entity.

Superior Offer. “Superior Offer” shall mean an unsolicited bona fide written offer by a third party (or any subsequent written offer by such third party that results from the negotiations with such third party in accordance with the Agreement of such third party’s initial unsolicited bona fide written offer) to acquire, by merger or otherwise, in exchange for consideration

consisting exclusively of cash or publicly traded equity securities of a corporation that has an aggregate market capitalization of more than $5 billion and a minimum daily trading volume of at least 1% of the outstanding shares of such corporation (or a combination of cash and such publicly traded equity securities), all of the outstanding shares of Company Common Stock, that: (a) was not obtained or made as a direct or indirect result of a breach of any provision of the Agreement or any other Contract under which any Acquired Corporation has any rights or obligations; (b) is not subject to a financing contingency (or that is subject to a financing contingency if, at the time the board of directors of the Company determines that an offer is a Superior Offer, Parent is provided with evidence that reasonably demonstrates that such financing will be obtained); and (c) is determined by the board of directors of the Company, in its reasonable, good faith judgment, after obtaining and taking into account a written opinion of an independent financial advisor of nationally recognized reputation, and after taking into account the likelihood and anticipated timing of consummation, to be more favorable from a financial point of view to the Company's shareholders than the Merger.

Tax. "Tax" shall mean any U.S. federal, state, local or municipal, non-U.S. or other tax (including any income tax, franchise tax, capital gains tax, gross receipts tax, value-added tax, surtax, estimated tax, unemployment tax, national health insurance tax, excise tax, ad valorem tax, transfer tax, stamp tax, sales tax, use tax, property tax, business tax, profits tax, alternative minimum tax, environmental tax, capital stock tax, severance tax, occupation tax, windfall profits tax, social security tax, disability tax, withholding tax or payroll tax), levy, assessment, tariff, duty (including any customs duty), deficiency or fee, and any related charge or amount (including any fine, penalty, interest or inflation linkage), imposed, assessed or collected by or under the authority of any Governmental Body.

Tax Return. "Tax Return" shall mean any return (including any information return), report, statement, declaration, estimate, schedule, notice, notification, form, election, certificate or other document or information, and any amendment or supplement to any of the foregoing, filed with or submitted to, or required to be filed with or submitted to, any Governmental Body in connection with the determination, assessment, collection or payment of any Tax or in connection with the administration, implementation or enforcement of or compliance with any Legal Requirement relating to any Tax.

Triggering Event. A "Triggering Event" shall be deemed to have occurred if: (a) the board of directors of the Company shall have failed to recommend that the Company's shareholders vote to approve the Agreement, or shall have withdrawn or shall have modified in a manner adverse to Parent the Company Board Recommendation; (b) the Company shall have failed to include in the Proxy Statement the Company Board Recommendation or a statement to the effect that the board of directors of the Company has determined and believes that the Merger is fair to and in the best interests of the Company's shareholders; (c) following a written notice to the Company that a Specified Action has occurred or any disclosure, announcement, commencement, submission or making of an Acquisition Proposal, the board of directors of the Company fails to reaffirm the Company Board Recommendation, or fails to reaffirm its determination that the Merger is fair to and in the best interests of the Company's shareholders, in a press release if so requested by Parent, within 10 days after Parent requests in writing that such recommendation or determination be reaffirmed (or if the Company Shareholders' Meeting

is to be held in fewer than 10 days following any Specified Action or any disclosure, announcement, commencement, submission or making of an Acquisition Proposal, then at least two business days before such Company Shareholders' Meeting is held); (d) the board of directors of the Company shall have approved, endorsed or recommended any Acquisition Proposal; (e) the Company shall have entered into any letter of intent or similar document or any Contract relating to any Acquisition Proposal, other than confidentiality and similar agreements entered into in accordance with the proviso contained in Section 4.3(a) of the Agreement; (f) a tender or exchange offer relating to securities of the Company shall have been commenced and the Company shall not have sent to its securityholders, within 10 business days after the commencement of such tender or exchange offer, a statement disclosing that the Company recommends rejection of such tender or exchange offer; (g) an Acquisition Proposal is publicly announced, and the Company fails to issue a press release announcing its opposition to such Acquisition Proposal within 10 business days after such Acquisition Proposal is announced; or (h) the Company or others for whose breaches the Company is responsible under Section 4.3 of the Agreement shall have breached in any material respect any of the provisions set forth in Section 4.3 of the Agreement.

Unaudited Interim Balance Sheet. "Unaudited Interim Balance Sheet" shall mean the unaudited consolidated interim balance sheet of the Company and its consolidated Subsidiaries as of April 1, 2006, attached as a portion of Part 2.4(c) of the Company Disclosure Schedule.

The following terms have the meaning set forth in the Sections identified below:

DEFINED TERM	SECTION
Acquired Corporation Returns	2.14(a)
Acquired Corporation 401(k) Plan	5.4(a)
Assumed Options	5.3(a)
Assumed Stock Awards	5.3(d)
Citigroup	2.23
Closing	1.3
Closing Date	1.3
Company Board Recommendation	5.2(b)
Company Certifications	2.4(a)
Company ESPP	2.3(b)
Company Real Property	2.7(b)
Company SEC Documents	2.4(a)
Company Shareholders' Meeting	5.2(a)
Company Stock Certificate	1.6
Company Subsidiaries	2.1(a)
Conversation Ratio	5.3(a)
Dissenting Share	1.8
Dissenting Shareholder	1.8
Effective Time	1.3
Environmental Law	2.16(f)
Existing D&O Policy	5.5(b)

DEFINED TERM	SECTION
Filing Date	5.3(b)
German Employee(s)	2.15(q)
Grants	2.13(b)
Indemnified Persons	5.5(a)
Leased Real Property	2.7(b)
Leases	2.7(b)
Materials of Environmental Concern	2.16(f)
Merger Consideration	1.5(a)(iii)
Owned Real Property	2.7(a)
Paying Agent	1.7(a)
Payment Fund	1.7(a)
Pre-Closing Period	4.1
Release	2.15(f)
Required Company Shareholder Vote	2.21
Section 382 and Related Provisions	2.14(l)
Significant Contract	2.9(a)
Specified Definitive Acquisition Agreement	8.1(h)
Surviving Corporation	1.1

Exhibit 10.52

Adjustments to Nonemployee Director
Cash Compensation

On June 13, 2006, the Human Resources and Compensation Committee of the Board of Directors (the "Board") of Applied Materials, Inc. approved changes to the cash compensation to be paid to nonemployee members of the Board. The changes are effective beginning with the third quarter of fiscal year 2006. The retainer for nonemployee members of the Board will be $30,000 per year. The lead independent director of the Board will receive an additional retainer of $15,000 per year. The chair of the Corporate Governance and Nominating Committee of the Board will receive an additional retainer of $10,000 per year. No other changes were made to the compensation of nonemployee members of the Board. If a director holds more than one chair or is a chair and the lead independent director, he or she will receive an additional retainer only for the highest paying position held and will not receive an additional retainer for any other chair or for being lead independent director.

[EMPL_NAME]
Employee ID: **[EMPLID]**
Grant Number: **[GRANT_ID]**

APPLIED MATERIALS, INC.
NON-QUALIFIED STOCK OPTION GRANT AGREEMENT ("Agreement")

Applied Materials, Inc. (the "Company") hereby grants you, **[EMPL_NAME]** (the "Employee"), an Option under the Company's Employee Stock Incentive Plan (the "Plan") to purchase shares of common stock of the Company. The date of this Agreement is **[GRANT_DT]** (the "Grant Date"). The terms used and not defined in this Agreement have the meaning set forth in the Plan. Subject to the provisions of the Terms and Conditions of the Non-Qualified Stock Option Grant Agreement (the "Terms and Conditions"), which constitute part of this Agreement and of the Plan, the principal features of this Option are as follows:

Maximum Number of Shares Purchasable with this Option:	**Exercise Price per Share:**
[MAX_SHARES]	US**[SHARE_PRICE]**

Number of Shares and Vesting of Stock Options: Please refer to the UBS One Source website for the number of Shares and their respective vesting dates related to this Option grant (click on the specific grant under the tab labeled "Grants/Awards/Units").

Expiration Date: In general, the latest date this Option will terminate is (a) **[EXPR_DT]**, provided that **[EXPR_DT]** is a day on which the Nasdaq U.S. stock trading market is open for trading (a "Nasdaq trading day") or (b) if **[EXPR_DT]** is not a Nasdaq trading day, then the Nasdaq trading day immediately preceding **[EXPR_DT]** (the "Expiration Date"). However, this Option may terminate earlier than the Expiration Date, as set forth immediately below and in the Terms and Conditions.

Event Triggering Option Termination:	**Maximum Time to Exercise After Triggering Event***
Termination of Service (except as shown below)	30 days
Termination of Service due to Retirement (Age 65 or age 60 or over, with at least 10 Years of Service)	1 year
Termination of Service due to Disability	6 months
Termination of Service due to Death	1 year (6 months for Employees in France)

* This Option may not be exercised after the Expiration Date (except in certain cases of the death of the Employee). In addition, the maximum time to exercise this Option may be further limited by the Company where required by applicable law.

For Employees employed in Belgium on the Grant Date: The taxable event for the Option may be on the Grant Date or the exercise date, depending on when you accept the Option. If you accept the Option during the 60 day period following receipt of the Option information, you will be taxed at Grant. If you accept the Option after the 60 day period following the receipt of the Option information, you will be taxed when you exercise the Option. To obtain the deferred taxable event (i.e., at exercise), click your acceptance below after the 60-day period following receipt of the Option information has passed.

For Employees employed in France on the Grant Date:

A. The Exercise Price per Share is the greater of (i) the Fair Market Value of the Company's common stock on the Grant Date, or (ii) 95% of the average Fair Market Value of the Company's common stock for the 20 trading days preceding the Grant Date.

B. In addition to the foregoing, except in the event of the death of the Employee, the Shares

acquired upon exercise of this Option may not be sold or transferred until the expiration of the holding period provided by article 163 bis C of the French Tax Code, currently four years after the Grant Date of the Option.

***For Employees employed in Israel on the Grant Date*:** Options for Israeli employees are granted under a tax-qualified plan, called a Section capital gains tax route 102 plan. Information regarding the Section 102 capital gains tax route plan and related forms will be provided to the Israeli employees by their managers. In addition to the foregoing, in order to qualify for favorable tax treatment, the Shares acquired upon exercise of this Option generally must not be sold until the expiration of the holding period provided by Section 102 of the Israel Income Tax Ordinance [New Version], 1961, currently two years from the Grant Date of the Option. Clicking your acceptance of this electronic agreement will also indicate your acceptance of the capital gains tax route under Section 102, as more specifically set forth below and authorize and direct UBS Financial Services, Inc. to transfer to the Section 102 Trustee all net proceeds of cash or shares resulting from any transaction involving this Option grant.

For Employees employed in Italy on the Grant Date: The Exercise Price per Share is the greater of (i) the Fair Market Value of the Company's common stock on the Grant Date, or (ii) the average of the Fair Market Value of the Company's common stock during the one month period preceding the Grant Date.

For Employees employed in the United Kingdom (U.K.) on the Grant Date:

A. *Inland Revenue Approved Options*. If this Option is granted under the Inland Revenue approved sub-plan, the Exercise Price per Share is the Fair Market Value on the trading day preceding the Grant Date. The maximum aggregate value of all Inland Revenue approved Options held by the Employee at any one time may not exceed £30,000. If the £30,000 threshold is met, any additional Options granted to the Employee will be standard non-qualified Options.

B. National Insurance Contribution ("NIC"). As a condition to your acceptance of this Option (both Inland Revenue approved Options and non-qualified Options), you must sign an election under which you agree to pay all NICs that may become due on any gains realized upon exercise of the Option (with certain exceptions). The NICs include the "primary" NIC payable by an employee as well as the "secondary" NIC payable by the employer in the absence of any election (referred to as the Secondary Contributions under paragraph 3B(4) of Schedule 1 to the Social Security Contributions and Benefits Act of 1992). Payment of secondary NIC will be through deduction at source, if practicable, in the form of withholding from (1) Employee's salary or (2) the proceeds of a "cashless" exercise or "same-day-sale" of shares issued upon exercise of the Option. If withholding is not practicable, you may elect to make the secondary NIC payment either (a) directly to the Company by cash or check or (b) through the transfer of proceeds to the Company from the sale of shares held by you.

IMPORTANT:
IT IS YOUR RESPONSIBILITY TO EXERCISE THIS OPTION BEFORE IT TERMINATES.

Your electronic signature below indicates your agreement and understanding that this Option is subject to all of the rules and other provisions contained in the Terms and Conditions to this Agreement and the Plan. For example, important additional information on vesting and termination of this Option is contained in Paragraphs 1 through 5 of the Terms and Conditions. **PLEASE BE SURE TO READ ALL OF THE TERMS AND CONDITIONS, WHICH CONTAINS THE SPECIFIC TERMS AND CONDITIONS OF THIS OPTION, INCLUDING INFORMATION CONCERNING CANCELLATION AND TERMINATION OF THIS OPTION. CLICK HERE TO READ THE TERMS AND CONDITIONS.**

By clicking the "ACCEPT" button below, you agree that: **"This electronic contract contains my electronic signature, which I have executed with the intent to sign this Agreement."**

For Employees in Israel: **By clicking your acceptance of this electronic contract you agree to all the provisions of this electronic contract and the Declaration of Employee as set forth below:**

"This electronic contract contains my electronic signature, which I have executed with the intent to sign this Agreement. Further, I have read and accept the terms and conditions of the Trust Deed executed between the Company and the Plan Trustee under Section 102 of the Israeli Income Tax ordinance [New Version], 1961 ("Section 102. I declare that I am familiar with the provisions of Section 102 and the Capital Gains Route under Section 102. I undertake not to sell or transfer from the Trustee any Shares or any rights issued in respect of such Shares prior to the lapse of the requisite period under the Capital Gains Route of Section 102 unless I pay all taxes, which may arise in connection with such sale and/or transfer."

If you elect the Capital Gains Route under Section 102, by clicking your acceptance of this electronic contract, you also agree to the following Letter of Authorization:

"I authorize and direct UBS Financial Services Inc. ("UBS") to transfer to [NAME OF TRUSTEE] (the "Section 102 Trustee"), or its designee, as soon as practicable after settlement all net proceeds of cash or shares resulting from any transactions involving Stock Options pursuant to the following bank wire and depository trust company instructions for such transfers to the Section 102 Trustee:

Bank Wire Instructions:

Bank Name	**[WIRE INSTRUCTIONS INFORMATION]**
Branch	**[WIRE INSTRUCTIONS INFORMATION]**
Account Name	**[WIRE INSTRUCTIONS INFORMATION]**
Account Number	**[WIRE INSTRUCTIONS INFORMATION]**
SWIFT	**[WIRE INSTRUCTIONS INFORMATION]**
Bank Address	**[WIRE INSTRUCTIONS INFORMATION]**

Depository Trust Company Instructions:

Bank Name	**[WIRE INSTRUCTIONS INFORMATION]**
DTC Number	**[WIRE INSTRUCTIONS INFORMATION]**
Account Name	**[WIRE INSTRUCTIONS INFORMATION]**
Account Number	**[WIRE INSTRUCTIONS INFORMATION]**
F/F/C	**[WIRE INSTRUCTIONS INFORMATION]**
	[WIRE INSTRUCTIONS INFORMATION]
Bank Address	**[WIRE INSTRUCTIONS INFORMATION]**

I further authorize UBS to share information about me and about transactions in my account with Applied Materials, Inc., its subsidiaries and the Section 102 Trustee as may be reasonably necessary for Applied Materials, Inc., its subsidiaries and the Section 102 Trustee to meet tax withholding and reporting obligations and otherwise to administer the trust agreement(s) between Applied Materials, Inc., and the Section 102 Trustee.

I authorize Applied Materials, Inc., to provide a copy of this Letter of Authorization to UBS and the Section 102 Trustee. This Letter of Authorization supersedes any earlier Letter of Authorization that I have provided to UBS concerning the transfer of proceeds."

[VIEW_ACCEPT_STATEMENT]

Please be sure to print and retain a copy of your electronically signed Agreement (although the electronic version will be available for you to access at any time). You may obtain a paper copy at any time and at the Company's expense by requesting one from Stock Programs (see Paragraph 13 of the Terms and Conditions). If you prefer not to electronically sign this Agreement, you may accept this Agreement by signing a paper copy of the Agreement and delivering it to Stock Programs.

For Employees in Israel: If you prefer not to electronically sign this Agreement, or do not elect to receive preferential Section 102 capital gains tax treatment, please see your local Human Resources representative to obtain a paper copy of this Agreement and indicate your acceptance of the Agreement and acceptance or rejection of Section 102's provisions. **Note:** Failure to timely accept Section 102's provisions will automatically result in a rejection of such preferential tax treatment. Please see your Human Resources representative for details.

TERMS AND CONDITIONS OF NONQUALIFIED
STOCK OPTION GRANT AGREEMENT

1. Vesting Schedule. As of the date of this Agreement, this option is scheduled to become exercisable (vest) as to the number of shares, and on the dates shown, on the first page of the Nonqualified Stock Option Grant Agreement. In all cases, on any such scheduled vesting date, vesting actually will occur only if the Employee has been continuously employed by the Company or an Affiliate from the Grant Date until the scheduled vesting date (except to the limited extent provided in Paragraphs 3 and 5).

2. Modifications to Vesting Schedule.

(a) *Vesting upon Change to Part-time Status.* In the event that the Employee's employment with the Company or an Affiliate changes from full-time status to part-time status, and the change to part-time status lasts more than six (6) months during any rolling twelve (12) month period, the shares subject to this option that are scheduled to become exercisable during the twelve (12) months following the day the Employee first attains part-time status (as defined below) shall be determined according to the following formula (rounded to the nearest whole share):

number of shares that would have been exercisable	X	average number of hours worked per week during part-time status divided by hours worked in a standard work week	=	new number of shares that will be exercisable

For purposes of this Agreement, "part-time status" means the Employee is scheduled to work an average number of hours per week that equals 75% or less of the total number of hours in a standard work week for a period greater than six (6) months, as determined over a rolling twelve (12) month period.

Only shares that are not yet exercisable may be modified pursuant to the preceding formula. Shares subject to this option that are no longer exercisable as a result of the change to part-time status will never vest and instead will terminate. The preceding formula will be reapplied if the Employee continues to be on part-time status following the conclusion of the twelve (12) month measurement period. The number of shares subject to this option shall be modified according to the preceding formula unless otherwise recommended by the Company's Vice President of Human Resources ("VP of HR") and approved by the Company's Chief Executive Officer (the "CEO") or prohibited by applicable law. If the Employee is or was an executive officer of the Company, any modification of the preceding formula instead is subject to the approval of the Human Resources and Compensation Committee of the Company's Board of Directors.

(i) Example 1. Employee is scheduled to vest in 100 shares on July 1, 2007. Employee has a standard work week of 40 hours. On May 1, 2006, Employee begins working 20 hours per week, and continues to work 20 hours per week for 2 months. Employee still will be scheduled to vest in 100 shares on July 1, 2007.

(ii) Example 2. Employee is scheduled to vest in 100 shares on July 1, 2007. Employee has a standard work week of 40 hours. On May 1, 2006, Employee begins working 20 hours per week, and continues to work 20 hours per week for 7 months. Employee now will be scheduled to vest in 50 shares on July 1, 2007. The other 50 shares that were scheduled to vest on July 1, 2007 will never vest and instead will terminate.

(iii) Example 3. Employee is scheduled to vest in 100 shares on December 1, 2006. Employee has a standard work week of 40 hours. On May 1, 2006, Employee begins working 30 hours per week, and continues to work 30 hours per week for 9 months. Employee therefore attains part-time status on November 2, 2006. Employee now will be scheduled to vest in 75 shares on December 1, 2006. The other 25 shares that were scheduled to vest on December 1, 2006 will never vest and instead will terminate.

In the event applicable law prohibits the modification under the preceding formula, the Employee agrees that the CEO may extend the vesting period with respect to this option or reduce the shares subject to this option on a pro rata basis, as reasonably determined by the CEO and to the extent permitted under applicable law, commensurate with the

Employee's change to part-time status; provided that any such modification shall not affect a greater number of shares than the number of shares that would have been modified pursuant to the preceding formula.

(b) *Vesting upon Personal Leave of Absence.* In the event that the Employee takes a personal leave of absence ("PLOA"), the shares subject to this option that are scheduled to become exercisable shall be modified as follows:

(i) if the duration of the Employee's PLOA is six (6) months or less, the vesting schedule set forth on the UBS One Source website (click on the specific grant under the tab labeled "Grants/Awards/Units") shall not be affected by the Employee's PLOA.

(ii) if the duration of the Employee's PLOA is greater than six (6) months but not more than twelve (12) months, the scheduled exercisability of any shares subject to this option that are not then exercisable shall be deferred for a period of time equal to the duration of the Employee's PLOA less six (6) months unless otherwise recommended by the Company's VP of HR.

(iii) if the duration of the Employee's PLOA is greater than twelve (12) months, any shares subject to this option that are not then exercisable immediately will terminate unless otherwise recommended by the Company's VP of HR and approved by the CEO.

(iv) Example 1. Employee is scheduled to vest in shares on January 1, 2007. On May 1, 2006, Employee begins a 6-month PLOA. Employee's shares still will be scheduled to vest on January 1, 2007.

(v) Example 2. Employee is scheduled to vest in shares on January 1, 2007. On May 1, 2006, Employee begins a 9-month PLOA. Employee's shares subject to this option that are scheduled to become exercisable after November 2, 2006 will be modified (this is the date on which the Employee's PLOA exceeds 6 months). Employee's shares now will be scheduled to vest on April 1, 2007 (3 months after the originally scheduled date).

(vi) Example 3. Employee is scheduled to vest in shares on January 1, 2007. On May 1, 2006, Employee begins a 13-month PLOA. Employee's shares will terminate on May 2, 2007 unless otherwise recommended by the Company's VP of HR and approved by the CEO.

In general, a "personal leave of absence" does not include any legally required leave of absence. The duration of the Employee's PLOA will be determined over a rolling twelve (12) month measurement period. Shares subject to this option that are scheduled to vest during the first six (6) months of the Employee's PLOA will continue to vest as scheduled. However, shares subject to this option that are scheduled to vest after the first six (6) months of the Employee's PLOA will be deferred or terminated depending on the length of the Employee's PLOA. The Employee's right to exercise all shares subject to this option that remain unexercisable shall be modified as soon as the duration of the Employee's PLOA exceeds six (6) months.

3. Additional Vesting upon Retirement of Employee. In the event that the Employee is age sixty (60) or over and completes at least ten (10) Years of Service and then incurs a Termination of Service due to Retirement, the right to exercise all or a portion of any shares subject to this option that remain unexercisable immediately prior to such Retirement shall vest on the date on which the Retirement occurs as follows:

(a) if the Employee has less than fifteen (15) Years of Service as of the date of his or her Retirement, fifty percent (50%) of the shares that otherwise would have vested during the twelve (12) months immediately following the Retirement (had the Employee remained an Employee throughout such twelve (12) month period) shall vest on the Retirement date;

(b) if the Employee has at least fifteen (15) (but less than twenty (20)) Years of Service as of the date of the Retirement, one hundred percent (100%) of the shares that otherwise would have vested during the twelve (12) months immediately following the Retirement (had the Employee remained an Employee throughout such twelve (12) month period) shall vest on the Retirement date;

(c) if the Employee has at least twenty (20) (but less than twenty-five (25)) Years of Service as of the date of the Retirement, (i) one hundred percent (100%) of the shares that otherwise would have vested during the twelve (12) months immediately following the Retirement (had the Employee remained an Employee throughout such twelve (12) month period) shall accrue on the Retirement date, and (ii) fifty percent (50%) of the shares that otherwise would have vested during the second twelve (12) months following the Retirement (had the Employee remained an Employee throughout such second twelve (12) month period) shall vest on the Retirement date; and

(d) if the Employee has at least twenty-five (25) Years of Service as of the date of the Retirement, one hundred percent (100%) of the shares that otherwise would have vested during the twenty-four (24) months immediately following the Retirement (had the Employee remained an Employee throughout such twenty-four (24) month period) shall vest on the Retirement date.

"Retirement" and "Years of Service" are defined in the Plan. In general, "Retirement" means a Termination of Service by an Employee after he or she is at least age sixty (60) and has completed at least ten (10) Years of Service, and for purposes of this Agreement also means a Termination of Service by an Employee on or after the date he or she turns age sixty-five (65). In general, "Years of Service" means full years of employment since the Employee's last hire date with the Company or an Affiliate (but giving credit for prior service under the non-401(k) Plan principles of the Company's North American Human Resources Policy No. 2-06, or any successor thereto). In the event that any applicable law limits the Company's ability to provide additional vesting upon the Employee's retirement, this Paragraph 3 shall be limited to the extent required to comply with applicable law. Notwithstanding any contrary provision of this Agreement, if the Employee is subject to Hong Kong's ORSO provisions, this Paragraph 3 shall not apply to this option.

4. Termination of Option. In the event of the Employee's Termination of Service for any reason other than Retirement, Disability or death, the Employee may, within thirty (30) days after the date of the Termination, or prior to the Expiration Date, whichever shall first occur, exercise any vested but unexercised portion of this option. However, in the event the date that is thirty (30) days after the date of the Termination of Service is not a Nasdaq trading day, the Employee may exercise the vested but unexercised portion of this option only until the Nasdaq trading day immediately preceding such date or prior to the Expiration Date, whichever shall first occur. In the event of the Employee's Termination of Service due to Retirement (or after attaining age 65), the Employee may, within one (1) year after the date of such Termination, or prior to the Expiration Date, whichever shall first occur, exercise any vested but unexercised portion of this option. However, in the event the date that is one (1) year after the date of the Termination of Service due to Retirement is not a Nasdaq trading day, the Employee may exercise the vested but unexercised portion of this option only until the Nasdaq trading day immediately preceding such date or prior to the Expiration Date, whichever shall first occur. In the event of the Employee's Termination of Service due to Disability, the Employee may, within six (6) months after the date of such Termination, or prior to the Expiration Date, whichever shall first occur, exercise any vested but unexercised portion of this option. However, in the event the date that is six (6) months after the date of the Termination of Service due to Disability is not a Nasdaq trading day, the Employee may exercise the vested but unexercised portion of this option only until the Nasdaq trading day immediately preceding such date or prior to the Expiration Date, whichever shall first occur. Upon the Employee's Termination of Service, any unvested portion of this option (after applying the rules of Paragraphs 3 and 5) shall immediately terminate. For purposes of this Agreement, "Disability" means a permanent and total disability that would qualify the Employee for benefits under the Company's long-term disability benefit plan, as amended from time to time.

5. Death of Employee. In the event that the Employee incurs a Termination of Service due to his or her death, the right to exercise one hundred percent (100%) of the shares subject to this option shall vest on the date of the Employee's death. In the event that the Employee incurs a Termination of Service due to his or her death or in the event the Employee dies after incurring a Termination of Service but before any vested portion of this option terminates in accordance with Paragraph 4 above, the administrator or executor of the Employee's estate, may, within one (1) year after the date of death, exercise any vested but unexercised portion of this option. However, in the event the date that is one (1) year after the date of a death described in the preceding sentence is not a Nasdaq trading day, the administrator or executor of the Employee's estate may exercise the vested but unexercised portion of this option only until the Nasdaq trading day immediately preceding such date. Notwithstanding any contrary provision of this Agreement, if the Employee is a resident of France and the Employee incurs a Termination of Service due to his or her death or in the event the Employee dies after incurring a Termination of Service but before any vested portion of this option terminates in accordance with Paragraph 4 above, the

administrator or executor of the Employee's estate, may, within six (6) months after the date of death , exercise any unexercised portion of this option; however, if the date that is six (6) months after the date of such a death is not a Nasdaq trading day, the administrator or executor of the Employee's estate may exercise the vested but unexercised portion of this option only until the Nasdaq trading day immediately preceding such date. Any transferee under this Paragraph 5 must furnish the Company in such form or manner as the Company may designate (a) written notice of his or her status as a transferee, (b) evidence satisfactory to the Company to establish the validity of the transfer of this option and compliance with any applicable law pertaining to the transfer, and (c) written acceptance of the terms and conditions of this option as set forth in this Agreement. In the event that any applicable law limits the Company's ability to accelerate the vesting of this option or to extend the exercise period of this option, this Paragraph 5 shall be limited to the extent required to comply with applicable law. Notwithstanding any contrary provision of this Agreement, if the Employee is subject to Hong Kong's ORSO provisions, the first sentence of this Paragraph 5 (relating to accelerated vesting upon death) shall not apply to this option.

6. Persons Eligible to Exercise Option. Except as provided in Paragraph 5 above or as otherwise determined by the Committee in its discretion, this option shall be exercisable during the Employee's lifetime only by the Employee.

7. Option is Not Transferable. Except as provided in Paragraph 5 above, this option and the rights and privileges conferred hereby shall not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this option, or of any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this option and the rights and privileges conferred hereby immediately shall become null and void.

8. Exercise of Option. This option may be exercised by the person then entitled to do so as to any shares which may then be purchased by (a) giving notice in such form or manner as the Company may designate, (b) providing full payment of the Exercise Price (and the amount of any income tax the Company determines is required to be withheld by reason of the exercise of this option or as is otherwise required under Paragraph 11 below), and (c) giving satisfactory assurances in the form or manner requested by the Company that the shares to be purchased upon the exercise of this option are being purchased for investment and not with a view to the distribution thereof. Exercise of this option will be permitted only in the form and manner specified by the Company's Stock Programs department in Santa Clara, CA (or such successor as the Company may later designate) from time to time. This option may be exercised only on Nasdaq trading days. However, if Nasdaq is scheduled to be open for trading on a particular day but does not so open or closes substantially early due to an unforeseen event (for example, a natural or man-made catastrophic event) and that day otherwise would be the last day this option is exercisable, the option shall remain exercisable through the next Nasdaq trading day. Whether a closure is due to an unforeseen event shall be determined by the Committee or its designee. If the Employee receives a hardship withdrawal from his or her account (if any) under the Company's Employee Savings and Retirement Plan (the "401(k) Plan") for U.S. employees, this option may not be exercised during the six (6) month period following the hardship withdrawal (unless the Company determines that exercise would not jeopardize the tax-qualification of the 401(k) Plan).

9. Cashless Exercise Required. If the Company determines that a cashless exercise of this option is necessary or advisable, the shares subject to this option shall be sold immediately upon exercise and the Employee shall receive the proceeds from the sale, less the Exercise Price, and any applicable fees and taxes or other required withholding.

10. Conditions to Exercise. Except as provided in Paragraph 9 above or as otherwise required as a matter of law, the Exercise Price for this option may be made in one (1) (or a combination of two (2) or more) of the following forms:

(a) Personal check, a cashier's check or a money order.

(b) Irrevocable directions to a securities broker approved by the Company to sell all or part of the option shares and to deliver to the Company from the sale proceeds an amount sufficient to pay the Exercise Price and any required tax-related items (as defined below). The balance of the sale proceeds, if any, will be delivered to Employee.

(c) Irrevocable directions to a securities broker or lender approved by the Company to pledge option shares as security for a loan and to deliver to the Company from the loan proceeds an amount sufficient to pay the Exercise Price and any required tax-related items (as defined below).

11. Tax Withholding and Payment Obligations. The Company will assess its requirements regarding tax, social insurance and any other payroll tax withholding and reporting in connection with this option, including the grant, vesting or exercise of this option or sale of shares acquired pursuant to the exercise of this option ("tax-related items"). These requirements may change from time to time as laws or interpretations change. Regardless of the Company's actions in this regard, the Employee hereby acknowledges and agrees that the ultimate liability for any and all tax-related items is and remains his or her responsibility and liability and that the Company (a) makes no representations or undertaking regarding treatment of any tax-related items in connection with any aspect of this option grant, including the grant, vesting or exercise of this option and the subsequent sale of shares acquired pursuant to the exercise of this option; and (b) does not commit to structure the terms of the grant or any aspect of this option to reduce or eliminate the Employee's liability regarding tax-related items. In the event the Company determines that it and/or an Affiliate must withhold any tax-related items as a result of the Employee's participation in the Plan, the Employee agrees as a condition of the grant of this option to make arrangements satisfactory to the Company to enable it to satisfy all withholding requirements. The Employee authorizes the Company and/or an Affiliate to withhold all applicable withholding taxes from the Employee's wages. Furthermore, the Employee agrees to pay the Company and/or an Affiliate any amount of taxes the Company and/or an Affiliate may be required to withhold as a result of the Employee's participation in the Plan that cannot be satisfied by deduction from the Employee's wages or other cash compensation paid to the Employee by the Company and/or an Affiliate. The Employee acknowledges that he or she may not exercise this option unless the tax withholding obligations of the Company and/or any Affiliate are satisfied.

12. Suspension of Exercisability. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of the shares upon any securities exchange or under any applicable law, or the consent or approval of any governmental regulatory authority, is necessary or desirable as a condition of the purchase of shares hereunder, this option may not be exercised, in whole or in part, unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company. The Company shall make reasonable efforts to meet the requirements of any applicable law or securities exchange and to obtain any required consent or approval of any governmental authority.

13. Address for Notices. Any notice to be given to the Company under the terms of this Agreement shall be addressed to the Company, in care of Stock Programs, at Applied Materials, Inc., 2881 Scott Blvd., M/S 2023, P.O. Box 58039, Santa Clara, CA 95050, U.S.A., or at such other address as the Company may hereafter designate in writing.

14. No Rights of Stockholder. Neither the Employee (nor any transferee) shall be or have any of the rights or privileges of a stockholder of the Company in respect of any of the shares issuable pursuant to the exercise of this option, unless and until certificates representing such shares shall have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Employee (or transferee). Nothing in the Plan or this option shall create an obligation on the part of the Company to repurchase any shares purchased hereunder.

15. No Effect on Employment. The Employee's employment with the Company and its Affiliates is on an at-will basis only, subject to the provisions of applicable law. Accordingly, the terms of the Employee's employment with the Company and its Affiliates shall be determined from time to time by the Company or the Affiliate employing the Employee (as the case may be), and the Company or the Affiliate shall have the right, which is hereby expressly reserved, to terminate or change the terms of the employment of the Employee at any time for any reason whatsoever, with or without good cause (subject to the provisions of applicable law).

16. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan shall govern. Terms used and not defined in this Agreement shall have the meaning set forth in the Plan. This option is not an incentive stock option as defined in Section 422 of the U.S. Internal Revenue Code. The Company may, in its discretion; issue newly issued shares or treasury shares pursuant to this option.

17. Maximum Term of Option. Except as provided in Paragraph 5 above, this option is not exercisable after the Expiration Date.

18. Binding Agreement. Subject to the limitation on the transferability of this option contained herein, this Agreement shall be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

19. Committee Authority. The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Employee, the Company and all other interested persons. The Committee shall not be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

20. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

21. Agreement Severable. In the event that any provision in this Agreement shall be held invalid or unenforceable, such provision shall be severable from, and such invalidity or unenforceability shall not be construed to have any effect on, the remaining provisions of this Agreement.

22. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. The Employee expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company.

23. Amendment, Suspension, Termination. By accepting this option, the Employee expressly warrants that he or she has received an option to purchase stock under the Plan, and has received, read and understood a description of the Plan. The Employee understands that the Plan is discretionary in nature and may be modified, suspended or terminated by the Company at any time.

24. Labor Law. By accepting this option, the Employee acknowledges that: (a) the grant of this option is a one-time benefit which does not create any contractual or other right to receive future grants of options, or benefits in lieu of options; (b) all determinations with respect to any future grants, including, but not limited to, the times when the stock options shall be granted, the number of shares subject to each stock option, the Exercise Price, and the time or times when each stock option shall be exercisable, will be at the sole discretion of the Company; (c) the Employee's participation in the Plan is voluntary; (d) the value of this option is an extraordinary item of compensation which is outside the scope of the Employee's employment contract, if any; (e) this option is not part of the Employee's normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; (f) the vesting of this option ceases upon termination of employment for any reason except as may otherwise be explicitly provided in the Plan or this Agreement; (g) the future value of the underlying shares is unknown and cannot be predicted with certainty; (h) if the underlying shares do not increase in value, this option will have no value; (i) this option has been granted to the Employee in the Employee's status as an employee of the Company or its Affiliates; (j) any claims resulting from this option shall be enforceable, if at all, against the Company; and (k) there shall be no additional obligations for any Affiliate employing the Employee as a result of this option.

25. Disclosure of Employee Information. By accepting this option, the Employee consents to the collection, use and transfer of personal data as described in this paragraph. The Employee understands that the Company and its Affiliates hold certain personal information about him or her, including his or her name, home address and telephone number, date of birth, social security or identity number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all stock options or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in his or her favor, for the purpose of managing and administering the Plan ("Data"). The Employee further understands that the Company and/or its Affiliates will transfer Data amongst themselves as necessary for the purpose of implementation, administration and management of his or her participation in the Plan, and that the

Company and/or any of its Affiliates may each further transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan. The Employee understands that these recipients may be located in the European Economic Area, or elsewhere, such as in the U.S. or Asia. The Employee authorizes the Company to receive, possess, use, retain and transfer the Data in electronic or other form, for the purposes of implementing, administering and managing his or her participation in the Plan, including any requisite transfer to a broker or other third party with whom he or she may elect to deposit any shares of stock acquired upon exercise of this option of such Data as may be required for the administration of the Plan and/or the subsequent holding of shares of stock on his or her behalf. The Employee understands that he or she may, at any time, view the Data, require any necessary amendments to the Data or withdraw the consent herein in writing by contacting the Human Resources department and/or the Stock Programs Administrator for the Company and/or its applicable Affiliates.

26. Notice of Governing Law. This option shall be governed by, and construed in accordance with, the laws of the State of California in the U.S.A, without regard to principles of conflict of laws.

27. Notice to Directors. If the Employee is a director or shadow director of a U.K. Affiliate, the Employee agrees to notify the U.K. Affiliate in writing of his or her interest in the Company and the number of shares or rights to which the interest relates. The Employee agrees to notify the U.K. Affiliate when this option is exercised and when shares acquired under the Plan are sold. This disclosure requirement also applies to any rights or shares acquired by the Employee's spouse or child (under the age of 18).

28. Private Offer. This offering is part of a private transaction; this is not an offer to the public.

[EMPL_NAME]
Employee ID: **[EMPLID]**
Grant Number: **[GRANT_ID]**

APPLIED MATERIALS, INC.
NON-QUALIFIED STOCK OPTION GRANT AGREEMENT ("Agreement")

Applied Materials, Inc. (the "Company") hereby grants you, **[EMPL_NAME]** (the "Employee"), an Option under the Company's 2000 Global Equity Incentive Plan (the "Plan") to purchase shares of common stock of the Company. The date of this Agreement is **[GRANT_DT]** (the "Grant Date"). The terms used and not defined in this Agreement have the meaning set forth in the Plan. Subject to the provisions of the Terms and Conditions of the Non-Qualified Stock Option Grant Agreement (the "Terms and Conditions"), which constitute part of this Agreement and of the Plan, the principal features of this Option are as follows:

Maximum Number of Shares Purchasable with this Option:	**Exercise Price per Share:**
[MAX_SHARES]	US**[SHARE_PRICE]**

Number of Shares and Vesting of Stock Options: Please refer to the UBS One Source website for the number of Shares and their respective vesting dates related to this Option grant (click on the specific grant under the tab labeled "Grants/Awards/Units").

Expiration Date: In general, the latest date this Option will terminate is (a) **[EXPR_DT]**, provided that **[EXPR_DT]** is a day on which the Nasdaq U.S. stock trading market is open for trading (a "Nasdaq trading day") or (b) if **[EXPR_DT]** is not a Nasdaq trading day, then the Nasdaq trading day immediately preceding **[EXPR_DT]** (the "Expiration Date"). However, this Option may terminate earlier than the Expiration Date, as set forth immediately below and in the Terms and Conditions.

Event Triggering Option Termination:	Maximum Time to Exercise After Triggering Event*
Termination of Service (except as shown below)	30 days
Termination of Service due to Retirement (Age 65 or age 60 or over, with at least 10 Years of Service)	1 year
Termination of Service due to Disability	6 months
Termination of Service due to Death	1 year (6 months for Employees in France)

* This Option may not be exercised after the Expiration Date (except in certain cases of the death of the Employee). In addition, the maximum time to exercise this Option may be further limited by the Company where required by applicable law.

For Employees employed in Belgium on the Grant Date: The taxable event for the Option may be on the Grant Date or the exercise date, depending on when you accept the Option. If you accept the Option during the 60 day period following receipt of the Option information, you will be taxed at Grant. If you accept the Option after the 60 day period following the receipt of the Option information, you will be taxed when you exercise the Option. To obtain the deferred taxable event (i.e., at exercise), click your acceptance below after the 60-day period following receipt of the Option information has passed.

For Employees employed in France on the Grant Date:

A. The Exercise Price per Share is the greater of (i) the Fair Market Value of the Company's common stock on the Grant Date, or (ii) 95% of the average Fair Market Value of the Company's common stock for the 20 trading days preceding the Grant Date.

B. In addition to the foregoing, except in the event of the death of the Employee, the Shares

acquired upon exercise of this Option may not be sold or transferred until the expiration of the holding period provided by article 163 bis C of the French Tax Code, currently four years after the Grant Date of the Option.

***For Employees employed in Israel on the Grant Date*:** Options for Israeli employees are granted under a tax-qualified plan, called a Section 102 capital gains tax route plan. Information regarding the Section 102 capital gains tax route plan and related forms will be provided to the Israeli employees by their managers. In addition to the foregoing, in order to qualify for favorable tax treatment, the Shares acquired upon exercise of this Option generally must not be sold until the expiration of the holding period provided by Section 102 of the Israel Income Tax Ordinance [New Version], 1961, currently two years from the Grant Date of the Option. Clicking your acceptance of this electronic agreement will also indicate your acceptance of the capital gains tax route under Section 102, as more specifically set forth below and authorize and direct UBS Financial Services, Inc. to transfer to the Section 102 Trustee all net proceeds of cash or shares resulting from any transaction involving this Option grant.

For Employees employed in Italy on the Grant Date: The Exercise Price per Share is the greater of (i) the Fair Market Value of the Company's common stock on the Grant Date, or (ii) the average of the Fair Market Value of the Company's common stock during the one month period preceding the Grant Date.

For Employees employed in the United Kingdom (U.K.) on the Grant Date:

A. *Inland Revenue Approved Options*. If this Option is granted under the Inland Revenue approved sub-plan, the Exercise Price per Share is the Fair Market Value on the trading day preceding the Grant Date. The maximum aggregate value of all Inland Revenue approved Options held by the Employee at any one time may not exceed £30,000. If the £30,000 threshold is met, any additional Options granted to the Employee will be standard non-qualified Options.

B. National Insurance Contribution ("NIC"). As a condition to your acceptance of this Option (both Inland Revenue approved Options and non-qualified Options), you must sign an election under which you agree to pay all NICs that may become due on any gains realized upon exercise of the Option (with certain exceptions). The NICs include the "primary" NIC payable by an employee as well as the "secondary" NIC payable by the employer in the absence of any election (referred to as the Secondary Contributions under paragraph 3B(4) of Schedule 1 to the Social Security Contributions and Benefits Act of 1992). Payment of secondary NIC will be through deduction at source, if practicable, in the form of withholding from (1) Employee's salary or (2) the proceeds of a "cashless" exercise or "same-day-sale" of shares issued upon exercise of the Option. If withholding is not practicable, you may elect to make the secondary NIC payment either (a) directly to the Company by cash or check or (b) through the transfer of proceeds to the Company from the sale of shares held by you.

IMPORTANT:
IT IS YOUR RESPONSIBILITY TO EXERCISE THIS OPTION BEFORE IT TERMINATES.

Your electronic signature below indicates your agreement and understanding that this Option is subject to all of the rules and other provisions contained in the Terms and Conditions to this Agreement and the Plan. For example, important additional information on vesting and termination of this Option is contained in Paragraphs 1 through 5 of the Terms and Conditions. **PLEASE BE SURE TO READ ALL OF THE TERMS AND CONDITIONS, WHICH CONTAINS THE SPECIFIC TERMS AND CONDITIONS OF THIS OPTION, INCLUDING INFORMATION CONCERNING CANCELLATION AND TERMINATION OF THIS OPTION. CLICK HERE TO READ THE TERMS AND CONDITIONS.**

By clicking the "ACCEPT" button below, you agree that: **"This electronic contract contains my electronic signature, which I have executed with the intent to sign this Agreement."**

For Employees in Israel: By clicking your acceptance of this electronic contract you agree to allthe provisions of this electronic contract and the Declaration of Employee as set forth below:

"This electronic contract contains my electronic signature, which I have executed with the intent to sign this Agreement. Further, I have read and accept the terms and conditions of the Trust Deed executed between the Company and the Plan Trustee under Section 102 of the Israeli Income Tax ordinance [New Version], 1961 ("Section 102"). I declare that I am familiar with the provisions of Section 102 and the Capital Gains Route under Section 102. I undertake not to sell or transfer from the Trustee any Shares or any rights issued in respect of such Shares prior to the lapse of the requisite period under the Capital Gains Route of Section 102 unless I pay all taxes, which may arise in connection with such sale and/or transfer."

If you elect the Capital Gains Route under Section 102, by clicking your acceptance of this electronic contract, you also agree to the following Letter of Authorization:

"I authorize and direct UBS Financial Services Inc. ("UBS") to transfer to [NAME OF TRUSTEE] (the "Section 102 Trustee"), or its designee, as soon as practicable after settlement all net proceeds of cash or shares resulting from any transactions involving Stock Options pursuant to the following bank wire and depository trust company instructions for such transfers to the Section 102 Trustee:

Bank Wire Instructions:

Bank Name	**[WIRE INSTRUCTIONS INFORMATION]**
Branch	**[WIRE INSTRUCTIONS INFORMATION]**
Account Name	**[WIRE INSTRUCTIONS INFORMATION]**
Account Number	**[WIRE INSTRUCTIONS INFORMATION]**
SWIFT	**[WIRE INSTRUCTIONS INFORMATION]**
Bank Address	**[WIRE INSTRUCTIONS INFORMATION]**

Depository Trust Company Instructions:

Bank Name	**[WIRE INSTRUCTIONS INFORMATION]**
DTC Number	**[WIRE INSTRUCTIONS INFORMATION]**
Account Name	**[WIRE INSTRUCTIONS INFORMATION]**
Account Number	**[WIRE INSTRUCTIONS INFORMATION]**
F/F/C	**[WIRE INSTRUCTIONS INFORMATION]**
	[WIRE INSTRUCTIONS INFORMATION]
Bank Address	**[WIRE INSTRUCTIONS INFORMATION]**

I further authorize UBS to share information about me and about transactions in my account with Applied Materials, Inc., its subsidiaries and the Section 102 Trustee as may be reasonably necessary for Applied Materials, Inc., its subsidiaries and the Section 102 Trustee to meet tax withholding and reporting obligations and otherwise to administer the trust agreement(s) between Applied Materials, Inc., and the Section 102 Trustee.

I authorize Applied Materials, Inc., to provide a copy of this Letter of Authorization to UBS and the Section 102 Trustee. This Letter of Authorization supersedes any earlier Letter of Authorization that I have provided to UBS concerning the transfer of proceeds."

[VIEW_ACCEPT_STATEMENT]

Please be sure to print and retain a copy of your electronically signed Agreement (although the electronic version will be available for you to access at any time). You may obtain a paper copy at any time and at the Company's expense by requesting one from Stock Programs (see Paragraph 13 of the Terms and Conditions). If you prefer not to electronically sign this Agreement, you may accept this Agreement by signing a paper copy of the Agreement and delivering it to Stock Programs.

For Employees in Israel: If you prefer not to electronically sign this Agreement, or do not elect to receive preferential Section 102 capital gains tax treatment, please see your local Human Resources representative to obtain a paper copy of this Agreement and indicate your acceptance of the Agreement and acceptance or rejection of Section 102's provisions. **Note:** Failure to timely accept Section 102's provisions will automatically result in a rejection of such preferential tax treatment. Please see your Human Resources representative for details.

TERMS AND CONDITIONS OF NONQUALIFIED
STOCK OPTION GRANT AGREEMENT

1. Vesting Schedule. As of the date of this Agreement, this option is scheduled to become exercisable (vest) as to the number of shares, and on the dates shown, on the first page of the Nonqualified Stock Option Grant Agreement. In all cases, on any such scheduled vesting date, vesting actually will occur only if the Employee has been continuously employed by the Company or an Affiliate from the Grant Date until the scheduled vesting date (except to the limited extent provided in Paragraphs 3 and 5).

2. Modifications to Vesting Schedule.

(a) *Vesting upon Change to Part-time Status.* In the event that the Employee's employment with the Company or an Affiliate changes from full-time status to part-time status, and the change to part-time status lasts more than six (6) months during any rolling twelve (12) month period, the shares subject to this option that are scheduled to become exercisable during the twelve (12) months following the day the Employee first attains part-time status (as defined below) shall be determined according to the following formula (rounded to the nearest whole share):

number of shares that would have been exercisable	X	average number of hours worked per week during part-time status divided by hours worked in a standard work week	=	new number of shares that will be exercisable

For purposes of this Agreement, "part-time status" means the Employee is scheduled to work an average number of hours per week that equals 75% or less of the total number of hours in a standard work week for a period greater than six (6) months, as determined over a rolling twelve (12) month period.

Only shares that are not yet exercisable may be modified pursuant to the preceding formula. Shares subject to this option that are no longer exercisable as a result of the change to part-time status will never vest and instead will terminate. The preceding formula will be reapplied if the Employee continues to be on part-time status following the conclusion of the twelve (12) month measurement period. The number of shares subject to this option shall be modified according to the preceding formula unless otherwise recommended by the Company's Vice President of Human Resources ("VP of HR") and approved by the Company's Chief Executive Officer (the "CEO") or prohibited by applicable law. If the Employee is or was an executive officer of the Company, any modification of the preceding formula instead is subject to the approval of the Human Resources and Compensation Committee of the Company's Board of Directors.

(i) Example 1. Employee is scheduled to vest in 100 shares on July 1, 2007. Employee has a standard work week of 40 hours. On May 1, 2006, Employee begins working 20 hours per week, and continues to work 20 hours per week for 2 months. Employee still will be scheduled to vest in 100 shares on July 1, 2007.

(ii) Example 2. Employee is scheduled to vest in 100 shares on July 1, 2007. Employee has a standard work week of 40 hours. On May 1, 2006, Employee begins working 20 hours per week, and continues to work 20 hours per week for 7 months. Employee now will be scheduled to vest in 50 shares on July 1, 2007. The other 50 shares that were scheduled to vest on July 1, 2007 will never vest and instead will terminate.

(iii) Example 3. Employee is scheduled to vest in 100 shares on December 1, 2006. Employee has a standard work week of 40 hours. On May 1, 2006, Employee begins working 30 hours per week, and continues to work 30 hours per week for 9 months. Employee therefore attains part-time status on November 2, 2006. Employee now will be scheduled to vest in 75 shares on December 1, 2006. The other 25 shares that were scheduled to vest on December 1, 2006 will never vest and instead will terminate.

In the event applicable law prohibits the modification under the preceding formula, the Employee agrees that the CEO may extend the vesting period with respect to this option or reduce the shares subject to this option on a pro rata basis, as reasonably determined by the CEO and to the extent permitted under applicable law, commensurate with the

Employee's change to part-time status; provided that any such modification shall not affect a greater number of shares than the number of shares that would have been modified pursuant to the preceding formula.

(b) *Vesting upon Personal Leave of Absence.* In the event that the Employee takes a personal leave of absence ("PLOA"), the shares subject to this option that are scheduled to become exercisable shall be modified as follows:

(i) if the duration of the Employee's PLOA is six (6) months or less, the vesting schedule set forth on the UBS One Source website (click on the specific grant under the tab labeled "Grants/Awards/Units") shall not be affected by the Employee's PLOA.

(ii) if the duration of the Employee's PLOA is greater than six (6) months but not more than twelve (12) months, the scheduled exercisability of any shares subject to this option that are not then exercisable shall be deferred for a period of time equal to the duration of the Employee's PLOA less six (6) months unless otherwise recommended by the Company's VP of HR.

(iii) if the duration of the Employee's PLOA is greater than twelve (12) months, any shares subject to this option that are not then exercisable immediately will terminate unless otherwise recommended by the Company's VP of HR and approved by the CEO.

(iv) Example 1. Employee is scheduled to vest in shares on January 1, 2007. On May 1, 2006, Employee begins a 6-month PLOA. Employee's shares still will be scheduled to vest on January 1, 2007.

(v) Example 2. Employee is scheduled to vest in shares on January 1, 2007. On May 1, 2006, Employee begins a 9-month PLOA. Employee's shares subject to this option that are scheduled to become exercisable after November 2, 2006 will be modified (this is the date on which the Employee's PLOA exceeds 6 months). Employee's shares now will be scheduled to vest on April 1, 2007 (3 months after the originally scheduled date).

(vi) Example 3. Employee is scheduled to vest in shares on January 1, 2007. On May 1, 2006, Employee begins a 13-month PLOA. Employee's shares will terminate on May 2, 2007 unless otherwise recommended by the Company's VP of HR and approved by the CEO.

In general, a "personal leave of absence" does not include any legally required leave of absence. The duration of the Employee's PLOA will be determined over a rolling twelve (12) month measurement period. Shares subject to this option that are scheduled to vest during the first six (6) months of the Employee's PLOA will continue to vest as scheduled. However, shares subject to this option that are scheduled to vest after the first six (6) months of the Employee's PLOA will be deferred or terminated depending on the length of the Employee's PLOA. The Employee's right to exercise all shares subject to this option that remain unexercisable shall be modified as soon as the duration of the Employee's PLOA exceeds six (6) months.

3. Additional Vesting upon Retirement of Employee. In the event that the Employee is age sixty (60) or over and completes at least ten (10) Years of Service and then incurs a Termination of Service due to Retirement, the right to exercise all or a portion of any shares subject to this option that remain unexercisable immediately prior to such Retirement shall vest on the date on which the Retirement occurs as follows:

(a) if the Employee has less than fifteen (15) Years of Service as of the date of his or her Retirement, fifty percent (50%) of the shares that otherwise would have vested during the twelve (12) months immediately following the Retirement (had the Employee remained an Employee throughout such twelve (12) month period) shall vest on the Retirement date;

(b) if the Employee has at least fifteen (15) (but less than twenty (20)) Years of Service as of the date of the Retirement, one hundred percent (100%) of the shares that otherwise would have vested during the twelve (12) months immediately following the Retirement (had the Employee remained an Employee throughout such twelve (12) month period) shall vest on the Retirement date;

(c) if the Employee has at least twenty (20) (but less than twenty-five (25)) Years of Service as of the date of the Retirement, (i) one hundred percent (100%) of the shares that otherwise would have vested during the twelve (12) months immediately following the Retirement (had the Employee remained an Employee throughout such twelve (12) month period) shall accrue on the Retirement date, and (ii) fifty percent (50%) of the shares that otherwise would have vested during the second twelve (12) months following the Retirement (had the Employee remained an Employee throughout such second twelve (12) month period) shall vest on the Retirement date; and

(d) if the Employee has at least twenty-five (25) Years of Service as of the date of the Retirement, one hundred percent (100%) of the shares that otherwise would have vested during the twenty-four (24) months immediately following the Retirement (had the Employee remained an Employee throughout such twenty-four (24) month period) shall vest on the Retirement date.

"Retirement" and "Years of Service" are defined in the Plan. In general, "Retirement" means a Termination of Service by an Employee after he or she is at least age sixty (60) and has completed at least ten (10) Years of Service, and for purposes of this Agreement also means a Termination of Service by an Employee on or after the date he or she turns age sixty-five (65). In general, "Years of Service" means full years of employment since the Employee's last hire date with the Company or an Affiliate (but giving credit for prior service under the non-401(k) Plan principles of the Company's North American Human Resources Policy No. 2-06, or any successor thereto). In the event that any applicable law limits the Company's ability to provide additional vesting upon the Employee's retirement, this Paragraph 3 shall be limited to the extent required to comply with applicable law. Notwithstanding any contrary provision of this Agreement, if the Employee is subject to Hong Kong's ORSO provisions, this Paragraph 3 shall not apply to this option.

4. Termination of Option. In the event of the Employee's Termination of Service for any reason other than Retirement, Disability or death, the Employee may, within thirty (30) days after the date of the Termination, or prior to the Expiration Date, whichever shall first occur, exercise any vested but unexercised portion of this option. However, in the event the date that is thirty (30) days after the date of the Termination of Service is not a Nasdaq trading day, the Employee may exercise the vested but unexercised portion of this option only until the Nasdaq trading day immediately preceding such date or prior to the Expiration Date, whichever shall first occur. In the event of the Employee's Termination of Service due to Retirement (or after attaining age 65), the Employee may, within one (1) year after the date of such Termination, or prior to the Expiration Date, whichever shall first occur, exercise any vested but unexercised portion of this option. However, in the event the date that is one (1) year after the date of the Termination of Service due to Retirement is not a Nasdaq trading day, the Employee may exercise the vested but unexercised portion of this option only until the Nasdaq trading day immediately preceding such date or prior to the Expiration Date, whichever shall first occur. In the event of the Employee's Termination of Service due to Disability, the Employee may, within six (6) months after the date of such Termination, or prior to the Expiration Date, whichever shall first occur, exercise any vested but unexercised portion of this option. However, in the event the date that is six (6) months after the date of the Termination of Service due to Disability is not a Nasdaq trading day, the Employee may exercise the vested but unexercised portion of this option only until the Nasdaq trading day immediately preceding such date or prior to the Expiration Date, whichever shall first occur. Upon the Employee's Termination of Service, any unvested portion of this option (after applying the rules of Paragraphs 3 and 5) shall immediately terminate. For purposes of this Agreement, "Disability" means a permanent and total disability that would qualify the Employee for benefits under the Company's long-term disability benefit plan, as amended from time to time.

5. Death of Employee. In the event that the Employee incurs a Termination of Service due to his or her death, the right to exercise one hundred percent (100%) of the shares subject to this option shall vest on the date of the Employee's death. In the event that the Employee incurs a Termination of Service due to his or her death or in the event the Employee dies after incurring a Termination of Service but before any vested portion of this option terminates in accordance with Paragraph 4 above, the administrator or executor of the Employee's estate, may, within one (1) year after the date of death, exercise any vested but unexercised portion of this option. However, in the event the date that is one (1) year after the date of a death described in the preceding sentence is not a Nasdaq trading day, the administrator or executor of the Employee's estate may exercise the vested but unexercised portion of this option only until the Nasdaq trading day immediately preceding such date. Notwithstanding any contrary provision of this Agreement, if the Employee is a resident of France and the Employee incurs a Termination of Service due to his or her death or in the event the Employee dies after incurring a Termination of Service but before any vested portion of this option terminates in accordance with Paragraph 4 above, the

administrator or executor of the Employee's estate, may, within six (6) months after the date of death , exercise any unexercised portion of this option; however, if the date that is six (6) months after the date of such a death is not a Nasdaq trading day, the administrator or executor of the Employee's estate may exercise the vested but unexercised portion of this option only until the Nasdaq trading day immediately preceding such date. Any transferee under this Paragraph 5 must furnish the Company in such form or manner as the Company may designate (a) written notice of his or her status as a transferee, (b) evidence satisfactory to the Company to establish the validity of the transfer of this option and compliance with any applicable law pertaining to the transfer, and (c) written acceptance of the terms and conditions of this option as set forth in this Agreement. In the event that any applicable law limits the Company's ability to accelerate the vesting of this option or to extend the exercise period of this option, this Paragraph 5 shall be limited to the extent required to comply with applicable law. Notwithstanding any contrary provision of this Agreement, if the Employee is subject to Hong Kong's ORSO provisions, the first sentence of this Paragraph 5 (relating to accelerated vesting upon death) shall not apply to this option.

6. Persons Eligible to Exercise Option. Except as provided in Paragraph 5 above or as otherwise determined by the Committee in its discretion, this option shall be exercisable during the Employee's lifetime only by the Employee.

7. Option is Not Transferable. Except as provided in Paragraph 5 above, this option and the rights and privileges conferred hereby shall not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this option, or of any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this option and the rights and privileges conferred hereby immediately shall become null and void.

8. Exercise of Option. This option may be exercised by the person then entitled to do so as to any shares which may then be purchased by (a) giving notice in such form or manner as the Company may designate, (b) providing full payment of the Exercise Price (and the amount of any income tax the Company determines is required to be withheld by reason of the exercise of this option or as is otherwise required under Paragraph 11 below), and (c) giving satisfactory assurances in the form or manner requested by the Company that the shares to be purchased upon the exercise of this option are being purchased for investment and not with a view to the distribution thereof. Exercise of this option will be permitted only in the form and manner specified by the Company's Stock Programs department in Santa Clara, CA (or such successor as the Company may later designate) from time to time. This option may be exercised only on Nasdaq trading days. However, if Nasdaq is scheduled to be open for trading on a particular day but does not so open or closes substantially early due to an unforeseen event (for example, a natural or man-made catastrophic event) and that day otherwise would be the last day this option is exercisable, the option shall remain exercisable through the next Nasdaq trading day. Whether a closure is due to an unforeseen event shall be determined by the Committee or its designee. If the Employee receives a hardship withdrawal from his or her account (if any) under the Company's Employee Savings and Retirement Plan (the "401(k) Plan") for U.S. employees, this option may not be exercised during the six (6) month period following the hardship withdrawal (unless the Company determines that exercise would not jeopardize the tax-qualification of the 401(k) Plan).

9. Cashless Exercise Required. If the Company determines that a cashless exercise of this option is necessary or advisable, the shares subject to this option shall be sold immediately upon exercise and the Employee shall receive the proceeds from the sale, less the Exercise Price, and any applicable fees and taxes or other required withholding.

10. Conditions to Exercise. Except as provided in Paragraph 9 above or as otherwise required as a matter of law, the Exercise Price for this option may be made in one (1) (or a combination of two (2) or more) of the following forms:

(a) Personal check, a cashier's check or a money order.

(b) Irrevocable directions to a securities broker approved by the Company to sell all or part of the option shares and to deliver to the Company from the sale proceeds an amount sufficient to pay the Exercise Price and any required tax-related items (as defined below). The balance of the sale proceeds, if any, will be delivered to Employee.

(c) Irrevocable directions to a securities broker or lender approved by the Company to pledge option shares as security for a loan and to deliver to the Company from the loan proceeds an amount sufficient to pay the Exercise Price and any required tax-related items (as defined below).

11. Tax Withholding and Payment Obligations. The Company will assess its requirements regarding tax, social insurance and any other payroll tax withholding and reporting in connection with this option, including the grant, vesting or exercise of this option or sale of shares acquired pursuant to the exercise of this option ("tax-related items"). These requirements may change from time to time as laws or interpretations change. Regardless of the Company's actions in this regard, the Employee hereby acknowledges and agrees that the ultimate liability for any and all tax-related items is and remains his or her responsibility and liability and that the Company (a) makes no representations or undertaking regarding treatment of any tax-related items in connection with any aspect of this option grant, including the grant, vesting or exercise of this option and the subsequent sale of shares acquired pursuant to the exercise of this option; and (b) does not commit to structure the terms of the grant or any aspect of this option to reduce or eliminate the Employee's liability regarding tax-related items. In the event the Company determines that it and/or an Affiliate must withhold any tax-related items as a result of the Employee's participation in the Plan, the Employee agrees as a condition of the grant of this option to make arrangements satisfactory to the Company to enable it to satisfy all withholding requirements. The Employee authorizes the Company and/or an Affiliate to withhold all applicable withholding taxes from the Employee's wages. Furthermore, the Employee agrees to pay the Company and/or an Affiliate any amount of taxes the Company and/or an Affiliate may be required to withhold as a result of the Employee's participation in the Plan that cannot be satisfied by deduction from the Employee's wages or other cash compensation paid to the Employee by the Company and/or an Affiliate. The Employee acknowledges that he or she may not exercise this option unless the tax withholding obligations of the Company and/or any Affiliate are satisfied.

12. Suspension of Exercisability. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of the shares upon any securities exchange or under any applicable law, or the consent or approval of any governmental regulatory authority, is necessary or desirable as a condition of the purchase of shares hereunder, this option may not be exercised, in whole or in part, unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company. The Company shall make reasonable efforts to meet the requirements of any applicable law or securities exchange and to obtain any required consent or approval of any governmental authority.

13. Address for Notices. Any notice to be given to the Company under the terms of this Agreement shall be addressed to the Company, in care of Stock Programs, at Applied Materials, Inc., 2881 Scott Blvd., M/S 2023, P.O. Box 58039, Santa Clara, CA 95050, U.S.A., or at such other address as the Company may hereafter designate in writing.

14. No Rights of Stockholder. Neither the Employee (nor any transferee) shall be or have any of the rights or privileges of a stockholder of the Company in respect of any of the shares issuable pursuant to the exercise of this option, unless and until certificates representing such shares shall have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Employee (or transferee). Nothing in the Plan or this option shall create an obligation on the part of the Company to repurchase any shares purchased hereunder.

15. No Effect on Employment. The Employee's employment with the Company and its Affiliates is on an at-will basis only, subject to the provisions of applicable law. Accordingly, the terms of the Employee's employment with the Company and its Affiliates shall be determined from time to time by the Company or the Affiliate employing the Employee (as the case may be), and the Company or the Affiliate shall have the right, which is hereby expressly reserved, to terminate or change the terms of the employment of the Employee at any time for any reason whatsoever, with or without good cause (subject to the provisions of applicable law).

16. Plan Governs. This Agreement is subject to all terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan shall govern. Terms used and not defined in this Agreement shall have the meaning set forth in the Plan. This option is not an incentive stock option as defined in Section 422 of the U.S. Internal Revenue Code. The Company may, in its discretion; issue newly issued shares or treasury shares pursuant to this option.

17. Maximum Term of Option. Except as provided in Paragraph 5 above, this option is not exercisable after the Expiration Date.

18. Binding Agreement. Subject to the limitation on the transferability of this option contained herein, this Agreement shall be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

19. Committee Authority. The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Employee, the Company and all other interested persons. The Committee shall not be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

20. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

21. Agreement Severable. In the event that any provision in this Agreement shall be held invalid or unenforceable, such provision shall be severable from, and such invalidity or unenforceability shall not be construed to have any effect on, the remaining provisions of this Agreement.

22. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. The Employee expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company.

23. Amendment, Suspension, Termination. By accepting this option, the Employee expressly warrants that he or she has received an option to purchase stock under the Plan, and has received, read and understood a description of the Plan. The Employee understands that the Plan is discretionary in nature and may be modified, suspended or terminated by the Company at any time.

24. Labor Law. By accepting this option, the Employee acknowledges that: (a) the grant of this option is a one-time benefit which does not create any contractual or other right to receive future grants of options, or benefits in lieu of options; (b) all determinations with respect to any future grants, including, but not limited to, the times when the stock options shall be granted, the number of shares subject to each stock option, the Exercise Price, and the time or times when each stock option shall be exercisable, will be at the sole discretion of the Company; (c) the Employee's participation in the Plan is voluntary; (d) the value of this option is an extraordinary item of compensation which is outside the scope of the Employee's employment contract, if any; (e) this option is not part of the Employee's normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; (f) the vesting of this option ceases upon termination of employment for any reason except as may otherwise be explicitly provided in the Plan or this Agreement; (g) the future value of the underlying shares is unknown and cannot be predicted with certainty; (h) if the underlying shares do not increase in value, this option will have no value; (i) this option has been granted to the Employee in the Employee's status as an employee of the Company or its Affiliates; (j) any claims resulting from this option shall be enforceable, if at all, against the Company; and (k) there shall be no additional obligations for any Affiliate employing the Employee as a result of this option.

25. Disclosure of Employee Information. By accepting this option, the Employee consents to the collection, use and transfer of personal data as described in this paragraph. The Employee understands that the Company and its Affiliates hold certain personal information about him or her, including his or her name, home address and telephone number, date of birth, social security or identity number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all stock options or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in his or her favor, for the purpose of managing and administering the Plan ("Data"). The Employee further understands that the Company and/or its Affiliates will transfer Data amongst themselves as necessary for the purpose of implementation, administration and management of his or her participation in the Plan, and that the

Company and/or any of its Affiliates may each further transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan. The Employee understands that these recipients may be located in the European Economic Area, or elsewhere, such as in the U.S. or Asia. The Employee authorizes the Company to receive, possess, use, retain and transfer the Data in electronic or other form, for the purposes of implementing, administering and managing his or her participation in the Plan, including any requisite transfer to a broker or other third party with whom he or she may elect to deposit any shares of stock acquired upon exercise of this option of such Data as may be required for the administration of the Plan and/or the subsequent holding of shares of stock on his or her behalf. The Employee understands that he or she may, at any time, view the Data, require any necessary amendments to the Data or withdraw the consent herein in writing by contacting the Human Resources department and/or the Stock Programs Administrator for the Company and/or its applicable Affiliates.

26. Notice of Governing Law. This option shall be governed by, and construed in accordance with, the laws of the State of California in the U.S.A, without regard to principles of conflict of laws.

27. Notice to Directors. If the Employee is a director or shadow director of a U.K. Affiliate, the Employee agrees to notify the U.K. Affiliate in writing of his or her interest in the Company and the number of shares or rights to which the interest relates. The Employee agrees to notify the U.K. Affiliate when this option is exercised and when shares acquired under the Plan are sold. This disclosure requirement also applies to any rights or shares acquired by the Employee's spouse or child (under the age of 18).

28. Private Offer. This offering is part of a private transaction; this is not an offer to the public.

[EMPL_NAME]
Employee ID: [**EMPLID**]
Grant Number: [**GRANT_ID**]

APPLIED MATERIALS, INC.

PERFORMANCE SHARES AGREEMENT

Applied Materials, Inc. (the "Company") hereby grants you, **[EMPL_NAME]** (the "Employee"), an award of Performance Shares (also referred to as restricted stock units) under the Company's Employee Stock Incentive Plan (the "Plan"). The date of this Performance Share Agreement (the "Agreement") is **[GRANT_DT]** (the "Grant Date"). Subject to the provisions of the Terms and Conditions of Performance Shares Agreement (the "Terms and Conditions"), which constitute part of this Agreement, and of the Plan, the principal features of this grant are as follows:

Number of Performance Shares: (also referred to as restricted stock units)	**[MAX_SHARES]**
Vesting of Performance Shares:	Please refer to the UBS One Source website for the vesting schedule related to this grant of performance shares (click on the specific grant under the tab labeled "Grants/Awards/Units.").*

IMPORTANT:

* Except as otherwise provided in the Terms and Conditions of this Agreement, Employee will not vest in the Performance Shares unless he or she is employed by the Company or one of its Affiliates through the applicable vesting date.

Your electronic or written signature below indicates your agreement and understanding that this grant is subject to all of the terms and conditions contained in the Terms and Conditions to this Agreement and the Plan. For example, important additional information on vesting and forfeiture of this grant is contained in paragraphs 3 through 5 and paragraph 7 of the Terms and Conditions. **PLEASE BE SURE TO READ ALL OF THE TERMS AND CONDITIONS OF THIS GRANT. CLICK HERE TO READ THE TERMS AND CONDITIONS.**

By clicking the "ACCEPT" button below, you agree to the following: "**This electronic contract contains my electronic signature, which I have executed with the intent to sign this Agreement**."

Please be sure to retain a copy of your returned electronically signed Agreement; you may obtain a paper copy at any time and at the Company's expense by requesting one from Stock Programs (see paragraph 12 of the Terms and Conditions). If you prefer not to electronically sign this Agreement, you may accept this Agreement by signing a paper copy of the Agreement and delivering it to Stock Programs.

TERMS AND CONDITIONS OF

PERFORMANCE SHARES AGREEMENT
(Also Referred to as RESTRICTED STOCK UNITS)

1. Grant. Applied Materials, Inc. (the "Company") hereby grants to the Employee under the Company's Employee Stock Incentive Plan (the "Plan") the number of Performance Shares (also referred to as restricted stock units) set forth on the first page of this Agreement, subject to all of the terms and conditions in this Agreement and the Plan. When Shares are paid to the Employee in payment for the Performance Shares, par value will be deemed paid by the Employee for each Performance Share by past services rendered by the Employee, and will be subject to the appropriate tax withholdings. Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Plan.

2. Company's Obligation to Pay. Each Performance Share has a value equal to the Fair Market Value of a Share on the date of grant. Unless and until the Performance Shares have vested in the manner set forth in paragraphs 3 through 5, or paragraph 11, the Employee will have no right to payment of such Performance Shares. Prior to actual payment of any vested Performance Shares, such Performance Shares will represent an unsecured obligation. Payment of any vested Performance Shares shall be made in whole Shares only.

3. Vesting Schedule/Period of Restriction. Except as provided in paragraphs 4, 5 and 11, and subject to paragraph 7, the Performance Shares awarded by this Agreement shall vest in accordance with the vesting provisions set forth on the UBS One Source website (click on the specific grant under the tab labeled "Grants/Awards/Units"). Performance Shares shall not vest in the Employee in accordance with any of the provisions of this Agreement unless the Employee shall have been continuously employed by the Company or by one of its Affiliates from the Grant Date until the date the Performance Shares are otherwise scheduled to vest occurs.

4. Modifications to Vesting Schedule.

(a) *Vesting upon Change to Part-time Status.* In the event that the Employee's employment with the Company or an Affiliate changes from full-time status to part-time status, and the change to part-time status lasts more than six (6) months during any rolling twelve (12) month period, the Performance Shares awarded by this Agreement that are scheduled to vest during the twelve (12) months following the day the Employee first attains part-time status (as defined below) shall be determined according to the following formula (rounded to the nearest whole share):

number of shares that would have vested	X	average number of hours worked per week during part-time status divided by the hours worked in a standard work week	=	new number of shares that will vest

For purposes of this Agreement, "part-time status" means the Employee is scheduled to work an average number of hours per week that equals seventy-five percent (75%) or less of the total number of hours in a standard work week for a period greater than six (6) months, as determined over a rolling twelve (12) month period.

Only Performance Shares that are not yet vested may be modified pursuant to the preceding formula. Performance Shares awarded by this Agreement that are no longer vested as a result of the change to part-time status will never vest and instead will terminate. The preceding formula will be reapplied if the Employee continues to be on part-time status following the conclusion of the twelve (12) month measurement period. The number of Performance Shares awarded by this Agreement shall be modified according to the preceding formula unless prohibited by applicable law.

(i) Example 1. Employee is scheduled to vest in 100 Performance Shares on July 1, 2007. Employee has a standard work week of 40 hours. On May 1, 2006, Employee begins working 20 hours per week, and continues to work 20 hours per week for two months. Employee still will be scheduled to vest in 100 Performance Shares on July 1, 2007.

(ii) Example 2. Employee is scheduled to vest in 100 Performance Shares on July 1, 2007. Employee has a standard work week of 40 hours. On May 1, 2006, Employee begins working 20 hours per week, and continues to work 20 hours per week for seven months. Employee now will be scheduled to vest in 50 Performance Shares on July 1, 2007. The other 50 Performance Shares that were scheduled to vest on July 1, 2007 will never vest and instead will terminate.

(iii) Example 3. Employee is scheduled to vest in 100 Performance Shares on December 1, 2006. Employee has a standard work week of 40 hours. On May 1, 2006, Employee begins working 30 hours per week, and continues to work 30 hours per week for nine months. Employee therefore attains part-time status on November 2, 2006. Employee now will be scheduled to vest in 75 Performance Shares on December 1, 2006. The other 25 Performance Shares that were scheduled to vest on December 1, 2006 will never vest and instead will terminate.

In the event applicable law prohibits the modification under the preceding formula, the Employee agrees that the Company's Chief Executive Officer (the "CEO") may reduce the Performance Shares awarded by this Agreement on a pro rata basis, as reasonably determined by the CEO and to the extent permitted under applicable law, commensurate with the Employee's change to part-time status; provided that any such reduction in Performance Shares shall not affect a greater number of Performance Shares than the number of Performance Shares that would have been modified pursuant to the preceding formula.

(b) *Vesting upon Personal Leave of Absence.* In the event that the Employee takes a personal leave of absence ("PLOA"), the Performance Shares awarded by this Agreement that are scheduled to vest shall be modified as follows:

(i) if the duration of the Employee's PLOA is six (6) months or less, the vesting schedule set forth on the UBS One Source website (click on the specific grant under the tab labeled "Grants/Awards/Units") shall not be affected by the Employee's PLOA.

(ii) if the duration of the Employee's PLOA is greater than six (6) months but not more than twelve (12) months, the scheduled vesting of any Performance Shares awarded by this Agreement that are not then vested shall be deferred for a period of time equal to the duration of the Employee's PLOA less six (6) months.

(iii) if the duration of the Employee's PLOA is greater than twelve (12) months, any Performance Shares awarded by this Agreement that are not then vested will immediately terminate.

(iv) Example 1. Employee is scheduled to vest in Performance Shares on January 1, 2007. On May 1, 2006, Employee begins a six-month PLOA. Employee's Performance Shares will still be scheduled to vest on January 1, 2007.

(v) Example 2. Employee is scheduled to vest in Performance Shares on January 1, 2007. On May 1, 2006, Employee begins a nine-month PLOA. Employee's Performance Shares awarded by this Agreement that are scheduled to vest after November 2, 2006 will be modified (this is the date on which the Employee's PLOA exceeds six (6) months). Employee's Performance Shares now will be scheduled to vest on April 1, 2007 (three (3) months after the originally scheduled date).

(vi) Example 3. Employee is scheduled to vest in Performance Shares on January 1, 2007. On May 1, 2006, Employee begins a 13-month PLOA. Employee's Performance Shares will terminate on May 2, 2007.

In general, a "personal leave of absence" does not include any legally required leave of absence. The duration of the Employee's PLOA will be determined over a rolling twelve (12) month measurement period. Performance Shares awarded by this Agreement that are scheduled to vest during the first six (6) months of the Employee's PLOA will continue to vest as scheduled. However, Performance Shares awarded by this Agreement that are scheduled to vest after the first six (6) months of the Employee's PLOA will be deferred or terminated depending on the length of the Employee's PLOA. The Employee's right to vest in Performance Shares awarded by this Agreement shall be modified as soon as the duration of the Employee's PLOA exceeds six (6) months.

(c) *Death of Employee*. In the event that the Employee incurs a Termination of Service due to his or her death, one hundred percent (100%) of the Performance Shares subject to this Performance Share award shall vest on the date of the Employee's death. In the event that any applicable law limits the Company's ability to accelerate the vesting of this award of Performance Shares, this paragraph 4(c) shall be limited to the extent required to comply with applicable law. Notwithstanding any contrary provision of this Agreement, if the Employee is subject to Hong Kong's ORSO provisions, the first sentence of this paragraph 4(c) shall not apply to this award of Performance Shares.

5. Committee Discretion. The Committee, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the Performance Shares at any time, subject to the terms of the Plan. If so accelerated, such Performance Shares will be considered as having vested as of the date specified by the Committee. If the Committee, in its discretion, accelerates the vesting of the balance, or some lesser portion of the balance, of the Performance Shares, the payment of such accelerated Performance Shares nevertheless shall be made at the same time or times as if such Performance Shares had vested in accordance with the vesting schedule set forth on the UBS One Source website (click on the specific grant under the tab labeled "Grants/Awards/Units") (whether or not the Employee remains employed by the Company or by one of its Affiliates as of such date(s)).

6. Payment after Vesting. Any Performance Shares that vest in accordance with paragraphs 3 through 4 will be paid to the Employee (or in the event of the Employee's death, to his or her estate) as soon as practicable following the date of vesting, subject to paragraph 8. Any

Performance Shares that vest in accordance with paragraphs 5 or 11 will be paid to the Employee (or in the event of the Employee's death, to his or her estate) in accordance with the provisions of such paragraphs, subject to paragraph 8. For each Performance Share that vests, the Employee will receive one Share.

7. Forfeiture. Notwithstanding any contrary provision of this Agreement, the balance of the Performance Shares that have not vested pursuant to paragraphs 3 through 5 or paragraph 11 at the time of the Employee's Termination of Service for any or no reason will be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company.

8. Withholding of Taxes. When Shares are issued as payment for vested Performance Shares, the Company (or the employing Affiliate) will withhold a portion of the Shares that have an aggregate market value sufficient to pay federal, state and local income, employment and any other applicable taxes required to be withheld by the Company or the employing Affiliate with respect to the Shares, unless the Company, in its sole discretion, requires the Employee to make alternate arrangements satisfactory to the Company for such withholdings in advance of the arising of any withholding obligations. The number of Shares withheld pursuant to the prior sentence will be rounded up to the nearest whole Share, with no refund provided in the U. S. for any value of the Shares withheld in excess of the tax obligation as a result of such rounding.

Notwithstanding any contrary provision of this Agreement, no Shares will be issued unless and until satisfactory arrangements (as determined by the Company) have been made by the Employee with respect to the payment of any income and other taxes which the Company determines must be withheld or collected with respect to such Shares. In addition and to the maximum extent permitted by law, the Company (or the employing Affiliate) has the right to retain without notice from salary or other amounts payable to the Employee, cash having a sufficient value to satisfy any tax withholding obligations that the Company determines cannot be satisfied through the withholding of otherwise deliverable Shares. All income and other taxes related to the Performance Shares award and any Shares delivered in payment thereof are the sole responsibility of the Employee.

9. Rights as Stockholder. Neither the Employee nor any person claiming under or through the Employee will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares (which may be in book entry form) will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Employee (including through electronic delivery to a brokerage account). Notwithstanding any contrary provisions in this Agreement, any quarterly or other regular, periodic dividends or distributions (as determined by the Company) paid on Shares will affect neither unvested Performance Shares nor Performance Shares that are vested but unpaid, and no such dividends or other distributions will be paid on unvested Performance Shares or Performance Shares that are vested but unpaid. After such issuance, recordation and delivery, the Employee will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

10. No Effect on Employment. Subject to any employment contract with the Employee, the terms of such employment will be determined from time to time by the Company, or the Affiliate employing the Employee, as the case may be, and the Company, or the Affiliate employing the

Employee, as the case may be, will have the right, which is hereby expressly reserved, to terminate or change the terms of the employment of the Employee at any time for any reason whatsoever, with or without good cause. The transactions contemplated hereunder and the vesting schedule set forth on the UBS One Source website (click on the specific grant under the tab labeled "Grants/Awards/Units") do not constitute an express or implied promise of continued employment for any period of time. A leave of absence or an interruption in service (including an interruption during military service) authorized or acknowledged by the Company or the Affiliate employing the Employee, as the case may be, shall not be deemed a Termination of Service for the purposes of this Agreement.

11. Changes in Performance Shares. In the event that as a result of a stock or extraordinary cash dividend, stock split, distribution, reclassification, recapitalization, combination of Shares or the adjustment in capital stock of the Company or otherwise, or as a result of a merger, consolidation, spin-off or other corporate transaction or event, the Performance Shares will be increased, reduced or otherwise affected, and by virtue of any such event the Employee will in his or her capacity as owner of unvested Performance Shares which have been awarded to him or her (the "Prior Performance Shares") be entitled to new or additional or different shares of stock, cash or other securities or property (other than rights or warrants to purchase securities); such new or additional or different shares, cash or securities or property will thereupon be considered to be unvested Performance Shares and will be subject to all of the conditions and restrictions that were applicable to the Prior Performance Shares pursuant to this Agreement and the Plan.

If the Employee receives rights or warrants with respect to any Prior Performance Shares, such rights or warrants may be held or exercised by the Employee, provided that until such exercise any such rights or warrants and after such exercise any shares or other securities acquired by the exercise of such rights or warrants will be considered to be unvested Performance Shares and will be subject to all of the conditions and restrictions which were applicable to the Prior Performance Shares pursuant to the Plan and this Agreement. The Committee in its absolute discretion at any time may accelerate the vesting of all or any portion of such new or additional shares of stock, cash or securities, rights or warrants to purchase securities or shares or other securities acquired by the exercise of such rights or warrants; provided, however, that the payment of such new or additional awards shall be made at the same time or times as if such awards had vested in accordance with the vesting schedule set forth on the UBS One Source website (click on the specific grant under the tab labeled "Grants/Awards/Units") (whether or not the Employee remains employed by the Company or by one of its Affiliates as of such date(s)).

12. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company, in care of Stock Programs, at Applied Materials, Inc., 2881 Scott Boulevard, M/S 2023, P. O. Box 58039, Santa Clara, CA 95050, U.S.A., or at such other address as the Company may hereafter designate in writing.

13. Grant is Not Transferable. Except to the limited extent provided in this Agreement, this grant of Performance Shares and the rights and privileges conferred hereby will not be sold, pledged, assigned, hypothecated, transferred or disposed of any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process, until the Employee has been issued Shares in payment of the Performance Shares. Upon any attempt to sell, pledge, assign, hypothecate, transfer or otherwise dispose of this grant, or any right or privilege

conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

14. Restrictions on Sale of Securities. The Shares issued as payment for vested Performance Shares under this Agreement will be registered under U. S. federal securities laws and will be freely tradable upon receipt. However, an Employee's subsequent sale of the Shares may be subject to any market blackout-period that may be imposed by the Company and must comply with the Company's insider trading policies, and any other applicable securities laws.

15. Binding Agreement. Subject to the limitation on the transferability of this grant contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

16. Additional Conditions to Issuance of Certificates for Shares. The Company shall not be required to issue any certificate or certificates for Shares hereunder prior to fulfillment of all the following conditions: (a) the admission of such Shares to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Shares under any U. S. state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, which the Committee shall, in its absolute discretion, deem necessary or advisable; (c) the obtaining of any approval or other clearance from any U. S. state or federal governmental agency, which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and (d) the lapse of such reasonable period of time following the date of vesting of the Performance Shares as the Committee may establish from time to time for reasons of administrative convenience.

17. Plan Governs. This Agreement is subject to all the terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern.

18. Committee Authority. The Committee will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Performance Shares have vested). All actions taken and all interpretations and determinations made by the Committee in good faith will be final and binding upon the Employee, the Company and all other interested persons. No member of the Committee will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

19. Captions. Captions provided herein are for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

20. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

21. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. The Employee expressly warrants that he or she is not

accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of the Employee, to comply with Section 409A of the U. S. Internal Revenue Code of 1986, as amended (the "Code") or to otherwise avoid imposition of any additional tax or income recognition under Section 409A of the Code prior to the actual payment of Shares pursuant to this award of Performance Shares.

22. Amendment, Suspension or Termination of the Plan. By accepting this Performance Shares award, the Employee expressly warrants that he or she has received a right to receive stock under the Plan, and has received, read and understood a description of the Plan. The Employee understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

23. Labor Law. By accepting this Performance Shares award, the Employee acknowledges that: (a) the grant of these Performance Shares is a one-time benefit which does not create any contractual or other right to receive future grants of Performance Shares, or benefits in lieu of Performance Shares; (b) all determinations with respect to any future grants, including, but not limited to, the times when the Performance Shares shall be granted, the number of Performance Shares subject to each Performance Share award and the time or times when the Performance Shares shall vest, will be at the sole discretion of the Company; (c) the Employee's participation in the Plan is voluntary; (d) the value of these Performance Shares is an extraordinary item of compensation which is outside the scope of the Employee's employment contract, if any; (e) these Performance Shares are not part of the Employee's normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; (f) the vesting of these Performance Shares will cease upon termination of employment for any reason except as may otherwise be explicitly provided in the Plan or this Agreement; (g) the future value of the underlying Shares is unknown and cannot be predicted with certainty; (h) these Performance Shares have been granted to the Employee in the Employee's status as an employee of the Company or its Affiliates; (i) any claims resulting from these Performance Shares shall be enforceable, if at all, against the Company; and (j) there shall be no additional obligations for any Affiliate employing the Employee as a result of these Performance Shares.

24. Disclosure of Employee Information. By accepting this Performance Shares award, the Employee consents to the collection, use and transfer of personal data as described in this paragraph. The Employee understands that the Company and its Affiliates hold certain personal information about him or her, including his or her name, home address and telephone number, date of birth, social security or identity number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all awards of Performance Shares or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in his or her favor, for the purpose of managing and administering the Plan ("Data").

The Employee further understands that the Company and/or its Affiliates will transfer Data among themselves as necessary for the purpose of implementation, administration and management of his or her participation in the Plan, and that the Company and/or any of its Affiliates may each

further transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan. The Employee understands that these recipients may be located in the European Economic Area, or elsewhere, such as in the U.S. or Asia.

The Employee authorizes the Company to receive, possess, use, retain and transfer the Data in electronic or other form, for the purposes of implementing, administering and managing his or her participation in the Plan, including any requisite transfer to a broker or other third party with whom he or she may elect to deposit any Shares of stock acquired from this award of Performance Shares of such Data as may be required for the administration of the Plan and/or the subsequent holding of Shares of stock on his or her behalf. The Employee understands that he or she may, at any time, view the Data, require any necessary amendments to the Data or withdraw the consent herein in writing by contacting the Human Resources department and/or the Stock Programs Administrator for the Company and/or its applicable Affiliates.

25. Notice of Governing Law. This award of Performance Shares shall be governed by, and construed in accordance with, the laws of the State of California, in the U.S.A., without regard to principles of conflict of laws.

26. Notice to Directors. If the Employee is a director or shadow director of a U.K. Affiliate, the Employee agrees to notify the U.K. Affiliate in writing of his or her interest in the Company and the number of Shares or rights to which the interest relates. The Employee agrees to notify the U.K. Affiliate when Shares acquired under the Plan are sold. This disclosure requirement also applies to any rights or Shares acquired by the Employee's spouse or child (under the age of 18).

27. Private Offer. If the Employee is a resident in Ireland, this offering is part of a private transaction; this is not an offer to the public.

EXHIBIT 31.1

CERTIFICATION

I, Michael R. Splinter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Applied Materials, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 31, 2006

By: /s/ MICHAEL R. SPLINTER
Michael R. Splinter
President, Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Nancy H. Handel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Applied Materials, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 31, 2006

By: /s/ NANCY H. HANDEL
Nancy H. Handel
Senior Vice President, Chief Financial Officer

EXHIBIT 32.1

APPLIED MATERIALS, INC.
SARBANES-OXLEY ACT SECTION 906 CERTIFICATION

In connection with this quarterly report on Form 10-Q of Applied Materials, Inc. for the period ended July 30, 2006, I, Michael R. Splinter, President, Chief Executive Officer of Applied Materials, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-Q for the period ended July 30, 2006 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in this Form 10-Q for the period ended July 30, 2006 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: August 31, 2006

By: /s/ MICHAEL R. SPLINTER
Michael R. Splinter
President, Chief Executive Officer

EXHIBIT 32.2

APPLIED MATERIALS, INC.
SARBANES-OXLEY ACT SECTION 906 CERTIFICATION

In connection with this quarterly report on Form 10-Q of Applied Materials, Inc. for the period ended July 30, 2006, I, Nancy H. Handel, Senior Vice President, Chief Financial Officer of Applied Materials, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-Q for the period ended July 30, 2006 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. the information contained in this Form 10-Q for the period ended July 30, 2006 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: August 31, 2006

By: /s/ NANCY H. HANDEL
Nancy H. Handel
Senior Vice President, Chief Financial Officer

Exhibit 99.1

Earnings to Fixed Charges

The ratio of earnings to fixed charges for the nine months ended July 31, 2005 and July 30, 2006 and for each of the last five fiscal years, was as follows:

Fiscal Year					Nine Months Ended	
					July 31,	July 30,
2001	2002	2003	2004	2005	2005	2006
11.80x	4.58x	(a)	23.32x	24.66	24.53x	33.97x

(a) Due to Applied's loss in fiscal 2003, the ratio of coverage was less than 1:1. Applied would have needed to generate additional earnings of $209 million to achieve the coverage ratio of 1:1.