

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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 31, 1994 or

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

For the transition period from _____ to _____

Commission file number 0-6920

APPLIED MATERIALS, INC.
(Exact name of registrant as specified in its charter)

Delaware 94-1655526
(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification No.)

3050 Bowers Avenue, Santa Clara, California 95054-
3299
Address of principal executive offices (Zip Code)

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

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 ☐.

Number of shares outstanding of the issuer's common stock as of
July 31, 1994: 83,734,000

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PART I. FINANCIAL INFORMATION

APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In thousands, except per share data)	Three Months Ended		Nine Months Ended	
	July 31, 1994	Aug. 1, 1993	July 31, 1994	Aug. 1, 1993
Net sales	\$ 440,228	\$ 281,370	\$1,192,009	\$752,636
Costs and expenses:				
Cost of products sold	234,656	155,398	641,067	424,541
Research, development and engineering	52,494	37,058	135,386	101,072
Marketing and selling	39,851	27,056	113,254	75,652
General and administrative	20,279	16,585	60,500	45,151
Other, net	701	1,365	815	3,443
Income from operations	92,247	43,908	240,987	102,777
Interest expense	3,659	3,373	10,779	10,318
Interest income	2,946	1,514	7,214	4,835

Income from consolidated companies				
before taxes and cumulative				
effect of accounting change	91,534	42,049	237,422	97,294
Provision for income taxes	32,036	13,876	83,097	32,107
Income from consolidated companies				
before cumulative effect of				
accounting change	59,498	28,173	154,325	65,187
Equity in net loss of joint				
venture	1,362	-	3,727	-
Income before cumulative effect of				
accounting change	58,136	28,173	150,598	65,187
Cumulative effect of a change in				
accounting for income taxes	-	-	7,000	-
Net income	\$ 58,136	\$ 28,173	\$ 157,598	\$65,187
Earnings per share*				
Before cumulative effect of				
accounting change	\$ 0.68	\$ 0.34	\$ 1.78	\$ 0.79
Net income	\$ 0.68	\$ 0.34	\$ 1.86	\$ 0.79
Average common shares and				
equivalents*	86,033	82,532	84,654	82,056

* Retroactively restated for a two-for-one stock split in the form of a 100% stock dividend effective October 5, 1993.

See accompanying notes to consolidated condensed financial statements.

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APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS*

(In thousands)	July 31, 1994	Oct. 31, 1993
ASSETS		
Current assets:		
Cash and cash equivalents	\$73,509	\$119,597
Short-term investments	214,503	146,583
Accounts receivable, net	394,214	256,020
Inventories	243,956	154,597
Deferred income taxes	67,894	62,413
Other current assets	43,783	36,706
Total current assets	1,037,859	775,916
Property, plant and		
equipment, net	411,211	327,704
Other assets	17,606	16,532
Total assets	\$1,466,676	\$1,120,152
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable	\$44,737	\$41,645
Current portion of		
long-term debt	15,392	7,017
Accounts payable and		
accrued expenses	352,359	282,699
Income taxes payable	43,276	49,167
Total current liabilities	455,764	380,528
Long-term debt	112,295	121,076
Deferred income taxes and		
other non-current		
obligations	25,124	19,786
Total liabilities	593,183	521,390
Stockholders' equity:		
Common stock	837	804
Additional paid-in capital	363,257	256,429
Retained earnings	482,827	325,230
Cumulative translation		
adjustments	26,572	16,299
Total stockholders' equity	873,493	598,762

Total liabilities and stockholders' equity	\$1,466,676	\$1,120,152
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*Amounts as of July 31, 1994 are unaudited.
Amounts as of October 31, 1993 were obtained
from the October 31, 1993 audited financial
statements.

See accompanying notes to consolidated condensed
financial statements.

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APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In thousands)	Nine Months Ended	
	July 31, 1994	Aug.1, 1993
Cash flows from operating activities:		
Net income	\$157,598	\$65,187
Adjustments required to reconcile net income to cash flows provided by operations:		
Depreciation and amortization	42,223	27,459
Cumulative effect of a change in accounting for income taxes	(7,000)	-
Equity in net loss of joint venture	3,727	-
Changes in assets and liabilities:		
Accounts receivable	(125,005)	(40,613)
Inventories	(81,181)	(35,827)
Other current assets	(6,353)	(8,751)
Other assets	(3,399)	(908)
Accounts payable and accrued expenses	57,860	41,976
Income taxes payable	(3,799)	4,211
Other long-term liabilities	4,441	1,409
	(118,486)	(11,044)
Cash provided by operations	39,112	54,143
Cash flows from investing activities:		
Capital expenditures	(121,363)	(56,435)
Proceeds from short-term investments	115,114	114,180
Purchases of short-term investments	(183,034)	(189,755)
Cash used for investing	(189,283)	(132,010)
Cash flows from financing activities:		
Short-term borrowing (repayments), net	236	(3,989)
Long-term debt borrowing	-	5,505
Long-term debt repayments	(3,863)	(5,835)
Sales of common stock, net	106,861	1,107
Cash provided by financing	103,234	(3,212)
Effect of exchange rate changes on cash	849	(310)
Decrease in cash and cash equivalents	(46,088)	(81,389)
Cash and cash equivalents at beginning of period	119,597	159,453
Cash and cash equivalents at end of period	\$73,509	\$78,064

Cash payments for interest expense were \$8,355 and \$8,006 for the
nine months ended July 31, 1994 and August 1, 1993, respectively.
Cash payments for income taxes were \$63,264 and \$27,039 for the
nine months ended July 31, 1994 and August 1, 1993, respectively.

See accompanying notes to consolidated condensed
financial statements.

APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)
NINE MONTHS ENDED JULY 31, 1994
(In thousands)

1) Basis of Presentation

In the opinion of management, the unaudited consolidated interim financial statements included herein have been prepared on the same basis as the October 31, 1993 audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary to fairly state the information set forth therein. Certain amounts in the consolidated statement of cash flows for the nine months ended August 1, 1993 have been reclassified to conform with the current year's presentation.

2) Earnings Per Share

Earnings per share is computed on the basis of the weighted average number of common shares and common equivalent shares from dilutive stock options.

3) Inventories

Inventories are stated at the lower of cost or market, with cost determined on the basis of first-in, first-out (FIFO).

The components of inventories are as follows:

	July 31, 1994	October 31, 1993
Customer service spares	\$61,174	\$45,584
Systems raw materials	60,614	32,294
Work-in-process	90,429	57,526
Finished goods	31,739	19,193
	\$243,956	\$154,597

4) Income Taxes

Effective November 1, 1993, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes." The Company adopted SFAS 109 prospectively.

APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)
NINE MONTHS ENDED JULY 31, 1994
(In thousands)

4) Income Taxes, continued,

The adoption of SFAS 109 changes the Company's method of accounting for income taxes from the deferred method, pursuant to APB 11, to an asset and liability approach. Under APB 11, deferred taxes are recognized for income and expense items that are reported in different years for financial reporting purposes. Under the asset and liability approach of SFAS 109, deferred assets and liabilities are recognized for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their existing tax bases.

The cumulative effect of adopting SFAS 109 resulted in a one-time credit of \$7,000, or \$0.08 per share, and is reported separately in the Consolidated Condensed Statement of Operations for the nine month period ended July 31, 1994.

Deferred tax assets (liabilities) at November 1, 1993 relate to the following:

Deferred tax assets:

Financial accruals not currently tax deductible:

Inventory	\$13,454
Warranty and installation	21,022
Other	19,458
State income taxes	8,135
Other	4,344
Total deferred tax assets	66,413

Deferred tax liabilities:

Depreciation and other	(7,193)
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Net deferred tax assets	\$59,220
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5) Notes Payable

On August 1, 1994, the Company's \$50,000 revolving credit agreement expired and was extended through the completion of a new agreement. On September 8, 1994, the Company completed a new \$125,000 revolving credit agreement in the U.S. with a group of eight banks. The agreement includes facility fees, allows for borrowings at rates including the lead bank's prime reference rate, requires compliance with certain financial covenants and expires in September 1998.

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APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)
NINE MONTHS ENDED JULY 31, 1994

6) Long-Term Debt

On September 1, 1994, the Company issued \$100 million in ten year non-callable Senior Notes bearing interest at 8% and maturing on September 1, 2004. The notes were priced at 99.269 percent to yield 8.108%. The notes contain certain financial covenants that include limitations on additional borrowings by U.S. subsidiaries, liens placed on assets, and sale and leaseback transactions.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

For the third quarter of fiscal 1994 Applied Materials, Inc. reported record net sales of \$440.2 million. New orders of \$503.7 million were received during the quarter, driven by increased demand for the Company's Physical Vapor Deposition (PVD) systems, Chemical Vapor Deposition (CVD) systems and High Temperature Film (HTF) systems and continued strong demand for Metal Chemical Vapor Depositions (MCVD) systems and customer support and spares. Backlog at July 31, 1994 was \$560.9 million.

Results of Operations

The Company's worldwide net sales for the three and nine month periods ended July 31, 1994 increased by 56 percent and 58 percent, respectively, from the corresponding periods in fiscal 1993. This growth can be primarily attributed to increased unit sales of the Company's single-wafer, multi-chamber systems and increases in customer support revenues for all of the regions served by the Company. Compared with the nine months ended August 1, 1993, Implant systems, PVD systems, Etch systems, MCVD systems and customer support and spares sales were all up significantly. Regionally, 61 percent of the Company's net sales for the third quarter of fiscal 1994 were to customers located outside North America compared to 63 percent in the comparable 1993 period. Sales to customers located outside North

America represented 62 percent in the first three quarters of 1994 and 1993. Fiscal 1994 year to date sales to customers located in Asia/Pacific (excluding Japan) increased 65 percent from the prior year and accounted for 16 percent of the Company's fiscal 1994 and 1993 year to date sales. This increase in year to date sales was driven primarily by sales to Korean DRAM manufacturers and sales to companies in Taiwan and Singapore making investments in logic and foundry facilities. Sales to customers in Japan during the three and nine month periods ended July 31, 1994 showed increases of 47 percent and 61 percent, respectively, over the comparable periods in fiscal 1993 as DRAM manufacturers began expansions of new eight-inch lines. Sales in Japan represented 27 percent of total fiscal 1994 year to date sales compared to 26 percent of fiscal 1993 year to date sales. Fiscal 1994 year to date sales to customers in Europe increased 47 percent over fiscal 1993 year to date sales due to increasing demand for capacity to produce advanced telecommunication devices and consumer products. Although the Company has experienced high growth rates for more than two years, the Company's expectation is that such rates will moderate due to projected slower growth in capacity driven demand for semiconductor production equipment.

Gross margin as a percentage of sales for the three and nine month periods ended July 31, 1994 increased approximately two and three percentage points, respectively, from the corresponding periods in fiscal 1993. The continued improvement in gross margin percentage primarily reflects economies of scale in manufacturing and service and support operations as net sales reached record levels. However, past margin trends are not necessarily indicative of future margin performance.

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Operating expenses for the three and nine month periods ended July 31, 1994 decreased approximately three and four percentage points, respectively, as a percentage of sales compared to the corresponding periods in fiscal 1993. This improvement was driven primarily by the Company's record sales levels. The Company intends to continue investing funds for facilities expansion, information systems technology and personnel to support higher volumes of business and thus the Company's expectation is that operating expenses as a percentage of sales will increase in the fourth quarter of fiscal 1994.

The Company's effective tax rate for the third quarter and first three quarters of fiscal 1994 was 35 percent, up from 33 percent in fiscal 1993. This increase is due to recently enacted U.S. tax legislation as well as variations in the Company's worldwide income mix and foreign taxes. Management anticipates the 35 percent effective tax rate will continue through the end of fiscal 1994.

Net income of \$157.6 million for the nine month period ended July 31, 1994 includes the favorable impact of an accounting change of \$7.0 million, or \$0.08 per share, from the cumulative effect of the adoption of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). The Company adopted SFAS 109 prospectively and the cumulative accounting change is reported separately in the Consolidated Condensed Statements of Operations.

The market served by the Company is characterized by rapid technological change, increasingly precise customer specifications and global service requirements. The Company's future operating results may be affected by inherent uncertainties characteristic of the worldwide semiconductor equipment industry. Such uncertainties include, but are not limited to, the development of new technologies, the anticipated transition to a new generation of microprocessors, competitive pricing pressures, global economic conditions, and the availability of needed components. Accordingly, recent historical operating results should be only one factor in evaluating the future financial performance of the Company.

Financial Condition, Liquidity and Capital Resources

The Company's financial condition at July 31, 1994 remained strong.

Total current assets at July 31, 1994 were 2.3 times total current liabilities, compared to 2.0 at October 31, 1993. During the first three quarters of fiscal 1994, cash, cash equivalents, and short-term investments increased \$22 million. Cash provided by operations since October 31, 1993 totaled \$39.1 million, resulting primarily from net income and increases in accounts payable and accrued expenses, offset by increased inventory and accounts receivable levels. The increase in accounts receivable was due to increased net sales over the prior period. Inventory levels have increased in order to fulfill customer orders scheduled for delivery in the fourth quarter of fiscal 1994. Other uses of cash include

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investments in facilities and capital equipment of \$121.4 million and net borrowing reductions of \$3.6 million. Capital expenditures are expected to be approximately \$180 million for fiscal year 1994. This amount is higher than originally planned due to greater than anticipated growth requiring additional funds for facilities expansion, investments in demonstration and test equipment, information systems and other capital expenditures. The Company is continuing to manage its manufacturing capacity to ensure that customer demands will be met. Cash provided by financing activities included proceeds from the sale of 2.3 million shares of the Company's common stock in the second quarter of fiscal 1994.

At July 31, 1994, the Company's principal sources of liquidity consisted of \$288 million of cash and short-term investments and \$128.7 million in available U.S. and foreign credit facilities. In addition, the Company filed a shelf registration with the Securities and Exchange Commission during the second quarter of fiscal 1994 for the sale of common stock and issuance of debt securities. The Company received \$111.0 million from the sale of 2.3 million shares of common stock in the second quarter of fiscal 1994 and \$98.6 million from the issuance of Senior notes on September 1, 1994. The Company's liquidity is affected by many factors, some based on the on-going operations of the business and others related to the uncertainties of the industry and global economies. Although the Company's cash requirements will fluctuate based on the timing and extent of these factors, management believes that cash generated from operations, together with the liquidity provided by existing cash balances and current borrowing arrangements, will be sufficient to satisfy commitments for capital expenditures and other cash requirements for the balance of fiscal 1994 and throughout fiscal 1995.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the first of two lawsuits filed by the Company against Advanced Semiconductor Materials, Inc., Epsilon Technology, Inc. (doing business as ASM Epitaxy) and Advanced Semiconductor Materials International N.V. (the defendants, together, hereafter referred to as "ASM"), described in the Company's Annual Report on Form 10-K for its fiscal year ended October 31, 1993 and in the Company's Form 10-Q for the quarter ended May 1, 1994, Judge William Ingram of the United States District Court for the Northern District of California in San Jose issued an injunction against ASM's sale and use of the ASM Epsilon I epitaxial reactor in the United States, but also granted a stay of the injunction pending an appeal by ASM of the Court's earlier decision that the Epsilon I infringes certain of the Company's patents. The stay order requires that ASM pay a fee, as a security for the Company's interests, for each Epsilon I sold by ASM in the U.S after the date of the injunction. ASM has filed a Notice of Appeal. Judge Whyte of the same Court separately ruled that the

proceedings to resolve the issues of damages and willful infringement, which had been bifurcated for separate trial, will be stayed pending ASM's appeal of the infringement issue.

Item 6. Exhibits and Reports on Form 8-K.

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

10.18 Applied Komatsu Technology, Inc. 1994 Executive Incentive Stock Purchase Plan, together with forms of Promissory Note, 1994 Executive Incentive Stock Purchase Agreement, and Loan and Security Agreement.

b) No reports on Form 8-K were filed by the Company during the quarter ended July 31, 1994.

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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.

September 12, 1994

By: \ s\Gerald F.Taylor
Gerald F. Taylor
Senior Vice President
and Chief Financial Officer
(Principal Financial Officer)

By: \ s\Michael K. O'Farrell
Michael K. O'Farrell
Corporate Controller
(Principal Accounting Officer)

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INDEX TO EXHIBITS

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

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Applied Komatsu Technology, Inc.

1994 Executive Incentive Stock Purchase Plan

SECTION 1. PURPOSE.

The purpose of the Plan is to offer selected employees, directors, statutory auditors and advisors an opportunity to acquire a participation interest in the success of Applied Komatsu Technology, Inc. (the "Company"), or to increase such interest, by purchasing Shares of the Company's Preferred Stock. The Plan provides for the direct sale of Shares.

SECTION 2. DEFINITIONS.

(a) "Shareholders Committee" shall mean the Shareholders Committee of the Company, as constituted from time to time.

(b) "Code" shall mean the United States Internal Revenue Code of 1986, as amended.

(c) "Committee" shall mean a committee of the Shareholders Committee, as described in Section 3(a).

(d) "Company" shall mean Applied Komatsu Technology, Inc., a Japanese corporation.

(e) "Employee" shall mean (i) any individual who is an employee of the Company or of a Subsidiary, (ii) a member of the Shareholders Committee or (iii) an advisor who performs services for the Company or a Subsidiary. Employee shall also include those full-time personnel on a seconded basis, as designated by the Committee.

(f) "Fair Market Value" shall mean the fair market value of a Share, as determined by the Committee in good faith. Such determination shall be conclusive and binding on all persons.

(g) "Offeree" shall mean an individual to whom the Committee has offered the right to acquire Shares under the Plan.

(h) "Plan" shall mean this Applied Komatsu Technology, Inc. 1994 Executive Incentive Stock Purchase Plan.

(i) "Purchase Price" shall mean the consideration for which one Share may be acquired under the Plan, as specified by the Committee.

(j) "Service" shall mean service as an Employee.

(k) "Share" shall mean one share of Stock, as adjusted in accordance with Section 8 (if applicable).

(l) "Stock" shall mean the nonvoting Preferred Stock of the Company and the Common Stock of the Company into which the Preferred Stock may convert in accordance with the Articles of Incorporation of the Company and the Stock Purchase Agreement.

(m) "Stock Purchase Agreement" shall mean the agreement which contains the terms, conditions and restrictions pertaining to the acquisition of such Shares.

(n) "Subsidiary" shall mean any corporation, if the Company and/or one or more other Subsidiaries own not less than 50 percent of the total combined voting power of all classes of outstanding stock of such corporation. A corporation that attains the status of a Subsidiary on a date after the adoption of the Plan shall be considered a Subsidiary commencing as of such date.

SECTION 3. ADMINISTRATION.

(a) Committee Membership. The Plan shall be administered by the Committee, which shall consist of two or more members of the Shareholders Committee. The members of the Committee shall be appointed by the Shareholders Committee. If no Committee has been appointed, the entire Shareholders Committee shall constitute the Committee.

(b) Committee Procedures. The Shareholders Committee shall designate one of the members of the Committee as chairman. The Committee may hold meetings at such times and places as it shall determine. The Committee may only act by unanimous agreement of all of its members.

(c) Committee Responsibilities. Subject to the provisions of the Plan, the Committee shall have full authority and discretion to take the following actions:

- (i) To interpret the Plan and to apply its provisions;
- (ii) To adopt, amend or rescind rules, procedures and forms relating to the Plan;
- (iii) To authorize any person to execute, on behalf of the Company, any instrument required to carry out the purposes of the Plan;
- (iv) To determine when Shares are to be offered for sale under the Plan;
- (v) To select the Offerees;
- (vi) To determine the number of Shares to be offered to each Offeree;
- (vii) To prescribe the terms and conditions of each sale of Shares, including (without limitation) the Purchase Price, and to specify the provisions of the Stock Purchase Agreement relating to such sale;
- (viii) To amend any outstanding Stock Purchase Agreement, subject to applicable legal restrictions and to the consent of the Offeree who entered into such agreement; and
- (ix) To take any other actions deemed necessary or advisable for the administration of the Plan.

All decisions, interpretations and other actions of the Committee shall be final and binding on all Offerees and all persons deriving their rights from an Offeree. No member of the Committee shall be liable for any action that he or she has taken or has failed to take in good faith with respect to the Plan or Shares purchased thereunder or any right to participate or purchase Shares under the Plan.

SECTION 4. ELIGIBILITY.

Only Employees, as defined in Section 2(e), shall be eligible for designation as Offerees by the Committee.

SECTION 5. STOCK SUBJECT TO PLAN.

Shares offered under the Plan shall be authorized but unissued Shares. The aggregate number of Shares which may be issued under the Plan shall not exceed 976 Shares, subject to adjustment pursuant to Section 8. The Company, during the term of the Plan, shall at all times reserve and keep available sufficient Shares to satisfy the requirements of the Plan. Shares acquired by Applied Materials, Inc. and Komatsu Ltd. pursuant to the exercise of the put, call and loan foreclosure rights that are set forth in a Stock Purchase Agreement shall be available again for sale under the Plan.

SECTION 6. TERMS AND CONDITIONS OF AWARDS OR SALES.

(a) Stock Purchase Agreement. Each sale of Shares under the Plan shall be evidenced by a Stock Purchase Agreement between the Offeree and the Company, or Applied Materials, Inc. and Komatsu Ltd. in the case of Shares that have been acquired by Applied Materials, Inc. and Komatsu Ltd. pursuant to the terms of a Stock Purchase Agreement. Such sale shall be subject to all applicable terms and conditions of the Plan and may be subject to any other terms and conditions which are not inconsistent with the Plan and which the Committee deems appropriate for inclusion in a Stock Purchase Agreement. The provisions of the various Stock Purchase Agreements entered into under the Plan need not be identical.

(b) Duration of Offers and Nontransferability of Rights. Any right to acquire Shares under the Plan shall automatically expire on the day after the date specified in the Stock Purchase Agreement unless said right is exercised by the Offeree no later than the date specified in the Stock Purchase Agreement. The Board of Directors of the Company must approve each grant by the Committee before the time it is communicated to the Offeree. The right to acquire shares under the Plan shall not be transferable and shall be exercisable only by the Offeree to whom such right was granted.

(c) Purchase Price. The Purchase Price of Shares to be offered under the Plan shall not be less than 100 percent of the Fair Market Value of such Shares. The Purchase Price shall be payable in a form described in Section 7.

(d) Withholding Taxes. As a condition to the purchase of Shares, the Offeree shall make or enter into such arrangements as the Committee may require for the satisfaction of any national, federal, state, local or foreign withholding tax obligations that may arise in connection with such purchase or the payment of any dividends with respect to the Shares.

(e) Restrictions on Transfer of Shares. Any Shares awarded or sold under the Plan shall be subject to such special forfeiture conditions, rights of repurchase, rights of first refusal, put and call rights and other transfer restrictions as the Committee may determine. Such restrictions shall be set forth in the applicable Stock Purchase Agreement and shall apply in addition to any restrictions that may apply to holders of Shares generally.

SECTION 7. PAYMENT FOR SHARES.

(a) General Rule. The entire Purchase Price of Shares issued under the Plan shall be payable in cash.

(b) Promissory Note. To the extent that a Stock Purchase Agreement so provides, and subject to the approval of the Committee, payment must be made all or in part with the proceeds of a loan from a lender approved by the Committee (a "Lender"). Such loan shall be evidenced by a full recourse promissory note with the Lender executed by the Offeree. The interest rate and other terms and conditions of such note shall be determined by the Lender, but approved by the Committee. The Lender must require that the Offeree pledge or assign as security his or her Shares to the Lender, pursuant to agreement(s) in form satisfactory to the Lender and the Committee, for the purpose of securing the payment of such note. In no event shall the stock certificate(s) representing such Shares be released to the Offeree until such note is paid in full.

SECTION 8. ADJUSTMENT OF SHARES.

(a) General. In the event of a subdivision of the outstanding Stock, a declaration of a dividend payable in Shares, a combination or consolidation of the outstanding Stock into a lesser number of Shares, a recapitalization, a reclassification or a similar occurrence, the Committee shall make appropriate

adjustments in the number of Shares available for future grants under Section 5 to reflect such event. In the case of any such event, appropriate adjustments will be effected in the number of Shares outstanding under the Plan.

(b) Reservation of Rights. Except as provided in this Section 8, an Offeree shall have no rights by reason of (i) any subdivision or consolidation of shares of stock of any class, (ii) the payment of any dividend or (iii) any other increase or decrease in the number of shares of stock of any class.

SECTION 9. LEGAL REQUIREMENTS.

Shares shall not be issued under the Plan unless the issuance and delivery of such Shares complies with (or is exempt from) all applicable requirements of law, including (without limitation) the Securities Act of 1933, as amended, the rules and regulations promulgated thereunder, foreign and state securities laws and regulations, and the regulations of any stock exchange on which the Company's securities may then be listed.

SECTION 10. NO EMPLOYMENT RIGHTS.

No provision of the Plan, nor any right granted under the Plan, shall be construed to give any person any right to become, to be treated as, or to remain an Employee. The Company and its Subsidiaries reserve the right to terminate any person's Service at any time and for any reason.

SECTION 11. DURATION AND AMENDMENTS.

(a) Term of the Plan. The Plan, as set forth herein, shall become effective on the date of its adoption by the Shareholders Committee. The Plan shall terminate on January 31, 2004 and may be terminated on any earlier date pursuant to Subsection (b) below.

(b) Right to Amend or Terminate the Plan. The Shareholders Committee may amend, suspend or terminate the Plan at any time and for any reason.

(c) Effect of Amendment or Termination. No Shares shall be issued or sold under the Plan after the termination thereof. The termination of the Plan, or any amendment thereof, shall not affect any Share previously issued under the Plan.

SECTION 12. EXECUTION.

To record the adoption of the Plan by the Shareholders Committee on the ____ day of _____, 199_, the Company has caused its authorized officer to execute the same.

APPLIED KOMATSU TECHNOLOGY, INC.

By
Tetsuo Iwasaki, President

APPLIED MATERIALS, INC.

By
James C. Morgan, Chairman and
Chief Executive Officer

KOMATSU LTD.

By
Tetsuya Katada, President

For use with loans to
AKT & AKTA "EIP Participants"

PROMISSORY NOTE

[_____]
date signed

FOR VALUE RECEIVED, the undersigned, _____
("Borrower"), promises to pay to the order of _____
("Lender"), the principal sum of _____ (\$_____),
with interest on the principal from the date of disbursement
hereof at the rate of _____ (%) percent
per year.

This Note shall be repaid as follows:

1) commencing on January 31, 199__, and on each January 31
thereafter, all accrued and unpaid interest on the unpaid
principal under this Note shall be due and payable and 2) on
January 31, 2004, the entire unpaid balance of principal and
interest hereunder shall be due and payable. Any interest
not paid when due shall continue to be due and shall bear
interest until paid at the interest rate set forth in the
first paragraph. All payments hereunder shall be in lawful
money of _____ and shall be applied first to outstanding
interest obligations and then to principal.

Borrower shall not have the right to, and shall
not, prepay all or any part of the unpaid principal balance
of this Note prior to the effective date of an initial
public offering of the Common Stock of Applied Komatsu
Technology, Inc., a Japanese corporation ("AKT"), on any
stock exchange or stock quotation system (a "Company IPO"),
except as may be permitted by the next sentence or as may be
consented to in writing by Lender. On each date an interest
payment is due under this Note, the Borrower may make a
partial principal prepayment on this Note in an amount not
to exceed the outstanding principal balance of this Note as
of that date, divided by the number which is equal to ____
(____) minus the number of installment payments of interest
previously due as provided above. Borrower also may prepay
this Note, in whole or part, without penalty or limitation
at any time on or after the effective date of a Company IPO.

If Borrower resigns or is removed, or is
terminated voluntarily or involuntarily, as an officer,
employee or advisor of AKT and its subsidiaries or dies
prior to January 31, 2004, then the entire outstanding
principal balance of this Note, together with all accrued
unpaid interest thereon, shall become immediately due and
payable at the option of Lender, upon written notice to
Borrower. This Note, however, is not an employment
agreement, and neither this Note nor any failure to give
such notice shall give Borrower the right to be employed or
retained by AKT and its subsidiaries in any capacity or for
any length of time.

If default shall be made in the payment of
principal and/or interest when due, then the entire
outstanding principal balance of this Note, together with
all accrued unpaid interest thereon, shall become
immediately due and payable at the option of Lender, upon
written notice to Borrower. The Lender will not accelerate
payment of the Note prior to maturity for nonpayment of
interest. If this Note remains unpaid ten (10) days after
written demand for payment in full and if action thereafter
is instituted to collect on this Note, then Borrower agrees
to pay Lender reasonable attorneys' fees and costs of suit,
as fixed by Japanese law.

This Note is a full-recourse note secured by

shares of nonvoting preferred stock of AKT pursuant to the terms of a Loan and Security Agreement by and between Borrower and Lender that create a security interest in the shares ("Joto-Tampo"), the terms of which are incorporated herein by reference. In accordance with the Joto-Tampo, Lender shall receive any dividends paid on the shares on Borrower's behalf and apply the same to the payment of interest hereunder as it comes due. Prior to the due date of each interest installment under this Note, Lender shall notify Borrower of the net amount of interest (including any late interest) due on the next scheduled payment date, after application of any dividends paid on the shares against accrued interest hereunder. Said preferred shares are convertible into AKT's common stock in accordance with AKT's Articles of Incorporation and the terms of the Joto-Tampo.

This Note shall be governed by and construed in accordance with the laws of Japan; provided, however, the English language version of this Note will prevail and control. Borrower hereby irrevocably submits to the jurisdiction of the Tokyo District Court in connection with enforcement of this Agreement and/or any disputes hereunder.

IN WITNESS WHEREOF, Borrower has executed this Note as of the date and year first above written.

APPLIED KOMATSU TECHNOLOGY, INC.

1994 EXECUTIVE INCENTIVE STOCK PURCHASE AGREEMENT

Description of Shares

The shares you purchase will be the nonvoting Preferred Stock of Applied Komatsu Technology, Inc. ("Company") with rights and privileges, including conversion into the Common Stock of the Company, as set forth in the Company's Articles of Incorporation.

Payment for Shares

You must pay to the Company the fair market value of the shares of Preferred Stock you receive (taking into account the fact that the Preferred Stock is convertible into Common Stock) ("Shares"), as determined by the Committee. The number of Shares you are purchasing and the fair market value per share are shown on the cover sheet of this Agreement. The purchase price must be paid in full, in cash, using the proceeds of the mandatory loan described below.

Funds necessary to purchase your Shares will be loaned to you by Applied Materials, Inc. and Komatsu Ltd. (the "Lenders"), in equal amounts unless they agree among themselves to a different lending ratio. Your indebtedness must be evidenced by a full recourse promissory note with each of the Lenders in the form attached ("Note"), secured by an assignment for security to each Lender under Japanese law ("Joto-Tampo"), in the form attached, of all the Shares purchased by you. You must sign the attached Note(s) and the attached Loan and Security Agreement(s) when you sign this Agreement. You must make use of this secured loan to purchase your Shares, and you may not purchase your Shares if you do not sign your Note and Loan and Security Agreement with the Lender(s).

The Notes are payable interest only, annually, with a balloon payment of all outstanding principal and interest on January 31, 2004. The interest rate on your notes will be the lowest rate required by U.S. tax law to prevent a U.S. taxpayer from incurring imputed compensation income from a "below market interest rate loan." Any dividends paid on your Shares will automatically be applied to your annual and accrued interest obligations, any partial principal repayments you elect to make under your Notes and the remainder (if any) will be distributed to you in cash so long as a default has not occurred.

As a condition to your right to purchase your Shares, you agree to make or enter into such arrangements as the Company may require from time-to-time for the satisfaction of any national, federal, state, local or foreign withholding tax obligations that may arise in connection with such purchase and/or the payment of dividends on your Shares.

Note Prepayment

The Notes will not permit prepayment of your loans to purchase your Shares prior to the closing of an initial public offering of the Company's Common Stock on any stock exchange or stock quotation system approved for listing by the Shareholders Committee of the Company (a

"Company IPO"), except with the written approval of the Lenders or as described in the next sentence. Each Note provides that on each date an interest payment is due, you may make a partial principal prepayment in an amount not to exceed the outstanding principal balance of your Note as of that date, divided by the number which is equal to _____ minus the number of installment payments of interest previously due under your Note. Each Note also permits you to prepay your Note, in whole or part, without penalty or limitation at any time on or after the closing of a Company IPO.

Stock Certificates

Unless the Lenders agree to a different lending ratio, your Shares will be held one-half by each Lender, the assignee under the Loan and Security Agreement, as collateral for the repayment of your Notes. You acknowledge and agree that a default under either Note is a default under both Notes and that a default under either Loan and Security Agreement is a default under both such Agreements. Until the Notes are paid in full, the Lenders will have all of the rights pertaining to your Shares, including the sole right to vote the Shares and to exercise the conversion privilege. Any dividends and other distributions paid will be received on your behalf, and will be applied against your Notes as described above with any dividends remaining paid to you. Until the loans are paid in full, the shareholders' registry of the Company will reflect the transfer and assignment of the Shares to the Lenders pursuant to the Loan and Security Agreements. After your Notes have been paid in full, your Shares will be re-assigned to you and a stock certificate for those Shares will be provided.

The stock certificate for your Shares will contain certain legends which restrict your ability to sell the Shares (see "Stock Legends" below).

Voting Rights

Until both of your Notes are paid in full, the Lenders under the Loan and Security Agreements will have the sole right to vote your Shares.

Conversion to

Common Stock

The nonvoting shares of Preferred Stock that you purchase are convertible one for one into shares of the Company's Common Stock in accordance with the Company's Articles of Incorporation; provided, however, the Lenders, as assignees under the Loan and Security Agreements, shall have the sole right to exercise the conversion privilege and to vote the Shares during any period in which your Notes are not fully paid.

Repurchase Rights (Call Option)

The Lenders may (but are not obligated to) repurchase some or all of your Shares if any of the following events occur:

- * You resign or are removed, or are terminated voluntarily or involuntarily, as an officer, employee or advisor of the Company and its subsidiaries or die, prior to a Company IPO; or

- * you attempt to prepay either or both Notes other than as specifically permitted therein prior to a Company IPO; or

- * you attempt to transfer your Shares in violation of the provisions set forth below in "Restrictions on Resale."
- * You repay either or both Notes in full upon maturity but there is no Company IPO.

[Add this paragraph for a seconded employee. If you are seconded to AKT or AKTA by AMAT or Komatsu, your Shares will automatically be called if you do not become a direct employee of AKT or AKTA on or before the earlier of the day before the commencement of a "restricted period" with respect to AKT as that term is defined under Japanese IPO regulations or the date two years from when you first became assigned to AKT or AKTA.]

Except in the case where a Note is repaid in full but there has not been a Company IPO, this repurchase right (call option) shall be exercised by written notice to you within one hundred twenty (120) days after the occurrence of the event triggering the right to exercise (the time period for the repurchase rights is unlimited in the case of your death). In the case where a Note is repaid in full but there has not been a Company IPO, the call option shall be deemed to be automatically exercised without further notice, and all the Shares must be repurchased, unless the Lender in question notifies you in writing, within thirty (30) days after repayment of the Note, that it has elected to decline to exercise the call option by reason of that triggering event. The purchase price (see below) for any Shares so repurchased will be first applied against any amounts that remain due under your Notes and the remainder (if any) payable in cash within thirty (30) days after option exercise.

Executive Put Option

The Loan and Security Agreements provide that you may (but are not obligated to) require the Lender to purchase all, but not a portion, of your Shares if any of the following events occur:

- * the Company notifies you in writing on or before January 1, 1999 that its Shareholders Committee has determined (without prejudice to reconsideration of the issue) that the Company does not intend to commence, at any time prior to the end of its FY1999, the process for a Company IPO; or
- * the Company does not so notify you, but all outstanding Shares of Preferred Stock are not converted to the Company's Common Stock on or before April 30, 1999, or
- * the Company does not so notify you and said conversion occurs on or before April 30, 1999, but the Company subsequently abandons and withdraws entirely (without prejudice to reconsideration of the issue) all intention and all then pending applications and good faith efforts to achieve a Company IPO on any stock exchange or stock quotation system.

The Company has an affirmative obligation to notify you of the foregoing events.

This right (put option) shall be exercised by

you with respect to all of the Shares only by simultaneous written notice to both Lenders at any time during the term of the Loan and Security Agreements and during the period which is (1) after the occurrence of the event triggering the right to exercise the put option and (2) prior to the date (if any) on which the Company subsequently has commenced, or recommenced, the process for a Company IPO. This put option shall be reinstated if said Company IPO is later withdrawn or abandoned prior to completion. The purchase price (see below) for any Shares so repurchased will be first applied against any amounts that remain due under your Notes and the remainder (if any) payable in cash within thirty (30) days after option exercise.

You acknowledge and agree that the Company and/or its parents reserve all rights not to commence a Company IPO, to abandon any Company IPO at any time prior to completion and to make, in their sole and unfettered discretion, any and all decisions and determinations regarding a Company IPO (including, without limitation, all decisions regarding timing, pricing and all other terms and conditions and considerations) and that there shall be no liability or obligation to you by either the Company or either parent (other than your right to exercise this put option on these specific terms) as a result of any decision or determination made regarding a Company IPO; if a Company IPO is not commenced, is commenced but is withdrawn or otherwise does not occur; or if a Company IPO occurs at any time after an exercise of this put option by you.

Purchase Price for Put/Call Options

The purchase price payable for Shares subject to an exercise of the put option or call option shall be: 1) if a certain price is required by applicable Japanese (or other) law and, with respect to the call option, IPO regulations, then the lowest price permitted by such Japanese (or other) law or IPO regulations and 2) if said certain price is not required, then the fair market value for the Company's Shares (on an as-converted into Common Stock basis) as determined by the Committee in its sole discretion, based on the performance and degree of success of the Company and its subsidiaries. The Committee may make reference to at least three companies that trade during the relevant time on the U.S. Nasdaq National Market and are selected by the Committee as being reasonably comparable to the Company. The valuation process may also take into account relative, historical and projected growth rates, capital structures, industry attractiveness and such other or alternate factors the Committee deems relevant. The price/earnings ratio of such companies may also be among the factors utilized by the Committee to determine fair market value.

Restrictions on Resale

By signing this Agreement, you agree not to sell any of your Shares (or any options or other rights to acquire the same):

* to a third party other than the Lenders, and then only pursuant to this Agreement and the Loan and Security Agreements, at any time prior to the effective date of a Company IPO, and

* in any event, at any time when applicable securities or other laws or IPO regulations prohibit or restrict the sale of your Shares.

You also agree, so long as your Notes remain unpaid, to sell your Shares only as and to the extent permitted by the Loan and Security Agreements.

Stock Legends

All certificates representing Shares purchased under this Agreement shall be endorsed with the following legends:

"THE SHARES REPRESENTED HEREBY MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, ENCUMBERED OR IN ANY MANNER DISPOSED OF, EXCEPT IN COMPLIANCE WITH THE TERMS OF WRITTEN "LOAN AND SECURITY AGREEMENTS" BETWEEN THE LENDERS UNDER SAID AGREEMENTS, AND THE REGISTERED HOLDER OF THE SHARES (OR THE PREDECESSOR IN INTEREST TO THE SHARES). SUCH AGREEMENTS ASSIGN TO THE LENDERS ALL RIGHTS PERTAINING TO THE SHARES, AS COLLATERAL FOR THE REPAYMENT OF LOANS TO PURCHASE THE SAME, GRANTS CERTAIN REPURCHASE RIGHTS TO THE LENDERS, AND IMPOSES CERTAIN RESTRICTIONS ON THE RESALE OF THE SHARES. THE COMPANY WILL UPON WRITTEN REQUEST FURNISH A COPY OF SUCH AGREEMENTS TO THE HOLDER HEREOF WITHOUT CHARGE."

"THE SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES LAWS AND REGULATIONS OF EITHER THE UNITED STATES OR JAPAN AND MAY NOT BE SOLD, PLEDGED, OR OTHERWISE TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION THEREOF UNDER ALL APPLICABLE SECURITIES LAWS AND REGULATIONS OR AN OPINION OF COUNSEL, SATISFACTORY TO THE CORPORATION AND ITS COUNSEL, THAT SUCH REGISTRATION IS NOT REQUIRED."

"ANY TRANSFER OF THE SHARES OF THE COMPANY SHALL REQUIRE THE WRITTEN APPROVAL OF THE BOARD OF DIRECTORS."

U.S. Purchaser Representations

If you are a resident or a citizen of the United States, you hereby represent and warrant to the Company as follows, in connection with the issuance and acquisition of Shares under this Agreement:

You are acquiring and will hold the Shares for investment for your account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the U.S. Securities Act of 1933.

You understand that the Shares have not been registered under the Securities Act of 1933 by reason of a specific exemption therefrom and that the Shares must be held indefinitely, unless they are subsequently registered under the Securities Act of 1933 or you obtain an opinion of counsel, in form and substance satisfactory to the Company and its counsel, that such registration is not required. You further acknowledge and understand that the Company is under no obligation to register the Shares on any exchange or stock quotation system.

You are aware of the adoption of Rule 144 by the Securities and Exchange Commission under the Securities Act of 1933, which permits limited public resales of securities

acquired in a non-public offering, subject to the satisfaction of certain conditions, including (without limitation) the availability of certain current public information about the issuer, the resale occurring not less than two years after the securities to be sold have been purchased and paid for, the sale being through an unsolicited "broker's transaction," and the amount of securities being sold during any three-month period not exceeding specified limitations. You acknowledge and understand that the conditions for resale set forth in Rule 144 have not been satisfied and that the Company has no plans to satisfy these conditions in the foreseeable future.

You will not sell, transfer or otherwise dispose of the Shares in violation of the Securities Act of 1933, the Securities Exchange Act of 1934, or the rules promulgated thereunder, including Rule 144 under the Securities Act of 1933.

You have had the opportunity to ask questions of the Company concerning the Company's business and financial condition and to obtain any information which you consider necessary to make an informed investment decision with respect to the acquisition of the Shares. You have personally discussed the Company's business, financial condition and future plans, as well as the terms and conditions of the issuance and sale of the Shares, with an officer of the Company and have received satisfactory answers to all questions.

You are aware that your investment in the Company is a speculative investment which has limited liquidity and is subject to the risk of complete loss. You are able, without impairing your financial condition, to hold the Shares for an indefinite period and to suffer a complete loss of your investment in the Shares.

No Retention Rights

This Agreement is not an employment agreement and does not give you the right to be retained by Company or any of its subsidiaries in any capacity. The Company (and its subsidiaries) reserve the right to, and may, terminate your Service at any time and for any reason without liability or obligation.

Applicable Law

This Agreement will be interpreted and enforced under the laws of Japan; provided, however, the English language version of this Agreement, the Plan, your Note(s), and the Loan and Security Agreement(s) will prevail and control.

The Plan and Other Agreements

This Agreement, the Plan, your Note(s), and the Loan and Security Agreement(s) collectively constitute the entire understanding between you and the Company regarding this purchase of Shares and are incorporated herein by reference. Any prior agreements, commitments or negotiations are superseded.

By signing the cover sheet of this Agreement, you agree to all of the terms and conditions described above and in the Plan.

In order to purchase the Shares and participate in the Plan, you must sign the attached cover sheet, your Loan and Security Agreement(s) and Note(s) and return them all to AKT or AKTA on

or before _____, 199_.

Applied Komatsu Technology, Inc.
1994 Executive Incentive Stock Purchase Agreement

Cover Sheet

Name of Participant: _____

Number of Shares Purchased: _____

Purchase Price per Share: _____

Total Purchase Price: _____

Signature

Date: _____

For use with loans
to both AKT and
AKTA "EIP Participants"

APPLIED KOMATSU TECHNOLOGY, INC.
1994 EXECUTIVE INCENTIVE STOCK PURCHASE PLAN

LOAN AND SECURITY AGREEMENT ("Joto-Tampo")

THIS AGREEMENT, dated _____, 199_, by and between
_____ ("Lender"), and _____ ("Borrower").

WITNESSETH:

WHEREAS, Lender wishes to extend a loan to Borrower, and Borrower wishes to obtain such loan from Lender so that Borrower can purchase with the loan proceeds _____ shares of nonvoting preferred stock ("Preferred Stock") from Applied Komatsu Technology, Inc. ("AKT");

WHEREAS, the parties desire that Borrower enter into this Agreement and transfer to Lender the shares of Preferred Stock Borrower purchases from AKT, as security for the obligations of Borrower to Lender under the loan to be extended hereunder:

NOW, THEREFORE, in consideration of the agreements contained herein and intending to be legally bound hereby, the parties agree as follows:

1. Extension of Loan Subject to the terms and conditions hereinafter set forth, Lender shall extend to Borrower a loan (the "Loan") in the principal sum equal to the initial principal balance of that promissory note executed by Borrower in favor of Lender, a copy of which is attached hereto as Exhibit A (the "Note").

2. Method of Borrowing On the date hereof, Borrower shall cause the aggregate principal amount of the Loan to be paid to AKT, in accordance with procedures to be mutually agreed between Lender and Borrower.

3. Note The Loan shall be evidenced by the Note. The Note is denominated in Japanese yen if Borrower is not a U.S. taxpayer and U.S. Dollars if Borrower is a U.S. taxpayer. For U.S. Dollar denominated Notes, the initial principal balance of the Note is the appropriate yen amount, converted into U.S. Dollars based on the average daily Bank of Tokyo - "OPN" rate as published on Reuter's for the three Japanese banking days preceding the date the issue price for the Preferred Stock was determined by a Committee of the Shareholders Committee of AKT responsible for administering the 1994 Executive Incentive Stock Purchase Plan (the "Committee").

4. Principal Loan Terms The Loan shall be full recourse and bear interest as set forth in the Note, which is incorporated into this Agreement. The terms of the Note shall prevail if there is any discrepancy, conflict or ambiguity of interpretation between this Agreement and the Note. Subject to the terms and conditions contained in the Note, the Loan shall be repayable by Borrower to Lender as follows:

Interest on the Note shall be payable annually as set forth therein,

The principal amount evidenced by the Note shall become due on January 31, 2004, and

The Note may not be prepaid without the prior written consent of Lender or as specifically provided in the Note.

5. Stock Assignment and Transfer For Security Purposes;

Appointment as Attorney-in-Fact

A. In order to secure Borrower's obligations to Lender under the Loan evidenced by the Note, promptly after the date hereof Borrower hereby assigns and transfers to Lender the shares of Preferred Stock, which shares are convertible into AKT's common stock in accordance with AKT's Articles of Incorporation ("Conversion Shares"), represented by stock certificates ("Share Certificates") as shown in Exhibit B attached hereto, the originals of which are herewith delivered to Lender or its agents.

B. Lender shall itself or through its agent hold all Share Certificates delivered as security for the full and prompt repayment of any and all sums due to Lender from Borrower under the Loan evidenced by the Note ("Joto-Tampo"). Such Joto-Tampo shall continue to exist and be valid with respect to all of the Preferred Stock and any Conversion Shares until the loan evidenced by the Note is paid in full in accordance with the Note and this Agreement. Lender shall not in any manner encumber, transfer or dispose of the Preferred Stock and any Conversion Shares except in accordance with the provisions of this Agreement.

C. Lender and Borrower shall cause AKT to, pursuant to instructions from Borrower and Lender which are hereby given, make all necessary and appropriate entries into the shareholders registry of AKT to reflect the transfer and assignment to Lender of the Preferred Shares and any Conversion Shares based on the Joto-Tampo and in accordance with the provisions of this Agreement.

D. Borrower hereby irrevocably appoints Lender as Borrower's attorney-in-fact with full power and authority throughout the term of this Agreement to take such actions as Lender deems necessary or desirable to arrange for such transfer and registry, to exercise the conversion privilege and right to vote as contemplated by Section 7.B, and to otherwise carry out the provisions and intentions of this Agreement.

6. Representations and Warranties Borrower hereby represents and warrants to Lender as follows:

As of the date Borrower assigns and transfers the shares of Preferred Stock to Lender pursuant to Section 5.A, Borrower owns all of the Preferred Stock beneficially and of record, free and clear of any lien, security interest, pledge, prior assignment, encumbrance, or other restriction, other than the Joto-Tampo created by this Agreement in favor of Lender.

As of the date Borrower assigns and transfers the shares of Preferred Stock to Lender pursuant to Section 5.A, Borrower has the full and unqualified legal right, power and authority to sell, transfer and convey complete and absolute legal and equitable title to the Preferred Stock, free and clear of any lien, security interest, pledge, prior assignment, encumbrance, or other restriction other than the Joto-Tampo created by this Agreement in favor of Lender.

As of the date hereof, Borrower is not a party to or bound by any contract or agreement of any nature whatsoever relating to the ownership, sale, exchange, disposition or purchase of any of the Preferred Stock, other than the agreement with AKT pursuant to which the Preferred Stock was acquired.

7. Rights of Borrower and Lender

A. During the term of this Agreement:

All regular dividends with respect to the Preferred Stock and any Conversion Shares shall be paid or distributed by AKT to Lender, which shall receive the same

on behalf of Borrower. Borrower irrevocably instructs, and Lender agrees, that all such dividends shall be applied by Lender to the payment of interest and any other sums then due under the Note; the remainder of such dividends (if any) shall be distributed by Lender to Borrower so long as Borrower is not in Default (as defined in Section 8) hereunder.

Any special dividends, distributions and other amounts or shares payable or distributable with respect to the Preferred Stock and Conversion Shares as a result of stock redemption, consolidation, split, conversion or purchase shall be paid or distributed by AKT to Lender, which shall receive the same on behalf of Borrower. Such special dividends, distributions and other amounts shall be retained and held by Lender, together with the Share Certificates, as security for the full and prompt repayment of any and all sums due to Lender from Borrower under the Note so long as Borrower is not in Default (as defined in Section 8) hereunder.

B. During the term of this Agreement, Lender shall have the sole and exclusive rights pertaining to the Preferred Stock and the Conversion Shares, including without limitation the sole and exclusive right to exercise the privilege to convert some or all of the Preferred Stock into Conversion Shares and the sole and exclusive right to vote the Preferred Stock and any Conversion Shares on all corporate questions of AKT on which such shares are entitled to vote as if it were the outright owner thereof. Borrower hereby irrevocably authorizes and instructs Lender to exercise such conversion privilege and right to vote as and when Lender, in its sole discretion, determines.

C. Lender may (but is not obligated to, except as provided below) repurchase some or all of the Preferred Stock and any Conversion Shares, if any of the following events occur:

The Borrower resigns or is removed, or is terminated voluntarily or involuntarily, as an officer, employee or advisor of AKT and its subsidiaries or dies prior to an initial public offering of AKT's Common Stock on any stock exchange or stock quotation system approved for listing by the Shareholders Committee of AKT (an "IPO of AKT"); or

The Borrower attempts to prepay the Note other than as specifically permitted therein prior to an IPO of AKT; or

The Borrower repays the balance of the Note on its maturity but there has been no IPO of AKT; or

The Borrower attempts to transfer any Preferred Stock or Conversion Shares in violation of the provisions set forth below in Article 7.F.

[IF APPLICABLE, ADD: The Preferred Stock and any Conversion Shares of a Borrower who is a seconded employee of AKT or Applied Komatsu Technology America, Inc. ("AKTA") shall be automatically called if such Borrower does not decide to become a direct employee of AKT or AKTA on or before the earlier of the day before the commencement of a "restricted period" with respect to AKT, as that term is defined in Japanese IPO regulations or the date two years from when the Borrower first became assigned to AKT or AKTA.]

Except in the case of death or where the Note is repaid in full but there has not been an IPO of AKT, this repurchase right (call option) shall be exercised by written notice to Borrower within one hundred twenty (120) days after the occurrence of the above event. The repurchase period shall be unlimited in the case of death. In the case where the Note is repaid in full but there has not been an IPO of AKT, the call option shall be deemed to be automatically exercised without further notice, and all the Preferred Stock and any Conversion Shares must be repurchased, unless Lender notifies Borrower in writing, within

thirty (30) days after repayment of the Note, that Lender has elected to decline to exercise the call option by reason of that triggering event. The purchase price (see below) for any Preferred Stock or Conversion Shares so repurchased will be first applied against any amounts that remain due under the Note and the remainder (if any) payable in cash within thirty (30) days after option exercise.

D. Borrower may require Lender to purchase all, but not a portion, of the Preferred Stock or Conversion Shares if any of the following events occur:

AKT notifies Borrower in writing on or before January 1, 1999 that its Shareholders Committee has determined (without prejudice to reconsideration of the issue) that AKT does not intend to commence, at any time prior to the end of its FY1999, the process for an IPO of AKT, or

AKT does not so notify Borrower, but all outstanding shares of Preferred Stock are not converted to Conversion Shares on or before April 30, 1999, or

AKT does not so notify Borrower and said conversion occurs on or before April 30, 1999, but AKT subsequently abandons and withdraws entirely (without prejudice to reconsideration of the issue) all intention and all then pending applications and good faith efforts to achieve an IPO of AKT on any stock exchange or stock quotation system.

AKT has an affirmative obligation to notify the Borrower of the foregoing events.

This right (put option) shall be exercised by Borrower by written notice to Lender at any time during the term of this Agreement and during the period which is (1) after the occurrence of the event triggering the right to exercise the put option and (2) prior to the date (if any) on which AKT subsequently has commenced, or re-commenced, the process for an IPO of AKT. This put option shall be reinstated if said IPO is later withdrawn or abandoned by AKT prior to completion. The purchase price (see below) for any shares so repurchased will be first applied against any amounts that remain due under the Note and the remainder (if any) payable in cash within thirty (30) days after option exercise.

E. The purchase price under Subsections C and D shall be: 1) if a certain price is required by applicable Japanese law (or other applicable law) and, with respect to Subsection C, IPO regulations, then the lowest price permitted by such Japanese law (or other applicable law) or IPO regulations and 2) if said certain price is not required, then the fair market value for the Preferred Stock and Conversion Shares (on an as-converted into common stock basis) as determined by the Committee in its sole discretion, based on the performance and degree of success of AKT and its subsidiaries. The Committee may make reference to at least three companies that trade during the relevant time on the U.S. Nasdaq National Market and are selected by the Committee as being reasonably comparable to AKT. The valuation process may also take into account relative, historical and projected growth rates, capital structures, industry attractiveness and such other or alternate factors the Committee deems relevant. The price/earnings ratio of such companies may also be among the factors utilized by the Committee to determine fair market value.

F. Borrower agrees not to sell any of the Preferred Stock or Conversion Shares (or any options or other rights to acquire the same) 1) to a third party at any time prior to the closing date of an IPO of AKT and 2) in any event at any time when applicable securities or other laws or IPO regulations prohibit or restrict the sale of Preferred Stock or Conversion Shares.

G. Borrower agrees that, if required by applicable IPO regulations, Conversion Shares may be submitted to the lead

manager of the IPO of AKT and kept in its custody until up to one year following the effective date of the IPO (or longer, if such regulations so require), regardless of whether the Note has been paid in full and regardless of whether this Agreement remains in effect.

8. Default

A. The occurrence of the following events with respect to Borrower shall constitute a default hereunder ("Default"):

If Borrower fails to perform any of its obligations hereunder and such failure continues for more than 10 days after Borrower receives written notice of such failure from Lender.

If Borrower fails to perform any of its obligations under the Note for more than 10 days after Borrower receives written notice of Lender's election to accelerate payment of the Note by reason of such failure.

The Lender will not accelerate payment of the Note prior to maturity for nonpayment of interest.

B. If Borrower is in Default hereunder, then Lender may declare that all sums lawfully owed by Borrower under the Loan evidenced by the Note shall be immediately due and payable, and Lender shall have, in addition to all other rights and remedies which it may have under Japanese law, all of the following rights and remedies:

Lender may continue to receive dividends and other distributions regarding Preferred Stock and Conversion Shares on behalf of Borrower and exercise all voting and other rights and give all consents, waivers and ratifications in respect thereof and otherwise act with respect thereto as though it were the outright owner thereof; and/or

Lender may foreclose its security interest hereunder and obtain outright ownership to all or any Preferred Stock and Conversion Shares (if the then price of the same determined in accordance with Article 7.E hereof is greater than all of the sums owed by Borrower under the Loan, then Lender shall pay such balance to Borrower within thirty (30) days thereafter); and/or

Lender may sell, transfer or otherwise dispose of the Preferred Stock and Conversion Shares and other property held by Lender or its agent hereunder and apply the proceeds thereof to any outstanding amount payable by Borrower hereunder, ten (10) days after prior written notice to Borrower of Lender's intention to do so.

C. The failure to give any such notice and/or to exercise any such right or remedy shall not constitute a waiver of any Default or right associated with any Default and shall be without prejudice to giving such notice and/or exercise such right or remedy at any later date.

9. Duration and Termination

A. This Agreement shall continue in effect from the date hereof until the occurrence of the events prescribed in Section 9B, at which time this Agreement and all of the rights and obligations of the parties hereto shall terminate.

B. Upon the full payment by Borrower of all sums due under the Note to Lender, this Agreement shall terminate except for Sections 7C, 7D, 7E and 7F (which Sections shall survive such termination until the effective date of an IPO of AKT) and Section 7G (which Section shall survive such termination until the end of the period specified therein). Upon such termination (except as provided in Section 7G), Lender shall return, or have

them returned, to Borrower all of the Preferred Stock and Conversion Shares and other property held by Lender or its agent hereunder for security purpose.

10. Miscellaneous

A. This Agreement may only be modified, supplemented or amended by a written instrument signed by the parties hereto.

B. This Agreement shall inure to the benefit of and be legally binding upon the parties and their respective heirs, personal representatives, successors and assigns.

C. This Agreement shall be governed by and construed in accordance with the laws of Japan; provided, however, the English language version of this Agreement will prevail and control. Borrower and Lender acknowledge and agree that the choice of Japanese law to govern this Agreement is reasonable and binding, and elected based upon mutually acceptable factors including the fact that the rights, duties and privileges of a shareholder of AKT are governed by Japanese law. Borrower hereby irrevocably submits to the jurisdiction of the Tokyo District Court in connection with enforcement of this Agreement and/or any disputes hereunder.

D. If any provision of this Agreement is construed to be invalid or unenforceable, then the remainder of this Agreement shall not be affected thereby and shall be enforceable without regard to the invalid or unenforceable provision.

E. Any heading preceding the text of the Sections hereof are inserted solely for the convenience of reference and shall not constitute a part of this Agreement.

F. All notices required or permitted hereunder shall be given in writing, and either hand delivered, delivered by courier, or mailed by certified mail, postage prepaid, return receipt requested, to the parties at their respective addresses for notice herein. The address for notice for Lender shall be: to the attention of its General Counsel, at the address of Lender's corporate headquarters. The address for notice for Borrower shall be as set forth below on the last page of this Agreement. Either party may change its address for notices hereunder by written notice to the other party as provided for in this Section.

G. Neither party shall, directly or indirectly, assign or transfer this Agreement or any of the rights and/or obligations hereunder, in whole or in part, without the prior written consent of the other party to this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed the day and year first above written.

Lender:

By:

As Its:

Borrower:

Address:

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