

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 **January 27, 2008**
- 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 000-06920

Applied Materials, Inc.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*
**3050 Bowers Avenue,
P.O. Box 58039
Santa Clara, California**
(Address of principal executive offices)

94-165526
*(I.R.S. Employer
Identification No.)*
95052-8039
(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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting Company
(Do not check if a smaller reporting company)

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

Number of shares outstanding of the issuer's common stock as of January 27, 2008: 1,353,612,157

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended	
	January 27, 2008	January 28, 2007
	(Unaudited) (In thousands, except per share amounts)	
Net sales	\$ 2,087,397	\$ 2,277,267
Cost of products sold	1,152,416	1,214,729
Gross margin	934,981	1,062,538
Operating expenses:		
Research, development and engineering	273,219	287,567
Marketing and selling	123,917	106,912
General and administrative	115,976	121,811
Restructuring and asset impairments	48,986	(3,278)
Income from operations	372,883	549,526
Pretax loss of equity-method investment	9,586	3,937
Interest expense	4,545	10,468
Interest income	30,570	30,103
Income before income taxes	389,322	565,224
Provision for income taxes	126,946	161,748
Net income	<u>\$ 262,376</u>	<u>\$ 403,476</u>
Earnings per share:		
Basic	\$ 0.19	\$ 0.29
Diluted	\$ 0.19	\$ 0.29
Weighted average number of shares:		
Basic	1,371,245	1,394,710
Diluted	1,383,886	1,409,014

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS*

	January 27, 2008	October 28, 2007
(In thousands)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,215,649	\$ 1,202,722
Short-term investments	689,907	1,166,857
Accounts receivable, net	2,014,501	2,049,427
Inventories	1,387,512	1,313,237
Deferred income taxes	409,773	426,471
Other current assets	474,464	448,879
Total current assets	6,191,806	6,607,593
Long-term investments	1,457,825	1,362,425
Property, plant and equipment	2,815,860	2,782,204
Less: accumulated depreciation and amortization	(1,750,773)	(1,730,962)
Net property, plant and equipment	1,065,087	1,051,242
Goodwill, net	1,017,705	1,006,410
Purchased technology and other intangible assets, net	354,450	373,178
Equity-method investment	105,474	115,060
Deferred income taxes and other assets	160,141	146,370
Total assets	<u>\$ 10,352,488</u>	<u>\$ 10,662,278</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 2,674	\$ 2,561
Accounts payable and accrued expenses	2,174,683	2,221,516
Income taxes payable	176,113	157,549
Total current liabilities	2,353,470	2,381,626
Long-term debt	202,476	202,281
Other liabilities	337,811	256,962
Total liabilities	2,893,757	2,840,869
Stockholders' equity:		
Common stock	13,536	13,857
Additional paid-in capital	4,707,141	4,658,832
Retained earnings	11,044,518	10,863,291
Treasury stock	(8,323,728)	(7,725,924)
Accumulated other comprehensive income	17,264	11,353
Total stockholders' equity	7,458,731	7,821,409
Total liabilities and stockholders' equity	<u>\$ 10,352,488</u>	<u>\$ 10,662,278</u>

* Amounts as of January 27, 2008 are unaudited. Amounts as of October 28, 2007 are derived from the October 28, 2007 audited consolidated financial statements.

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	January 27, 2008	January 28, 2007
	(Unaudited) (In thousands)	
Cash flows from operating activities:		
Net income	\$ 262,376	\$ 403,476
Adjustments required to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	78,474	60,904
Loss on fixed asset retirements	11,211	3,122
Restructuring and asset impairments	48,986	(3,278)
Deferred income taxes	3,417	(2,457)
Net recognized loss on investments	639	1,767
Pretax loss of equity-method investment	9,586	3,937
Equity-based compensation	38,722	34,901
Changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable, net	34,926	(24,350)
Inventories	(73,937)	(110,695)
Other current assets	(22,579)	(31)
Other assets	(4,984)	(3,078)
Accounts payable and accrued expenses	(95,459)	(107,823)
Income taxes payable	94,248	121,082
Other liabilities	4,105	3,720
Cash provided by operating activities	389,731	381,197
Cash flows from investing activities:		
Capital expenditures	(74,144)	(58,901)
Cash paid for acquisition, net of cash acquired	(19,084)	—
Proceeds from disposition of assets held for sale	—	9,484
Proceeds from sales and maturities of investments	806,776	730,009
Purchases of investments	(423,529)	(728,520)
Cash provided by (used for) for investing activities	290,019	(47,928)
Cash flows from financing activities:		
Long-term debt borrowings	343	—
Proceeds from common stock issuances	15,681	75,094
Common stock repurchases	(600,000)	(132,017)
Payment of dividends to stockholders	(83,068)	(69,614)
Cash used for financing activities	(667,044)	(126,537)
Effect of exchange rate changes on cash and cash equivalents	221	420
Increase in cash and cash equivalents	12,927	207,152
Cash and cash equivalents — beginning of period	1,202,722	861,463
Cash and cash equivalents — end of period	<u>\$ 1,215,649</u>	<u>\$ 1,068,615</u>
Supplemental cash flow information:		
Cash payments for income taxes	\$ 41,878	\$ 40,428
Cash payments for interest	\$ 45	\$ 57

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 28, 2007 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 Annual Report on Form 10-K for the fiscal year ended October 28, 2007 (2007 Form 10-K). Applied's results of operations for the three months ended January 27, 2008 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.

Segment Reclassifications

Effective in the first quarter of fiscal 2008, Applied renamed two of its reportable segments. The Fab Solutions segment has been renamed Applied Global Services, and the Adjacent Technologies segment has been renamed Energy and Environmental Solutions. In addition, Applied changed its management reporting system for services, with all service results reported in the Applied Global Services segment. Fiscal 2007 segment information has been reclassified to conform to the fiscal 2008 presentation.

Equity-Based Compensation

Applied has adopted stock plans that provide for grants to employees of equity-based awards, including stock options, restricted stock and restricted stock units (also referred to as "performance shares" under the Applied Materials, Inc. Employee Stock Incentive Plan). In addition, the Employee Stock Incentive Plan provides for the automatic grant of restricted stock units to non-employee directors and permits 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 employees to purchase Applied common stock.

During the three months ended January 27, 2008 and January 28, 2007, Applied recognized equity-based compensation expense related to stock options, ESPP shares, restricted stock units and restricted stock of \$39 million and \$35 million, respectively. During the three months ended January 27, 2008 and January 28, 2007, Applied recognized income tax benefits related to equity-based compensation of \$11 million and \$10 million, respectively. The equity-based compensation expense related to restricted stock units and restricted stock for the three months ended January 27, 2008 and January 28, 2007 was \$33 million and \$20 million, respectively. The estimated fair value of Applied's equity-based awards, less expected forfeitures, is amortized over the awards' service periods on a straight-line basis.

Stock Options

The exercise price of each stock option equals the market price of Applied common 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. The fair value of each option grant is estimated 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:

	<u>Three Months Ended January 28, 2007</u>
<i>Stock Options:</i>	
Dividend yield	1.12%
Expected volatility	32%
Risk-free interest rate	4.70%
Expected life (in years)	3.9

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 with respect to option grants with similar vesting periods. No options were granted in the first quarter of fiscal 2008. There were 278,000 options granted in the three months ended January 28, 2007. The weighted average grant date fair value of options granted during the three months ended January 28, 2007 was \$5.12.

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 of Applied stock at the beginning of the applicable offering period or at the end of each applicable purchase period. No shares were issued under the ESPP during the quarters ended January 27, 2008 and January 28, 2007. Compensation expense is calculated using the fair value of the employees' purchase rights under the Black-Scholes model.

Restricted Stock Units and Restricted Stock

Restricted stock units are converted into shares of Applied common stock upon vesting on a one-for-one basis. Restricted stock units vest over a minimum of three years and typically vest over three to four years. Vesting of restricted stock units usually is subject to the employee's continued service with Applied. The compensation expense related to these awards is determined using the fair value of Applied common stock on the date of the grant. There were 1,739,000 and 1,324,000 restricted stock units granted in the three months ended January 27, 2008 and January 28, 2007, respectively.

Beginning in fiscal 2007, Applied initiated a performance-based share award program for named executive officers and other key employees. These awards vest only if specific performance goals set by the Human Resources and Compensation Committee (the Committee) are achieved. The goals require the achievement of specified levels of Applied's annual operating profit and also that the officer remain an employee of Applied through the vesting date. The fair value of the performance-based restricted stock awards and restricted stock is estimated using the fair value of Applied common stock on the date of the grant and assumes that performance goals will be achieved. If achieved, the grant vests over a specified remaining service period. If such goals are not met, no compensation cost is recognized and any recognized compensation cost is reversed. The expected cost of the grant is reflected over the service period, and is reduced for estimated forfeitures. The Committee approved 1,300,000 and 1,950,000 of performance-based restricted stock units under this program in the three months ended January 27, 2008 and January 28, 2007, respectively. The Committee also approved the issuance of 100,000 and 150,000 shares of performance-based restricted stock in the three months ended January 27, 2008 and January 28, 2007, respectively, to Applied's President and Chief Executive Officer at \$0.01 per share. As of January 27, 2008, the performance goals associated with the fiscal 2007 awards were achieved.

Note 2 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, ESPP shares and amounts due under the agreements associated with the accelerated stock buyback program in fiscal

2007) 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 greater than the average fair market value of Applied common stock for the period, as the effect would be anti-dilutive. Accordingly, options to purchase 52,548,000 and 90,744,000 shares of common stock for the three months ended January 27, 2008 and January 28, 2007, respectively, were excluded from the computation.

Note 3 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 discounted letters of credit in the amounts of \$15 million and \$235 million for the three months ended January 27, 2008 and January 28, 2007, respectively. Financing charges on discounting of letters of credit are included in interest expense in the accompanying Consolidated Condensed Statements of Operations and were not material for all periods presented.

Note 4 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:

	January 27, 2008	October 28, 2007
	(In thousands)	
Customer service spares	\$ 536,933	\$ 500,173
Raw materials	185,606	201,055
Work-in-process	232,427	230,244
Finished goods	432,546	381,765
	<u>\$ 1,387,512</u>	<u>\$ 1,313,237</u>

Included in finished goods inventory is \$155 million at January 27, 2008, and \$168 million at October 28, 2007, of newly-introduced systems at customer locations where the sales transaction did not meet Applied's revenue recognition criteria, as set forth in Note 1 of Notes to the Consolidated Financial Statements in Applied's 2007 Form 10-K.

Note 5 Goodwill, Purchased Technology and Other Intangible Assets

Details of goodwill and unamortized intangible assets were as follows:

	January 27, 2008			October 28, 2007		
	Goodwill	Other Intangible Assets	Total	Goodwill	Other Intangible Assets	Total
	(In thousands)					
Gross carrying amount	\$ 1,063,575	\$ 17,860	\$ 1,081,435	\$ 1,052,280	\$ 17,860	\$ 1,070,140
Accumulated amortization	(45,870)	—	(45,870)	(45,870)	—	(45,870)
	<u>\$ 1,017,705</u>	<u>\$ 17,860</u>	<u>\$ 1,035,565</u>	<u>\$ 1,006,410</u>	<u>\$ 17,860</u>	<u>\$ 1,024,270</u>

Goodwill and unamortized intangible assets are not amortized but are subject to annual reviews for impairment, which Applied performs during the fourth quarter of each fiscal year. Applied conducted these impairment tests in the fourth quarter of fiscal 2007, and the results of these tests indicated that Applied's goodwill and unamortized intangible assets were not impaired. Goodwill and unamortized intangible assets are also subject to review for impairment when circumstances or events occur during the year that indicate that the assets may be impaired. The goodwill balance as of October 28, 2007 increased by \$6 million from the amount previously reported due to an immaterial correction to the purchase price allocation for the acquisition of HCT Shaping Systems S.A. From October 28, 2007 to January 27, 2008, the change in goodwill was \$11 million, primarily due to

the acquisition of certain net assets of Edwards Vacuum, Inc., which was completed in the first quarter of fiscal 2008. Other intangible assets that are not subject to amortization consist primarily of a trade name. As of January 27, 2008, goodwill and unamortized intangible assets by reportable segment were: Energy and Environmental Solutions, \$492 million; Silicon, \$224 million; Applied Global Services, \$204 million and Display, \$116 million. For additional details, see Note 12.

Details of amortized intangible assets were as follows:

	January 27, 2008			October 28, 2007		
	Purchased Technology	Other Intangible Assets	Total	Purchased Technology	Other Intangible Assets	Total
	(In thousands)					
Gross carrying amount	\$ 521,267	\$ 226,822	\$ 748,089	\$ 518,042	\$ 224,253	\$ 742,295
Accumulated amortization	(347,332)	(64,167)	(411,499)	(340,527)	(46,450)	(386,977)
	<u>\$ 173,935</u>	<u>\$ 162,655</u>	<u>\$ 336,590</u>	<u>\$ 177,515</u>	<u>\$ 177,803</u>	<u>\$ 355,318</u>

Purchased technology and other intangible assets are amortized over their estimated useful lives of 1 to 15 years using the straight-line method. Aggregate amortization expense was \$25 million and \$9 million for the three months ended January 27, 2008 and January 28, 2007, respectively. As of January 27, 2008, future estimated amortization expense is expected to be \$67 million for the remainder of fiscal 2008, \$46 million for fiscal 2009, \$45 million for fiscal 2010, \$42 million for fiscal 2011, \$41 million for fiscal 2012, and \$96 million thereafter. As of January 27, 2008, amortized intangible assets by reportable segment were: Energy and Environmental Solutions, \$228 million; Applied Global Services, \$57 million; Display, \$48 million; and Silicon, \$4 million.

Note 6 Accounts Payable, Accrued Expenses, Guarantees and Contingencies

Accounts Payable and Accrued Expenses

Components of accounts payable and accrued expenses were as follows:

	January 27, 2008	October 28, 2007
	(In thousands)	
Accounts payable	\$ 462,116	\$ 455,894
Compensation and employee benefits	360,309	491,411
Deferred revenue	340,209	377,458
Customer deposits	317,217	225,632
Warranty	167,618	184,271
Dividends payable	81,217	83,142
Other accrued taxes	72,002	67,962
Restructuring reserve	61,581	23,193
Other	312,414	312,553
	<u>\$ 2,174,683</u>	<u>\$ 2,221,516</u>

Changes in the warranty reserves during the three months ended January 27, 2008 and January 28, 2007 were as follows:

	Three Months Ended	
	January 27, 2008	January 28, 2007
	(In thousands)	
Beginning balance	\$ 184,271	\$ 174,605
Provisions for warranty	29,412	46,801
Consumption of reserves	(46,065)	(44,013)
Ending balance	<u>\$ 167,618</u>	<u>\$ 177,393</u>

Applied 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 warranty consumption 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.

Guarantees

During 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 January 27, 2008, the maximum potential amount of future payments that Applied could be required to make under these guarantee arrangements was \$208 million. Applied has not recorded any liability in connection with these guarantee arrangements beyond that required to 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 January 27, 2008, Applied Materials, Inc. has provided parent guarantees to banks for approximately \$173 million to cover these arrangements.

Legal matters

Linear Technology

On March 12, 2002, Linear Technology Corp. (LTC) filed a lawsuit against Applied in the Superior Court of the County of Santa Clara, California, 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 related to LTC's assertion that Applied is obligated to indemnify and defend LTC for certain claims in an underlying patent infringement lawsuit brought by Texas Instruments, Inc. After the Court dismissed many of its claims, LTC amended its complaint. LTC's Amended Complaint, as well as its Second, Third and Fourth Amended Complaints, were dismissed by the Court in whole or in part. On July 7, 2004, LTC filed a Fifth Amended Complaint, which the Court dismissed with prejudice on October 5, 2004. On January 11, 2005, LTC filed a notice of appeal of the dismissal of its complaint. On June 19, 2007, the Court of Appeals entered an order that upheld the trial court's dismissal of LTC's claims for fraud and deceit, but reversed the trial court's dismissal of LTC's remaining claims and remanded the case to the trial court for further proceedings. Applied filed a petition for review by the California Supreme Court of the reversal and remand order of the Court of Appeal. On October 19, 2007, the California Supreme Court denied Applied's petition for review and returned the case to the Santa Clara Superior Court for further proceedings. Applied and LTC subsequently settled the lawsuit on terms that are not material to Applied, and the Court dismissed the lawsuit in January, 2008.

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. 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. 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 main action patent infringement lawsuit filed by Applied. In August 2006, the Hsinchu Court set the litigation fee and the litigation security payment, and the main action is now proceeding on its merits. This same patent is also the subject of an invalidity proceeding filed in the Taiwanese Patent and Trademark Office by Jusung Pacific in June 2004. Applied believes that it has meritorious claims and defenses that it intends to pursue vigorously.

On June 13, 2006, Applied filed an action in the Taiwanese Patent and Trademark Office challenging the validity of a patent owned by Jusung Engineering 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. (AKT America) and Applied Materials, Inc., alleging infringement of this patent. Jusung Engineering's lawsuit seeks damages, costs and attorneys' fees. Applied believes that it has meritorious defenses that it intends to pursue vigorously.

On January 31, 2007, Applied received notice that Jusung filed a complaint of private prosecution in the Taipei District Court of Taiwan dated November 10, 2006, entitled Jusung Engineering Co., Ltd. v. M. Splinter, Y. Lin, C. Lai and J. Lin. The complaint alleges that Applied's outside counsel received from the Court and used a copy of an expert report that Jusung had filed in the ongoing patent infringement lawsuits and that Jusung had intended to remain confidential. Jusung named as defendants Applied's outside counsel in Taiwan, as well as Michael R. Splinter, Applied's President and Chief Executive Officer, as the statutory representative of Applied. On April 27, 2007 the Taipei District Court dismissed Jusung's private prosecution complaint. Jusung filed an appeal of the dismissal to the High Court. The High Court affirmed the District Court's rejection of the private prosecution complaint on June 25, 2007. After the dismissal of the private prosecution complaint, the matter was transferred to the Taipei District Attorney's Office, which issued a ruling not to prosecute. This ruling was reviewed by the District Attorney's review body, which in October 2007 returned the matter to the Taipei District Attorney's Office for further consideration. Applied believes that it has meritorious defenses that it intends to pursue vigorously.

On April 3, 2007, Jusung filed a complaint against AKT America, Inc., and one of its suppliers in Seoul Central District Court in Seoul, Korea, captioned Jusung Engineering, Co. Ltd. v. AKT America, Inc. The complaint alleges infringement of a Jusung patent involving the showerhead assembly of PECVD equipment for LCDs and seeks injunctive relief. On June 9, 2007, AKT America and its supplier filed an invalidation action with the Korean Intellectual Property Office (KIPO) against the patent asserted by Jusung. On November 30, 2007, the KIPO ruled that the Jusung patent was invalid. On August 13, 2007, Applied filed a complaint against Jusung in the Seoul Central District Court in Seoul, Korea, captioned Applied Materials, Inc. v. Jusung Engineering Ltd. The complaint alleges infringement of an Applied patent involving a substrate support or housing for a substrate supporting pin used in PECVD equipment for LCDs and seeks both monetary damages and injunctive relief. On October 29, 2007, Jusung filed an action with the KIPO seeking to invalidate Applied's substrate patent. Applied has initiated a confirmation of scope action with the Intellectual Property Tribunal of the KIPO based on the same patent. Applied believes that it has meritorious claims and defenses in these actions that it intends to pursue vigorously.

On April 10, 2004, the Taiwan Fair Trade Commission (TFTC) notified AKT America that, pursuant to a complaint filed by Jusung, the TFTC had begun an investigation into whether AKT America had violated the Taiwan Fair Trade Act, and specifically whether AKT America 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 America 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. The TFTC subsequently notified Applied and AKT America 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. Jusung appealed the appeals court's affirmation of the decision of the TFTC, and in January 2007, the Taipei High

Administrative Court dismissed Jusung's appeal. In February 2007, Jusung appealed the dismissal to the Supreme Administrative Court of Taiwan. Applied believes that Jusung's complaint is without merit.

Silicon Services Consortium

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 the United States District Court for the Western District of Texas, captioned Silicon Services Consortium, Inc., et al. v. Applied Materials, Inc. 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, which the Court denied on February 16, 2007. On January 17, 2007, Applied filed a counterclaim asserting claims for patent infringement, trademark infringement, trademark dilution, unfair competition, and misuse and misappropriation of trade secrets against each of the five plaintiffs/counterdefendants, seeking damages as well as injunctive relief. All claims between Applied and Precision Technician were dismissed in September 2007 pursuant to a settlement, with no payment by either party. The Court began a Markman hearing on October 18, 2007, continued that hearing to December 2007, and directed the parties to participate in mediation in November 2007. In December 2007, Applied reached a settlement with Semiconductor Equipment Specialist of all pending claims between them for an amount that is not material to Applied. The Court has scheduled trial of the remaining claims to commence on November 3, 2008. Applied believes that it has meritorious claims and defenses that it intends to pursue vigorously.

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. 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 the above-described matters or these claims and proceedings cannot be predicted with certainty, Applied does not believe that any of these proceedings or other claims will have a material adverse effect on its consolidated financial condition or results of operations.

Note 7 Restructuring and Asset Impairments

On January 15, 2008, Applied announced a global cost reduction plan (the Plan) that primarily affected its Silicon and Applied Global Services segments and related support organizations. As part of the Plan, Applied will reduce its global workforce through a combination of job elimination and attrition. Applied expects to complete the Plan by the fourth quarter of fiscal 2008. In the first quarter of fiscal 2008, Applied recorded restructuring charges of \$38 million, consisting primarily of employee termination costs to reduce its workforce by approximately 500 positions. The affected employees were based in North America, Europe and Asia and represented multiple functions.

Changes in restructuring reserves for the Plan for the three months ended January 27, 2008 were as follows:

	<u>(In thousands)</u>
Provision for restructuring reserves	\$ 38,481
Consumption of reserves	(2,158)
Balance, January 27, 2008	<u>\$ 36,323</u>

On February 9, 2007, the Board of Directors of Applied approved a plan (the Implant Plan) to cease development of beamline implant products for semiconductor manufacturing and curtail the operations of its Implant group based in Horsham, England. Under the Plan, Applied closed its research and development and manufacturing operations in Horsham in October 2007. The total cost of implementing the Implant Plan is expected

to be \$110 million, and is reported in the Consolidated Condensed Statements of Operations under cost of products sold and operating expenses (including restructuring and asset impairment charges). The majority of the cash outlays in connection with the Implant Plan occurred in fiscal 2007. The Implant group operated in the Silicon segment and the results of its operations were not material to the segment's financial position or results of operations.

Costs under the Implant Plan in fiscal 2007 consisted primarily of inventory-related charges reported as cost of products sold of \$56 million, other operating expenses of \$10 million, and restructuring and asset impairment charges of \$30 million. Applied recorded restructuring charges of \$22 million, consisting primarily of employee termination costs to reduce its workforce by approximately 215 positions. The majority of the affected employees were based in Horsham, England and represented multiple functions. Asset impairment charges included \$8 million of fixed asset write-offs.

Costs under the Implant Plan for three months ended January 27, 2008 consisted primarily of restructuring charges of \$11 million and other operating expenses of \$1 million.

Changes in restructuring reserves related to the Implant Plan for the three months ended January 27, 2008 were as follows:

	<u>Severance</u>	<u>Facilities</u> <u>(In thousands)</u>	<u>Total</u>
Balance, October 28, 2007	\$ 9,739	\$ 822	\$ 10,561
Provision for restructuring reserves	104	10,626	10,730
Consumption of reserves	(6,224)	(496)	(6,720)
Foreign currency changes	(415)	(35)	(450)
Balance, January 27, 2008	<u>\$ 3,204</u>	<u>\$ 10,917</u>	<u>\$ 14,121</u>

Changes in restructuring reserves for the three months ended January 27, 2008 for facilities realignment programs initiated in prior periods, were as follows:

	<u>(In thousands)</u>
Balance, October 28, 2007	\$ 12,632
Consumption of reserves	(1,495)
Balance, January 27, 2008	<u>\$ 11,137</u>

Note 8 Derivative Financial Instruments

Applied's derivative financial instruments, consisting of currency forward exchange and option contracts, are recorded at fair value on the Consolidated Condensed 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 results of operations. The effective portion of the gain/(loss) 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). All amounts included in accumulated other comprehensive income as of January 27, 2008 will generally be reclassified into earnings within 12 months. Changes in the fair value of currency forward exchange 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 January 27, 2008, increased by \$2 million due to net increase in the intrinsic value of derivative instruments qualifying as cash flow hedges.

Note 9 Stockholders' Equity**Comprehensive Income**

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

	Three Months Ended	
	January 27, 2008	January 28, 2007
	(In thousands)	
Net income	\$ 262,376	\$ 403,476
Change in unrealized net gain/(loss) on investments	1,607	(3,385)
Change in unrealized net gain on derivative instruments qualifying as cash flow hedges	1,918	1,204
Foreign currency translation adjustments	2,386	5,895
Comprehensive income	<u>\$ 268,287</u>	<u>\$ 407,190</u>

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

	January 27, 2008	October 28, 2007
	(In thousands)	
Unrealized gain on investments	\$ 18,362	\$ 16,755
Unrealized gain/(loss) on derivative instruments qualifying as cash flow hedges	509	(1,409)
Pension liability	(12,232)	(12,232)
Retiree medical benefits	(1,132)	(1,132)
Cumulative translation adjustments	11,757	9,371
	<u>\$ 17,264</u>	<u>\$ 11,353</u>

Stock Repurchase Program

Since March 1996, Applied has systematically repurchased shares of its common stock in the open market. In March 2006, the Board of Directors approved a stock repurchase program for up to \$5.0 billion in repurchases over the next three years ending in March 2009. Pursuant to this authorization, on September 18, 2006, Applied entered into accelerated stock buyback agreements with Goldman, Sachs & Co. (Goldman Sachs), under which Applied agreed to purchase from Goldman Sachs outstanding shares of Applied common stock for an initial purchase price of \$2.5 billion. Under the agreements, Applied purchased 145 million shares of Applied common stock on September 18, 2006 at a price per share of \$17.20, and Goldman Sachs agreed to purchase an equivalent number of shares in the open market over the following four months. At the end of the four month period, Applied was entitled to or subject to a price adjustment based upon the volume weighted average price of Applied common stock during the purchase period that could be settled, at Applied's option, in cash or shares of its common stock. On January 24, 2007, Applied settled the price adjustment of \$132 million by payment in cash to Goldman Sachs, resulting in an adjusted price per share of \$18.08. The repurchase was funded with Applied's existing cash and investments and reported as treasury stock.

On September 15, 2006, the Board of Directors approved a new stock repurchase program for up to \$5.0 billion in repurchases over the next three years ending in September 2009 that superseded the previous program, of which authorization for \$3.2 billion of repurchases remained as of January 27, 2008. Under this authorization, Applied is continuing a systematic stock repurchase program and also may make supplemental stock repurchases from time to time, depending on market conditions, stock price and other factors.

During the three months ended January 27, 2008, Applied repurchased 33,629,000 shares of its common stock at an average price of \$17.84 for a total cash outlay of \$600 million. There were no common stock repurchases made during the first quarter of fiscal 2007.

Dividends

On September 11, 2007, Applied's Board of Directors declared a quarterly cash dividend in the amount of \$0.06 per share that was paid on December 6, 2007 to stockholders of record as of November 15, 2007. On December 11, 2007, Applied's Board of Directors declared a quarterly cash dividend in the amount of \$0.06 per share payable on March 6, 2008 to stockholders of record as of February 14, 2008. 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 months ended January 27, 2008 and January 28, 2007 were as follows:

	Three Months Ended	
	January 27, 2008	January 28, 2007
	(In thousands)	
Service cost	\$ 3,615	\$ 3,851
Interest cost	3,191	2,602
Expected return on plan assets	(2,211)	(1,425)
Amortization of transition obligation	20	16
Amortization of prior service costs	(58)	(30)
Amortization of net loss	147	503
Net periodic pension cost	<u>\$ 4,704</u>	<u>\$ 5,517</u>

Note 11 Borrowing Facilities

Applied has credit facilities for unsecured borrowings in various currencies of up to \$1.1 billion, of which \$1.0 billion is comprised of a 5-year revolving credit agreement with a group of banks that is scheduled to expire in January 2012. This agreement provides for borrowings in United States dollars at interest rates keyed to one of the two rates selected by Applied for each advance and includes financial and other covenants with which Applied was in compliance at January 27, 2008. No amounts were outstanding under this agreement at January 27, 2008. Of the remaining credit facilities, \$143 million are with Japanese banks at rates indexed to their prime reference rate denominated in Japanese yen. No amounts were outstanding under these credit facilities at January 27, 2008.

Note 12 Business Combinations

On November 9, 2007, Applied purchased from Edwards Vacuum, Inc. certain assets of its Kachina semiconductor equipment parts cleaning and refurbishment business for \$19 million. The acquisition expands Applied's existing Chamber Performance Services network of facilities that provide customers worldwide with technology and support for maintaining their chamber components. In connection with this acquisition, Applied recorded goodwill of \$13 million and an intangible asset of \$3 million (customer relationships which will be amortized over 13 years). The acquired business is reported under the Applied Global Services segment.

On August 23, 2007, Applied acquired all of the outstanding shares of Switzerland-based HCT Shaping Systems SA (HCT) for \$463 million in cash, net of cash acquired. HCT is a leading supplier of precision wafering systems used principally in manufacturing crystalline silicon (c-Si) substrates for the solar industry. In connection with this acquisition, Applied recorded goodwill of \$354 million and other intangible assets of \$180 million. Of the \$180 million of acquired intangible assets, \$59 million was assigned to purchased technology (to be amortized over 11 years), \$59 million was assigned to customer relationships (to be amortized over 7 years), \$47 million was assigned to acquired backlog (to be amortized over 1 year), \$8 million was assigned to trademarks and tradenames (to be amortized over 13 years) and \$7 million was assigned to covenants not to compete (to be amortized over 3 years). The acquired business is reported under the Energy and Environmental Solutions segment.

On March 30, 2007, Applied purchased Brooks Software, a division of Brooks Automation, Inc., for \$137 million in cash. The acquired business is a leading provider of factory management and control software to the semiconductor and flat panel industries. The products complement Applied's existing software applications and enable Applied to offer customers a comprehensive computer integrated manufacturing (CIM) solution for optimizing fab operations. Applied recorded an in-process research and development (IPR&D) expense of \$5 million, reported as research, development and engineering expense, goodwill of \$77 million, and other intangible assets of \$47 million. Of the \$47 million of acquired intangible assets, \$21 million was assigned to purchased technology (to be amortized over 4 to 11 years), \$21 million was assigned to maintenance contracts (to be amortized over 7 years), \$2 million was assigned to acquired backlog (to be amortized over 1 year), \$2 million was assigned to trademarks and tradenames (to be amortized over 7 years) and \$1 million was assigned to customer relationships (to be amortized over 4 years). The acquired business is reported under the Applied Global Services segment.

The acquired IPR&D 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.

For all of the purchase business combinations discussed above, the results of operations prior to the acquisition dates were not material in relation to those of Applied for any of the periods presented herein. Goodwill is not amortized but is reviewed periodically for impairment, and purchased technology is amortized over its useful life of 1 to 15 years.

Note 13 Income Taxes

Applied's effective income tax rate for the first quarter of fiscal 2008 was 32.6 percent and includes the impact of restructuring charges (See Note 7). Applied's effective income tax rate was 28.6 percent for the comparable quarter of fiscal 2007 and included benefits of \$30 million due primarily to a favorable resolution of audits of prior years' income tax filings. Applied's future effective income tax rate depends on various factors, such as tax legislation, the geographic composition of Applied's pre-tax income, and the tax rate on equity compensation. Management carefully monitors these factors and timely adjusts the interim income tax rate accordingly.

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. Applied implemented FIN 48 effective October 29, 2007. The implementation of FIN 48 did not result in an increase or decrease in liability for unrecognized tax benefits.

Applied has unrecognized tax benefits of \$52 million as of October 29, 2007, all of which, if recognized, would result in a reduction of Applied's effective tax rate. Applied recorded an increase in its unrecognized tax benefits of \$1 million as of January 28, 2008.

The gross liability for unrecognized tax benefits was \$60 million, exclusive of interest and penalties. Interest and penalties related to uncertain tax positions were \$11 million and are recognized in the provision for income taxes line item of the Consolidated Condensed Statement of Operations. Applied had no tax positions for which it was reasonably possible the liability for unrecognized tax benefits will significantly increase or decrease within the next 12 months.

A number of Applied's tax returns remain subject to examination by taxing authorities. These include United States federal returns for 2005 and after, tax returns in certain states for 2002 and after, and tax returns in certain jurisdictions outside of the United States for 2003 and after.

Note 14 Industry Segment Operations

Applied's four reportable segments are: Silicon, Applied Global Services, Display, and Energy and Environmental Solutions. Prior to the first quarter of fiscal 2008, the Applied Global Services segment was presented as Fab Solutions and the Energy and Environmental Solutions segment was presented as Adjacent Technologies. Applied's chief operating decision-maker has been identified as the President and CEO, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Segment information is presented based upon Applied's management organization structure as of January 27, 2008 and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to the reportable segments disclosed.

Each reportable segment is separately managed and has separate financial results that are reviewed by Applied's chief operating decision-maker. Each reportable segment contains closely related products that are unique to the particular segment. Segment operating income is determined based upon internal performance measures used by the chief operating decision-maker.

Applied derives the segment results from its internal management reporting system. The accounting policies Applied uses to derive reportable segment results are substantially the same as those used for external reporting purposes. Management measures the performance of each reportable segment based upon several metrics, including orders, net sales and operating income. Management uses these results to evaluate the performance of, and to assign resources to, each of the reportable segments. Applied does not allocate to its reportable segments certain operating expenses, which it manages separately at the corporate level. These unallocated costs include equity-based compensation and certain components of variable compensation, corporate marketing and sales, corporate functions (certain management, finance, legal, human resources and RD&E), and unabsorbed information technology and occupancy costs. In addition, Applied does not allocate to its reportable segments restructuring and asset impairment charges and any associated adjustments related to restructuring actions. Segment operating income excludes interest income/expense and other financial charges and income taxes according to how a particular reportable segment's management is measured. Management does not consider the unallocated costs in measuring the performance of the reportable segments.

Effective the first quarter of fiscal 2008, Applied changed the management reporting system for services, with all service results reported in the Applied Global Services segment. Applied has reclassified segment operating results for the three months ended January 28, 2007 to conform to the fiscal 2008 presentation. Future changes to this organizational structure may result in changes to the business segments disclosed.

The Silicon segment includes semiconductor capital equipment for etch, rapid thermal processing (RTP), deposition, chemical mechanical planarization (CMP), and metrology and inspection.

The Applied Global Services segment includes technically differentiated products to improve the operating efficiency, reduce operating costs and lessen the environmental impact of semiconductor, display and solar customers' factories, and also comprises spares and remanufactured equipment sales. Customer demand for spare parts and services is fulfilled through a global distribution system with trained service engineers located in close proximity to customer sites.

The Display segment encompasses products for manufacturing LCDs for TVs, personal computers and other video-enabled devices. The Display segment also includes design and manufacture of differentiated stand-alone equipment for the Applied SunFab™ Thin Film Line.

The Energy and Environmental Solutions segment includes products for fabricating solar photovoltaic cells and modules, high throughput roll-to-roll coating systems for flexible electronics and web products, and energy-efficient glass.

Information for each reportable segment for the three months ended January 27, 2008 and January 28, 2007 is as follows:

	Net Sales	Operating Income (loss)
	(In thousands)	
2008:		
Silicon	\$ 1,237,329	\$ 444,993
Applied Global Services	594,842	148,500
Display	133,112	34,268
Energy and Environmental Solutions	122,114	(48,053)
Total Segment	<u>\$ 2,087,397</u>	<u>\$ 579,708</u>
2007:		
Silicon	\$ 1,490,262	\$ 520,153
Applied Global Services	559,671	159,370
Display	195,511	50,129
Energy and Environmental Solutions	31,823	(14,694)
Total Segment	<u>\$ 2,277,267</u>	<u>\$ 714,958</u>

Reconciliations of segment operating results to Applied consolidated totals for the three months ended January 27, 2008 and January 28, 2007 are as follows:

	Three Months Ended	
	January 27, 2008	January 28, 2007
	(In thousands)	
Total segment operating income	\$ 579,708	\$ 714,958
Corporate and unallocated costs	(157,839)	(168,710)
Restructuring and asset impairment charges	(48,986)	3,278
Income from operations	<u>\$ 372,883</u>	<u>\$ 549,526</u>

Note 15 Recent Accounting Pronouncements

In December 2007, FASB issued Statement 141 (revised), "Business Combinations" (SFAS 141(R)). The standard changes the accounting for business combinations, including the measurement of acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting for preacquisition gain and loss contingencies, the recognition of capitalized in-process research and development, the accounting for acquisition-related restructuring cost accruals, the treatment of acquisition related transaction costs, and the recognition of changes in the acquirer's income tax valuation allowance. SFAS 141(R) will be effective for Applied in fiscal 2010, with early adoption prohibited. Applied is evaluating the potential impact of the implementation of Statement 141(R) on its financial position and results of operations.

In December 2007, the FASB issued Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" (SFAS 160). The standard changes the accounting for noncontrolling (minority) interests in consolidated financial statements, including the requirements to classify noncontrolling interests as a component of consolidated stockholders' equity, and the elimination of "minority interest" accounting in results of operations with earnings attributable to noncontrolling interests reported as part of consolidated earnings. Additionally, SFAS 160 revises the accounting for both increases and decreases in a parent's controlling ownership interest. SFAS 160 will be effective for Applied in fiscal 2010, with early adoption prohibited. Applied is evaluating the potential impact of the implementation of SFAS 160 on its financial position and results of operations.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115" (SFAS 159), which permits entities to elect to measure many financial instruments and certain other items at fair value that are not currently required to be

measured at fair value. This election is irrevocable. SFAS No. 159 will be effective for Applied in fiscal 2009. Applied is evaluating the potential impact of the implementation of SFAS No. 159 on its financial position and results of operations.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" (FSP 157-1) and FSP 157-2, "Effective Date of FASB Statement No. 157" (FSP 157-2). FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of Applied's first quarter of fiscal 2010. The measurement and disclosure requirements related to financial assets and financial liabilities are effective for Applied beginning in the first quarter of fiscal 2009. Applied is evaluating the potential impact of the implementation of SFAS 157 on its financial position and results of operations.

Note 16 Subsequent Event

On January 31, 2008, Applied acquired all of the outstanding shares of Baccini S.p.A. (Baccini), a privately-held company based in Italy, for a purchase price of approximately \$224 million in cash, net of cash acquired. Baccini, a leading supplier of automated metallization and test systems for manufacturing crystalline silicon (c-Si) photovoltaic cells, will be reported under the Energy and Environmental Solutions segment.

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, including those made by the management of Applied, 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, cash flows and cash deployment strategies, business strategies, projected costs, products, competitive positions, management's plans and objectives for future operations, research and development, acquisitions and joint ventures, growth opportunities, customer contracts, investments 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 in Part II, Item 1A, "Risk Factors," below and elsewhere in this report. Other risks and uncertainties may be disclosed in Applied's prior Securities and Exchange Commission (SEC) filings. These and many other factors could affect Applied's future financial condition and operating results and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by Applied or on its behalf. Applied undertakes no obligation to revise or update any forward-looking statements.

Overview

Applied provides Nanomanufacturing Technology™ solutions for the global semiconductor, flat panel display, solar and related industries, with a broad portfolio of innovative equipment, service and software products. Applied's customers include manufacturers of semiconductor chips and wafers, liquid crystal displays (LCDs), solar photovoltaic cells and modules (PVs), flexible electronics and energy-efficient glass. Applied reports four segments: Silicon, Applied Global Services, Display, and Energy and Environmental Solutions. Product development and manufacturing activities occur in North America, Europe, Israel and Asia. Applied's broad range of equipment and service products are highly technical and are sold primarily through a direct sales force.

Applied's results are driven primarily by worldwide demand for integrated circuits, which in turn depends on end-user demand for electronic products. Applied's business is subject to cyclical industry conditions, as demand for manufacturing equipment and services can change depending on supply and demand for chips, LCDs, PVs and other electronic devices, as well as other factors, such as global economic conditions and technological advances in fabrication processes.

The following table presents certain significant measurements for the three months ended January 27, 2008 and January 28, 2007:

	Three Months Ended		% Change
	January 27, 2008	January 28, 2007	
		(In millions, except per share amounts and percentages)	
New orders	\$ 2,500	\$ 2,538	(2)%
Net sales	\$ 2,087	\$ 2,277	(8)%
Gross margin	\$ 935	\$ 1,063	(12)%
Gross margin percent	44.8%	46.7%	(2)%
Net income	\$ 262	\$ 403	(35)%
Earnings per share	\$ 0.19	\$ 0.29	(34)%

Financial results for the first quarter of fiscal 2008 reflected slowing worldwide demand for semiconductor equipment and services, while demand for display and solar products increased. Total orders decreased slightly from the first quarter of fiscal 2007, primarily due to the decline in demand for semiconductor manufacturing and service products, partially offset by increased demand for display and solar equipment. Net sales decreased during the first quarter of fiscal 2008 over the first fiscal quarter of 2007, primarily due to a decrease in demand from DRAM and Flash memory chip manufacturers, as well as decreased LCD equipment sales, reflecting lower LCD

equipment orders in fiscal 2007. Net income declined in the first quarter of fiscal 2008 compared to the first quarter of fiscal 2007 due to lower sales and net interest income, while operating expenses remained flat. First quarter of fiscal 2008 financial results included restructuring charges.

Results of Operations

Applied received new orders of \$2.5 billion for the first quarter of fiscal 2008, an increase from \$2.2 billion for the fourth quarter of fiscal 2007 and flat compared to \$2.5 billion for the first quarter of fiscal 2007. New orders for the first quarter of fiscal 2008 increased by 13 percent from the preceding quarter and decreased by 2 percent from the first quarter of fiscal 2007. The increase in new orders for the first quarter of fiscal 2008 from the fourth quarter of fiscal 2007 was primarily attributable to a significant increase in demand for LCD equipment and increased demand for solar equipment, offset by lower demand for semiconductor equipment and service products.

New orders by geographic region (determined by the location of customers' facilities) for the three months ended January 27, 2008 and January 28, 2007 were as follows:

	Three Months Ended			
	January 27, 2008		January 28, 2007	
	(\$)	(%)	(\$)	(%)
	(Dollars in millions)			
Taiwan	795	32	605	24
North America*	506	20	550	22
Korea	362	14	492	19
Japan	292	12	300	12
Europe	278	11	323	13
Southeast Asia and China	267	11	268	10
Total	<u>2,500</u>	<u>100</u>	<u>2,538</u>	<u>100</u>

* Primarily the United States.

Applied's backlog for the most recent three fiscal quarters was as follows: \$4.1 billion at January 27, 2008, \$3.7 billion at October 28, 2007, and \$3.4 billion at July 29, 2007. 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.

Net sales for the first quarter of fiscal 2008 decreased 12 percent to \$2.1 billion, from \$2.4 billion for the preceding quarter, and decreased 8 percent from \$2.3 billion for the first quarter of fiscal 2007. Net sales for the first quarter of fiscal 2008 compared to the first quarter of fiscal 2007 reflected lower sales of semiconductor and LCD equipment, partially offset by higher solar equipment sales and increased fab operations spending.

Net sales by geographic region (determined by the location of customers' facilities) for the three months ended January 27, 2008 and January 28, 2007 were as follows:

	Three Months Ended			
	January 27, 2008		January 28, 2007	
	(\$)	(%)	(\$)	(%)
	(Dollars in millions)			
Taiwan	616	30	583	26
North America*	488	23	467	21
Japan	318	15	261	11
Southeast Asia and China	246	12	237	10
Europe	216	10	254	11
Korea	203	10	475	21
Total	<u>2,087</u>	<u>100</u>	<u>2,277</u>	<u>100</u>

* Primarily the United States.

Gross margin percentage was 44.8 percent for the first quarter of fiscal 2008, down from 46.7 percent for the first quarter of fiscal 2007. The decrease in the gross margin percentage for the first quarter of fiscal 2008 from that of the prior year's period was principally attributable to lower revenues, product mix, incremental charges attributable to acquisitions (consisting of amortization of purchased intangible assets and inventory fair value adjustments on products sold), partially offset by lower material costs. Gross margin during each of the first quarters of fiscal 2008 and 2007 included \$6 million of equity-based compensation expense.

Operating expenses included expenses related to research, development and engineering (RD&E), marketing and selling (M&S), and general and administrative (G&A). Expenses related to RD&E, M&S and G&A were \$513 million for the first quarter of fiscal 2008, compared to \$516 million for the first quarter of fiscal 2007. Lower operating expenses in these categories during the first quarter of fiscal 2008 compared to the same period in the prior year were principally attributable to savings from cost control initiatives and lower variable compensation expenses, partially offset by increased operating costs from acquired businesses and higher equity compensation expense.

Operating expenses for the first quarter of fiscal 2008 include restructuring charges of \$49 million, of which \$38 million was associated with a global cost reduction plan and \$11 million related to facilities closures associated with ceasing development of beamline implant products and other costs of \$1 million associated with ceasing development of beamline implant products. (See Note 7 of Notes to Consolidated Condensed Financial Statements.)

Net interest income was \$26 million for the first quarter of fiscal 2008 and \$20 million for the first quarter of fiscal 2007, respectively. Higher net interest income during the first quarter of fiscal 2008 was primarily due to a decrease in interest expense associated with scheduled debt maturities.

Applied's effective income tax rate for the first quarter of fiscal 2008 was 32.6 percent and includes the impact of restructuring charges. Applied's effective income tax rate was 28.6 percent for the comparable quarter of fiscal 2007 and included benefits of \$30 million due primarily to a favorable resolution of audits of prior years' income tax filings. Applied's future effective income tax rate depends on various factors, such as tax legislation, the geographic composition of Applied's pre-tax income, and the tax rate on equity compensation. Management carefully monitors these factors and timely adjusts the interim income tax rate accordingly.

Segment Information

Applied operates in four reportable segments: Silicon, Applied Global Services, Display, and Energy and Environmental Solutions. A description of the products and services, as well as financial data, for each reportable segment can be found in Note 14 of Notes to Consolidated Condensed Financial Statements. Applied does not allocate to its reportable segments certain operating expenses, which it manages separately at the corporate level. These unallocated costs include equity-based compensation and certain components of variable compensation,

corporate marketing and sales, corporate functions (certain management, finance, legal, human resources and RD&E), and unabsorbed information technology and occupancy costs. Effective in the first quarter of fiscal 2008, Applied renamed two of its reportable segments. The Fab Solutions segment has been renamed Applied Global Services, and the Adjacent Technologies segment has been renamed Energy and Environmental Solutions. In addition, Applied changed its management reporting system for services, with all service results reported in the Applied Global Services segment. Applied has reclassified segment operating results for the three months ended January 28, 2007 to conform to the fiscal 2008 presentation. Discussions below include the results of each reportable segment.

Silicon Segment

The Silicon segment includes semiconductor capital equipment for etch, rapid thermal processing (RTP), deposition, chemical mechanical planarization (CMP), and metrology and inspection. Development efforts are focused on solving customers' key technical challenges, including transistor performance and nanoscale patterning, and improving chip manufacturing productivity to reduce costs.

	Three Months Ended	
	January 27, 2008	January 28, 2007
(In millions)		
New orders	\$ 1,075	\$ 1,755
Net sales	\$ 1,237	\$ 1,490
Operating income	\$ 445	\$ 520

Silicon new orders decreased 39 percent to \$1.1 billion for the first quarter of fiscal 2008 compared to \$1.8 billion for the first quarter of fiscal 2007, due to reduced demand for equipment from memory device manufacturers and continued weakness in demand from foundry and logic customers. The decrease in orders was across all products within the segment. New orders were primarily for leading-edge memory applications while orders from foundries remained at low levels due to low fab utilization rates.

Net sales decreased 17 percent to \$1.2 billion for the first quarter of fiscal 2008 from \$1.5 billion for the first quarter of fiscal 2007. The decrease in net sales was due to decreased investment by memory and logic semiconductor customers in multiple areas, including etch, inspection, and front end products.

Operating income decreased 14 percent to \$445 million for the first quarter of fiscal 2008 from \$520 million for the first quarter of fiscal 2007. The operating income decrease was due to lower revenue levels, offset in part by lower spending attributable to continued focus on cost controls.

Applied Global Services Segment

The Applied Global Services segment includes technically differentiated products to improve operating efficiency, reduce operating costs and lessen the environmental impact of semiconductor, display and solar customers' factories, and includes spares and remanufactured equipment sales. Customer demand for spare parts and services is fulfilled through a global distribution system with trained service engineers located in close proximity to customer sites.

	Three Months Ended	
	January 27, 2008	January 28, 2007
(In millions)		
New orders	\$ 610	\$ 718
Net sales	\$ 595	\$ 560
Operating income	\$ 149	\$ 159

New orders decreased 15 percent to \$610 million for the first quarter of fiscal 2008, compared to \$718 million for the first quarter of fiscal 2007, due to lower orders for spares and remanufactured equipment, partially offset by increased orders for factory automation software.

Net sales increased 6 percent to \$595 million for the first quarter of fiscal 2008, compared to \$560 million for the first quarter of fiscal 2007, reflecting increased factory automation software sales and higher sales for remanufactured equipment.

Operating income decreased 7 percent to \$149 million for the first quarter of fiscal 2008 from \$159 million for the first quarter of fiscal 2007 as a result of product mix, increased operating expenses and acquisition-related charges, offset by higher net sales.

Fiscal 2007 new orders, net sales and operating income have increased from the previously reported amounts due to the reclassification of display service products from the Display segment.

Display Segment

The Display segment encompasses products for manufacturing LCDs for TVs, personal computers and other video-enabled devices. This business is focused on expanding market share by differentiation with larger-scale substrates, entry into new markets, and development of products to enable cost reductions through productivity and uniformity.

	Three Months Ended	
	January 27, 2008	January 28, 2007
	(In millions)	
New orders	\$ 555	\$ 34
Net sales	\$ 133	\$ 196
Operating income	\$ 34	\$ 50

New orders increased to \$555 million for the first quarter of fiscal 2008, compared to \$34 million for the first quarter of fiscal 2007. Increased orders reflected a significant increase in investment by LCD customers in response to rising LCD panel demand.

Net sales decreased 32 percent to \$133 million for the first quarter of fiscal 2008 from \$196 million for the first quarter of fiscal 2007. The decrease in net sales reflected the lower order levels in fiscal 2007.

Operating income decreased 32 percent to \$34 million for the first quarter of fiscal 2008 from \$50 million for the first quarter of fiscal 2007, due to lower revenue levels and product mix, partially offset by lower costs.

Fiscal 2007 new orders, net sales and operating income have decreased from the previously reported amounts due to the reclassification of display service products to the Applied Global Services segment.

Energy and Environmental Solutions Segment

The Energy and Environmental Solutions segment includes products for fabricating solar photovoltaic cells and modules, high throughput roll-to-roll coating systems for flexible electronics and web products, and energy-efficient glass. This business is focused on delivering solutions to generate and conserve energy, with an emphasis on lowering the cost to produce solar power by providing equipment to enhance manufacturing scale and efficiency.

	Three Months Ended	
	January 27, 2008	January 28, 2007
	(In millions)	
New orders	\$ 260	\$ 31
Net sales	\$ 122	\$ 32
Operating loss	\$ 48	\$ 15

New orders of \$260 million for the first quarter of fiscal 2008 increased from \$31 million for the first quarter of fiscal 2007, and included the initial recognition of orders for Applied's SunFab™ Thin Film Line. The first quarter of fiscal 2008 also included the first full quarter of results for precision wafering systems to manufacture crystalline silicon substrates from the acquisition of HCT Shaping Systems S.A.

Net sales of \$122 million for the first quarter of fiscal 2008 increased from \$32 million for the first quarter of fiscal 2007, due to increased sales across all products.

The operating loss of \$48 million for the first quarter of fiscal 2008 increased from \$15 million for the first quarter of fiscal 2007, reflecting increased RD&E spending to develop products that enable lower-cost production of solar energy, increased operating costs, amortization of acquisition-related costs, and costs related to expansion of solar marketing efforts, partially offset by higher revenues.

Financial Condition, Liquidity and Capital Resources

During the three months ended January 27, 2008, cash, cash equivalents and investments decreased by \$363 million, from \$3.7 billion as of October 28, 2007.

Cash, cash equivalents and investments consisted of the following:

	January 27, 2008	October 28, 2007
	(In millions)	
Cash and cash equivalents	\$ 1,216	\$ 1,203
Short-term investments	690	1,167
Long-term investments	1,458	1,362
Total cash, cash equivalents and investments	<u>\$ 3,364</u>	<u>\$ 3,732</u>

Applied generated \$390 million of cash from operating activities for the three months ended January 27, 2008. The primary source of operating cash flow for the three months ended January 27, 2008 was net income, adjusted to exclude the effect of non-cash charges including depreciation, amortization, equity-based compensation, and restructuring expenses, which was partially offset by changes in operating assets and liabilities. Days sales outstanding for the first quarter of fiscal 2008 increased to 88 days, compared to 79 days in the fourth quarter of fiscal 2007, primarily due to regional mix. Applied discounted certain letters of credit totaling \$15 million for the three months ended January 27, 2008. Discounting of letters of credit depends on many factors, including the willingness of financial institutions to discount the letters of credit and the cost of such arrangements. For further details regarding discounting of letters of credit, see Note 3 of Notes to Consolidated Condensed Financial Statements.

Applied generated \$290 million of cash from investing activities during the three months ended January 27, 2008. Investing activities included the purchase from Edwards Vacuum, Inc. certain assets of its Kachina semiconductor equipment parts cleaning and refurbishment business for \$19 million in cash and capital expenditures of \$74 million. Proceeds from sales and maturities of investments, net of purchases of investments, totaled \$383 million.

Applied used \$667 million of cash for financing activities during the three months ended January 27, 2008, consisting primarily of \$600 million to repurchase common shares and payment of \$83 million in cash dividends to stockholders, partially offset by \$16 million received from the issuance of common stock under equity plans.

On September 11, 2007, Applied's Board of Directors declared a quarterly cash dividend in the amount of \$0.06 per share that was paid on December 6, 2007 to stockholders of record as of November 15, 2007. On December 11, 2007, Applied's Board of Directors declared a quarterly cash dividend in the amount of \$0.06 per share, payable on March 6, 2008, to stockholders of record as of February 14, 2008. Applied currently anticipates that cash dividends will continue to be paid on a quarterly basis, although 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, as well as a determination that cash dividends are in the best interests of Applied's stockholders.

Applied has credit facilities for unsecured borrowings in various currencies of up to \$1.1 billion, of which \$1.0 billion is comprised of a 5-year revolving credit agreement with a group of banks that is scheduled to expire in January 2012. The agreement provides for borrowings at interest rates keyed to one of the two rates selected by Applied for each advance and includes financial and other covenants with which Applied was in compliance at

January 27, 2008. No amounts were outstanding under this agreement at January 27, 2008 (see Note 11 of Notes to Consolidated Condensed Financial Statements).

On January 31, 2008, Applied acquired all of the outstanding shares of Baccini S.p.A. (Baccini), a privately-held company based in Italy, for a purchase price of approximately \$224 million in cash, net of cash acquired. For additional information regarding this business combination, see Note 16 of Notes to Consolidated Condensed Financial Statements.

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 January 27, 2008, the maximum potential amount of future payments that Applied could be required to make under these guarantee arrangements was approximately \$208 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 expects that changes in its business will affect its working capital components in fiscal 2008, primarily related to its Energy and Environmental Solutions segment. Applied believes that the solar industry is moving to increasingly greater factory output of solar modules, including output on a level sufficient to annually generate electricity on a gigawatt scale. Applied has entered into contracts with multiple customers for its SunFab Thin Film Line, the fulfillment of which will require Applied to invest in inventory and incur related costs.

Applied's investment portfolio consists principally of investment grade municipal bonds, money market mutual funds, U.S. Treasury and agency securities, corporate bonds, and mortgage-backed and asset-backed securities. Applied regularly monitors the credit risk in its investment portfolio and takes appropriate measures to manage such risks prudently in accordance with its investment policies. As a result of recent adverse conditions in the financial markets, the following types of financial instruments may present risks arising from liquidity and/or credit concerns: structured investment vehicles, auction rate securities, sub-prime mortgage-backed securities, and collateralized debt obligations. At January 27, 2008, Applied's holdings in these categories of investments totaled \$45 million, or 1.3% of total cash, cash equivalents and investments, which Applied does not consider to be material. In the event that these categories of investments that are experiencing credit concerns become illiquid, Applied does not believe that this will materially affect the Company's liquidity or results of operations. In the first quarter of fiscal 2008, as part of its regular investment review process, Applied recorded an insignificant impairment charge associated with its investment portfolio. While Applied cannot predict future market conditions or market liquidity, Applied believes that its investment policies provide an appropriate means to manage the risks in its investment portfolio.

Although cash requirements will fluctuate based on the timing and extent of many factors such as those discussed above and in Part II, Item IA, "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. For further details regarding Applied's operating, investing and financing activities, see the Consolidated Condensed Statements of Cash Flows.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States 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 estimate 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 will not be known for prolonged periods of time. These uncertainties include those discussed in Part II, Item 1A, "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. Management has discussed the development, selection and disclosure of significant estimates with the Audit Committee of our Board of Directors.

For further information about Applied's critical accounting policies, see the discussion of critical accounting policies in Applied's 2007 Form 10-K. Management believes that there has been no significant change during the three months ended January 27, 2008 to the items disclosed as critical accounting policies in Applied's 2007 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Applied's investment portfolio includes fixed-income securities with a fair value of approximately \$2.1 billion at January 27, 2008. These securities are subject to interest rate risk and will decline in value if interest rates increase. Based on Applied's investment portfolio at January 27, 2008, an immediate 100 basis point increase in interest rates would result in a decrease in the fair value of the portfolio of approximately \$32 million. While an increase in interest rates reduces the fair value of the investment portfolio, Applied will not realize the losses in the consolidated condensed statement of operations unless the individual fixed-income securities are sold prior to recovery or the loss is determined to be other-than-temporary.

Certain operations of Applied are conducted in foreign currencies. Applied enters into currency forward exchange 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 months ended January 28, 2007 and January 27, 2008.

Item 4. Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended (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 in ensuring that information required to be disclosed in our SEC reports is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to Applied's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

As required by Rule 13a-15(d), Applied's management, including the Chief Executive Officer and Chief Financial Officer, also conducted an evaluation of Applied's internal control over financial reporting to determine whether any changes occurred 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*

The information set forth above under Note 6 contained in Notes to Consolidated Condensed Financial Statements is incorporated here in by reference.

Item 1A. *Risk Factors*

The risk factors set forth below include any material changes to, and supersede the description of, the risk factors disclosed in Item 1A of Applied's 2007 Form 10-K.

The industries that Applied serves are volatile and unpredictable.

As a supplier to the global semiconductor, flat panel display, solar and related industries, Applied is subject to business cycles, the timing, length and volatility of which can be difficult to predict and which may vary by reportable segment. The industries have historically been cyclical due to sudden changes in customers' manufacturing capacity requirements and spending, which depend in part on capacity utilization, demand for customers' products, and inventory levels relative to demand. The effects on Applied of these changes in demand, including end-customer demand, are occurring more rapidly. 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, contributed profit and results of operations.

Applied must effectively manage its resources and production capacity to meet rapidly changing demand in each of the industries it serves. During periods of decreasing demand for Applied's products, Applied must be able to appropriately align its cost structure with prevailing market conditions, motivate and retain key employees, and effectively manage its supply chain. During periods of increasing demand, Applied must have sufficient manufacturing capacity and inventory to meet customer demand; attract, retain and motivate a sufficient number of qualified individuals; and effectively manage its supply chain. If Applied is not able to timely and appropriately adapt to changes in industry cycles, 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 semiconductor and semiconductor-related industries.

The global industries in which Applied operates are characterized by ongoing changes, including: (1) higher capital requirements for building and operating new semiconductor, LCD and solar photovoltaic cell or module (PV) fabrication plants and the resulting effect on customers' ability to raise the necessary capital; (2) differing rates of market growth for, and capital investments by, various semiconductor device makers, such as memory (including NAND Flash and DRAM), logic and foundry, as well as LCD and solar manufacturers; (3) industry growth rates; (4) the increasing cost and decreasing affordability of research and development due to many factors, including decreasing linewidths, the increasing number of materials, applications and process steps, and the greater complexity of process development and chip design; (5) the increasing difficulty for customers to move from product design to volume manufacturing; (6) the importance of reducing the cost of system ownership, due in part to the increasing significance of consumer electronics as a driver for semiconductor and LCD demand and the related focus on lower prices; (7) varying levels of business information technology spending; (8) 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; (9) the growing types and varieties of semiconductors and expanding number of applications across multiple substrate sizes, resulting in customers' divergent technical demands; (10) demand for shorter cycle times for the development, manufacture and installation of manufacturing equipment; (11) the challenge to semiconductor manufacturers of moving volume manufacturing from one

technology node to the next smaller technology node, and the resulting impact on the technology transition rate and the rate of investment in capital equipment; (12) price trends for semiconductor devices, LCDs and solar modules; (13) difficulties associated with transitioning to larger substrate sizes; and (14) the increasing importance of the availability of spare parts to assure maximum system uptime. If Applied does not successfully manage the risks resulting from the ongoing changes occurring in the semiconductor and semiconductor-related industries, 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.

As Applied operates in a highly competitive environment, its future success depends on many factors, including the 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 enhancing market share in existing markets, expanding into related markets, and cultivating new markets, while constantly improving its operational performance. The development, introduction and support of a broadening set of products in more varied competitive environments have grown increasingly complex and expensive over time. Applied's success is subject to many risks, including but not limited to its ability to timely, cost-effectively and successfully: (1) improve and/or develop new applications for existing products, adapt similar products for use by customers in different applications and/or markets with varying technical requirements, and develop new products; (2) appropriately price and achieve market acceptance of products; (3) maintain operating flexibility to enable different responses to different markets, customers and applications; (4) appropriately allocate resources, including RD&E funding, among Applied's products and between the development of new products and the enhancement of existing products; (5) accurately forecast demand and meet production schedules for its products; (6) achieve cost efficiencies across product offerings; (7) increase market share in existing markets, expand its markets and exceed industry growth rates; (8) adapt to technology changes in related markets, such as lithography; (9) adapt to changes in value offered by companies in different parts of the supply chain; (10) qualify products for volume manufacturing with its customers; (11) implement changes in its design engineering methodology, including those that enable reduction of material costs and cycle time, and enable greater commonality of platforms and types of parts used in different systems, and greater effectiveness of product life cycle management; and (12) improve its manufacturing processes. Furthermore, new or improved products may involve higher costs and reduced margins. If Applied does not successfully manage these challenges, its business, financial condition and results of operations could be materially and adversely affected.

The entry into new markets and industries entails additional challenges.

As part of its growth strategy, Applied must successfully expand into related or new markets and industries, either with its existing nanomanufacturing technology products or with new products developed internally or obtained through acquisitions. These include the emerging solar market, which Applied entered in 2006 and which is subject to ongoing changes in demand for PV products arising from, among other things, fluctuations in the cost of electric power, availability of government incentives, government energy policies, the performance and reliability of PV technology, technological innovations, evolving industry standards, and the cost and availability of other energy sources. In addition, Applied believes that the solar industry is moving to increasingly greater factory output of PVs, including output on a level sufficient to annually generate electricity on a gigawatt scale. The entry into different markets involves additional challenges, including those arising from: (1) Applied's ability to anticipate demand and capitalize on opportunities, and avoid or minimize risks; (2) new and more diverse customers and suppliers, including some with limited operating histories, uncertain and/or limited funding, evolving business models and/or locations in regions where Applied does not have existing operations; (3) the adoption of new business models, such as the supply of a suite of Applied and non-Applied equipment sufficient to manufacture PVs; (4) difficulties in production planning, execution, supply chain management and logistics; (5) new materials, processes and technologies; (6) Applied's ability to meet performance specifications and drive efficiencies and cost reductions; (7) the need to attract, motivate and retain employees with skills and expertise in these new areas; (8) different service requirements; and (9) intellectual property rights of others; (10) Applied's ability to rapidly expand its operations to meet demand for one or more gigawatt-scale solar factories and the associated effect on

Applied's working capital. If Applied does not successfully manage the risks resulting from entry into new markets and industries, 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 first quarter of fiscal 2008, approximately 77 percent of Applied's net sales were to customers in regions outside the United States. A rising percentage of Applied's business is from customers in Asia. Certain of Applied's RD&E and/or manufacturing facilities, as well as suppliers to Applied, are also located outside the United States, including in China. The global nature of Applied's business and operations presents challenges, including but not limited to, those arising from: (1) uncertainties with respect to economic growth rates in various countries; (2) varying regional and geopolitical business conditions and demands; (3) local, regional, national or international regulatory requirements; (4) global trade issues; (5) variations in protection of intellectual property and other legal rights in different countries; (6) positions taken by U.S. governmental agencies regarding possible national commercial and/or security issues posed by international business operations; (7) fluctuating raw material and energy costs; (8) variations in the ability to develop relationships with suppliers and other local businesses; (9) changes in laws and regulations of the United States (including export restrictions) and other countries, as well as their interpretation and application; (10) fluctuations in interest rates and currency exchange rates, including the weakening relative position of the U.S. dollar; (11) the need to provide sufficient levels of technical support in different locations; (12) political instability, natural disasters (such as earthquakes, floods or storms), pandemics, terrorism or acts of war in locations where Applied has operations, suppliers or sales; (13) cultural differences; (14) special customer- or government-supported efforts to promote the development and growth of local competitors; (15) shipping costs and/or delays; (16) adverse conditions in financial markets that may affect the liquidity and/or credit of financial instruments in Applied's investment portfolio; and (17) adverse conditions in credit markets. Many of these challenges are present in China, which is experiencing significant growth of both suppliers and competitors to Applied, and which Applied believes presents a large potential market for its products and opportunity for growth over the long term. In addition, Applied must regularly reassess the size, capability and location of its global infrastructure and make appropriate changes. These challenges 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 semiconductor and flat panel display customer base historically has been, and is becoming even more, highly concentrated. In addition, certain customers have entered into strategic alliances or industry consortia that have increased the influence of key industry participants in technology decisions made by their partners. In the solar area, while the number of PV manufacturing customers is increasing as the number of market entrants grows, the size of contracts with particular customers is expected to rise substantially as the industry moves to solar module output capability on a level sufficient to annually generate electricity on a gigawatt scale. In this environment, orders from a relatively limited number of manufacturers have accounted for, and are expected to 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 they 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, intellectual property-related, or other commercial terms that are less favorable to Applied. In addition, certain customers have undergone significant ownership changes and/or have outsourced manufacturing activities, which may result in additional complexities in managing 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 in the future intends to make, acquisitions of, and 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 markets; (6) exposure to operational risks, rules and regulations to the extent such activities are located in countries where Applied has not historically done business; (7) inability to obtain and protect intellectual property rights in key technologies; (8) ineffectiveness of an acquired company's internal controls; (9) impairment of acquired intangible assets as a result of technological advancements or worse-than-expected performance of the acquired company or its product offerings; (10) unknown, underestimated and/or undisclosed commitments or liabilities; (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 joint ventures, 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 technical and volume 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. 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 import or export approvals; (4) information technology or infrastructure failures; (5) natural disasters (such as earthquakes, floods or storms); or (6) 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. Applied's need to rapidly ramp up its business to meet anticipated accelerating demand for its PV products, in particular, may exacerbate any interruptions in Applied's manufacturing operations and supply chain and the associated effect on Applied's working capital. 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 and conduct off-shoring and outsourcing activities and other operational initiatives could adversely affect results of operations.

To better align its costs with market conditions, increase its presence in growing markets, improve its tax structure, and enhance productivity and operational efficiency, Applied conducts engineering, software development and other operations in regions outside the United States, particularly India and China, and outsources certain functions to third parties, including companies in the United States, India, China and other countries. Outsourced functions include certain engineering, manufacturing, customer support, software development, information technology support 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 realize the potential productivity and operational efficiencies, assure quality and protect Applied's intellectual property. In addition, Applied has implemented several key, operational initiatives intended to improve manufacturing efficiency, including integrate-to-order, module-final-test and merge-in-transit programs. Applied also is implementing a multi-year, company-wide program to transform certain business processes, which includes transitioning to a single-vendor, enterprise resource planning (ERP) software system to perform various functions. If Applied does not effectively develop and implement its off-shoring and outsourcing strategies, if required export and other governmental approvals are not timely obtained, if Applied's third party providers do not perform as anticipated, or if there are delays or difficulties in implementing a new ERP system or enhancing business processes, Applied may not realize anticipated productivity improvements or cost efficiencies, and may

experience operational difficulties, increased costs, manufacturing interruptions or delays, loss of its intellectual property rights, quality issues, increased product time-to-market and/or inefficient allocation of human resources, any or all of 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 program and makes adjustments, as appropriate, to enhance its competitiveness. If Applied does not successfully attract, retain and motivate key employees, Applied's ability to capitalize on its opportunities and its operating results may be materially and adversely affected.

Changes in tax rates or tax liabilities could affect results of operations.

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 annual and quarterly tax rates could be affected by numerous 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 significant 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 obtain or enforce intellectual property rights, resolve or settle claims, 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; recycling and disposal of materials used in its products; the operation of its facilities; and the use of its real property. The failure or inability to comply with existing or future environmental and safety regulations could result in: (1) significant remediation liabilities; (2) the imposition of fines; (3) the suspension or termination of the development, manufacture, sale or use of certain of its products; (4) limitations on the operation of its facilities or ability to use its real property; and/or (5) a decrease in the value 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; (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. Ongoing compliance with this requirement 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 deliver an unqualified opinion as to the effectiveness of Applied's internal controls, 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 January 27, 2008 with respect to the shares of common stock repurchased by Applied during the first quarter of fiscal 2008:

<u>Period</u>	<u>Total Number of Shares Purchased (Shares in thousands)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Program* (Shares in thousands)</u>	<u>Maximum Dollar Value of Shares that May Yet be Purchased Under the Program* (Dollars in millions)</u>
Month #1 (October 29, 2007 to November 25, 2007)	3,589	\$ 18.44	3,589	\$ 3,734
Month #2 (November 26, 2007 to December 23, 2007)	15,970	\$ 18.24	15,970	\$ 3,443
Month #3 (December 24, 2007 to January 27, 2008)	14,070	\$ 17.24	14,070	\$ 3,200
Total	33,629	\$ 17.84	33,629	

* On September 15, 2006, the Board of Directors approved a new stock repurchase program for up to \$5.0 billion in repurchases over the next three years, ending September 2009.

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
10.55*	Share Purchase Agreement among Applied Materials, Inc. and the Shareholders of Baccini S.p.A. dated November 18, 2007.
10.56	Adjustments to Executive Officer Salaries, effective December 17, 2007.
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.

* Certain exhibits and schedules to this agreement, as listed in Sections 1.2 and 1.3 of the agreement, have been omitted. Applied Materials, Inc. hereby undertakes to furnish supplementally copies of any of the omitted exhibits and schedules 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/ GEORGE S. DAVIS
George S. Davis
Senior Vice President,
Chief Financial Officer
(Principal Financial Officer)

March 3, 2008

By: _____ /s/ YVONNE WEATHERFORD
Yvonne Weatherford
Corporate Vice President,
Corporate Controller
(Principal Accounting Officer)

March 3, 2008

SHARE PURCHASE AGREEMENT

November 18, 2007

By and between

- Applied Materials, Inc., a Delaware corporation (the "Purchaser"), with its registered office at 3050 Bowers Avenue, Santa Clara, CA 95054, here represented by its Senior Vice President duly authorized by its board of directors

-on one side-

and

the following parties (the "Selling Shareholders"):

- Mr. Gisulfo Baccini, an Italian citizen born in Breda Di Piave (Treviso), Italy, on 1 October 1942, resident in 31030 Carbonera (Treviso), Italy, Via Duca D'Aosta 1; and

- Finanziaria Baccini S.r.l., an Italian company, with its registered office at 31100 Treviso, Sottoportico Buranelli 27, enrolled with the Register of Companies of Treviso at no. 00398350264, share capital €100.000,00 fully paid-in, here represented by the legal representative, Mr. Gisulfo Baccini;

-on the other side-

(The Purchaser and the Selling Shareholders are referred to collectively as the "Parties" and each of them as a "Party.")

Certain capitalized terms used in this Agreement are defined in Exhibit A.

WHEREAS

- (a) The Selling Shareholders own 600,000 ordinary shares in the share capital of Baccini S.p.A., an Italian company, with its registered office at 31048 San Biagio di Callalta (Treviso), Via Postumia Ovest 244, tax code and number of registration with the Register of Companies of Treviso at no. 00766780266 (the "Company"), having each a par value of €1 (the "Shares"), fully paid in and subscribed, each in the respective amount set forth opposite each Selling Shareholder's name on Schedule 2.2, which Shares collectively constitute 100% (one hundred per cent) of the share capital of the Company;
 - (b) The Purchaser has been granted access to a number of documents related to the Company and its business; and
 - (c) The Selling Shareholders wish to sell the Shares to the Purchaser (or to a direct or indirect subsidiary of the Purchaser as its nominee pursuant to Article 1401 of the Italian Civil Code) on the terms set forth in this Share Purchase Agreement (this "Agreement").
-

NOW THEREFORE, THE PARTIES AGREE AS FOLLOWS:

1. RECITALS, EXHIBITS AND SCHEDULES

1.1 All the above recitals and all the attachments hereto constitute an integral and substantial part of this Agreement.

1.2 The Exhibits to this Agreement are the following:

Exhibit A	—	Certain Definitions
Exhibit B	—	Non-Competition, Non-Solicitation and Confidentiality Agreements
Exhibit C	—	Lease-Back Agreement
Exhibit D	—	Escrow Agreement
Exhibit E	—	Employment Agreement Term Sheets
Exhibit F	—	Preliminary Sale and Purchase Agreement

1.3 The Schedules to this Agreement are the following:

Schedule 2.2	—	Schedule of Selling Shareholders
Schedule 2.4(b)(iv)	—	Persons to Execute Non-Competition, Non-Solicitation and Confidentiality Agreements
the Disclosure Schedule		the Disclosure Schedule
Schedule 3.9(d)	—	Acquired Patents
Schedule 7.9	—	Persons to Remain Employed
Schedule 12.7(c)	—	Dispute Resolution Procedures

2. OBJECT OF THIS AGREEMENT; CLOSING

2.1 Sale and Purchase of Shares. At the Closing (as defined in Section 2.3), the Selling Shareholders shall sell, assign, transfer and deliver the Shares to the Purchaser (or to a direct or indirect subsidiary of the Purchaser as its nominee pursuant to Article 1401 of the Italian Civil Code), free and clear of any Encumbrance, and the Purchaser (or such subsidiary as nominee) shall purchase the Shares from the Selling Shareholders (such sale and purchase of the Shares, the "Share Purchase"), on the terms and subject to the conditions set forth in this Agreement.

2.2 Purchase Price. The aggregate purchase price payable by the Purchaser (or by a direct or indirect subsidiary of the Purchaser as its nominee pursuant to Article 1401 of the Italian Civil Code) for the Shares (the "Purchase Price") shall be €200.400.000,00. The Purchase Price shall be paid as follows:

- (a) At the Closing, the Purchaser shall cause to be paid to each Selling Shareholder its pro rata percentage, as set forth opposite such Selling Shareholder's name on Schedule 2.2, of the amount by which: (i) €168.400.000,00; *exceeds* (ii) the Acquired Company Transaction Expenses (including those Acquired Company Transaction Expenses reflected in the acknowledgments contemplated by clause "(A)" of Section 2.4(b)(ix)), all in accordance with the payment instructions set forth opposite such Selling Shareholder's name on Schedule 2.2.
- (b) €5.000.000,00 of the Purchase Price shall be paid to the Selling Shareholders (allocated based on such Selling Shareholder's pro rata percentage as set forth opposite such Selling Shareholder's name on Schedule 2.2), by wire transfer of immediately available funds in accordance with the payment instructions set forth opposite such Selling Shareholder's name on Schedule 2.2, on the first anniversary of the Closing Date if (and only if) all of the key employees identified on Schedule 7.9 remain employed by the Company or one of its subsidiaries on such anniversary (it being understood that if one or more of such persons shall die (or as a consequence of illness or accident become physically unable to perform the activity contemplated by the relevant Employment Agreement) or is terminated by the Acquired Companies without "right cause" or "justified reason" (*giusta causa* or *giustificato motivo*) prior to the first anniversary of the Closing Date, such person shall be excluded from the requirement contained in the preceding portion of this sentence); *provided, however*, if, prior to the first anniversary of the Closing Date, either: (i) the employment of all of the key employees identified on Schedule 7.9 has been terminated by the Acquired Companies without "right cause" or "justified reason" (*giusta causa* or *giustificato motivo*); or (ii) all of such key employees shall die (or as a consequence of illness or accident become physically unable to perform the activity contemplated by the relevant Employment Agreement), then the payment contemplated by this Section 2.2(b) shall be made promptly after such termination, death or supervened inability as described above (for the avoidance of doubt, and without prejudice to the foregoing, it is understood that no Selling Shareholder shall be entitled to the amount described in this Section 2.2(b), or to any portion thereof, if the employment of any of the key employees identified on Schedule 7.9 is terminated with "right cause" or "justified reason" (*giusta causa* or *giustificato motivo*) or if any such key employee voluntarily resigns from her or his employment (for a reason other than supervened inability as described above), in each case before the first anniversary of the Closing Date).
- (c) €5.000.000,00 of the Purchase Price shall be paid to the Selling Shareholders (allocated based on such Selling Shareholder's pro rata percentage as set forth opposite such Selling Shareholder's name on Schedule 2.2), by wire transfer of immediately available funds in accordance with the payment instructions set forth opposite such Selling Shareholder's name on Schedule 2.2, on the second anniversary of the Closing Date if (and only if) all of the key employees identified on Schedule 7.9 remain employed by the Company or one of its subsidiaries on such anniversary (it being understood that if one or more of such persons shall die (or as a consequence of illness or accident become physically unable to perform the activity contemplated by the relevant Employment Agreement) or is terminated by the Acquired Companies without "right cause" or "justified reason" (*giusta causa* or *giustificato motivo*) prior to the second anniversary of the Closing Date, such person shall be excluded from the requirement contained in the preceding portion of this sentence); *provided*,

however, if, prior to the second anniversary of the Closing Date, either: (i) the employment of all of the key employees identified on Schedule 7.9 has been terminated by the Acquired Companies without “right cause” or “justified reason” (*giusta causa* or *giustificato motivo*); or (ii) all of such key employees shall die (or as a consequence of illness or accident become physically unable to perform the activity contemplated by the relevant Employment Agreement), then the payment contemplated by this Section 2.2(c) shall be made promptly after such termination, death or supervened inability as described above (for the avoidance of doubt, and without prejudice to the foregoing, it is understood that no Selling Shareholder shall be entitled to the amount described in this Section 2.2(c), or to any portion thereof, if the employment of any of the key employees identified on Schedule 7.9 is terminated with “right cause” or “justified reason” (*giusta causa* or *giustificato motivo*) or if any such key employee voluntarily resigns from her or his employment (for a reason other than supervened inability as described above), in each case before the second anniversary of the Closing Date).

- (d) If the Selling Shareholders receive any amount pursuant to Section 2.2(b) or 2.2(c), the Purchaser shall also cause to be paid to the Selling Shareholders interest on such amount at the Specified Rate (as defined below) from the Closing Date until the day immediately preceding the date of payment, subject to any tax withholding obligations that the Selling Shareholders and the Purchaser determine are required by any applicable Legal Requirement. The “Specified Rate” shall mean: (1) the average Euro LIBOR three month rate for the period from the Closing Date through the day immediately preceding the date of payment, with such average rate being determined from the applicable Bloomberg page (or its successor) on the day immediately preceding the date of payment, plus (2) 100 basis points.
 - (e) €22,000,000.00 of the Purchase Price (the “Escrow Amount”) shall be paid at the Closing to an escrow account designated by the Escrow Agent. The Escrow Amount shall be maintained in an escrow account for the purposes of satisfying claims brought pursuant to Section 10 for the period of time and in accordance with the terms set forth in this Agreement and the Escrow Agreement (the “Escrow Account”). When (and if) all or any portion of the Escrow Amount is released from escrow to the Selling Shareholders pursuant to the terms of this Agreement and the Escrow Agreement, each Selling Shareholder shall be entitled to receive such Selling Shareholder’s pro rata percentage of such released amount as set forth opposite such Selling Shareholder’s name on Schedule 2.2, to be paid in accordance with the payment instructions set forth opposite such Selling Shareholder’s name on Schedule 2.2.
- 2.3 **Closing.** The closing of the Share Purchase (the “Closing”) shall take place at the offices of Lovells Studio Legale in Milan, Italy at 10:00 a.m. (local time) on a date to be designated by the Purchaser and communicated to the Selling Shareholders with five days prior notice (or such shorter prior notice as the Selling Shareholders may agree), 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 7 and 8 (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions) or at such other time and date as the Purchaser and the Selling Shareholders may jointly designate. The date on which the Closing actually takes place is referred to in this Agreement as the “Closing Date.”

- 2.4 Closing Actions and Deliveries by the Selling Shareholders.** In addition to any other action to be taken and to any other instrument to be executed and/or delivered at the Closing pursuant to this Agreement, at the Closing, the Selling Shareholders shall:
- (a) hold a valid totalitarian shareholders meeting of each of the Acquired Companies at which the following are unanimously approved: (i) new bylaws in the form indicated by the Purchaser; (ii) the election of a new board of directors, as indicated by the Purchaser; and (iii) the appointment of new board of statutory auditors, as indicated by the Purchaser; and
 - (b) cause to be delivered to the Purchaser the following agreements and documents, each of which shall be in full force and effect:
 - (i) the certificates representing the Shares, duly endorsed and notarized as required by Italian law in order to transfer to the Purchaser (or to a direct or indirect subsidiary of the Purchaser as its nominee pursuant to Article 1401 of the Italian Civil Code) valid and marketable title to such Shares and to properly register the Purchaser (or a direct or indirect subsidiary of the Purchaser as its nominee pursuant to Article 1401 of the Italian Civil Code) in the shareholders' ledger of the Company;
 - (ii) the "fissato bollato" executed by the Selling Shareholders;
 - (iii) the Escrow Agreement, duly executed by the Selling Shareholders;
 - (iv) Non-Competition, Non-Solicitation and Confidentiality Agreements, substantially in the form of Exhibit B (the "Non-Competition, Non-Solicitation and Confidentiality Agreements"), duly executed by the Persons identified on Schedule 2.4(b)(iv);
 - (v) a certificate, duly executed by each Selling Shareholder, pursuant to which such Selling Shareholder certifies and represents to the Purchaser that the conditions set forth in Sections 7.1, 7.2, 7.4, 7.5, 7.6 and 7.9 have been duly satisfied (the "Closing Certificate");
 - (vi) a certificate, duly executed by each Selling Shareholder (the "Acquisition Consideration Certificate"), pursuant to which such Selling Shareholder certifies and represents to the Purchaser as to the following information: (A) the aggregate amount of Acquired Company Transaction Expenses paid prior to (or payable after) the Closing; (B) the consideration that each Selling Shareholder is entitled to receive pursuant to Section 2.2(a); and (C) the cash amount to be contributed to the Escrow Account with respect to such Selling Shareholder pursuant to Section 2.2(e);
 - (vii) documentation, reasonably satisfactory to the Purchaser, in support of the calculation of the amounts set forth in the Acquisition Consideration Certificates;
 - (viii) written resignations of all directors and members of the Board of Auditors of the Acquired Companies, effective as at the Closing;
 - (ix) written acknowledgments pursuant to which the Acquired Companies' outside legal counsel and any financial advisor, accountant or other

Person who performed services for or on behalf of the Acquired Companies, or who is otherwise entitled to any compensation from the Acquired Companies, in connection with the Transactional Agreements, any of the Contemplated Transactions or otherwise, acknowledges: (A) the total amount of fees, costs and expenses of any nature that have been paid (or that will become payable) to such Person by any of the Acquired Companies in connection with the Transactional Agreements, any of the Contemplated Transactions and otherwise; and (B) that, except for the amount, if any, identified in such acknowledgment as that which is "to become payable," it has been paid in full and is not (and will not be) owed any other amount by any of the Acquired Companies with respect to the Transactional Agreements, any of the Contemplated Transactions and otherwise;

- (x) a lease agreement (the "Lease-Back Agreement") substantially in the form of Exhibit C, duly executed by the Company and Finanziaria Baccini S.r.l.;
- (xi) the Real Property Transfer Agreement (as defined below), duly executed by the Company and the other parties thereto; and
- (xii) the Employment Agreements (the "Employment Agreements") to be mutually agreed to by the Company and each of the employees identified in Schedule 7.9 based on the term sheet attached as Exhibit E, duly executed by each such Person.

2.5 **Closing Actions and Deliveries by the Purchaser.** In addition to any other action to be taken and to any other instrument to be executed and/or delivered at the Closing pursuant to this Agreement, at the Closing, the Purchaser shall:

- (a) deliver to the Selling Shareholders the following agreements and documents, each of which shall be in full force and effect:
 - (i) the Escrow Agreement, duly executed by the Purchaser;
 - (ii) a certificate, duly executed by the Purchaser, pursuant to which the Purchaser certifies and represents to the Selling Shareholders that the conditions set forth in Sections 8.1 and 8.2 have been satisfied;
 - (iii) the "fissato bollato", duly executed by the Purchaser, in respect of the purchase and sale of the Shares; and
 - (iv) the Employment Agreements to be mutually agreed to by the Company and each of the employees identified in Schedule 7.9 based on the term sheet attached as Exhibit E, duly executed by the Company; and
- (b) cause to be paid: (i) to the appropriate tax authority the stamp duty relating to the transfer of the Shares at Closing (including "fissato bollato"), provided that the endorsement of the Shares is performed before a financial intermediary (it being understood that in no event shall the Purchaser be responsible for stamp duty of more than 0.05% of the consideration with respect to such Shares) and (ii) the fees and costs due to the Notary Public for all the activities to be performed at Closing.

3. REPRESENTATIONS AND WARRANTIES OF THE SELLING SHAREHOLDERS

The Selling Shareholders represent and warrant to and for the benefit of the Indemnitees that, except as set forth in the applicable part of the disclosure schedule prepared in accordance with Section 12.15 and delivered to the Purchaser on the date of this Agreement (the "Disclosure Schedule");

3.1 Due Organization; Subsidiary; Etc.

- (a) Each of the Acquired Companies has been duly organized, and is validly existing and in good standing (to the extent that the laws of the jurisdiction of its formation recognize the concept of good standing), under the laws of the jurisdiction of its formation. Each of the Acquired Companies has full power and authority: (i) to conduct its business in the manner in which its business is currently being conducted; (ii) to own and use its assets in the manner in which its assets are currently owned and used; and (iii) to perform its obligations under all Contracts to which it is a party or by which it is bound.
- (b) Each of the Acquired Companies is qualified, licensed or admitted to do business, and is in good standing (to the extent that the applicable jurisdiction recognizes the concept of good standing), under the laws of the jurisdiction in which it is incorporated and in all other jurisdictions where the property owned, leased or operated by it or the nature of its business requires such qualification, license or admission.
- (c) Part 3.1(c) of the Disclosure Schedule accurately sets forth: (i) the names of the members of the board of directors (or similar body) and statutory auditors of each of the Acquired Companies; and (ii) the names and titles of the officers of each of the Acquired Companies. No Acquired Company has established any committees of the board of directors (or similar body) of such Acquired Company.
- (d) Except for the equity interests identified in Part 3.1(d) of the Disclosure Schedule (and except for securities held for cash management and similar short-term investment purposes), none of the Acquired Companies has ever owned, beneficially or otherwise, any shares or other securities of, or any direct or indirect equity interest in, any Entity. None of the Acquired Companies has agreed or is obligated to make any future investment in or capital contribution to any Entity. None of the Acquired Companies has guaranteed or is responsible or liable for any obligation of any Entity.

- 3.2 **Charter Documents; Records.** The Company has delivered to the Purchaser (and/or granted the Purchaser access in the Company's online or physical data room) accurate and complete copies of: (a) the articles of associations, bylaws and memorandum of association or equivalent governing documents, including all amendments thereto, of each of the Acquired Companies (the "Charter Documents"); and (b) the minutes and other records of the meetings and other proceedings (including any actions taken by written consent or otherwise without a meeting) of the shareholders (or members) and the board of directors (or other similar body) of each of the Acquired Companies. The books of account, stock records, minute books and other records of each of the Acquired Companies are accurate, up-to-date and complete in all material respects.

3.3 Capitalization.

- (a) The authorized share capital of the Company consists of 600,000 ordinary shares each with a par value of €1, of which 600,000 ordinary shares have been issued and are outstanding as at the date of this Agreement. Except as set forth in Part 3.3(a) of the Disclosure Schedule, the Company has not declared or paid any dividends on any shares of the Company's share capital since April 1999 and until the date of this Agreement. All of the Shares have been duly authorized and validly issued, and are fully paid and nonassessable, and none of the Shares is subject to any repurchase option, forfeiture provision or restriction on transfer.
- (b) The Selling Shareholders together own, of record and beneficially, 100% of the share capital of the Company. There is no and as at the Closing will be no: (i) outstanding subscription, option, call, convertible note, warrant or right (whether or not currently exercisable) to acquire any share capital of the Company or other securities of the Company; (ii) outstanding security, instrument or obligation that is or may become convertible into or exchangeable for any shares of the Company's share capital (or cash based on the value of such shares, including pursuant to any share appreciation rights) or other securities of the Company; (iii) Contract under which the Company is or may become obligated to sell or otherwise issue any shares of the Company's share capital or any other securities; or (iv) condition or circumstance that may 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 Company's share capital or other securities of the Company.
- (c) All of the Shares have been issued and granted in compliance with: (i) all applicable Legal Requirements; and (ii) all requirements set forth in all applicable Contracts. None of the Shares were issued in violation of any preemptive rights or other rights to subscribe for or purchase securities of the Company.
- (d) Except as set forth in Part 3.3(d) of the Disclosure Schedule, as at the date of this Agreement, all of the issued and outstanding shares of capital stock of the Subsidiary are owned, of record and beneficially, by the Company free and clear of any Encumbrance, and as at the Closing, all of the issued and outstanding shares of capital stock of the Subsidiary will be owned, of record and beneficially, by the Company free and clear of any Encumbrance. The outstanding shares of the Subsidiary have been duly authorized and validly issued and are fully paid and nonassessable, have been issued in compliance with all applicable securities laws and other applicable Legal Requirements and were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities of the Subsidiary. There are no options, warrants or other rights outstanding to subscribe for or purchase any shares or other securities of the Subsidiary and the Subsidiary is not subject to any Contract or order, writ, injunction, judgment or decree under which the Subsidiary is or may become obligated to sell or otherwise issue any shares or other securities. There are no preemptive rights applicable to any shares of the Subsidiary.

3.4 Financial Statements and Related Information.

- (a) The Company has delivered to the Purchaser the following financial statements (collectively, the "Acquired Company Financial Statements"): (i) the unaudited

balance sheet (in Italian, *stato patrimoniale*) of the Company and the Subsidiary as at December 31, 2005, and the related unaudited statement of income (in Italian, *conto profitti e perdite*) of the Company and the Subsidiary for the year ended December 31, 2005, in each case and the notes thereto (in Italian, *nota integrativa*); (ii) the unaudited balance sheet of the Company and the Subsidiary as at December 31, 2006, and the related unaudited statement of income of the Company and the Subsidiary for the year ended December 31, 2006, in each case and the notes thereto; and (iii) the audited balance sheet of the Company as at June 30, 2007 (the "Most Recent Balance Sheet") and the related audited statement of income of the Company for the six-month period ended June 30, 2007, in each case and the notes thereto.

- (b) The Acquired Company Financial Statements present fairly the financial position of the Acquired Companies as at the respective dates thereof and the results of operations of the Acquired Companies for the periods covered thereby.
- (c) The books, records and accounts of the Acquired Companies accurately and fairly reflect, in reasonable detail, the transactions in and dispositions of the assets of the Acquired Companies.
- (d) Part 3.4(d) of the Disclosure Schedule provides an accurate and complete breakdown of all amounts (including loans, advances or other indebtedness) owed to any of the Acquired Companies by a director, officer (in Italian, *dirigente*), employee (whether regular or temporary, direct hire or leased), consultant or shareholder of any of the Acquired Companies as at the date of this Agreement (the "Related Party Receivables"). All Related Party Receivables (including those receivables reflected on the Most Recent Balance Sheet that have not yet been collected and those receivables that have arisen since June 30, 2007 and have not yet been collected): (i) represent valid obligations arising from bona fide transactions entered into in the ordinary course of business; and (ii) are current and will be collected in full when due, without any counterclaim or set off.
- (e) Part 3.4(e) of the Disclosure Schedule provides the following information with respect to each account maintained by or for the benefit of any of the Acquired Companies at any bank or other financial institution: (i) the name of the bank or other financial institution at which such account is maintained; (ii) the account number; (iii) the type of account; and (iv) the names of all Persons who are authorized to sign checks or other documents with respect to such account.
- (f) As at the date of this Agreement, there are Acquired Company Contracts with customers of the Acquired Companies that, if performed in accordance with their terms, would result in revenue in excess of €212,739,516,18 from the sale of products of the Acquired Companies to be shipped on or after the date hereof (it being understood that the representation in this sentence is not, and shall not be construed as, a guarantee that such Acquired Company Contracts will, in fact, result in such revenue). Each Acquired Company Contract contemplated by the first sentence of this Section 3.4(f) (including the customer's name, the amount of potential revenue thereunder, the cancellation rights of such customer and the penalties, if any, for late delivery) is identified in Part 3.4(f)(i) of the Disclosure Schedule. Except as set forth in Part 3.4(f)(ii) of the Disclosure Schedule, none of the Selling Shareholders and none of the Acquired Companies has received any notice or other communication (in writing or otherwise) indicating that any

customer of any of the Acquired Companies or any other Person who is a party to any of the Acquired Company Contracts referred to in the first sentence of this Section 3.4(f) (such customers and other Persons being referred to as the "Specified Customers") intends to cancel, delay or otherwise modify any orders from any of the Acquired Companies under any Acquired Company Contracts or reduce the amount of business expected to be completed under any Acquired Company Contract (it being understood that: (i) it shall not be a breach of the representation contained in this sentence if, after the date of this Agreement, the Selling Shareholders or the Acquired Companies receive notices or other communications (in writing or otherwise) indicating that Specified Customers intend to cancel orders from the Acquired Companies under any such Acquired Company Contract as long as: (A) no Selling Shareholder and no Acquired Company had Knowledge of an intended cancellation prior to the date of this Agreement that was not disclosed in Part 3.4(f) of the Disclosure Schedule; and (B) such notices or other communications of cancellation are for orders under Acquired Company Contracts totaling no more than €10.636.975,81 in the aggregate; and (ii) it shall be a breach of the representation contained in this sentence to the extent that the Selling Shareholders or the Acquired Companies receive notices or other communications (in writing or otherwise) indicating that Specified Customers intend to cancel orders from the Acquired Companies under Acquired Company Contracts if such notices or other communications of cancellation are for orders exceeding €10.636.975,81 in the aggregate, with the Selling Shareholders being liable for Damages relating to such excess, subject to the limitations set forth in Section 10.3). To the Knowledge of the Selling Shareholders, except as set forth in Part 3.4(f)(iii) of the Disclosure Schedule, the Acquired Companies do not currently expect to be late in delivering any Acquired Company Offering contemplated by the Acquired Company Contracts referred to in the first sentence of this Section 3.4(f) (it being understood that with respect to any expected late deliveries disclosed in Part 3.4(f)(iii) of the Disclosure Schedule, the Selling Shareholders shall include disclosure of the contract delivery date and the approximate date on which the product is currently expected to be delivered).

3.5 Absence of Undisclosed Liabilities.

- (a) None of the Acquired Companies has any accrued, contingent or other Liabilities of any nature, either matured or unmatured (whether or not required to be reflected in financial statements in accordance with Italian GAAP, and whether due or to become due), except for: (i) Liabilities identified as such in the "liabilities" column of the Most Recent Balance Sheet and in the "liabilities" column of the balance sheet of the Subsidiary as at December 31, 2006; (ii) accounts payable or accrued salaries, retributions, severance indemnities (so called "TFR") and social contribution that have been incurred by the Company since June 30, 2007 and by the Subsidiary since December 31, 2006, in each case in the ordinary course of business and consistent with applicable Legal Requirements and with the Acquired Companies' past practices; (iii) Liabilities under any written Acquired Company Contracts entered into in the ordinary course of business consistent with the Acquired Companies' past practices (taking into account the recent increase in the business of the Acquired Companies) to the extent that such Liabilities are expressly set forth in and identifiable by reference to the text of such Acquired Company Contracts; (iv) Liabilities under any oral Acquired Company Contracts that are entered into in the ordinary course of

business consistent with the Acquired Companies' past practices (taking into account the recent increase in the business of the Acquired Companies); and (v) the Liabilities identified in Part 3.5(a) of the Disclosure Schedule.

(b) Except as set forth in Part 3.5(b) of the Disclosure Schedule, none of the Acquired Companies is a party to or is involved in any Off-Balance Sheet Arrangements. None of the Acquired Companies has any outstanding guaranty with regard to any debt or other obligation of any other Person.

3.6 Absence of Changes. Except as set forth in Part 3.6 of the Disclosure Schedule, since June 30, 2007 with regard to the Company and since December 31, 2006 with regard to the Subsidiary:

- (a) except as set forth in Part 3.10(a)(xv) of the Disclosure Schedule, each of the Acquired Companies has conducted its business in the ordinary course;
- (b) there has not been any Material Adverse Effect, and no event has occurred and no circumstances exist, that, in combination with any other events or circumstances, will (or would reasonably be expected to) have a Material Adverse Effect;
- (c) there has not been any material loss, damage or destruction to, or any material interruption in the use of, any of the Acquired Companies' material assets (whether or not covered by insurance);
- (d) except as set forth in Part 3.3(a) of the Disclosure Schedule, none of the Acquired Companies has declared, accrued, set aside or paid any dividend or made any other distribution in respect of any shares of their respective capital stock or other securities, and none of the Acquired Companies has repurchased, redeemed or otherwise reacquired any of their respective shares of capital stock or other securities;
- (e) none of the Acquired Companies has made any capital expenditure (in Italian, *acquisto di beni strumentali*) which, when added to all other capital expenditures made on behalf of such respective Acquired Company, exceeds €250.000,00;
- (f) none of the Acquired Companies has amended or prematurely terminated, or waived any material right or remedy under, any Contract that is or would constitute a Material Contract (as defined in Section 3.10(a));
- (g) none of the Acquired Companies has: (i) acquired, leased or licensed any right or other asset from any other Person; (ii) sold or otherwise disposed of, or leased or licensed, any right or other asset to any other Person; or (iii) waived or relinquished any right, except for immaterial rights or other immaterial assets acquired, leased, licensed or disposed of in the ordinary course of business and consistent with past practices of the Acquired Companies;
- (h) none of the Acquired Companies has written off as uncollectible, or established any extraordinary reserve with respect to, any account receivable or other indebtedness in excess of €50.000,00 with respect to a single matter, or in excess of €150.000,00 in the aggregate;
- (i) none of the Acquired Companies has made any pledge of any of its assets or otherwise permitted any of its assets to become subject to any Encumbrance

(other than nonexclusive licenses granted pursuant to the Contracts listed in Part 3.6(i) of the Disclosure Schedule), except for pledges of immaterial assets made in the ordinary course of business and consistent with such Acquired Company's past practices;

- (j) none of the Acquired Companies has: (i) lent money to any Person (other than pursuant to routine and reasonable travel advances made to current employees of the Acquired Companies in the ordinary course of business); or (ii) incurred or guaranteed any indebtedness for borrowed money;
- (k) none of the Acquired Companies has: (i) established, adopted or amended any Plan (as defined in Section 3.14(b)); (ii) made any bonus, profit-sharing or similar payment to, or increased the amount of wages, salary, commissions, fringe benefits or other compensation (including equity-based compensation, whether payable in cash or otherwise) or remuneration payable to, any of its directors, officers, employees (whether regular or temporary, direct hire or leased), contractors or consultants; or (iii) other than with respect to non-officer employees and in the ordinary course of business and consistent with past practices, hired any new employee;
- (l) none of the Acquired Companies has changed any of its methods of accounting or accounting practices in any respect;
- (m) none of the Acquired Companies has made any Tax election;
- (n) none of the Acquired Companies has commenced or settled any Legal Proceeding; and
- (o) none of the Acquired Companies has agreed or legally committed to take any of the actions referred to in clauses "(d)" through "(n)" above.

3.7 Title to Assets.

- (a) Each of the Acquired Companies owns, and has good and valid title to, all assets purported to be owned by it, including all Currently Owned Real Property. All of such assets are owned by the Acquired Companies free and clear of any liens or other Encumbrances, except for: (A) any lien for current Taxes not yet due and payable; and (B) minor liens 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 Companies (reference is made to the easements (in Italian, *servitù*) indicated in Part 3.7(a) of the Disclosure Schedule).
- (b) Part 3.7(b) of the Disclosure Schedule identifies all assets that are material to the business of any of the Acquired Companies and that are being leased to any of the Acquired Companies. The Disclosure Schedule identifies all the assets that are material to any of the Acquired Companies and are not owned by, or leased to, an Acquired Company. No Selling Shareholder, and if a Selling Shareholder is an Entity, no Person who holds a direct or indirect interest in such Selling Shareholder, owns or has possession of any right to any asset that was used, is being used or is useful in connection with the business or the operations of any of the Acquired Companies.

3.8 Equipment; Real Property.

- (a) Part 3.8(a) of the Disclosure Schedule provides a list as at the date of this Agreement of all material items of equipment, fixtures and other tangible assets owned by or leased to any of the Acquired Companies, and states thereon whether such item is owned or leased. The assets identified in Part 3.8(a) of the Disclosure Schedule are reasonably adequate for the uses to which they are being put, are in good condition and repair (ordinary wear and tear excepted) and are adequate for the conduct of each of the Acquired Companies' respective businesses in the manner in which such businesses are currently being conducted.
- (b) Prior to the Closing, the Company will enter into a preliminary sale and purchase agreement in the form attached hereto as Exhibit F and a final sale and purchase agreement in accordance therewith (collectively, the "Real Property Transfer Agreement") pursuant to which all of the Company's interests in the real property listed in Part 3.8(b) of the Disclosure Schedule (the "Transferred Real Property") will be validly transferred to the parties identified in Part 3.8(b) of the Disclosure Schedule as at the Closing (the "Real Property Transfer").
- (c) Part 3.8(c) of the Disclosure Schedule lists all real property and all interests in any real property (other than the leasehold interests identified in Part 3.8(d) of the Disclosure Schedule) owned as at the date of this Agreement by any Acquired Company. (All real property identified or required to be identified in Part 3.8(c) of the Disclosure Schedule as owned as at the date of this Agreement (including the Transferred Real Property), including all buildings, structures, fixtures and other improvements thereon, are referred to as the "Currently Owned Real Property.")
- (d) Part 3.8(d) of the Disclosure Schedule lists all Contracts pursuant to which any of the Acquired Companies leases or otherwise occupies or uses any real property. (All real property identified or required to be identified in Part 3.8(d) of the Disclosure Schedule, including all buildings, structures, fixtures and other improvements thereon, are referred to as the "Leased Real Property.")
- (e) Except as set forth in Part 3.8(e) of the Disclosure Schedule, the use and operation of the Leased Real Property and Currently Owned Real Property by the Acquired Companies, as well as the use and operation of real property, including all buildings, structures, fixtures and other improvements thereon, which has been owned by the Acquired Companies in the past and is no longer owned (the "Previously Owned Real Property"), is (and, since January 1, 2003, has been) authorized by, and is (and, since January 1, 2003, has been) in full compliance with, all applicable zoning, land use, building, fire, health, labor, safety and environmental laws and other Legal Requirements. There is no Legal Proceeding pending, or to the Knowledge of the Selling Shareholders threatened, that challenges or adversely affects, or would challenge or adversely affect, the continuation of the present use or operation of any Leased Real Property or the Currently Owned Real Property. To the Knowledge of the Selling Shareholders, 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 use or operation of any Leased Real Property or the Currently Owned Real Property. There are no subleases, licenses, occupancy agreements or other contractual obligations that grant the right of use or occupancy of any of the

Leased Real Property or the Currently Owned Real Property to any Person other than the Acquired Companies, and there is no Person in possession of any of the Leased Real Property or the Currently Owned Real Property other than the Acquired Companies.

- (f) Except as set forth in Part 3.8(f) of the Disclosure Schedule, each of the Currently Owned Real Property and the Leased Real Property were built in compliance with: (i) the applicable administrative and town planning laws and regulations; (ii) the applicable town planning and construction rules; (iii) the building authorizations issued by the municipality in which it is located; and (iv) all other applicable Legal Requirements; and no changes to it or to its intended use have ever been made without the prior authorization of the competent authority, pursuant to the applicable Legal Requirements, as well as the applicable town planning and construction rules. The Currently Owned Real Property and Leased Real Property have obtained the fitness for use certificate (“*certificato di agibilità*”) and, after the issuance/obtainment of the same, no changes have been made which would have required the issuance of a new fitness for use certificate.
- (g) No specific plan (such as, but not limited to, lot plans or “*piani di lottizzazione*”) which may have an impact on the Currently Owned Real Property is currently in the course of being approved by any competent public authority.
- (h) In relation to the Currently Owned Real Property, all the urbanization burdens due to the municipality in which it is located by virtue of: (i) any specific plan (such as, but not limited to, lot plans); (ii) any unilateral deed (“*atti unilaterali d’obbligo*”); or (iii) any building authorization, have been duly fulfilled. Moreover, all the Taxes on the Currently Owned Real Property and the Previously Owned Real Property have been duly fulfilled, except from Taxes not yet payable.

3.9 Intellectual Property.

- (a) Part 3.9(a) of the Disclosure Schedule accurately identifies:
 - (i) in Part 3.9(a)(i) of the Disclosure Schedule: (A) each item of Registered IP in which any of the Acquired Companies 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 item of Registered IP and the nature of such ownership interest;
 - (ii) in Part 3.9(a)(ii) of the Disclosure Schedule: (A) all Intellectual Property Rights or Intellectual Property licensed to any of the Acquired Companies (other than any generally available third-party commercial software); and (B) the corresponding Contract or Contracts pursuant to which such Intellectual Property Rights or Intellectual Property is licensed to any such Acquired Company;
 - (iii) in Part 3.9(a)(iii) of the Disclosure Schedule, each Contract pursuant to which any Person has been granted any license under, or otherwise has

received or acquired any right (whether or not currently exercisable) or interest in, any Acquired Company IP; and

- (iv) in Part 3.9(a)(iv) of the Disclosure Schedule, all royalties, sales commissions or similar payments that any of the Acquired Companies is, will be or could be required to pay upon the use of any Acquired Company IP and the Contract pursuant to which such royalties, sales commissions or similar payments are to (or could) be paid.
- (b) The Acquired Companies exclusively own all right, title and interest to and in the Acquired Company IP (other than Intellectual Property Rights or Intellectual Property exclusively licensed to any of the Acquired Companies, as identified in Part 3.9(a)(ii) of the Disclosure Schedule) free and clear of any Encumbrances (other than nonexclusive licenses granted pursuant to the Contracts listed in Part 3.9(a)(ii) of the Disclosure Schedule). Without limiting the generality of the foregoing:
- (i) except as set forth in Part 3.9(b)(i) of the Disclosure Schedule, all Acquired Company Offerings were developed solely by employees of the Acquired Companies and are owned exclusively by the Acquired Companies;
 - (ii) except as set forth in Part 3.9(b)(ii) of the Disclosure Schedule, no funding, facilities or personnel of any Governmental Body or public or private college, university or other educational institution were used to develop or create, in whole or in part, any Acquired Company IP;
 - (iii) the Acquired Companies have taken all reasonable steps to maintain the confidentiality of and otherwise protect and enforce its rights in all proprietary information held by the Acquired Companies, or purported to be held by the Acquired Companies, as a trade secret;
 - (iv) none of the Acquired Companies is or has ever been a member or promoter of, or a contributor to, any industry standards body or similar organization that could require or obligate such Acquired Company to grant or offer to any other Person any license or right to any Acquired Company IP; and
 - (v) except for the licenses and rights granted in Contracts identified or referred to in Part 3.9(a)(ii) and 3.9(a)(iii) of the Disclosure Schedule, none of the Acquired Companies is bound by, and no Acquired Company IP is subject to, any Contract containing any covenant or other provision that in any way limits or restricts the ability of any of the Acquired Companies to exploit, assert, or enforce any Acquired Company IP anywhere in the world.
- (c) Except as set forth in Part 3.9(c) of the Disclosure Schedule, all Acquired Company IP is valid, subsisting and enforceable. Without limiting the generality of the foregoing:

- (i) none of the Acquired Companies nor any of the Selling Shareholders has engaged in any fraud or inequitable conduct, patent misuse or copyright misuse;
 - (ii) no trademark (whether registered or unregistered) or trade name owned, used or applied for by any of the Acquired Companies conflicts or interferes with any trademark (whether registered or unregistered) or trade name owned, used or applied for by any other Person;
 - (iii) each item of Acquired Company IP that is Registered IP is and at all times has been in compliance with all Legal Requirements, and all filings, payments and other actions required to be made or taken to maintain such item of Acquired Company IP in full force and effect have been made by the applicable deadline; and
 - (iv) no interference, opposition, reissue, reexamination or other Legal Proceeding of any nature is or has been pending or, to the Knowledge of the Selling Shareholders, threatened, in which the scope, validity or enforceability of any Acquired Company IP is being, has been or could reasonably be expected to be contested or challenged.
- (d) Except for those license rights expressly granted to the Company pursuant to: (i) that certain Grant of License on Industrial Property Rights dated Dec. 13, 2005 by and between Mr. Gisulfo Baccini and the Company; and (ii) that certain terminated Patent License Agreement, dated Jul. 12, 1999 by and between Mr. Gisulfo Baccini and the Company, no rights or licenses under the Acquired Patents or other Assigned IP Rights (or covenants not to assert or enforce the Acquired Patents or other Assigned IP Rights) have ever been granted to, or made for the benefit of, any Person.
- (e) Except as set forth in Part 3.9(e) of the Disclosure Schedule, to the Knowledge of the Selling Shareholders, no Person has infringed, misappropriated, or otherwise violated, and no Person is currently infringing, misappropriating or otherwise violating, any Acquired Company IP. No letter or other written or electronic communication or correspondence has been sent or otherwise delivered by or to any of the Acquired Companies or any Representative of any of the Acquired Companies regarding any actual, alleged or suspected infringement or misappropriation of any Acquired Company IP.
- (f) Except as set forth in Part 3.9(f) of the Disclosure Schedule, none of the Acquired Companies 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:
- (i) no Acquired Company Offering and no Acquired Company IP has ever infringed, misappropriated or otherwise violated any Intellectual Property Right of any other Person;
 - (ii) no infringement, misappropriation or similar claim or Legal Proceeding is pending or, to the Knowledge of the Selling Shareholders, has been threatened against any of the Acquired Companies or against any other Person who may be entitled to be indemnified, defended, held harmless

or reimbursed by any of the Acquired Companies with respect to such claim or Legal Proceeding; and

(iii) none of the Acquired Companies has received any notice or other communication (in writing or otherwise) relating to any actual, alleged or suspected infringement, misappropriation or violation of any Intellectual Property Right of another Person.

(g) The representations and warranties contained in the IP Transfer Agreement (as defined below) are accurate.

3.10 Contracts.

(a) Part 3.10(a) of the Disclosure Schedule accurately identifies:

- (i) each Acquired Company Contract relating to the employment of, or the performance of services by any director, officer, employee (whether regular or temporary, direct hire or leased), contractor or consultant; any Acquired Company Contract pursuant to which any of the Acquired Companies is or may become obligated to make any severance, termination or similar payment to any current or former director, officer, employee (whether regular or temporary, direct hire or leased), contractor or consultant; and any Acquired Company Contract pursuant to which any of the Acquired Companies is or may become obligated to make any bonus or similar payment (other than payment in respect of salary) to any current or former director, officer, employee (whether regular or temporary, direct hire or leased), contractor or consultant;
- (ii) each Acquired Company Contract which provides for indemnification of any officer, director or employee;
- (iii) each Acquired Company Contract relating to the merger, consolidation, reorganization or any similar transaction with respect to any of the Acquired Companies;
- (iv) each Acquired Company Contract relating to the acquisition, transfer, development or sharing of any Intellectual Property or Intellectual Property Right (including any joint development agreement, technical collaboration agreement or similar agreement entered into by any of the Acquired Companies with any customer or other Person);
- (v) each Acquired Company Contract relating to the acquisition, sale, spin-off or outsourcing of the Subsidiary or any business unit or operation of any of the Acquired Companies;
- (vi) each Acquired Company Contract creating or relating to any partnership or joint venture or any sharing of revenues, profits, losses, costs or liabilities;
- (vii) each Acquired Company Contract imposing any restriction on the right or ability of any of the Acquired Companies: (A) to compete with any other Person; (B) to acquire any product or other asset or any services from any other Person, to sell any product or other asset to or perform any services

for any other Person, or to transact business or deal in any other manner with any other Person; or (C) to develop or distribute any technology;

- (viii) each Acquired Company Contract creating or involving any agency relationship, distribution arrangement or other reseller relationship (including any Contract in which another Person is appointed or authorized to act or serve as a sales representative for any of the Acquired Companies);
- (ix) each Acquired Company Contract involving any loan, guaranty, pledge, performance or completion bond or indemnity or surety arrangement;
- (x) each Acquired Company Contract with a sole source supplier or pursuant to which: (A) any Person provides to any of the Acquired Companies equipment, materials or services that are necessary or important for the sale, performance, manufacturing, or support of any Acquired Company Offering; or (B) any Acquired Company is obligated to purchase all, or any specific portion or percentage of, its requirements for, or any minimum amount of, any product, good or service;
- (xi) each Acquired Company Contract with any Related Party;
- (xii) each Acquired Company Contract to which any Governmental Body is a party or under which any Governmental Body has any rights or obligations;
- (xiii) any other Acquired Company Contract that contemplates or involves the payment or delivery after the date of this Agreement of cash or other consideration: (A) by any Acquired Company in an amount or having a value in excess of €100.000,00 in the aggregate; and (B) to any Acquired Company in an amount or having a value in excess of €1.000.000,00 in the aggregate;
- (xiv) each Acquired Company Contract relating to Leased Real Property or the Currently Owned Real Property; and
- (xv) any other Acquired Company Contract that was entered into outside the ordinary course of business or was inconsistent with the past practices of any of the Acquired Companies.

(Contracts in the respective categories described in clauses "(i)" through "(xv)" above, all Contracts identified, or required to be identified, in Part 3.10(a) of the Disclosure Schedule and all Acquired Company Contracts referred to in Section 3.4(f) are referred to in this Agreement as "Material Contracts.")

Without limiting the foregoing, except as set forth in Part 3.10(a) of the Disclosure Schedule: (a) no Related Party has, and no Related Party has at any time had, any direct or indirect interest in any material asset used in or otherwise relating to the business of any of the Acquired Companies; (b) no Related Party is indebted to any of the Acquired Companies; and (c) since January 1, 2005, no Related Party has entered into, or has had any direct or indirect financial interest in, any transaction or business dealing involving any of the Acquired Companies.

- (b) The Company has delivered to the Purchaser (and/or granted the Purchaser access in the Company's online or physical data room) accurate and complete copies of all written Material Contracts identified in Part 3.10(a) of the Disclosure Schedule, including all amendments thereto. Part 3.10(a) of the Disclosure Schedule provides an accurate and complete description of the material terms of each Material Contract that is not in written form. Each Contract identified in Part 3.10(a) of the Disclosure Schedule is valid and in full force and effect, and, to the Knowledge of the Selling Shareholders, is enforceable by the respective Acquired 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 (it being understood that: (A) it shall not be a breach of the representation contained in this sentence if, after the date of this Agreement, the Selling Shareholders or the Acquired Companies receive notices or other communications (in writing or otherwise) indicating that Specified Customers intend to cancel orders from the Acquired Companies under any such Acquired Company Contract as long as: (1) no Selling Shareholder and no Acquired Company had Knowledge of an intended cancellation prior to the date of this Agreement that was not disclosed in Part 3.4(f) of the Disclosure Schedule; and (2) such notices or other communications of cancellation are for orders under Acquired Company Contracts totaling no more than €10.636.975,81 in the aggregate; and (B) it shall be a breach of the representation contained in this sentence to the extent that the Selling Shareholders or the Acquired Companies receive notices or other communications (in writing or otherwise) indicating that Specified Customers intend to cancel orders from the Acquired Companies under Acquired Company Contracts if such notices or other communications of cancellation are for orders exceeding €10.636.975,81 in the aggregate, with the Selling Shareholders being liable for Damages relating to such excess, subject to the limitations set forth in Section 10.3).
- (c) Except as set forth in Part 3.10(c) of the Disclosure Schedule: (i) none of the Acquired Companies has violated or breached, or committed any default under, any Acquired Company Contract, which remains uncured, and, to the Knowledge of the Selling Shareholders, no other Person has violated or breached, or committed any default under, any Acquired Company Contract which remains uncured; (ii) to the Knowledge of the Selling Shareholders, no event has occurred, and no circumstance or condition exists, that (with or without notice or lapse of time) will, or could reasonably be expected to: (A) result in a violation or breach of any of the provisions of any Material Contract; (B) give any Person the right to declare a default or exercise any remedy under any Material Contract; (C) give any Person the right to accelerate the maturity or performance of any Material Contract; or (D) give any Person the right to cancel, terminate or modify any Material Contract; (iii) none of the Acquired Companies has received any notice or other communication regarding any actual or possible violation or breach of, or default under, any Acquired Company Contract; and (iv) none of the Acquired Companies has waived any of its respective material rights under any Material Contract (it being understood that: (A) it shall not be a breach of the representation contained in this sentence if, after the date of this Agreement, the Selling Shareholders or the Acquired Companies receive notices or other communications (in writing or otherwise) indicating that Specified Customers intend to cancel orders from the Acquired Companies under any such Acquired Company Contract as long as: (1) no Selling Shareholder and no Acquired

Company had Knowledge of an intended cancellation prior to the date of this Agreement that was not disclosed in Part 3.4(f) of the Disclosure Schedule; and (2) such notices or other communications of cancellation are for orders under Acquired Company Contracts totaling no more than €10.636.975,81 in the aggregate; and (B) it shall be a breach of the representation contained in this sentence to the extent that the Selling Shareholders or the Acquired Companies receive notices or other communications (in writing or otherwise) indicating that Specified Customers intend to cancel orders from the Acquired Companies under Acquired Company Contracts if such notices or other communications of cancellation are for orders exceeding €10.636.975,81 in the aggregate, with the Selling Shareholders being liable for Damages relating to such excess, subject to the limitations set forth in Section 10.3).

- (d) Except as set forth in Part 3.10(d) of the Disclosure Schedule, no Person has a contractual right pursuant to the terms of any Acquired Company Contract to renegotiate any amount paid or payable to the respective Acquired Company under any Material Contract or any other material term or provision of any Material Contract.

3.11 Compliance with Legal Requirements; Industry Standards. Except as set forth in Part 3.11 of the Disclosure Schedule, each of the Acquired Companies is, and since January 1, 2003 each of the Acquired Companies has been, in compliance in all material respects with each Legal Requirement that is applicable to it or to the conduct of its business or the ownership of its assets. No event has occurred, and no condition or circumstance exists, that will (with or without notice or lapse of time) constitute or result in a violation in any material respect by the any of the Acquired Companies of, or a failure on the part of any of the Acquired Companies to comply in any material respect with, any Legal Requirement. None of the Acquired Companies has received any notice or other communication from any Government Body regarding any actual or possible violation of, or failure to comply with, any Legal Requirement. Without limiting the generality of the foregoing, each of the products of the Acquired Companies: (i) complies (and since January 1, 2003 has complied) in all material respects with all applicable laws relating to product safety and other applicable Legal Requirements; and (ii) has been certified by all appropriate Governmental Bodies if so required by any Legal Requirement.

3.12 Governmental Authorizations.

- (a) Part 3.12(a) of the Disclosure Schedule identifies each Governmental Authorization (including those granted under applicable Environmental Laws) held by the Acquired Companies. The Company has delivered to the Purchaser (and/or granted the Purchaser access in the Company's online or physical data room) accurate and complete copies of all Governmental Authorizations identified in Part 3.12(a) of the Disclosure Schedule. The Governmental Authorizations identified in Part 3.12(a) of the Disclosure Schedule are valid and in full force and effect, and collectively constitute all Governmental Authorizations necessary to enable the respective Acquired Company to conduct its business in the manner in which its business is currently being conducted. Each of the Acquired Companies is, and since January 1, 2003 has been, in compliance in all material respects with the terms and requirements of the respective Governmental Authorizations identified in Part 3.12(a) of the Disclosure Schedule. No Acquired Company 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 Governmental Authorization; or (ii) any actual or possible revocation, withdrawal, suspension, cancellation, termination or modification of any Governmental Authorization.

- (b) Except as set forth in Part 3.12(b) of the Disclosure Schedule, none of the Acquired Companies possesses (or since January 1, 2003 has possessed) or has any rights or interests with respect to (or since January 1, 2003 has had any rights or interests with respect to) any grants, incentives or subsidies from any Governmental Body.

3.13 Tax Matters.

- (a) Except as set forth in Part 3.13(a) of the Disclosure Schedule, all Tax Returns required to be filed by or on behalf of the Acquired Companies with any Governmental Body with respect to any taxable period ending on or before the Closing Date (the "Acquired Company Returns"): (i) have been or will be filed on or before the applicable due date (including any extensions of such due date); and (ii) have been, or will be when filed, accurately and completely prepared in compliance with all applicable Legal Requirements. All Taxes that are due and payable on or before the Closing Date have been or will be timely paid on or before the Closing Date, including advance payments, and any Taxes accrued but not paid are accurately reflected in the books and records of the Company. The Company has delivered (and/or granted the Purchaser access in the Company's online or physical data room) to the Purchaser accurate and complete copies of all Acquired Company Returns filed by or on behalf of the Acquired Companies. All Taxes required to be withheld by the Acquired Companies have been properly and timely withheld and remitted.
- (b) Except as set forth in Part 3.13(b) of the Disclosure Schedule, no Acquired Company Return relating to Taxes has ever been examined or audited by any Governmental Body, with the exception of those whereof a copy of the tax inspectors' report has been duly delivered to the Purchaser (and/or granted the Purchaser access in the Company's online or physical data room) (including PVCs not yet resulting in a Notice of Assessment). No extension of the ordinary limitation period for any of the Acquired Company Returns is applicable, and all the Acquired Companies correctly applied for the last tax amnesty and paid the related Liabilities.
- (c) There are no unsatisfied liabilities for Taxes (including liabilities for interest, additions to tax and penalties thereon and related expenses) with respect to any notice of deficiency or similar document received by any of the Acquired Companies with respect to any 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 respective Acquired Companies and with respect to which adequate reserves for payment have been established). There are no liens for Taxes upon any of the assets of each of the Acquired Companies except liens for current Taxes not yet due and payable.
- (d) There are no Tax exemptions, Tax holidays or other Tax reduction agreements or arrangements applicable to any of the Acquired Companies. Each of the Acquired Companies is in compliance with all terms and conditions of any Tax

exemptions, Tax holiday or other Tax reduction agreement or order, writ, injunction, judgment or decree of a territorial or foreign Governmental Body, and the consummation of the Share Purchase or any other transaction contemplated by this Agreement will not have any adverse effect on the continued validity and effectiveness of any such Tax exemptions, Tax holiday or other Tax reduction agreement or order, writ, injunction, judgment or decree.

- (e) Except as set forth in Part 3.13(e) of the Disclosure Schedule, none of the Acquired Companies is, or has been, a party to or bound by any tax consolidation or indemnity agreement, tax-sharing agreement, tax allocation agreement or similar Contract, or subject to any secondary Tax liability.
- (f) The Acquired Companies have established all transfer prices in compliance with all applicable Legal Requirements.

3.14 Employee and Labor Matters; Benefit Plans.

- (a) Part 3.14(a) of the Disclosure Schedule contains a list of all current Acquired Company Employees who are directors or are listed in the Acquired Companies' payroll as at the date of this Agreement, and correctly reflects: (i) their dates of employment; (ii) their positions; (iii) their salaries; (iv) any other compensation payable to them (including housing allowances, compensation payable pursuant to bonus, deferred compensation or commission arrangements or other compensation); and (v) any promises made to them with respect to changes or additions to their compensation or benefits. Except as set forth in Part 3.14(a) of the Disclosure Schedule, except for collective bargaining agreements and similar arrangements applicable to the Acquired Companies under applicable Italian Legal Requirements, none of the Acquired Companies is, and none of the Acquired Companies has been, bound by or a party to, or has a duty to bargain for, any collective bargaining agreement or other Contract with a labor organization representing any Acquired Company Employees and, except as set forth in Part 3.14(a) of the Disclosure Schedule, the Acquired Company Employees are not registered with any labor organization. Since December 31, 2004, none of the Acquired Companies has had any strike, slowdown, work stoppage, lockout, job action or threat thereof, or question concerning representation, by or with respect to any of the Acquired Company Employees. Except as set forth in Part 3.14(a) of the Disclosure Schedule, there is no current Acquired Company Employee who is not fully available to perform work because of disability or other leave.
- (b) Part 3.14(b) of the Disclosure Schedule identifies each employment, salary, bonus, consulting, compensation, deferred compensation, incentive compensation, stock purchase, equity, severance pay, termination pay, hospitalization, medical, insurance, supplemental unemployment benefits, profit-sharing, pension, retirement, welfare, fringe benefit or other employee benefits plan, program or agreement, whether written or unwritten and whether funded or unfunded (individually referred to as a "Plan" and collectively referred to as the "Plans") which is or has been sponsored, maintained, contributed to or required to be contributed to by any of the Acquired Companies or with respect to which any of the Acquired Companies may have any Liability.

- (c) With respect to each Plan, the Company has delivered to the Purchaser (and/or granted the Purchaser access in the Company's online or physical data room): (i) an accurate and complete copy of such Plan (including all amendments thereto); (ii) accurate and complete copies of all Contracts relating to such Plan, including service provider agreements, insurance contracts, minimum premium contracts, stop-loss agreements, investment management agreements, subscription and participation agreements and recordkeeping agreements; and (iii) all correspondence to or from any Governmental Body relating to any Plan, other than routine correspondence that will not result in Liability to any Acquired Company.
- (d) Each of the Plans has been operated and administered in all material respects in accordance with applicable Legal Requirements.
- (e) Except as provided by applicable law and the National Collective Bargaining Agreements, neither the execution, delivery or performance of this Agreement, nor the consummation of the Share Purchase or any other transaction contemplated by this Agreement, will or may (either alone or upon the occurrence of any additional or subsequent events) result in any payment (whether of severance pay or otherwise and whether or not under any Plan), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligation to fund benefits.
- (f) As of the date of this Agreement: (i) each of the Acquired Companies has good labor relations; and (ii) except as set forth in Part 3.14(f) of the Disclosure Schedule, none of the Selling Shareholders has any Knowledge of any facts indicating that: (A) the consummation of any of the Contemplated Transactions will have a material adverse effect on the labor relations of any of the Acquired Companies; or (B) any of the officers, employees (whether regular or temporary, direct hire or leased), contractors or consultants of any of the Acquired Companies intends to terminate his or her employment or services with the Acquired Companies.

3.15 Environmental Matters.

- (a) Except as set forth in Part 3.15 of the Disclosure Schedule, the Leased Real Property, Previously Owned Real Property and Currently Owned Real Property and each other parcel of property that is (or that has been) owned by, leased to, occupied by, controlled by or used by any of the Acquired Companies, including any related plants and installations and all surface water, groundwater, soil and air associated with or adjacent to such property: (a) comply with all Environmental Laws and have all necessary Governmental Authorizations required to carry on the business of the Acquired Companies as it is being and has been conducted; (b) is free of any Materials of Environmental Concern; and (c) is free of any environmental contamination or environmental damage of any nature. Except as set forth in Part 3.15(a) of the Disclosure Schedule, none of the Leased Real Property, Previously Owned Real Property or Currently Owned Real Property contains or contained: (i) any underground storage tanks, asbestos, equipment using PCBs or underground injection wells; (ii) any asbestos or equipment using PCBs; or (iii) any septic tanks in which process wastewater or any Materials of Environmental Concern have been Released. Except as set forth in Part 3.15(a) of the Disclosure Schedule, no Acquired Company has ever Released any

Materials of Environmental Concern except in compliance with all applicable Environmental Laws.

- (b) Except as set forth in Part 3.15(b) of the Disclosure Schedule, none of the Acquired Companies, nor, to the Knowledge of the Selling Shareholders, any current or prior owner of any property used, leased or controlled by any of the Acquired Companies, has received any notice or other communication (in writing or otherwise) from any Person, whether from a Governmental Body, citizens group, employee or otherwise, that alleges that such Acquired Company is not in compliance with any Environmental Law, and, to the Knowledge of the Selling Shareholders, there are no circumstances that may prevent or interfere with such Acquired Company's compliance with any Environmental Law in the future.

3.16 Insurance.

- (a) Part 3.16(a) of the Disclosure Schedule provides a list of the insurance policies maintained by, at the expense of or for the benefit of each of the Acquired Companies as at the date of this Agreement (including the name of the policy, the term, the premium and a brief description of the type of insurance) and any claims pending thereunder as at the date of this Agreement. The Company has delivered to the Purchaser (and/or granted the Purchaser access in the Company's online or physical data room) accurate and complete copies of the insurance policies identified on Part 3.16(a) of the Disclosure Schedule. Each of the insurance policies identified in Part 3.16(a) of the Disclosure Schedule is in full force and effect.
- (b) Since December 31, 2006, none of the Acquired Companies has received any notice or other communication regarding any actual or possible: (i) cancellation or invalidation of any insurance policy; (ii) refusal of any coverage or rejection of any claim under any insurance policy; or (iii) material adjustment in the amount of the premiums payable with respect to any insurance policy.

3.17 Legal Proceedings; Orders.

- (a) Except as set forth in Part 3.17(a) of the Disclosure Schedule, there is no pending Legal Proceeding and, to the Knowledge of the Selling Shareholders, no Person has threatened to commence any Legal Proceeding: (i) that involves any of the Acquired Companies or any of the assets owned or used by any of the Acquired Companies or any Person whose liability any of the Acquired Companies has or may have retained or assumed, either contractually or by operation of law; (ii) that involves any of the Leased Real Property or the Currently Owned Real Property; (iii) that challenges, or that may have the effect of preventing, delaying, making illegal or otherwise interfering with, the Share Purchase or any of the other Contemplated Transactions; or (iv) that relates to the ownership of any capital stock of any of the Acquired Companies, or any option or other right to the capital stock of any of the Acquired Companies, or right to receive consideration as a result of the Share Purchase or any of the other Contemplated Transactions. To the Knowledge of the Selling Shareholders, no event has occurred, and no claim, dispute or other condition or circumstance exists, that will or could reasonably be expected to, give rise to or serve as a basis for the commencement of any such Legal Proceeding.

- (b) Since January 1, 2003, no Legal Proceeding has been commenced by, and no Legal Proceeding has been pending against, any of the Acquired Companies.
- (c) There is no order, writ, injunction, judgment or decree to which any of the Acquired Companies, or any of the assets owned or used by each of the Acquired Companies, is subject. To the Knowledge of the Selling Shareholders, no director, officer, or other employee of any of the Acquired Companies is subject to any order, writ, injunction, judgment or decree that prohibits such officer or other employee from engaging in or continuing any conduct, activity or practice relating to the respective Acquired Company's business.

3.18 Authority; Binding Nature of Agreement; Inapplicability of Anti-takeover Statutes.

- (a) Each of the Selling Shareholders has the absolute and unrestricted right, power, authority and capacity to enter into and to perform such Selling Shareholder's obligations under this Agreement and under each other agreement, document or instrument referred to in or contemplated by this Agreement to which any Selling Shareholder is or will be a party; and if a Selling Shareholder is an Entity, the execution, delivery and performance by such Selling Shareholder of this Agreement and of each such other agreement, document and instrument have been duly authorized by all necessary actions on the part of such Selling Shareholder, its board of directors (or equivalent body) and its shareholders. This Agreement and each other agreement, document and instrument referred to in or contemplated by this Agreement to which any Selling Shareholder is a party constitutes the legal, valid and binding obligation of such Selling Shareholder, enforceable against such Selling Shareholder 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.
- (b) The Company is not subject to any takeover law or similar Legal Requirement that might apply to the Contemplated Transactions.

3.19 Non-Contravention; Consents. Neither: (1) the execution, delivery or performance of the Transactional Agreements by any of the Selling Shareholders; nor (2) the consummation of the Share Purchase or any of the other Contemplated Transactions by any of the Selling Shareholders did, will or could reasonably be expected to (with or without notice or lapse of time):

- (a) contravene, conflict with or result in a violation of: (i) any of the provisions of any Charter Documents of any of the Acquired Companies; or (ii) any resolution adopted by the shareholders, board of directors or any committee of the board of directors of any of the Acquired Companies;
- (b) contravene, conflict with or result in a violation of any Legal Requirement or any order, writ, injunction, judgment or decree to which any of the Acquired Companies or any of the Selling Shareholders, or any of the assets owned or used by any of the Acquired Companies or any of the Selling Shareholders, 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 Governmental Authorization that is

held by any of the Acquired Companies or that otherwise relates to any such Acquired Company's business or to any of the assets owned or used by any such Acquired Company;

- (d) except as set forth in Part 3.19(d) of the Disclosure Schedule, contravene, conflict with or result in a violation or breach of, or result in a default under, any provision of any Acquired Company Contract that is or would constitute a Material Contract or any Contract that is binding on any Selling Shareholder, or give any Person the right to: (i) declare a default or exercise any remedy under any such Acquired Company Contract; (ii) accelerate the maturity or performance of any such Acquired Company Contract; or (iii) cancel, terminate or modify any such Acquired Company Contract;
- (e) contravene, conflict with or result in a violation of: (i) any of the provisions of any Charter Documents of such Selling Shareholder that is an Entity; or (ii) any resolution adopted by the shareholders, board of directors or any committee of the board of directors of any Selling Shareholder that is an Entity;
- (f) result in the imposition or creation of any lien or other Encumbrance upon or with respect to any asset owned or used by any of the Acquired Companies (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 Companies); or
- (g) result in the release, disclosure or delivery of any Acquired Company IP by or to any escrow agent or other Person or the grant, assignment or transfer to any other Person of, or entitle any other Person to exercise or use, any license or other right or interest under, to or in any of the Acquired Company IP.

Except as set forth in Part 3.19 of the Disclosure Schedule, none of the Acquired Companies nor any of the Selling Shareholders is or has been, and none of the Acquired Companies nor any of the Selling Shareholders 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 the Transactional Agreements; or (y) the consummation of the Contemplated Transactions.

3.20 Brokers. No broker, finder or investment banker is or will become entitled to any brokerage, finder's or other fee or commission in connection with any of the Contemplated Transactions based upon arrangements made by or on behalf of any of the Acquired Companies. No Person is or may become entitled to receive any fee or other amount from any of the Acquired Companies for professional services performed or to be performed in connection with any of the Contemplated Transactions.

3.21 Full Disclosure. This Agreement (including the Disclosure Schedule) does not, and the Closing Certificate (as defined in Section 2.4) will not: (i) contain any representation, warranty or information that is false or misleading with respect to any material fact; or (ii) omit to state any material fact necessary in order to make the representations, warranties and information contained and to be contained herein and therein (in the light of the circumstances under which such representations, warranties and information were or will be made or provided) not false or misleading.

4. REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser represents and warrants to the Selling Shareholders as follows:

- 4.1 Valid Existence.** The Purchaser is a corporation validly existing and in good standing under the laws of the State of Delaware and has full power and authority to perform its obligations under this Agreement.
- 4.2 Non-Contravention; Consents.**
- (a) Neither: (i) the execution, delivery or performance by the Purchaser of the Transactional Agreements; nor (ii) the consummation by the Purchaser of the Contemplated Transactions, will (with or without notice or lapse of time) contravene, conflict with or result in a violation of: (A) any of the provisions of the certificate of incorporation or bylaws of the Purchaser; (B) any resolution adopted by the stockholders, the board of directors or any committee of the board of directors of the Purchaser; or (C) any provision of any material contract by which the Purchaser is bound.
- (b) Except as may be required under Antitrust Laws (as defined in Section 6.1(a)), the Purchaser will not be required to obtain any Consent from any Person in connection with: (i) the execution, delivery or performance of the Transactional Agreements; or (ii) the consummation of any of the Contemplated Transactions.
- 4.3 Authority; Binding Nature of Agreement.** The Purchaser has the absolute and unrestricted right, power and authority to enter into and perform its obligations under this Agreement and under each other agreement, document and instrument referred to in this Agreement to which the Purchaser is a party; and the execution, delivery and performance by the Purchaser of this Agreement any of each such other agreement, document and instrument have been duly authorized by all necessary action on the part of the Purchaser and, if necessary, its board of directors. No vote of the Purchaser's stockholders is needed to approve the Contemplated Transactions. The Transactional Agreements to which the Purchaser is a party constitutes the legal, valid and binding obligation of the Purchaser, enforceable against it 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.
- 4.4 No Legal Proceedings; Orders.** There is no pending Legal Proceedings and, to the knowledge of the Purchaser, no Legal Proceedings is threatened against the Purchaser in connection with the Share Purchase or any of the other Contemplated Transactions. There is no order, writ, injunction or decree affecting the Purchaser in connection with the Share Purchase or any of the other Contemplated Transactions.

5. INTERIM MANAGEMENT

- 5.1 Access and Investigation.** During the period from the date of this Agreement and continuing until the earlier of the termination of this Agreement pursuant to Section 9 or the Closing (the "Pre-Closing Period"), each of the Selling Shareholders shall, and each of the Selling Shareholders shall ensure that the Acquired Companies and their respective Representatives, subject to the Confidentiality Agreement: (a) upon reasonable advance notice, provide the Purchaser and the Purchaser's Representatives with reasonable access during normal business hours to the Acquired Companies' Representatives, personnel and assets and to all existing books, records, Tax Returns and related supporting documents,

work papers and other documents and information relating to the Acquired Companies; and (b) act reasonably in providing the Purchaser and the Purchaser's Representatives with copies (or permitting the Purchaser and the Purchaser's Representatives to make copies) of such existing books, records, Tax Returns and related supporting documents, work papers and other documents and information relating to each of the Acquired Companies, and with such additional financial, operating and other data and information regarding each of the Acquired Companies, as the Purchaser may reasonably request; *provided, however*, that (i) the Selling Shareholders shall not be required to violate any Legal Requirement relating to confidentiality to which they, or the Acquired Companies, are subject, and such access and investigation shall be conducted in such a manner as not to interfere in any material respect with the operation of the Acquired Companies. During the Pre-Closing Period, the Purchaser (only in consultation and collaboration with the Company or a Selling Shareholder, and with the prior written consent of a Selling Shareholder, which consent shall not be unreasonably delayed or withheld) may make inquiries of Persons having business relationships with any of the Acquired Companies (including suppliers, licensors, distributors and customers) and each of the Selling Shareholders shall ensure that each of the Acquired Companies helps facilitate (and provides reasonable cooperation to the Purchaser in connection with) such inquiries.

5.2 Operation of the Business of the Acquired Companies. During the Pre-Closing Period, each of the Selling Shareholders shall ensure that, except as specifically described in Part 5.2 of the Disclosure Schedule:

- (a) each of the Acquired Companies conducts its business and operations in the ordinary course and in substantially the same manner as such business and operations have been conducted prior to the date of this Agreement;
- (b) each of the Acquired Companies uses commercially reasonable efforts to preserve intact its current business organization, keep available the services of its current officers and employees and maintain its relations and good will with all suppliers, customers (it being understood that customary delivery times of six-seven months will continue to be provided in all Acquired Company Contracts entered into during Pre-closing Period), landlords, creditors, employees and other Persons having business relationships with such Acquired Company;
- (c) none of the Acquired Companies cancel any of its respective insurance policies identified in Part 3.16 of the Disclosure Schedule;
- (d) except as set forth in Part 5.2(d) of the Disclosure Schedule, none of the Acquired Companies declare, accrue, set aside or pay any dividend or make any other distribution in respect of any shares of capital stock or other securities, or repurchase, redeem or otherwise reacquire any shares of capital stock or other securities;
- (e) none of the Acquired Companies sell, issue or authorize the issuance of: (i) any capital stock or other security; (ii) any option or right to acquire any capital stock (or cash based on the value of capital stock) or other security; or (iii) any instrument convertible into or exchangeable for any capital stock (or cash based on the value of capital stock) or other security;
- (f) none of the Acquired Companies amend or permit the adoption of any amendment to any Acquired Company's Charter Documents, or effect or permit

any Acquired Company to become a party to any Acquisition Transaction, recapitalization, reclassification of shares, stock split, reverse stock split or similar transaction;

- (g)** none of the Acquired Companies form any subsidiary or acquire any equity interest or other interest in any other Entity;
- (h)** none of the Acquired Companies shall make any capital expenditure (in Italian, *acquisto di beni strumentali*), except for capital expenditures that, when added to all other capital expenditures made by the Acquired Companies during the Pre-Closing Period, do not exceed €250.000,00;
- (i)** none of the Acquired Companies: (i) enter into, or permit any of the assets owned or used by it to become bound by, any Contract that is or would constitute a Material Contract; or (ii) amend or prematurely terminate, or waive any material right or remedy under, any such Contract;
- (j)** none of the Acquired Companies: (i) acquire, lease or license any right or other asset from any other Person for an aggregate value in excess of €250.000,00; (ii) sell or otherwise dispose of, or lease or license, any right or other asset to any other Person; or (iii) waive or relinquish any right, except in the ordinary course of business consistent with past practices;
- (k)** none of the Acquired Companies: (i) lend money to any Person (except that each of the Acquired Companies may make routine travel advances to current employees of such Acquired Company in the ordinary course of business consistent with past practices); or (ii) incur or guarantee any indebtedness for borrowed money in excess of €100.000,00 in the aggregate;
- (l)** none of the Acquired Companies: (i) establish, adopt, amend or terminate any Plan; (ii) pay any bonus or make any profit-sharing payment, cash incentive payment or similar payment, other than commissions paid in the ordinary course of business and consistent with past practices; (iii) increase the amount of the wages, salary, commissions, fringe benefits or other compensation (including equity-based compensation, whether payable in cash or otherwise) or remuneration payable to any of its directors, officers, employees (whether regular or temporary, direct hire or leased), contractors or consultants; or (iv) hire or make an offer to hire any new officer, director, employee (whether regular or temporary, direct hire or leased), consultant or contractor;
- (m)** none of the Acquired Companies change any of its methods of accounting or accounting practices in any material respect;
- (n)** none of the Acquired Companies make any Tax election;
- (o)** none of the Acquired Companies commence or settle any Legal Proceeding; and
- (p)** none of the Acquired Companies agree or commit to take any of the actions described in clauses “(e)” through “(o)” above.

Notwithstanding the foregoing, an Acquired Company may take any action described in clauses “(a)” through “(q)” above if the Purchaser gives its prior written consent to the taking of such action by the Acquired Company, which consent shall not be unreasonably

delayed or withheld with respect to any action described in clauses “(i),” “(j),” “(l)” (other than with respect to directors of the Acquired Companies), “(m)” or “(p)” above.

- 5.3 Notification; Updates to Disclosure Schedule.** During the Pre-Closing Period, each of the Selling Shareholders shall promptly notify the Purchaser in writing of: (a) the discovery by any of the Acquired Companies or the Selling Shareholders 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 breach of or an inaccuracy in any representation or warranty made by any of the Selling Shareholders or by the Purchaser in this Agreement; (b) any event, condition, fact or circumstance that occurs, arises or exists after the date of this Agreement and that would cause or constitute a breach of or an inaccuracy in any representation or warranty made by any of the Selling Shareholders or the Purchaser in this Agreement if: (i) such representation or warranty had been made as at the time of the occurrence, existence or discovery of such event, condition, fact or circumstance; or (ii) such event, condition, fact or circumstance had occurred, arisen or existed on or prior to the date of this Agreement; and (c) any breach of any covenant or obligation of any of the Selling Shareholders (it being understood that the failure of the Selling Shareholders to perform any obligations set forth in this sentence as such obligations relate to inaccuracies or breaches by the Purchaser shall: (x) not provide the Purchaser with any rights or remedies under this Agreement, including under Section 7.2 or Section 9.1; and (y) not limit or otherwise affect any rights or remedies available to the Selling Shareholders, including under Section 10). During the Pre-Closing Period, the Purchaser shall promptly notify the Selling Shareholders in writing of: (A) the discovery by the Purchaser 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 breach of or an inaccuracy in any representation or warranty made by the Purchaser or by any of the Selling Shareholders in this Agreement; (B) any event, condition, fact or circumstance that occurs, arises or exists after the date of this Agreement and that would cause or constitute a breach of or an inaccuracy in any representation or warranty made by the Purchaser or by any of the Selling Shareholders in this Agreement if: (1) such representation or warranty had been made as at the time of the occurrence, existence or discovery of such event, condition, fact or circumstance; or (2) such event, condition, fact or circumstance had occurred, arisen or existed on or prior to the date of this Agreement; and (C) any breach of any covenant or obligation of the Purchaser (it being understood that the failure of the Purchaser to perform any obligations set forth in this sentence as such obligations relate to inaccuracies or breaches by any of the Selling Shareholders shall: (x) not provide the Selling Shareholders with any rights or remedies under this Agreement, including under Section 8.2 or Section 9.1; and (y) not limit or otherwise affect any rights or remedies available to the Purchaser, including under Section 10). Each Party shall promptly notify the other Party of the discovery by such Party of any event, condition, fact or circumstance that would make the timely satisfaction of any of the conditions set forth in Section 7 or Section 8 impossible or unlikely. No notification given pursuant to this Section 5.3 shall be deemed to supplement or amend the Disclosure Schedule for the purpose of: (x) determining the accuracy of any of the representations and warranties made by any of the Selling Shareholders in this Agreement; or (y) determining whether any of the conditions set forth in Section 7 has been satisfied.
- 5.4 No Negotiation.** During the Pre-Closing Period, each of the Selling Shareholders shall ensure that none of the Acquired Companies or any of the Selling Shareholders shall, and each of the Selling Shareholders shall ensure that none of the Acquired Companies or any of the Selling Shareholders shall authorize or permit any Representative of any of the Acquired Companies or the Selling Shareholders to, directly or indirectly: (a) solicit or

encourage the initiation or submission of any expression of interest, inquiry, proposal or offer from any Person (other than the Purchaser) relating to a possible Acquisition Transaction or make or communicate any expression of interest, inquiry, proposed or offer to any Person (other than the Purchaser or its Representatives) relating to or in connection with a possible Acquisition Transaction; (b) participate in any discussions or negotiations or enter into any agreement, understanding or arrangement with, or provide any non-public information to, any Person (other than the Purchaser or its Representatives) relating to or in connection with a possible Acquisition Transaction; or (c) entertain or accept any proposal or offer from any Person (other than the Purchaser) relating to a possible Acquisition Transaction. Except to the extent prohibited by law, each of the Selling Shareholders shall ensure that the Company shall promptly (and in any event within 48 hours of receipt thereof) notify the Purchaser in writing of any expression of interest, inquiry, proposal or offer relating to a possible Acquisition Transaction that is received by any of the Acquired Companies or the Selling Shareholders during the Pre-Closing Period (including the identity of the Person making or submitting such inquiry, indication of interest, proposal or offer, and the terms thereof).

5.5 **No Transfer of Shares.** No Selling Shareholder shall sell, assign, transfer or otherwise convey any such Selling Shareholder's Shares, other than to Purchaser (or its nominee) pursuant to this Agreement and no Selling Shareholder shall pledge any of its Shares or otherwise permit any of its Shares to become subject to any Encumbrance.

6. CERTAIN COVENANTS OF THE PARTIES

6.1 Filings and Consents.

- (a) Each Party shall use commercially reasonable efforts to file (and each of the Selling Shareholders shall use commercially reasonable efforts to cause the Acquired Companies 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 (and, with respect to the obligations of the Selling Shareholders, by the Acquired Companies) with any Governmental Body with respect to the Contemplated Transactions, and to submit promptly any additional information requested by any such Governmental Body. Without limiting the generality of the foregoing, the Purchaser shall (and, to the extent applicable, each of the Selling Shareholders shall ensure that the Acquired Companies shall), promptly (and, subject to compliance by the Parties with the first sentence of Section 6.1(b), in any event within 21 days after) the date of this Agreement file the notifications required under applicable antitrust, competition or fair trade laws or regulations (collectively, the "Antitrust Laws") in connection with the Contemplated Transactions. The Parties shall (and each of the Selling Shareholders shall ensure that the Acquired Companies shall) respond as promptly as practicable to any inquiries or requests received from any Governmental Body and promptly inform the other Parties of any communication to or from any Government Body, in each case regarding the Contemplated Transactions.
- (b) Subject to the confidentiality provisions of the Confidentiality Agreement, each Party shall (and each of the Selling Shareholders shall ensure that the Acquired Companies shall) promptly supply the other Parties 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 6.1(a). Except where prohibited by applicable Legal Requirements or any Governmental Body, and subject to the confidentiality provisions of the Confidentiality Agreement, each of the Parties shall (and each of the Selling Shareholders shall ensure that the Acquired Companies shall): (i) consult with the other Parties prior to making any such filing and 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 Parties 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 (or any Acquired Company) in connection with any Legal Proceeding related solely to the Transactional Agreements and the Contemplated Transactions (including any such Legal Proceeding relating to any Antitrust Law); (iii) coordinate with the other Parties in preparing and exchanging such information; and (iv) promptly provide the other Parties (and their 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 (or, in the case of the obligations of the Selling Shareholders, submitted by any Acquired Company) with or to any Governmental Body related solely to this Agreement or the transactions contemplated hereby.

- (c) Subject to Section 6.1(d), the Parties shall (and each of the Selling Shareholders shall ensure that the Acquired Companies shall) use commercially reasonable efforts to: (i) take all other actions necessary to cause the expiration or termination of the applicable waiting periods under the Antitrust Laws as soon as practicable; (ii) resolve any objections which may be asserted by any Governmental Body with respect to the Contemplated Transactions under the Antitrust Laws; and (iii) take, or cause to be taken, all actions necessary to obtain each Consent (if any) required to be obtained (pursuant to any applicable Legal Requirement or Contract, or otherwise) by such Party (or, in the case of the obligations of the Selling Shareholders, by any Acquired Company) in connection with any of the Contemplated Transactions and to make effective the Contemplated Transactions. Subject to Section 6.1(d), if any Governmental Body, including any competition authority, shall impose amendments to the Contemplated Transactions or commitments to be undertaken by any Party as a condition to release of such Governmental Body's Consent with respect to the Contemplated Transactions, the Parties shall commence and conduct good faith negotiations with each other for no less than 15 days and use their commercially reasonable efforts in order to agree upon amendments to the Transactional Agreements which are necessary in order to meet the requirements imposed by such Governmental Body. At the request of the Purchaser, the Selling Shareholders shall ensure that the Acquired Companies shall agree to divest, sell, dispose of, hold separate or otherwise take or commit to take any action relating to the business, product lines or assets of any Acquired Company, provided that any such action is: (i) determined by the Purchaser in good faith to facilitate compliance with any Legal Requirement or any request by any Governmental Body; and (ii) conditioned upon the Closing (it being understood that no action taken pursuant to this sentence shall cause the Purchase Price to be reduced).
- (d) Notwithstanding anything to the contrary contained in Section 6.1(c) or elsewhere in this Agreement, the Purchaser shall not have any obligation under this Agreement: (i) to divest or agree to divest (or cause any of the Acquired

Companies or any of Purchaser's Affiliates to divest or agree to divest) any of the respective businesses, product lines or assets of the Purchaser, any of the Affiliates of the Purchaser or any of the Acquired Companies, or to take or agree to take (or cause any of the Acquired Companies or any of Purchaser's Affiliates to take or agree to take) any other action or agree (or cause any of the Acquired Companies or any of Purchaser's Affiliates to agree) to any limitation or restriction on any of the respective businesses, product lines or assets of the Purchaser, any of the Affiliates of the Purchaser or any of the Acquired Companies; or (ii) to contest any Legal Proceeding relating to any of the Contemplated Transactions.

6.2 Disclosure.

- (a) From and after the date of this Agreement, except as expressly contemplated by this Agreement or as required by law, none of the Selling Shareholders shall (and the Selling Shareholders shall ensure that none of the Acquired Companies, none of the Representatives of the Acquired Companies and none of the Representatives of the Selling Shareholders shall) issue any press release or make any public statement regarding (or otherwise disclose to any Person the existence or terms of) the Transactional Agreements or any of the Contemplated Transactions, without the Purchaser's prior written consent; *provided, however*, that the Selling Shareholders shall not be required to obtain the consent of the Purchaser with respect to any disclosure relating to the Contemplated Transactions if such disclosure is not more expansive than or inconsistent with prior disclosures made in accordance with this Section 6.2. Prior to the Closing, the Purchaser shall consult with the Selling Shareholders regarding the contents of any public announcement made by the Purchaser with respect to the Contemplated Transactions; *provided, however*, that: (i) the Purchaser shall not be required to consult with the Selling Shareholders regarding any disclosure in any filings made by the Purchaser with the United States Securities and Exchange Commission; and (ii) the Purchaser shall not be required to consult with the Selling Shareholders with respect to any disclosure relating to the Contemplated Transactions if such disclosure is not more expansive than or inconsistent with prior disclosures made in accordance with this Section 6.2.
- (b) From and after the date of this Agreement, each of the Selling Shareholders shall (and shall cause their Representatives and shareholders to) keep strictly confidential, and shall not use (and shall ensure that none of their Representatives or shareholders use) or disclose (and shall ensure that none of their Representatives or shareholders disclose) to any other Person, any non public document or other information that relates to the business, capitalization or assets of the Acquired Companies. During the Pre-Closing Period, the Purchaser shall remain bound by the Confidentiality Agreement with respect to the confidentiality of information relating to the Acquired Companies.

- 6.3 Commercially Reasonable Efforts.** Prior to the Closing: (a) each of the Selling Shareholders shall (and each of the Selling Shareholders shall ensure that each of the Acquired Companies shall) use commercially reasonable efforts to cause the conditions set forth in Section 7 to be satisfied on a timely basis; and (b) the Purchaser shall use commercially reasonable efforts to cause the conditions set forth in Section 8 to be satisfied on a timely basis.

6.4 Communications. Prior to the Closing Date, none of the Selling Shareholders shall (and the Selling Shareholders shall ensure that none of the Acquired Companies, none of the Representatives of the Acquired Companies and none of the Representatives of the Selling Shareholders shall) communicate with Acquired Company Employees regarding post-Closing employment matters with the Purchaser or any subsidiary or affiliate of the Purchaser, including post-Closing employee benefit plans and compensation, without the prior written approval of the Purchaser.

7. CONDITIONS PRECEDENT TO PURCHASER'S OBLIGATIONS TO CLOSE

The obligations of the Purchaser to consummate the Contemplated Transactions are subject to the satisfaction (or waiver by the Purchaser), at or prior to the Closing, of each of the following conditions:

7.1 Accuracy of Representations.

- (a) Each of the representations and warranties made by the Selling Shareholders in this Agreement (other than in Section 3.3(b)) shall have been accurate in all material respects as at the date of this Agreement; *provided, however*, that: (i) for purposes of determining the accuracy of such representations and warranties, all materiality qualifications or similar qualifications contained in such representations and warranties shall be disregarded; and (ii) for purposes of this Section 7.1(a), the materiality of any inaccuracy shall be determined in accordance with Article 1455 of the Italian Civil Code.
- (b) Each of the representations and warranties made by the Selling Shareholders in Section 3.3(b) shall have been accurate in all respects as at the date of this Agreement.
- (c) Each of the representations and warranties made by the Selling Shareholders in this Agreement (other than in Section 3.3(b)) shall be accurate in all respects as at the Closing Date as if made on and as at the Closing Date (except for such representations and warranties which address matters only as at a particular time, which shall have been accurate in all respects as at such particular time), except in any case for such failure to be accurate as would not (and would not reasonably be expected to), individually or in the aggregate, have a Material Adverse Effect; *provided, however*, that, for purposes of determining the accuracy of such representations and warranties, all materiality qualifications or similar qualifications contained in such representations and warranties shall be disregarded and any update of or modification to the Disclosure Schedule made or purported to have been made after the date of this Agreement shall be disregarded.
- (d) Each of the representations and warranties made by the Selling Shareholders in Section 3.3(b) shall be accurate in all respects as at the Closing Date as if made on and as at the Closing Date (except for such representations and warranties which address matters only as at a particular time, which shall have been accurate in all respects as at such particular time); *provided, however*, that, for purposes of determining the accuracy of such representations and warranties, any update of or modification to the Disclosure Schedule made or purported to have been made after the date of this Agreement shall be disregarded.

- 7.2 **Performance of Covenants.** Each of the covenants and obligations that the Selling Shareholders 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. For purposes of this Section 7.2, the materiality of any failure to comply or perform shall be determined in accordance with Article 1455 of the Italian Civil Code.
- 7.3 **Antitrust; Governmental Filings; Other Consents.**
- (a) Any waiting periods applicable to the consummation of the Share Purchase or any of the other Contemplated Transactions under the Antitrust Laws shall have expired or been terminated, and there shall not be in effect any voluntary agreement between the Purchaser and any Governmental Body pursuant to which the Purchaser has agreed not to consummate the Share Purchase or any of the other Contemplated Transactions for any period of time (it being understood that the Purchaser shall not enter into any such agreement without the prior consent of the Selling Shareholders, such consent not to be unreasonably withheld or delayed).
 - (b) All filings with and other Consents of any Governmental Body (whether pursuant to any Antitrust Law or other Legal Requirement) required to be made or obtained in connection with the Share Purchase or any of the other Contemplated Transactions shall have been made or obtained and shall be in full force and effect.
 - (c) All material Consents of third parties (other than Governmental Bodies) required to be obtained in connection with the Share Purchase or any of the other Contemplated Transactions shall have been obtained and shall be in full force and effect.
- 7.4 **No Material Adverse Effect.** Between the date of this Agreement and the Closing Date, no event shall have occurred or circumstance shall exist that, in combination with any other events or circumstances, has had (or would be reasonably expected to have) any Material Adverse Effect.
- 7.5 **Transfer of Real Property.** The Real Property Transfer shall have been consummated in accordance with the Real Property Transfer Agreement.
- 7.6 **Transfer of Acquired Patents.** The transactions contemplated by that certain IP Transfer Agreement entered into by the Purchaser and Mr. Gisulfo Baccini as at the date of this Agreement (such transactions being referred to as the "IP Transfer") and such agreement being referred to as the "IP Transfer Agreement") shall have been consummated in accordance with the IP Transfer Agreement.
- 7.7 **No Restraints.** No temporary restraining order, preliminary or permanent injunction or other order, writ, injunction, judgment or decree preventing the consummation of any of the Contemplated Transactions shall have been issued by any court of competent jurisdiction and remain in effect, and there shall not be any Legal Requirement enacted or deemed applicable to any of the Contemplated Transactions that makes consummation of any of such transactions illegal.
- 7.8 **No Legal Proceedings.** No Governmental Body and no other Person shall have commenced or threatened to commence any Legal Proceeding: (a) challenging any of the

Contemplated Transactions or seeking the recovery of material damages in connection with any of the Contemplated Transactions; (b) seeking to prohibit or limit the exercise by the Purchaser of any material right pertaining to its ownership of any of the Shares; (c) that may have the effect of preventing, delaying, making illegal or otherwise interfering in any material respect with any of the Contemplated Transactions; or (d) seeking to compel any of the Acquired Companies, the Purchaser or any affiliate of the Purchaser to dispose of or hold separate any material assets as a result of any of the Contemplated Transactions.

7.9 Employees. None of the individuals identified on Schedule 7.9 shall have ceased to be employed by the Acquired Company by which such Person is employed, or shall have expressed an intention to terminate his or her employment with such Acquired Company or to decline to accept employment with the Purchaser.

8. CONDITIONS PRECEDENT TO OBLIGATIONS OF THE SELLING SHAREHOLDERS

The obligations of the Selling Shareholders to consummate the Contemplated Transactions are subject to the satisfaction (or waiver), at or prior to the Closing, of the following conditions:

8.1 Accuracy of Representations.

- (a) Each of the representations and warranties made by the Purchaser in this Agreement shall have been accurate in all material respects as at the date of this Agreement; *provided, however*, that (i) for purposes of determining the accuracy of such representations and warranties, all materiality qualifications or similar qualifications contained in such representations and warranties shall be disregarded; and (ii) for purposes of this Section 8.1(a), the materiality of any inaccuracy shall be determined in accordance with Article 1455 of the Italian Civil Code.
- (b) Each of the representations and warranties made by the Purchaser in this Agreement shall be accurate in all respects as at the Closing Date as if made on and as at the Closing Date (except for such representations and warranties which address matters only as at a particular time, which shall have been accurate in all respects as at such particular time), except in any case for such failure to be accurate as would not (and would not reasonably be expected to), individually or in the aggregate, have a material adverse effect on the Purchaser and its subsidiaries taken as a whole; *provided, however*, that for purposes of determining the accuracy of such representations and warranties, all materiality qualifications or similar qualifications contained in such representations and warranties shall be disregarded.

8.2 Performance of Covenants. Each of the covenants and obligations that the Purchaser 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. For purposes of this Section 8.2, the materiality of any failure to comply or perform shall be determined in accordance with Article 1455 of the Italian Civil Code.

8.3 No Restraints. No temporary restraining order, preliminary or permanent injunction or other order, writ, injunction, judgment or decree preventing the consummation by the Selling Shareholders of the Contemplated Transactions shall have been issued by any court of competent jurisdiction and remain in effect, and there shall not be any Legal

Requirement enacted or deemed applicable to the transactions contemplated by this Agreement that makes consummation by the Selling Shareholders of such transactions illegal.

- 8.4 No Legal Proceedings.** No Governmental Body and no other Person shall have commenced or threatened to commence any Legal Proceeding seeking the recovery of material damages from the Selling Shareholders in connection with any of the Contemplated Transactions (it being understood that this condition shall not apply to the extent that any such Legal Proceeding or threat arises from a breach (or alleged breach) of any exclusivity agreement or other Contract to which any Selling Shareholder or Acquired Company is a party).

9. TERMINATION

9.1 Termination Events. This Agreement may be terminated prior to the Closing:

- (a) by the mutual written consent of the Purchaser and the Selling Shareholders;
- (b) by either the Purchaser or the Selling Shareholders if the Closing has not taken place on or before 5:00 p.m. (U.S. Pacific time) on March 15, 2008 (other than as a result of any failure on the part of the Party wishing to terminate to comply with or perform any covenant or obligation set forth in this Agreement (or in any other agreement or instrument entered into by such Party in connection with the Contemplated Transactions);
- (c) by either the Purchaser or the Selling Shareholders if: (i) a court of competent jurisdiction or other Governmental Body shall have issued a final and nonappealable order, decree or ruling, or shall have taken any other action, having the effect of permanently restraining, enjoining or otherwise prohibiting the Contemplated Transactions; or (ii) there shall be any Legal Requirement enacted, promulgated, issued or deemed applicable to the Contemplated Transactions by any Governmental Body that would make consummation of such transactions illegal;
- (d) by the Purchaser if: (i) any of the representations and warranties of any of the Selling Shareholders contained in this Agreement shall be inaccurate as at the date of this Agreement, or shall have become inaccurate as at a date subsequent to the date of this Agreement, such that any of the conditions set forth in Section 7.1 would not be satisfied; or (ii) any of the covenants of any of the Selling Shareholders 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 the representations and warranties of any of the Selling Shareholders as at a date subsequent to the date of this Agreement or a breach of a covenant by any of the Selling Shareholders is curable by a Selling Shareholder through the use of commercially reasonable efforts within 30 days after the Purchaser notifies the Selling Shareholder in writing of the existence of such inaccuracy or breach (the "Selling Shareholders Cure Period"), then the Purchaser may not terminate this Agreement under this Section 9.1(d) as a result of such inaccuracy or breach prior to the expiration of the Selling Shareholders Cure Period, *provided* the Selling Shareholders, during the Selling Shareholders Cure Period, continue to exercise commercially reasonable efforts to cure such inaccuracy or breach (it being understood that the Purchaser may not

terminate this Agreement pursuant to this Section 9.1(d) with respect to such inaccuracy or breach if such inaccuracy or breach is cured prior to the expiration of the Selling Shareholders Cure Period); or

- (e) by the Selling Shareholders if: (i) any of the Purchaser's representations and warranties contained in this Agreement shall be inaccurate as at the date of this Agreement, or shall have become inaccurate as at a date subsequent to the date of this Agreement, such that the condition set forth in Section 8.1 would not be satisfied; or (ii) if any of the Purchaser's covenants contained in this Agreement shall have been breached such that the condition set forth in Section 8.2 would not be satisfied; *provided, however*, that if an inaccuracy in any of the Purchaser's representations and warranties as at a date subsequent to the date of this Agreement or a breach of a covenant by the Purchaser is curable by the Purchaser through the use of commercially reasonable efforts within 30 days after the Selling Shareholders notify the Purchaser in writing of the existence of such inaccuracy or breach (the "Purchaser Cure Period"), then the Selling Shareholders may not terminate this Agreement under this Section 9.1(e) as a result of such inaccuracy or breach prior to the expiration of the Purchaser Cure Period, *provided* the Purchaser, during the Purchaser Cure Period, continues to exercise commercially reasonable efforts to cure such inaccuracy or breach (it being understood that the Selling Shareholders may not terminate this Agreement pursuant to this Section 9.1(e) with respect to such inaccuracy or breach if such inaccuracy or breach is cured prior to the expiration of the Purchaser Cure Period).
- 9.2 **Termination Procedures.** If the Purchaser wishes to terminate this Agreement pursuant to Section 9.1, the Purchaser shall deliver to the Selling Shareholders a written notice stating that the Purchaser is terminating this Agreement and setting forth a brief description of the basis on which the Purchaser is terminating this Agreement. If the Selling Shareholders wish to terminate this Agreement pursuant to Section 9.1, they shall deliver to the Purchaser a written notice stating that it is terminating this Agreement and setting forth a brief description of the basis on which the Selling Shareholders are terminating this Agreement.
- 9.3 **Effect of Termination.** If this Agreement is terminated pursuant to Section 9.1, all further obligations of the Parties under this Agreement shall terminate; *provided, however*, that: (a) the Selling Shareholders and the Purchaser shall not be relieved of any obligation or liability arising from any prior breach by such Party of any provision of this Agreement; (b) the Parties shall, in all events, remain bound by and continue to be subject to the provisions set forth in Section 12; and (c) the Parties shall, in all events, remain bound by and continue to be subject to Section 6.2 and the Confidentiality Agreement for the term provided therein (it being understood that if, after the termination of this Agreement, the Purchaser makes any public statement with respect to this Agreement or the Contemplated Transactions, Section 6.2 shall not prevent the Selling Shareholders from either correcting any incorrect information disclosed by the Purchaser in such public statement or making statements that are consistent with (but not more expansive than) such public statement).

10. INDEMNIFICATION

10.1 Survival of Representations, Etc.

- (a) Subject to Section 10.1(d), the representations and warranties made by the Selling Shareholders in this Agreement (including the representations and warranties set forth in the Closing Certificate and the Acquisition Consideration Certificate) shall survive the Closing and, except for the Specified Representations, shall expire at 11:59 p.m. U.S. Pacific Time on the first anniversary of the Closing Date (the "Expiration Date"); *provided, however*, that if, at any time prior to the Expiration Date, any Indemnitee (acting in good faith) delivers to the Selling Shareholders a Claim Notice (as defined in Schedule 12.7(c)) alleging the existence of an inaccuracy in or a breach of any of the representations and warranties made by any of the Selling Shareholders and asserting a claim for recovery under Section 10.2 based on such alleged inaccuracy or breach (which such Claim Notice states with reasonable detail the basis for such claim), then the claim asserted in such Claim Notice and the representations and warranties with respect to such claim shall survive the Expiration Date until such time as such claim is fully and finally resolved. Each of the Specified Representations shall survive the Closing until the expiration of the statute of limitations applicable to the subject matter of such Specified Representations. The representations and warranties made by the Purchaser shall not survive the Closing.
- (b) The representations, warranties, covenants and obligations of the Selling Shareholders, and the rights and remedies that may be exercised by the Indemnitees, shall not be limited or otherwise affected by or as a result of any information furnished to, or any investigation made by or knowledge of, any of the Indemnitees or any of their Representatives.
- (c) For purposes of this Agreement, each statement or other item of information set forth in the Disclosure Schedule or in any update to the Disclosure Schedule shall be deemed to be a representation and warranty made by the Selling Shareholders in this Agreement.
- (d) Nothing contained in this Section 10.1 or elsewhere in this Agreement shall limit any rights or remedy of any Indemnitee for claims based on intentional misrepresentation or fraud.

10.2 Indemnification by Selling Shareholders. From and after the Closing (but subject to Section 10.1), the Selling Shareholders (the "Indemnitors"), jointly and severally, shall, subject to the limitations set forth in Section 10.3, hold harmless and indemnify each of the Indemnitees from and against, and shall pay and reimburse each of the Indemnitees for, any Damages which are suffered or incurred by any of the Indemnitees or to which any of the Indemnitees may otherwise become obligated (regardless of whether or not such Damages relate to any third-party claim) and which arise from or as a result of, or are connected with:

- (a) any inaccuracy in or breach of any representation or warranty made by a Selling Shareholder in this Agreement as at the date of this Agreement (in each case, without giving effect to any update of or modification to the Disclosure Schedule made or purported to have been made after the date of this Agreement);
- (b) any inaccuracy in or breach of any representation or warranty made by a Selling Shareholder in this Agreement as if such representation or warranty were made on and as at the Closing Date or in the Closing Certificate or the Acquisition Consideration Certificate (in each case, without giving effect to any update of or

modification to the Disclosure Schedule made or purported to have been made after the date of this Agreement);

- (c) any breach of any covenant or obligation of a Selling Shareholder in this Agreement;
- (d) any Transferred Real Property or any past, current or future use, ownership or transfer of any Transferred Real Property or any claim of any nature relating to any Transferred Real Property or any such use, ownership or transfer, including any Liability which arises from or as a result of, or is connected with: (i) the presence of any Materials of Environmental Concern at any Transferred Real Property; or (ii) the generation, manufacture, production, transportation, importation, use, treatment, refinement, processing, handling, storage, discharge, release or disposal of any Materials of Environmental Concern (whether lawfully or unlawfully) by or on behalf of any of the Acquired Companies on or at any Transferred Real Property; *provided, however*, that, except to the extent provided in the Lease-Back Agreement, the obligations of the Selling Shareholders specified in this Section 10.2(d) shall not subsist with regard to Damages which arise or result from actions taken by any Acquired Company after the Closing in connection with the operation by such Acquired Company of its business under the Lease-Back Agreement;
- (e) any Liability for Taxes which arises from or as a result of, or is connected with: (i) the activities or business of any of the Acquired Companies on or prior to the Closing Date which are not paid prior to the Closing, other than Taxes for calendar year 2007 and 2008 until the Closing to the extent that such Taxes have been (or are) incurred in the ordinary course of business and the deadline for the payment of such Taxes has not passed; or (ii) the transfer of the Acquired Patents pursuant to the IP Transfer Agreement or the transfer of the Transferred Real Property pursuant to the Real Property Transfer Agreement; or
- (f) any Legal Proceeding relating to any breach or alleged breach or any other matter of the type referred to in clause "(a)," "(b)," "(c)," "(d)" or "(e)" above (including any Legal Proceeding commenced by any Indemnitee for the purpose of enforcing any of its rights under this Section 10).

10.3 Limitations; Exclusivity.

- (a) Subject to Section 10.3(d), the Indemnitors shall not be required to make any payment pursuant to Section 10.2(a) or 10.2(b) or 10.2(f) (to the extent related to any of the matters referred to in Section 10.2(a) or 10.2(b)) for any inaccuracy in or breach of any representation or warranty in this Agreement, other than the Specified Representations, until such time as the total amount of all Damages (including the Damages arising from such inaccuracy or breach and all other Damages arising from any other inaccuracies or breaches of any representations or warranties) that have been suffered or incurred by any one or more of the Indemnitees, or to which any one or more of the Indemnitees has or have otherwise become subject, exceeds €750.000,00 in the aggregate. If the total amount of such Damages exceeds €750.000,00 in the aggregate, then the Indemnitees shall be entitled to be indemnified against and paid and reimbursed for the amount of such Damages in excess of €750.000,00.

- (b) Subject to Section 10.3(d), recourse by the Indemnitees to the cash and other property, if any, pursuant to the Escrow Agreement shall be the Indemnitees' sole and exclusive remedy for Damages resulting from the matters referred to in Section 10.2.
- (c) Except in the case of intentional misrepresentation or fraud, the Indemnitors shall not be required to make any payment pursuant to Section 10.2 in relation to the matters specified in Section 10.2(e) until such time as the total amount of all Damages that have been suffered or incurred by the Indemnitees in relation to such matters, or to which any one or more of the Indemnitees has or have otherwise become subject, exceeds €100.000,00 in the aggregate. If the total amount of such Damages exceeds €100.000,00 in the aggregate, then the Indemnitees shall be entitled to be indemnified against and reimbursed for the entire amount of such Damages, and not merely the portion of such Damages exceeding €100.000,00.
- (d) The limitations set forth in Sections 10.3(a) and 10.3(b) shall not apply: (i) in the case of intentional misrepresentation or fraud; (ii) to the Specified Representations; (iii) in case of breach of any covenants or obligations contained in Sections 2, 5.2, 5.4, 5.5, 6, 10, 11 or 12; (iv) to the matters referred to in Sections 10.2(d) and 10.2(e); or (v) to the matters referred to in Section 10.2(f) (to the extent related to any of the matters referred to in clause "(iii)" of this sentence or to Sections 10.2(d) or 10.2(e)). For the avoidance of doubt, the Parties acknowledge that, subject to this Section 10.3(d), except in the case of intentional misrepresentation or fraud or with respect to the Specified Representations, the Selling Shareholders' obligations pursuant to Section 10.2(a) or 10.2(b) or 10.2(f) (to the extent related to any of the matters referred to in Section 10.2(a) or 10.2(b)) shall in no event exceed €22.000.000,00.
- (e) For the avoidance of doubt, the Parties acknowledge that the Selling Shareholders shall not be required to make any payment pursuant to Section 10.2 in relation to: (i) Damages which arise from or as a result of the matter described in Part 3.9(f) of the Disclosure Schedule; and (ii) except in the case of intentional misrepresentation or fraud, any amount that becomes due to any customer of the Acquired Companies to the extent that such amount results solely from the delay in the delivery of an Acquired Company Offering to such customer.

10.4 Defense of Third Party Claims. In the event of the assertion or commencement by any Person of any claim or Legal Proceeding with respect to which any Indemnitor may become obligated to hold harmless, indemnify, pay or reimburse any Indemnitee pursuant to Section 10, the Purchaser shall have the right, at its election, to proceed with the defense of such claim or Legal Proceeding on its own with counsel reasonably satisfactory to the Selling Shareholders. If the Purchaser so proceeds with the defense of any such claim or Legal Proceeding:

- (a) subject to the other provisions of Section 10, all reasonable expenses relating to the defense of such claim or Legal Proceeding shall be borne and paid exclusively by the Indemnitors;
- (b) each Indemnitor shall make available to the Purchaser any documents and materials in his possession or control that may be necessary to the defense of such claim or Legal Proceeding; and

- (c) the Purchaser shall have the right to settle, adjust or compromise such claim or Legal Proceeding; *provided, however*, that if the Purchaser settles, adjusts or compromises any such claim or Legal Proceeding without the consent of the Selling Shareholders, such settlement, adjustment or compromise shall not be conclusive evidence of the amount of Damages incurred by the Indemnitee in connection with such claim or Legal Proceeding (it being understood that if the Purchaser requests that the Selling Shareholders consent to a settlement, adjustment or compromise, the Selling Shareholders shall not unreasonably withhold or delay such consent).

The Purchaser shall give the Selling Shareholders prompt notice of the commencement of any such Legal Proceeding against the Purchaser or any of the Acquired Companies after the Closing Date; *provided, however*, that any failure on the part of the Purchaser to so notify the Selling Shareholders shall not limit any of the obligations of the Indemnitors under Section 10 (except to the extent such failure materially prejudices the defense of such Legal Proceeding). If the Purchaser does not elect to proceed with the defense of any such claim or Legal Proceeding, the Selling Shareholders may proceed with the defense of such claim or Legal Proceeding with counsel reasonably satisfactory to the Purchaser; *provided, however*, that the Selling Shareholders may not settle, adjust or compromise any such claim or Legal Proceeding without the prior written consent of the Purchaser (which consent may not be unreasonably withheld or delayed).

- 10.5 Indemnification by the Purchaser.** The Purchaser shall hold harmless and indemnify the Selling Shareholders from and against, and shall pay and reimburse the Selling Shareholders for, any Damages which are suffered or incurred by any of the Selling Shareholders (regardless of whether or not such Damages relate to any third-party claim) and which arise from or as a result of, or are connected with: (a) any inaccuracy in or breach of any representation or warranty made by the Purchaser in this Agreement; and (b) any breach of any covenant or obligation of the Purchaser in this Agreement.

11. ACTIONS AFTER CLOSING

- 11.1 Registration of IP.** Following the Closing, the Selling Shareholders shall provide reasonable cooperation to the Purchaser for any notification or submission to be made before competent authorities with respect to the assignment to the Company, the Purchaser or its nominee of Acquired Company IP, as well as to all authorizations relating to the Company's manufacturing site.
- 11.2 Transition.** Following the Closing, the Selling Shareholders shall provide reasonable cooperation and collaborate with the Purchaser and with the Company to facilitate a smooth transition of all employees and consultants.

12. MISCELLANEOUS PROVISIONS

- 12.1 Further Assurances.** The Purchaser shall execute and cause to be delivered to the Selling Shareholders such instruments and other documents, and shall take such other actions, as the Selling Shareholders may reasonably request (prior to, at or after the Closing) for the purpose of carrying out or evidencing any of the Contemplated Transactions. Each of the Selling Shareholders shall execute and cause to be delivered to the Purchaser (and each of the Selling Shareholders shall ensure that each Acquired Company executes and causes to be delivered to the Purchaser) such instruments and other documents, and shall take such other actions (and each of the Selling Shareholders

shall ensure that each Acquired Company takes such other actions), as the Purchaser may reasonably request (prior to, at or after the Closing) for the purpose of carrying out or evidencing any of the Contemplated Transactions.

- 12.2 Fees and Expenses.** Except as otherwise expressly provided in other Sections to this Agreement, the Escrow Agreement or Schedule 12.7(c), each Party shall bear and pay all fees, costs and expenses that have been incurred or that are incurred in the future by such Party in connection with the Contemplated Transactions, including all fees, costs and expenses incurred by such Party in connection with or by virtue of: (a) the negotiation, preparation and review of the Transactional Agreements; (b) the preparation and submission of any filing or notice required to be made or given in connection with any of the Contemplated Transactions, and the obtaining of any Consent required to be obtained in connection with any of such transactions; and (c) the consummation of the Contemplated Transactions (it being understood that the Selling Shareholders shall bear and pay all Acquired Company Transaction Expenses).
- 12.3 Attorneys' Fees.** If any lawsuit relating to this Agreement or the enforcement of any provision of this Agreement is brought against any Party, the prevailing party shall be entitled to recover reasonable attorneys' fees, costs and disbursements (in addition to any other relief to which the prevailing party may be entitled).
- 12.4 Notices.** Any notice or other communication required or permitted to be delivered to any Party under this Agreement shall be in writing and shall be deemed properly delivered, given and received: (a) when delivered by hand; (b) on the day sent by facsimile *provided* that the sender has received confirmation of transmission as at or prior to 5:00 p.m. local time of the recipient on such day; (c) the first business day after sent by facsimile (to the extent that the sender has received confirmation of transmission after 5:00 p.m. local time of the recipient on the day sent by facsimile); or (d) the third business day after sent by recorded delivery mail or by courier or express delivery service, in any case to the address or facsimile telephone number set forth beneath the name of such Party below (or to such other address or facsimile telephone number as such Party shall have specified in a written notice given to the other Parties):

If to Purchaser:

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, Vice President, Mergers & Acquisitions
Facsimile: (408) 986-7260

If to the Selling Shareholders:

Finanziaria Baccini S.r.l.
31100 Treviso, Sottoportico Buranelli 27
Attention: Mrs. Elisa Baccini
Facsimile: +0039 0422 583033

and to:

Advisa S.r.l.
P.za Filodrammatici 3
31100 Treviso
Fax: +0039 0422 574204
Attention: Mr. Dino Guglielmin
Facsimile: +0039 0422 574204

- 12.5 Headings.** 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.
- 12.6 Counterparts and Exchanges by Electronic Transmission or Facsimile.** This Agreement may be executed in several counterparts, each of which shall constitute an original and all of which, when taken together, shall constitute one agreement. The exchange of a fully executed Agreement (in counterparts or otherwise) by electronic transmission or facsimile shall be sufficient to bind the Parties to the terms and conditions of this Agreement.
- 12.7 Governing Law; Dispute Resolution.**
- (a) This Agreement shall be construed in accordance with, and governed in all respects by, the internal laws of the Italian Republic (without giving effect to principles of conflicts of laws).
 - (b) Except as otherwise provided in the Escrow Agreement or in Section 12.7(c), any dispute relating to this Agreement or the enforcement of any provision of this Agreement (“Arbitrable Dispute”) shall be resolved under the International Chamber of Commerce (“ICC”) ADR Rules; *provided, however*, that in all events, the provisions contained herein shall govern over any conflicting rules which may now or hereafter be contained in the ADR Rules. In case the Arbitrable Dispute has not been settled pursuant to the ICC ADR Rules within 45 days following the filing of a Request for ADR or within such other period of time as the Parties may agree in writing, it shall be finally settled under the Rules of Arbitration of the ICC. Any such Arbitration will be conducted before a single arbitrator. The arbitrator shall be mutually agreed upon by the Purchaser and the Selling Shareholders. In the event the Purchaser and the Selling Shareholders are unable to agree on such arbitrator within 20 days following submission of the dispute to the ICC by one of the Parties, the ICC shall have the authority to select an arbitrator. Seat of the arbitration shall be Geneva, Switzerland, and the language shall be English. No discovery other than an exchange of relevant documents may occur in any arbitration commenced under this Agreement. The Purchaser and the Selling Shareholders agree to act in good faith to promptly exchange the relevant documents. The final decision of the arbitrator will

constitute a final, conclusive and non-appealable determination of the issue in question, binding upon the Selling Shareholders, the Indemnitors and the Purchaser. The Purchaser and the Selling Shareholders will each pay 50% of the initial compensation to be paid to the arbitrator in any such arbitration and 50% of the costs of transcripts and other normal and regular expenses of the arbitration proceedings; *provided, however*, that the prevailing party in any arbitration will be entitled to an award of attorneys' fees and costs and reimbursement for costs of arbitration (it being understood that the arbitrator shall determine the identity of the prevailing party and the amount of fees and costs to which such prevailing party is entitled).

- (c) Any claim for indemnification, payment or reimbursement pursuant to Section 10 (and any other claim for a monetary remedy, such as in the case of a claim based upon intentional misrepresentation or fraud, relating to this Agreement after the Closing) shall be brought and resolved exclusively in accordance with Schedule 12.7(c) (it being understood that, for the avoidance of doubt, nothing in this Section 12.7 or elsewhere in this Agreement shall prevent the Purchaser or the Selling Shareholders from seeking preliminary injunctive relief from an Italian court at any time under article from 669-bis to 700 of the Italian Civil Procedure Code).
 - (d) Disputes which, under Italian Law, are not deemed to be arbitrable shall be submitted exclusively and irrevocably in Courts located in the Italian Republic.
- 12.8 Successors and Assigns; Guarantee.** This Agreement shall be binding upon: (a) each of the Selling Shareholders and his or its personal representatives, executors, administrators, estates, heirs, successors and assigns (if any); and (b) the Purchaser and its successors and assigns (if any). This Agreement shall inure to the benefit of: (i) the Selling Shareholders; (ii) the Purchaser; (iii) the other Indemnitees; and (iv) the respective successors and assigns (if any) of the foregoing. The Purchaser may freely assign any or all of its rights or obligations under this Agreement (including its indemnification rights under Section 10), in whole or in part, without obtaining the consent or approval of any other Party or of any other Person: (x) after the Closing Date, to any other Person; or (y) at any time before or after the Closing Date to any Affiliate of the Purchaser, including to an Affiliate who is its nominee pursuant to Article 1401 of the Italian Civil Code. If the Purchaser assigns any or all of its obligations under this Agreement to an Affiliate of the Purchaser or to any other Person (or designates a nominee pursuant to Article 1401 of the Italian Civil Code), the Purchaser shall be jointly and severally liable with such Affiliate or other Person for the full performance of all such obligations.
- 12.9 Remedies Cumulative; Specific Performance.** The rights and remedies of the Parties shall be cumulative (and not alternative). The Parties agree that, in the event of any breach or threatened breach by any Party of any covenant, obligation or other provision set forth in this Agreement, for the benefit of any other Party, such other Party shall be entitled (in addition to any other remedy that may be available to it pursuant to this Agreement) to: (a) an order of specific performance to enforce the observance and performance of such covenant, obligation or other provision; and (b) seek preliminary injunctive relief from an Italian court at any time under article from 669-bis to 700 of the Italian Civil Procedure Code aimed at restraining such breach or threatened breach.
- 12.10 Waiver.** No failure on the part of any Person to exercise any power, right, privilege or remedy under this Agreement, and no delay on the part of any Person 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 Person 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 Person; and any such waiver shall not be applicable or have any effect except in the specific instance in which it is given.

- 12.11 Amendments.** This Agreement may not be amended, modified, altered or supplemented other than by means of a written instrument duly executed and delivered on behalf of all Parties.
- 12.12 Severability.** In the event that any provision of this Agreement, or the application of any such provision to any Person or set of circumstances, shall be determined to be invalid, unlawful, void or unenforceable to any extent, the remainder of this Agreement, and the application of such provision to Persons or circumstances other than those as to which it is determined to be invalid, unlawful, void or unenforceable, shall not be impaired or otherwise affected and shall continue to be valid and enforceable to the fullest extent permitted by law.
- 12.13 Parties in Interest.** Except for the provisions of Section 10, none of the provisions of this Agreement is intended to provide any rights or remedies to any Person other than the Parties and their respective successors and assigns (if any).
- 12.14 Entire Agreement.** This Agreement and the other agreements referred to herein set forth the entire understanding of the Parties relating to the subject matter hereof and thereof and supersede all prior agreements and understandings among or between any of the Parties relating to the subject matter hereof and thereof; *provided, however*, that the Confidentiality Agreement shall not be superseded by this Agreement and shall remain in effect in accordance with its terms until the earlier of: (a) the Closing; or (b) the date on which such Confidentiality Agreement is terminated in accordance with its terms.
- 12.15 Disclosure Schedule.** The Disclosure Schedule shall be arranged in separate parts corresponding to the numbered and lettered sections contained herein permitting such disclosure, and the information disclosed in any numbered or lettered part shall be deemed to relate to and to qualify only the particular representation or warranty set forth in the corresponding numbered or lettered section herein permitting such disclosure.
- 12.16 Construction.**
- (a) 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 the masculine and feminine genders.
 - (b) The Parties 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.

- (c) 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.”
- (d) Except as otherwise indicated, all references in this Agreement to “Sections,” “Schedules” and “Exhibits” are intended to refer to Sections of this Agreement and Schedules and Exhibits to this Agreement.

12.17 **Official Agreement.** It is hereby agreed and clarified that the English version of this Agreement and the other Transactional Agreements shall be the official version of this Agreement and all such other Transactional Agreements, notwithstanding any Italian or other translations of such agreements or documents.

* * * *

The Parties have caused this Agreement to be executed and delivered as at the date first written above.

APPLIED MATERIALS, INC.,
a Delaware corporation

By: /s/ Mark Pinto
Name: Mark Pinto
Title: Senior Vice President

SELLING SHAREHOLDERS:

FINANZIARIA BACCINI SRL

By: /s/ Gisulfo Baccini
Title: Presidente

Signature: /s/ Gisulfo Baccini

Gisulfo Baccini

ЕХИВТ А
CERTAIN DEFINITIONS

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

Acquired Companies. “Acquired Companies” shall mean the Company and its Subsidiary.

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

Acquired Company Employee. “Acquired Company Employee” shall mean any Person who is or was an employee (whether regular or temporary, direct hire or leased), director, contractor or consultant of or to any of the Acquired Companies or becomes, at any time during the Pre-Closing Period, an employee (whether regular or temporary, direct hire or leased), director or consultant of or to any of the Acquired Companies.

Acquired Company IP. “Acquired Company IP” shall mean all: (a) Intellectual Property Rights used to provide, sell, operate, or maintain, or necessary to provide, sell, operate, or maintain, any Acquired Company Offering; and (b) Intellectual Property Rights in which any of the Acquired Companies has (or purports to have) an ownership interest or an exclusive license or similar exclusive right. For the avoidance of doubt it is hereby clarified that Acquired Company IP includes the Acquired Patents and the other Assigned IP Rights.

Acquired Company IP Contract. “Acquired Company IP Contract” shall mean any Contract to which any of the Acquired Companies is or was a party or by which any of the Acquired Companies is or was bound or under which any of the Acquired Companies has or may acquire any right, that contains any assignment or license of, or any covenant not to assert or enforce, any Intellectual Property Right or that otherwise relates to any Acquired Company IP or any Intellectual Property developed by, with or for any of the Acquired Companies or the provision of any Acquired Company Offering.

Acquired Company Offering. “Acquired Company Offering” shall mean each product or service developed, marketed, sold, offered, provided, or supported at any time by or on behalf of any of the Acquired Companies, and any product or service currently under development by any of the Acquired Companies.

Acquired Patents. “Acquired Patents” shall mean those patents and patent applications listed in Schedule 3.9(d).

Acquired Company Transaction Expenses. “Acquired Company Transaction Expenses” shall mean the amount of all fees, costs and expenses of type described in Section 12.2 of the Agreement that have been incurred or that are incurred by any of the Acquired Companies in connection with the Contemplated Transactions, including any fees, costs or expenses paid or payable to the Company’s outside legal counsel or to any financial advisor, accountant or other Person who performs or has performed services for or on behalf of any of the Acquired Companies, or who was or is otherwise entitled to any compensation from any of the Acquired Companies, in connection with the Transactional Agreements or any of the Contemplated Transactions, that have not been paid by the Selling Shareholders in their individual capacity prior to the Closing.

Acquisition Transaction. “Acquisition Transaction” shall mean any transaction involving:

(a) the sale, license or disposition of all or a material portion of any of the Acquired Companies’ business or assets;

(b) the issuance, disposition or acquisition of: (i) any capital stock or other equity security of any of the Acquired Companies; (ii) any option, call, warrant or right (whether or not immediately exercisable) to acquire any capital stock, unit or other equity security of any of the Acquired Companies; or (iii) any security, instrument or obligation that is or may become convertible into or exchangeable for any capital stock, unit or other equity security of any of the Acquired Companies; or

(c) any merger, consolidation, business combination, reorganization or similar transaction involving any of the Acquired Companies.

Affiliate. “Affiliate” shall mean, with respect to any Person, any other Person that as at the date of the Agreement or as at any subsequent date, directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with such specific Person.

Agreement. “Agreement” shall mean the Share Purchase Agreement to which this Exhibit A is attached (including the Disclosure Schedule), as it may be amended from time to time.

Assigned IP Rights. “Assigned IP Rights” shall have the meaning set forth in the IP Transfer Agreement.

BKM. “BKM” shall mean any “best known method” (as such term is commonly understood in the semiconductor equipment industry) for any process used to service, test, clean, refurbish, or otherwise maintain any Acquired Company Offering.

Confidentiality Agreement. “Confidentiality Agreement” shall mean that certain Bilateral Confidentiality Agreement, dated August 10, 2007 between the Purchaser, the Company and the Selling Shareholders .

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

Contemplated Transactions. “Contemplated Transactions” shall mean: (a) the execution and delivery of the respective Transactional Agreements; and (b) all of the transactions contemplated by the respective Transactional Agreements, including: (i) the Share Purchase; (ii) the performance by the Selling Shareholders and the Purchaser of their respective obligations under the Transactional Agreements, and the exercise by the Selling Shareholders and the Purchaser of their respective rights under the Transactional Agreements; (iii) the IP Transfer; and (iv) the Real Property Transfer.

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

Damages. “Damages” shall include, without duplication, any loss, damage, injury, Liability, claim, demand, settlement, judgment, award, fine, penalty, Tax, fee (including reasonable attorneys’ fees), charge, cost or expense of any nature (it being understood that in determining Damages recoverable by an Indemnitee, an arbitrator may take into account any insurance proceeds recovered by such Indemnitee and any increase in premiums or other costs incurred (or to be incurred) by such Indemnitee resulting from or relating to such recovery).

Encumbrance. “Encumbrance” shall mean any lien, pledge, hypothecation, charge, mortgage, security interest, encumbrance, special privilege, usufruct, claim, infringement, expropriation procedures by the public authority (whether actual or threatened), easement, right of way, interference, option, right of first

refusal, preemptive right, community property interest or restriction of any nature (including any restriction on the transfer of any 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 limited liability company or joint stock company), firm or other enterprise, association, organization or entity.

Environmental Law. “Environmental Law” shall mean 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, recycling, transport or handling of Materials of Environmental Concern.

Escrow Agent. “Escrow Agent” shall mean Citibank, N.A.

Escrow Agreement. “Escrow Agreement” shall mean that certain Escrow Agreement dated as at the Closing Date by and among the Purchaser, the Selling Shareholders and the Escrow Agent substantially in the form of Exhibit D.

Governmental Authorization. “Governmental Authorization” shall mean any: (a) permit, license, certificate, franchise, permission, 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) federal, state, regional, local, municipal, Italian or other non-U.S. or other government; or (c) governmental or quasi-governmental authority of any nature (including any governmental division, department, agency, commission, instrumentality, official, organization, unit, body or Entity and any court or other tribunal).

Indemnitees. “Indemnitees” shall mean, without duplication, the following Persons: (a) the Purchaser; (b) the Acquired Companies; (c) any nominee of the Purchaser pursuant to Article 1401 of the Italian Civil Code; and (d) the respective successors and assigns of the Persons referred to in clauses “(a)”, “(b)” and “(c)” above.

Intellectual Property. “Intellectual Property” shall mean algorithms, apparatus, BKMs, databases, data collections, diagrams, formulae, inventions (whether or not patentable), know-how, logos, marks (including brand names, product names, logos, and slogans), methods and processes (including manufacturing methods, sales methodologies and processes, training methods and similar methods and processes), proprietary information, protocols, recipes, schematics, specifications, software, techniques, 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 and moral rights; (b) trademark and trade name rights and similar rights; (c) trade secret rights; (d) patent and industrial property rights;

(e) other proprietary rights in Intellectual Property; and (f) rights in or relating to registrations, renewals, extensions, combinations, divisions, and reissues of, and applications for, any of the rights referred to in clauses “(a)” through “(e)” above.

Knowledge. An individual shall be deemed to have “Knowledge” of a particular fact or other matter if: (a) such individual is actually aware of such fact or other matter; or (b) a prudent individual should have known such fact or other matter under the circumstances. The Selling Shareholders shall be deemed to have “Knowledge” of a particular fact or other matter if any officer or director of any of the Acquired Companies has Knowledge of such fact or other matter.

Legal Proceeding. “Legal Proceeding” shall mean any action, suit, litigation, arbitration, proceeding (including any civil, criminal, administrative, tax, 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 federal, state, local, municipal, Italian or other non-U.S. or other law, statute, constitution, principle of common law, resolution, ordinance, code, edict, decree, rule, regulation, ruling or requirement issued, enacted, adopted, promulgated, implemented or otherwise put into effect by or under the authority of any Governmental Body.

Liability. “Liability” shall mean any debt, obligation, duty or liability of any nature, regardless of whether such debt, obligation, duty or liability would be required to be disclosed on a balance sheet prepared in accordance with Italian GAAP and regardless of whether such debt, obligation, duty or liability is immediately due and payable.

Material Adverse Effect. “Material Adverse Effect” shall mean any effect, change, development, event or circumstance that, considered together with all other effects, changes, developments, events or circumstances, has had (or would reasonably be expected to have) a material adverse and disruptive effect on: (a) the business, financial condition or financial performance of the Acquired Companies, in each case taken as a whole; *provided, however*, that in no event shall any of the following be deemed to constitute, nor shall any of the following be taken into account in determining whether there has been or will be, a Material Adverse Effect: (i) any effect, change, development, event or circumstance resulting from changes in general economic and/or industry conditions anywhere in the world, including in locations in which the Acquired Companies operate their business, in each case to the extent that such effects, changes, developments, events or circumstances do not disproportionately impact the Acquired Companies; (ii) any effect, change, development, event or circumstance resulting from acts of war, sabotage or terrorism; (iii) any effect, change, development, event or circumstance resulting from earthquakes, hurricanes, tornadoes or other natural disasters or similar events of force majeure; and (iv) any effect, change, development, event or circumstance resulting from changes in applicable law, rule or regulation; or (b) the right or ability of the Purchaser to vote, receive dividends with respect to or otherwise exercise ownership rights with respect to any of the Shares.

Materials of Environmental Concern. “Materials of Environmental Concern” shall mean chemicals, pollutants, contaminants, wastes, toxic substances, petroleum and petroleum products and any other substance and matter in any state (solid, liquid, gaseous state) that is regulated by any Environmental Law or that is otherwise considered by any Environmental Law or any Governmental Body as a danger or potential danger to health, reproduction or the environment.

Off-Balance Sheet Arrangements. “Off-Balance Sheet Arrangements” shall mean any transaction, agreement or other contractual arrangement to which an Entity unconsolidated with an Acquired Company is a party and under which such Acquired Company has any: (a) obligation under any guarantee contracts such as standby letters of credit, performance guarantees, indemnification agreements, and keepwell

agreements, whether or not recorded as a liability; (b) retained or contingent interests in assets transferred to an unconsolidated entity; (c) obligations under derivative instruments that are classified as equity; or (d) obligations under material variable interests in unconsolidated entities that provide financing, liquidity, market risk or credit risk support to any of the Acquired Companies, or engage in leasing, hedging or research and development services with any of the Acquired Companies (it being understood that "Off-Balance Sheet Arrangements" shall not include arrangements which are required under Italian generally accepted accounting principles to be included on a balance sheet and are so included on the Most Recent Balance Sheet or the balance sheet of the Subsidiary as at December 31, 2006).

Person. "Person" shall mean any individual, Entity or Governmental Body.

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

Related Party. "Related Party" shall mean: (a) each of the Selling Shareholders; (b) each individual holding a direct or indirect equity interest in any Selling Shareholder that is an Entity; (c) each individual who is, or who has at any time been, an officer or director of any of the Acquired Companies; (d) each member of the immediate family of each of the individuals referred to in clauses "(a)," "(b)" and "(c)" above; and (e) any trust or other Entity (other than the Company) in which any one of the individuals referred to in clauses "(a)," "(b)," "(c)" and "(d)" above holds (or in which more than one of such individuals collectively hold), beneficially or otherwise, a material voting, proprietary or equity interest.

Release. "Release" means any spilling, leaking, emitting, discharging, depositing, escaping, leaching, dumping or other releasing into the environment or into a drain, sink or other conveyance, whether intentional or unintentional.

Representatives. "Representatives" shall mean officers, directors, employees, agents, attorneys, accountants, advisors and representatives.

Subsidiary. "Subsidiary" shall mean Baccini GmbH.

Specified Representations. "Specified Representations" shall mean: (a) the representations and warranties contained in Sections 3.3(b) and 3.3(d); (b) the representations and warranties contained in Section 3.13; and (c) the representations and warranties contained in the Closing Certificate or the Disclosure Schedule and relating to the representations and warranties referred to in clauses "(a)" or "(b)" of this sentence.

Tax. "Tax" shall mean any tax (including any income tax, regional value added tax, franchise tax, service tax, capital gains tax, gross receipts tax, value-added tax, surtax, excise tax, ad valorem tax, transfer tax, stamp tax, sales tax, use tax, property tax, business 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, addition, penalty or interest), imposed, assessed or collected by or under the authority of any Governmental Body or any liability or obligation to with respect to the foregoing by virtue of any Contract or otherwise.

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 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.

Transactional Agreements. "Transactional Agreements" shall mean the Agreement and any and all agreements, documents, certificates, opinions or instruments delivered or to be delivered pursuant to or in connection with the Agreement, including: (a) the Real Property Transfer Agreement; (b) the Lease-Back Agreement; (c) the IP Transfer Agreement; (d) the Escrow Agreement; (e) the Non-Competition, Non-Solicitation and Confidentiality Agreements; (f) the Closing Certificate; (g) the Acquisition Consideration Certificate; (h) the Disclosure Schedule; and (i) the Employment Agreements.

ADJUSTMENTS TO EXECUTIVE OFFICER SALARIES

On December 10, 2007, the Human Resources and Compensation Committee of the Board of Directors of Applied Materials, Inc. ("Applied") approved the following annual base salaries for Applied's named executive officers, effective December 17, 2007:

Executive Officer	Salary
Michael R. Splinter, President, Chief Executive Officer	\$980,000
George S. Davis, Senior Vice President, Chief Financial Officer	\$513,000
Franz Janker, Executive Vice President, Sales and Marketing	\$594,000
Manfred Kerschbaum, Senior Vice President, General Manager Applied Global Services	\$504,400
Mark R. Pinto, Senior Vice President, Chief Technology Officer and General Manager Energy and Environmental Solutions	\$550,000
Thomas St. Dennis, Senior Vice President, General Manager Silicon Systems Group	\$514,100

Each salary shown above represents an increase from the prior level.

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(s) 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(s) 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: March 3, 2008

/s/ Michael R. Splinter

Michael R. Splinter
President and Chief Executive Officer

CERTIFICATION

I, George S. Davis, 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(s) 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(s) 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: March 3, 2008

/s/ George S. Davis

George S. Davis
Senior Vice President, Chief Financial Officer

APPLIED MATERIALS, INC.
SARBANES-OXLEY ACT SECTION 906 CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Applied Materials, Inc. for the period ended January 27, 2008, I, Michael R. Splinter, President and 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. the Form 10-Q for the period ended January 27, 2008 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Form 10-Q for the period ended January 27, 2008 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: March 3, 2008

/s/ Michael R. Splinter

Michael R. Splinter

President and Chief Executive Officer

APPLIED MATERIALS, INC.
SARBANES-OXLEY ACT SECTION 906 CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Applied Materials, Inc. for the period ended January 27, 2008, I, George S. Davis, 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. the Form 10-Q for the period ended January 27, 2008 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Form 10-Q for the period ended January 27, 2008 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: March 3, 2008

/s/ George S. Davis

George S. Davis
Senior Vice President, Chief Financial Officer