

1995

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K
Mark one

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

For the fiscal year ended OCTOBER 29, 1995

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

For the transition period from _____ to _____
COMMISSION FILE NUMBER 0-6920

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

DELAWARE 94-165526
(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification No.)

3050 BOWERS AVENUE, SANTA CLARA, CALIFORNIA 95054
Address of principal executive offices (Zip Code)

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

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

| Title of class ----- | Name of each exchange on which registered ----- |
|-------------------------|--|
| None | None |

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

Common Stock, \$.01 par value NASDAQ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Aggregate market value of the voting stock held by nonaffiliates of the registrant as of December 15, 1995: \$ 7,533,374,394

Number of shares outstanding of the issuer's Common Stock, \$.01 par value, as of December 15, 1995: 179,366,057

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of Applied Materials 1995 Annual Report for the year ended October 29, 1995 are incorporated by reference into Parts I, II and IV of this Form 10-K. Portions of the definitive Proxy Statement for the Company's Annual Meeting of Stockholders to be held on March 14, 1996 are incorporated by reference into Part III of this Form 10-K.

Index to Exhibits appears on pages 17 through 19.

PART I

ITEM 1: BUSINESS

Organized in 1967, Applied Materials, Inc. ("Applied Materials" or the "Company") develops, manufactures, markets and services semiconductor wafer fabrication equipment and related spare parts. The Company's worldwide customers include both companies which manufacture semiconductor devices for use in their own products and companies which manufacture semiconductor devices for sale to others. Applied Materials operates exclusively in the semiconductor wafer fabrication equipment industry. The Company is also a fifty percent stockholder in Applied Komatsu Technology, Inc., which produces thin film transistor manufacturing systems for active-matrix liquid crystal displays.

PRODUCTS

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

Single-wafer, multi-chamber architecture.

Recognizing the trend toward more stringent process requirements and larger wafer sizes, Applied Materials developed a single-wafer, multi-chamber system called the Precision 5000. The Company introduced the Precision 5000 with dielectric chemical vapor deposition (CVD) processes in 1987, etch processes in 1988 and CVD tungsten processes (WCVD) in 1989. The Precision 5000's single-wafer, multi-chamber architecture features several processing chambers, each of which is attached to a central handling system, and is designed for both serial and integrated processing. The Precision 5000's integrated processing capability makes it possible to perform multiple process steps on a wafer without it leaving a controlled environment, thus reducing the risk of particulate contamination. The Company leveraged its expertise in single-wafer, multi-chamber architecture to develop an evolutionary platform called the Endura 5500 PVD (Physical Vapor Deposition) in 1990 featuring a staged, ultra-high vacuum (UHV) architecture for the rapid sputtering of aluminum and other metal films used to form the circuit interconnections on advanced devices. In October 1991, the Company announced its second-generation Precision 5000 system, the Precision 5000 Mark II, with numerous enhancements to the platform, process chambers and remote support equipment. The Precision 5000 Mark II is used to manufacture advanced devices, such as 16 megabit DRAMs (Dynamic Random Access Memories), on 200mm (8-inch) wafers. In September 1992, the Company announced its latest generation single-wafer, multi-chamber platform, the Centura, to target the high temperature thin films market as well as future process applications with 0.5-micron and below specifications. The Company has shipped more than 3,000 multi-chamber platforms and 9,000 process chambers. For the fiscal year ended October 29, 1995, sales of the Company's single-wafer, multi-chamber systems represented approximately 92% of systems revenue.

Deposition.

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

CVD. Chemical vapor deposition is a process used in semiconductor fabrication in which thin films (insulators, conductors and semiconductors) are deposited from gaseous sources. In 1987, the Company introduced the Precision 5000 CVD which, with its automated multi-chamber architecture, provides the flexibility to perform a broad range of deposition processes utilizing up to four individual chambers on a single system. The Company introduced its newest generation of sub-atmospheric process technologies on the Precision 5000 Mark II CVD platform in April 1994, addressing applications to 0.35-microns. In 1995, the Company announced the MxP+, which provides a significant enhancement to its Precision 5000 CVD system by improving system throughput and reducing ownership costs. In addition, the Company announced in April 1995 its entry into the pre-metal CVD market, using the Company's sub-atmospheric CVD technology to deposit borophosphosilicate glass films. In July 1995, the Company introduced the Dielectric CVD product line on the Centura platform and launched CVD's latest chamber technology called "DxZ" on the Centura platform. The chamber features a new, simplified design and a resistive wafer heater.

In September 1989, the Company entered the market for WCVD with the introduction of a system for blanket tungsten deposition, the Precision 5000 WCVD. The Company has continued to add capabilities to this system, including integrated tungsten plug fabrication capability which combines blanket tungsten CVD deposition and etchback capabilities in the same system. The Company has also added tungsten silicide and titanium nitride capabilities to further extend the Precision 5000 platform offerings. Other product developments in WCVD include the introduction of a new multi-platform chamber for blanket tungsten deposition on wafers up to 200mm (8-inch) in diameter and the introduction of a new CVD process for tungsten silicide using dichlorosilane as the silicon source gas.

PVD. Physical vapor deposition sputters metals on wafers during semiconductor fabrication to form the circuit interconnects. Unlike CVD, the sources of the deposited materials are solid sources called targets. Applied Materials entered the PVD market in April 1990 with the Endura 5500 PVD system. The system utilizes a modular, single-wafer, multi-chamber platform which accommodates UHV processes like PVD, and conventional high vacuum processes like CVD and etch. In July 1993, the Company introduced the Endura HP (High Productivity) PVD system, an enhanced version of the Endura PVD system. In November 1993, the Centura HP PVD was introduced in order to offer customers a choice of platforms using the Company's PVD technology. In November 1994, the Endura VHP (Very High Productivity) PVD system was launched, further enhancing the wafer transfer system to raise throughput.

Epitaxial and polysilicon deposition. Epitaxial (Epi) and polysilicon deposition involve depositing layers of high-quality, silicon-based compounds on the surface of a silicon wafer to change its electrical properties and, in the case of epi, to form the base on which the integrated circuit is built. In 1989, the Company introduced the Precision 7700 Epi system for advanced silicon deposition. The 7700 system extends the capabilities of radiantly-heated "barrel" technology and

incorporates fully automated wafer handling as well as many features for particulate control. In September 1992, the Company announced the Centura Poly, a single-wafer, multi-chamber platform targeted at the high temperature thin film deposition of polysilicon on wafers up to 200mm (8 inches) in diameter. The Centura Epi system, which features deposition of epitaxial silicon, was announced in March 1993. In December 1993, the Company launched the Centura Polycide which combines chambers for polysilicon and tungsten silicide deposition on the Centura platform.

Etch.

Prior to etch processing, a wafer is patterned with photoresist during photolithography. Etching then selectively removes material from areas which are not covered by the photoresist pattern. Applied Materials entered the etch market in 1981 with the introduction of the AME 8100 Etch system, which utilized a batch process technology for dry plasma etching. In 1985, the Company introduced the Precision Etch 8300, which featured improved levels of automation and particulate control. The Company continues to sell the Precision Etch 8300 product and has shipped nearly 900 systems. Applied Materials' first single-wafer, multi-chamber system for the dry etch market was the Precision 5000 Etch, introduced in 1988. In 1990, the Company introduced a metal etch system based on the Precision 5000 architecture which provides single-wafer, aluminum etch capabilities. In 1993, the Company introduced its next generation etch platform, the Centura HDP Dielectric Etcher, designed for critical oxide etch applications requiring sub-0.5-micron design rules and the Precision 5000 Mark II Etch MxP, a new model of the Precision 5000-series etch system with several enhancements including process capability for 0.35-micron applications. In July 1994, Applied Materials introduced the Metal Etch MxP Centura, which combines sub-0.5-micron process technology with improved throughput. The Company launched a new dielectric etch system in April 1995 combining its latest Centura platform with an enhanced etch chamber, called MxP+. The Remote Plasma Source (RPS) Centura, introduced in June 1995, extends the Company's range of dielectric dry etch process technologies to several isotropic etch steps.

Ion Implantation.

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

RTP.

In June 1995, Applied Materials introduced a new system, the Rapid Thermal Processing (RTP) Centura, into the emerging RTP market. RTP uses very rapid heating cycles to perform high-temperature processes traditionally done by slower-heating batch furnace technologies. The new system is designed to solve the limiting technical issues - temperature measurement and control, uniformity and process repeatability - that have historically kept RTP from becoming a production technology. The RTP Centura's

metal implant annealing processes offer chipmakers improved device performance, with demonstrated potential for significant yield improvements and faster factory cycle time.

CUSTOMER SERVICE AND SUPPORT

The demand for improved production yields of integrated circuits requires that semiconductor wafer processing equipment operate reliably, with maximum uptime and within very precise tolerances. Applied Materials installs its equipment and provides warranty service worldwide through offices located in the North America, Japan, Europe (including Israel), Korea and the Asia-Pacific (Taiwan, China and Singapore) regions. Applied Materials maintains 62 sales/service offices worldwide, with 21 offices in North America, 21 offices in Japan, 10 offices in Europe, 6 offices in Korea, and 4 offices in the Asia-Pacific region. The Company offers a variety of service contracts to customers for maintenance of installed equipment and provides a comprehensive training program for all customers.

BACKLOG

At October 29, 1995, the Company's backlog totaled \$1.5 billion, compared to \$715.2 million at October 30, 1994. The Company expects to fill the present backlog of orders during fiscal 1996.

MANUFACTURING, RAW MATERIALS AND SUPPLIES

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

MARKETING AND SALES

Because of the highly technical nature of its products, the Company markets its products worldwide through a direct sales force, with sales, service and spare parts offices in the North America, Japan, Europe, Korea and Asia-Pacific regions. For the fiscal year ended October 29, 1995, sales to customers in North America, Japan, Korea, Europe, and Asia-Pacific were approximately 32%, 26%, 17%, 15%, and 10%, respectively, of the Company's net sales. For the fiscal year ended October 30, 1994, sales to customers in North America, Japan, Korea, Europe, and Asia-Pacific were approximately 37%, 27%, 12%, 18%, and 6%, respectively, of the Company's net sales. The Company's business is not seasonal in nature, but it is subject to the capital equipment expenditure patterns of major semiconductor manufacturers which are based on many factors including anticipated market demand for integrated circuits, the development of new technologies and global economic conditions.

RESEARCH AND DEVELOPMENT

The market served by the Company is characterized by rapid technological change. The Company's research and development efforts are global in nature. Engineering organizations are located in the United States, England, Israel and Japan, with process support and customer demonstration laboratories in the United States, England and Japan. In 1991, the Company announced the opening of an expanded technology center in Narita, Japan. The Company is currently building, and intends to operate in fiscal 1996, technology centers in South Korea and Taiwan. The Company also operates a technology center in Israel to develop controller configuration and software tools for its semiconductor processing systems.

Applied Materials' research and development activities are primarily directed toward the development of new wafer processing systems and new process applications for existing products. The Company is currently investing in the development of new products in conjunction with the semiconductor industry's move to the next-generation 300 mm wafer size. Applied Materials works closely with its global customers to design systems that meet its customers' planned technical and production requirements.

COMPETITION

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

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

JOINT VENTURE

In September 1991, the Company announced its plans to develop thin film transistor (TFT) manufacturing systems for Active-Matrix Liquid Crystal Displays (AMLCDs). The AMLCD market currently includes screens for laptop, notebook and palmtop computers and instrument displays, and the Company believes that this market in the future may include flat panel monitors for desktop computers, high-resolution workstations and television. In September 1993, a joint venture company was formed with Applied Materials, Inc. and Komatsu Ltd. of Japan sharing a 50-50 ownership of the joint venture. The joint venture, Applied Komatsu Technology, Inc. (AKT), is accounted for using the equity method. The Company's management believes that systems developed by AKT have the potential to lower the manufacturing costs of AMLCDs as well as provide new process technologies to enhance flat panel capabilities. The Company has granted to AKT an exclusive license to use the Company's intellectual property to develop, manufacture, and sell products for the manufacture of flat panel displays, in exchange for royalties in respect thereof. AKT has been, and will continue through 1996, accelerating its investment in product technologies for CVD, PVD and Etch in addition to expanding the substrate size capacity of its products.

PATENTS AND LICENSES

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

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

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

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

ENVIRONMENTAL MATTERS

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

EMPLOYEES

At October 29, 1995, the Company employed 10,537 regular full-time employees. In the high technology industry, competition for highly skilled employees is intense. The Company believes that a great part of its future success depends on its continued ability to attract and retain qualified employees. None of the Company's employees are represented by a trade union. Management considers its relations with its employees to be good.

The following portions of the Company's 1995 Annual Report are incorporated herein by reference: "Management's Discussion and Analysis of Financial Condition and Results of Operations," pages 27 through 30, and the Consolidated Financial Statements and accompanying notes thereto, pages 31 through 46.

ITEM 2: PROPERTIES

Certain information concerning the Company's principal properties at October 29, 1995 is set forth below:

| Location ----- | Type ---- | Principal use ----- | Square Footage ----- | Ownership ----- |
|-------------------|------------------------------|--|----------------------------|--------------------|
| Santa Clara, CA | Office, plant & warehouse | Headquarters, Marketing, Manufacturing, Research and Engineering | 497,500 1,351,600 | owned leased |
| Austin, TX | Office, plant & warehouse | Manufacturing | 352,000 184,600 | owned leased |
| Horsham, England | Office, plant & warehouse | Manufacturing, Research and Engineering | 74,000 | leased |
| Narita, Japan | Office, plant & warehouse | Manufacturing, Research and Engineering | 218,500 | owned* |
| Tel Aviv, Israel | Office | Research and Engineering | 15,000 | leased |

The Company also leases office space for 62 sales and service offices throughout the world: 21 offices are located in the United States, 21 offices are in Japan, 10 offices are in Europe, 6 offices in Korea, and 4 offices are located in the Asia-Pacific region.

The Company is currently constructing manufacturing and other operating facilities in California, Texas, Korea and Taiwan. Upon completion of these facilities, an additional 833,000 square feet of production and operating capacity will be available.

The Company also owns 108 acres in Austin, Texas, and 30 acres in Santa Clara, California, of buildable land. The Austin and Santa Clara land can accommodate approximately 2,400,000 and 800,000 square feet, respectively, of additional building space to help satisfy the Company's current and future needs.

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

* Subject to loans totaling \$60 million secured by property and equipment having an approximate net book value of \$81 million at October 29, 1995.

ITEM 3: LEGAL PROCEEDINGS

In the first of two lawsuits filed by the Company, captioned Applied Materials Inc. v. Advanced Semiconductor Materials America, Inc., Epsilon Technology, Inc. (doing business as ASM Epitaxy) and Advanced Semiconductor Materials International N.V. (collectively "ASM") (case no. C-91-20061-RMW), Judge William Ingram of the United States District Court for the Northern District of California on April 26, 1994, ruled that ASM's Epsilon I epitaxial reactor infringes certain of the Company's United States patents and issued an injunction against ASM's use and sale of the ASM Epsilon I in the United States. ASM has appealed the decision and the injunction has been stayed pending the appeal only as to ASM products offered for sale as of April 1994. The stay order requires that ASM pay a fee, as security for the Company's interest, for each Epsilon I system sold by ASM in the United States after the date of the injunction. Judge Ronald M. Whyte of the same Court ruled that proceedings to resolve the issues of damages, willful infringement and ASM's counterclaims, which had been bifurcated for separate trial, will also be stayed pending the appeal of Judge Ingram's decision. Oral arguments regarding this appeal were completed on June 5, 1995, before the Court of Appeals for the Federal Circuit. The trial of the Company's second patent infringement lawsuit against ASM, captioned Applied Materials Inc. v. ASM (case no. C-92-20643-RMW), was concluded before Judge Whyte in May 1995. On November 1, 1995, the Court issued its judgment holding that the Company's patents were valid and infringed by ASM's reduced pressure epitaxial reactors and stated that a permanent injunction will be entered. A hearing is scheduled for February, 1996 to determine the scope of the injunction and whether the injunction will be stayed pending ASM's appeal.

A separate lawsuit filed by ASM against the Company involving one patent relating to the Company's single wafer epitaxial product line, captioned ASM America Inc. v. Applied Materials Inc. (case no. C-93-20853-RMW), has been delayed by the Court sua sponte. The case is proceeding through final discovery and pretrial preparation, and is the subject of three motions by the Company for summary judgment set for hearing in February 1996. A separate action severed from ASM's case, captioned ASM America Inc. v. Applied Materials Inc. (case no. C-95-20169-RWM), involves one patent which relates to the Company's Precision 5000 product line. No trial date has been set. Discovery and pretrial investigation is proceeding. In these cases, ASM seeks injunctive relief, damages and such other relief as the Court may find appropriate.

Further, the Company has filed a Declaratory Judgment action against ASM, captioned Applied Materials, Inc. v. ASM (case no. C-95-20003-RMW), requesting that an ASM patent be held invalid and not infringed by the Company's single wafer epitaxial product line. Discovery and pretrial investigation is proceeding. No trial date has been set. On July 7, 1995, ASM filed a lawsuit, captioned ASM America Inc. v. Applied Materials Inc. (case no. C95-20586-RMW), concerning susceptors in chemical vapor deposition chambers. Investigation has just commenced. No discovery has occurred as yet, and no trial date has been set.

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

In January 1995, the Company filed a lawsuit against Novellus Systems, Inc. in the United States District Court, Northern District of California (case no. C-95-0243-MMC). This lawsuit alleges that Novellus' Concept One, Concept Two, and Maxxus FTEOS systems infringe the Company's U.S. patent relating to the TEOS-based, plasma enhanced CVD process for silicon oxide deposition. The lawsuit seeks an injunction, multiple damages and costs, including reasonable attorneys' fees and interest, and such other relief as the court may deem just and proper. Damages and counterclaims have been bifurcated for separate trial. A jury trial has been scheduled for August 1996, before the Honorable Maxine M. Chesney. On September 15, 1995, the Company filed another lawsuit against Novellus alleging Novellus' newly announced blanket tungsten interconnect process infringes the Company's U.S. patent relating to a tungsten CVD process. The Company also sought a declaration that a Novellus U.S. patent for a gas purge mechanism is not infringed by the Company and/or is invalid. Novellus answered by denying the allegations and counterclaimed by alleging that the Company's plasma enhanced TEOS CVD systems infringe a Novellus U.S. patent concerning a gas debubbler mechanism. Novellus also filed a new lawsuit as a plaintiff before the same court which contains the same claims and patents as those stated in the Company's September 15 lawsuit. Discovery and investigation is beginning. No trial date has been set.

In the normal course of business, the Company from time to time receives and makes inquiries with regard to possible patent infringement. Management believes that it is unlikely that the outcome of these lawsuits or of the patent infringement inquiries will have a material adverse effect on the Company's financial position or results of operations.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS IN FOURTH QUARTER OF FISCAL 1995
None.

EXECUTIVE OFFICERS OF THE REGISTRANT

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

| Name of Individual ----- | Capacities in which Served ----- |
|-----------------------------|---|
| James C. Morgan (1) | Chairman of the Board of Directors and Chief Executive Officer |
| James W. Bagley (2) | Vice Chairman of the Board of Directors |
| Dan Maydan (3) | President of the Company and Co-Chairman of Applied Komatsu Technology, Inc. |
| Gerald F. Taylor (4) | Senior Vice President and Chief Financial Officer |
| Sasson Somekh (5) | Senior Vice President |
| David N.K. Wang (6) | Senior Vice President |
| Keisuke Yawata (7) | Senior Vice President of the Company and President and Chief Executive Officer of Applied Materials Japan, Inc. |

- (1) Mr. Morgan, age 57, has been Chief Executive Officer since 1977 and Chairman of the Board of Directors since 1987. Mr. Morgan also served as President of the Company from 1976 to 1987.
- (2) Mr. Bagley, age 56, was appointed Vice Chairman of the Board of Directors in December 1993. Mr. Bagley was Chief Operating Officer of the Company from 1987 through October 1995, and served as President of the Company from December 1987 to December 1993. Prior to that, Mr. Bagley served as Senior Vice President of the Company since 1981. Mr. Bagley is a director of Kulicke and Soffa Industries, Inc. and Tencor Instruments.
- (3) Dr. Maydan, age 60, was appointed President of the Company in December 1993. Dr. Maydan served as Executive Vice President from 1990 to December 1993. Prior to that, Dr. Maydan had been Group Vice President since February 1989. Dr. Maydan joined Applied Materials in 1980 as a Director of Technology. Dr. Maydan is a director of Opal, Inc.
- (4) Mr. Taylor, age 55, has been Chief Financial Officer of the Company since 1984. Mr. Taylor has also been a Senior Vice President of the Company since 1991 and was previously Vice President of Finance from 1984 to 1991.
- (5) Dr. Somekh, age 49, was appointed Senior Vice President of the Company in December 1993. Dr. Somekh served as Group Vice President from 1990 to 1993. Prior to that, Dr. Somekh had been a divisional Vice President. Dr. Somekh joined Applied Materials in 1980 as a Project Manager.
- (6) Dr. Wang, age 49, was appointed Senior Vice President of the Company in December 1993. Dr. Wang served as Group Vice President from 1990 to 1993. Prior to that, Dr. Wang had been a divisional Vice President. Dr. Wang joined Applied Materials in 1980 as a Manager, Process Engineering and Applications.
- (7) Mr. Yawata, age 61, was appointed President and Chief Executive Officer of Applied Materials Japan, effective January 1, 1995. From 1985 through 1994, Mr. Yawata was a Vice President, and from 1993 through 1994, he was Executive Advisor to the Chairman, of LSI Logic Corp. From 1985 through 1992, Mr. Yawata was President, and from 1992 through 1993, he was Chairman, of LSI Logic K.K.

PART II

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

"Stock Price History" on page 48 of the Applied Materials' 1995 Annual Report is incorporated herein by reference.

The Company's common stock is traded on the NASDAQ over-the-counter market. As of December 15, 1995 there were approximately 2,068 holders of record of the common stock.

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

ITEM 6: SELECTED CONSOLIDATED FINANCIAL DATA

"Selected Consolidated Financial Data" on page 26 of the Applied Materials 1995 Annual Report is incorporated herein by reference.

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

"Management's Discussion and Analysis" on pages 27 through 30 of the Applied Materials 1995 Annual Report is incorporated herein by reference.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements, together with the report thereon of Price Waterhouse LLP, Independent Accountants, dated November 22, 1995 appearing on pages 31 through 48 of Applied Materials 1995 Annual Report are incorporated by reference in this Form 10-K Annual Report.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
None.

PART III

Pursuant to Paragraph G(3) of the General Instructions to Form 10-K, portions of the information required by Part III of Form 10-K are incorporated by reference from the Company's Proxy Statement to be filed with the Commission in connection with the 1995 Annual Meeting of Stockholders ("the Proxy Statement").

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

- (a) Information concerning directors of the Company appears in the Company's Proxy Statement, under Item 1 - "Election of Directors." This portion of the Proxy Statement is incorporated herein by reference.
- (b) For information with respect to Executive Officers, see Part I of this Form 10-K.

ITEM 11: EXECUTIVE COMPENSATION

Information concerning executive compensation appears in the Company's Proxy Statement, under the caption "Executive Compensation," and is incorporated herein by reference.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

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

(a) 1. Financial Statements

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

2. Financial Statement Schedule

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

3. Exhibits

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

(b) Report on Form 8-K was filed on August 24, 1995. The Report contains the Company's press release, dated August 15, 1995, with respect to its financial results for the period ended July 30, 1995.

INDEX TO FINANCIAL STATEMENTS
AND FINANCIAL STATEMENT SCHEDULES
(ITEM 14 (a))

| (1) Financial Statements | Annual Report Page Number ----- |
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| Consolidated Statements of Operations for the Fiscal Years ended October 29, 1995, October 30, 1994 and October 31, 1993 | 31 |
| Consolidated Balance Sheets at October 29, 1995 and October 30, 1994 | 32 |
| Consolidated Statements of Cash Flows for the Fiscal Years ended October 29, 1995, October 30, 1994 and October 31, 1993 | 33 |
| Notes to Consolidated Financial Statements | 34 - 46 |
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| | |
| (2) Financial Statement Schedule | Form 10-K Page Number ----- |
| Report of Independent Accountants on Financial Statement Schedule | 21 |
| Schedule II - Valuation and Qualifying Accounts | 22 |

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

The consolidated financial statements listed in the above index which are included in the Company's Annual Report to Stockholders are hereby incorporated by reference. With the exception of the pages listed in the above index and the portion of such report referred to in items 1, 5, 6, 7 and 8 of this Form 10-K, the 1995 Annual Report to Stockholders is not to be deemed filed as part of this report.

INDEX TO EXHIBITS

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

| | Page |
|------|--|
| | ---- |
| 3.1 | Certificate of Incorporation of Applied Materials, Inc., a Delaware corporation, as amended to March 14, 1989, March 24, 1993, and March 22, 1994, previously filed with the Company's Form 10-K for fiscal year 1994, and incorporated herein by reference. |
| 3.2 | Bylaws of Applied Materials, Inc., as amended to December 7, 1994, previously filed with the Company's Form 10-K for fiscal year 1994, and incorporated herein by reference. |
| 4.1 | Rights Agreement, dated as of June 14, 1989, between Applied Materials, Inc. and Bank of America NT&SA, as Rights Agent, including Form of Right Certificate and the Form of Summary of Rights to Purchase Common Stock, previously filed with the Company's report on Form 8-K dated June 14, 1989, and incorporated herein by reference. |
| 4.2 | Form of Indenture (including form of debt security) dated as of August 24, 1994 between Applied Materials, Inc. and Harris Trust Company of California, as Trustee, previously filed with the Company's Form 8-K on August 17, 1994, and incorporated herein by reference. |
| 10.1 | The 1976 Management Stock Option Plan, as amended to October 5, 1993, previously filed with the Company's Form 10-K for fiscal year 1993, and incorporated herein by reference. |
| 10.2 | Applied Materials, Inc., Supplemental Income Plan, as amended, including Participation Agreements with James C. Morgan, Walter Benzing, and Robert Graham, previously filed with the Company's Form 10-K for fiscal year 1981, and incorporated herein by reference. |
| 10.3 | Amendment to Supplemental Income Plan, dated July 20, 1984, previously filed with the Company's Form 10-K for fiscal year 1984, and incorporated herein by reference. |
| 10.4 | The Applied Materials Employee Financial Assistance Plan, previously filed with the Company's definitive Proxy Statement in connection with the Annual Meeting of Shareholders held on March 5, 1981, and incorporated herein by reference. |
| 10.5 | The 1985 Stock Option Plan for Non-Employee Directors, previously filed with the Company's Form 10-K for fiscal year 1985, and incorporated herein by reference. |

- 10.6 Amendment 1 to the 1985 Stock Option Plan for Non-Employee Directors dated June 14, 1989, previously filed with the Company's Form 10-K for fiscal year 1989, and incorporated herein by reference.
- 10.7 Applied Materials, Inc. Supplemental Income Plan as amended to December 15, 1988, including participation agreement with James C. Morgan, previously filed with the Company's Form 10-K for fiscal year 1988, and incorporated herein by reference.
- 10.8 License agreement dated January 1, 1992 between the Company and Varian Associates, Inc., previously filed with the Company's Form 10-K for fiscal year 1992, and incorporated herein by reference.
- 10.9 Amendment dated December 9, 1992 to Applied Materials, Inc. Supplemental Income Plan dated June 4, 1981 (as amended to December 15, 1988), previously filed with the Company's Form 10-K for fiscal year 1993, and incorporated herein by reference.
- 10.10 The Applied Materials, Inc. Executive Deferred Compensation Plan dated July 1, 1993 and as amended on September 2, 1993, previously filed with the Company's Form 10-Q for the quarter ended August 1, 1993, and incorporated herein by reference.
- 10.11 Joint Venture Agreement between Applied Materials, Inc. and Komatsu Ltd. dated September 14, 1993 and exhibits thereto, previously filed with the Company's Form 10-K for fiscal year 1993, and incorporated herein by reference. (Confidential treatment has been requested for certain portions of the agreement.)
- 10.12 \$125,000,000 Credit agreement dated as of September 8, 1994 between Applied Materials and a group of seven banks, previously filed with the Company's Form 10-K for fiscal year 1994, and incorporated herein by reference.
- 10.13 Amendment No. 2 to Applied Materials, Inc. 1985 Stock Option Plan for Non-Employee Directors, dated September 10, 1992, previously filed with the Company's Form 10-K for fiscal year 1993, and incorporated herein by reference.
- 10.14 Amendment No. 3 to Applied Materials, Inc. 1985 Stock Option Plan for Non-Employee Directors, dated October 5, 1993, previously filed with the Company's Form 10-K for fiscal year 1993, and incorporated herein by reference.

| | Page | |
|-------|---|-----|
| | ---- | |
| 10.15 | Amendment No. 2 to the Applied Materials, Inc. Executive Deferred Compensation Plan, dated May 9, 1994, previously filed with the Company's Form 10-Q for the quarter ended May 1, 1994, and incorporated herein by reference. | |
| 10.16 | Amendment No. 4 to Applied Materials, Inc. 1985 Stock Option Plan for Non-Employee Directors, dated December 8, 1993, previously filed with the Company's Form 10-Q for the quarter ended May 1, 1994, and incorporated herein by reference. | |
| 10.17 | Applied Komatsu Technology, Inc. 1994 Executive Incentive Stock Purchase Plan, together with forms of Promissory Note, 1994 Executive Incentive Stock Purchase Agreement, Loan and Security Agreement, previously filed with the Company's Form 10-Q for the quarter ended July 31, 1994, and incorporated herein by reference. | |
| 10.18 | The Applied Materials, Inc. 1995 Equity Incentive Plan, dated April 5, 1995, previously filed with the Company's Form 10-Q for the quarter ended April 30, 1995, and incorporated herein by reference. | |
| 10.19 | The Applied Materials, Inc. Senior Executive Bonus Plan, dated September 23, 1994, previously filed with the Company's Form 10-Q for the quarter ended April 30, 1995, and incorporated herein by reference. | |
| 10.20 | The Applied Materials, Inc. Executive Deferred Compensation Plan, as amended and restated on April 1, 1995, previously filed with the Company's Form 10-Q for the quarter ended April 30, 1995, and incorporated herein by reference. | |
| 10.21 | Employment Agreement with James Bagley, dated August 15, 1995, previously filed with the Company's Form 10-Q for the quarter ended July 30, 1995, and incorporated herein by reference. | |
| 10.22 | Applied Materials, Inc. Medium-Term Notes, Series A Distribution Agreement, dated August 24, 1995. | 23 |
| 12.1 | Ratio of Earnings to Fixed Charges. | 76 |
| 13. | Applied Materials 1995 Annual Report for the fiscal year ended October 29, 1995 (to the extent expressly incorporated by reference). | 77 |
| 21. | Subsidiaries of Applied Materials, Inc. | 102 |
| 23. | Consent of Independent Accountants. | 103 |
| 24. | Power of Attorney. | 104 |
| 27. | Financial Data Schedule: filed electronically. | |

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APPLIED MATERIALS, INC.

By /s/James C. Morgan

James C. Morgan
Chairman of the Board and
Chief Executive Officer

Dated: January 12, 1996

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

| | Title ----- | Date ----- |
|--|---|------------------|
| /s/James C. Morgan ----- James C. Morgan | Chairman of the Board and Chief Executive Officer | January 12, 1996 |
| /s/Gerald F. Taylor ----- Gerald F. Taylor | Senior Vice President and Chief Financial Officer (Principal Financial Officer) | January 12, 1996 |
| /s/Michael K. O'Farrell ----- Michael K. O'Farrell | Corporate Controller (Principal Accounting Officer) | January 12, 1996 |
| Directors: James C. Morgan | Director | January 12, 1996 |
| James W. Bagley* | Director | |
| Dan Maydan* | Director | |
| Michael H. Armacost* | Director | |
| Herbert M. Dwight, Jr.* | Director | |
| George B. Farnsworth* | Director | |
| Philip V. Gerdine* | Director | |
| Tsuyoshi Kawanishi* | Director | |
| Paul R. Low* | Director | |
| Alfred J. Stein* | Director | |
| *By /s/James C. Morgan ----- James C. Morgan Attorney-in-fact | | January 12, 1996 |

A majority of the members of the Board of Directors.

Report of Independent Accountants on
Financial Statement Schedule

To the Board of Directors of Applied Materials, Inc.

Our audits of the consolidated financial statements referred to in our report dated November 22, 1995 appearing on page 48 of the 1995 Annual Report of Applied Materials, Inc., (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the Financial Statement Schedule listed in Item 14(a) of this Form 10-K. In our opinion, this Financial Statement Schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICE WATERHOUSE LLP

Price Waterhouse LLP
San Jose, California
November 22, 1995

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

ALLOWANCE FOR DOUBTFUL ACCOUNTS
(In thousands)

| | Balance at beginning of year | Additions- Charged to income | Deductions- Recoveries | Balance at end of year |
|------------------|------------------------------------|------------------------------------|---------------------------|------------------------------|
| As of: | | | | |
| October 29, 1995 | \$ 1,089 | \$ 2,138 | \$ (210) | \$ 3,017 |
| October 30, 1994 | \$ 487 | \$ 875 | \$ (273) | \$ 1,089 |
| October 31, 1993 | \$ 1,171 | \$ 663 | \$(1,347) | \$ 487 |

APPLIED MATERIALS, INC.

\$266,931,250

MEDIUM-TERM NOTES, SERIES A

DUE MORE THAN 9 MONTHS TO 30 YEARS FROM DATE OF ISSUE

DISTRIBUTION AGREEMENT

August 24, 1995

Morgan Stanley & Co. Incorporated
1251 Avenue of the Americas
New York, New York 10020

Lehman Brothers Inc.
3 World Financial Center
New York, New York 10285

J.P. Morgan Securities Inc.
60 Wall Street
New York, New York 10260

Dear Sirs:

Applied Materials, Inc., a Delaware corporation (the "Company"), confirms its agreement with each of you with respect to the issue and sale from time to time by the Company of up to \$266,931,250 aggregate initial public offering price of its Medium-Term Notes, Series A, due more than 9 months to 30 years from date of issue (the "Notes"). The Notes will be issued under an Indenture dated as of August 24, 1994 (the "Indenture") between the Company and Harris Trust Company of California, as Trustee (the "Trustee"), and will have the maturities, interest rates, redemption provisions, if any, and other terms as set forth in supplements to the Basic Prospectus referred to below.

The Company hereby appoints Morgan Stanley & Co. Incorporated ("Morgan Stanley"), Lehman Brothers, Lehman Brothers Inc. (including its affiliate Lehman Government Securities Inc.), and J.P. Morgan Securities Inc. (individually, an "Agent" and collectively, the "Agents") as its agents for the purpose of soliciting and receiving offers to purchase Notes from the Company by others and, on the basis of the representations and warranties herein contained, but subject to the terms and conditions herein set forth, each Agent agrees to use reasonable efforts to solicit and receive offers to purchase Notes upon terms acceptable to the Company at such times and in such amounts as the Company shall from

time to time specify. In addition, any Agent may also purchase Notes as principal pursuant to the terms of a terms agreement relating to such sale (a "Terms Agreement") in accordance with the provisions of Section 2(b) hereof. The Company reserves the right to appoint additional agents for the purpose of soliciting and receiving offers to purchase Notes, provided that they are appointed pursuant to Section 11 hereof or pursuant to agreements with substantially the same terms and conditions as set forth in this Agreement. The Company's appointment of additional agents hereunder shall be deemed to include the right to sell Notes to any such agent as principal pursuant to the provisions of Section 2(b) hereof. The Company also reserves the right to accept offers to purchase Notes through an agent other than an Agent, provided that (i) the Company did not on an unsolicited basis request such agent to solicit offers to purchase Notes on behalf of the Company, (ii) any agreement with respect to such purchase will have terms and conditions (including, without limitation, commission rates) with respect to such purchase substantially the same as the terms and conditions that would apply to such purchase under this Agreement if such agent were an Agent (which may be accomplished by incorporating by reference in such agreement the terms and conditions of this Agreement), (iii) such agreement shall not provide for further offers or purchases, and (iv) the Company shall provide the Agents with a copy of such agreement promptly following such purchase. The Company's right to accept offers to purchase Notes through an agent other than an Agent shall be deemed to include the right to accept offers to purchase Notes from any such agent as principal pursuant to the provisions of Section 2(b) hereof.

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement, including a prospectus, relating to the Notes. Such registration statement, including the exhibits thereto, as amended at the Commencement Date (as hereinafter defined), is hereinafter referred to as the "Registration Statement." The Company proposes to file with the Commission from time to time, pursuant to Rule 424 under the Securities Act of 1933, as amended (the "Securities Act"), supplements to the prospectus included in the Registration Statement that will describe certain terms of the Notes. The prospectus in the form in which it appears in the Registration Statement is hereinafter referred to as the "Basic Prospectus." The term "Prospectus" means the Basic Prospectus together with the prospectus supplement or supplements (each a "Prospectus Supplement") specifically relating to Notes, as filed with, or transmitted for filing to, the Commission pursuant to Rule 424. As used herein, the terms "Basic Prospectus" and "Prospectus" shall include in each case the documents, if any, incorporated by reference therein. The terms "supplement," "amendment" and "amend" as used herein shall include all documents deemed to be incorporated by reference in the Prospectus that are filed

subsequent to the date of the Basic Prospectus by the Company with the Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act").

1. REPRESENTATIONS AND WARRANTIES. The Company represents and warrants to and agrees with each Agent as of the Commencement Date, as of each date on which an Agent solicits offers to purchase Notes, as of each date on which the Company accepts an offer to purchase Notes (including any purchase by an Agent pursuant to a Terms Agreement), as of each date the Company issues and delivers Notes and as of each date the Registration Statement or the Basic Prospectus is amended or supplemented, as follows (it being understood that such representations, warranties and agreements shall be deemed to relate to the Registration Statement, the Basic Prospectus and the Prospectus, each as amended or supplemented to each such date):

(a) The Registration Statement has become effective; no stop order suspending the effectiveness of the Registration Statement is in effect, and no proceedings for such purpose are pending before or threatened by the Commission.

(b) (i) Each document, if any, filed or to be filed pursuant to the Exchange Act and incorporated by reference in the Prospectus complied or will comply when so filed in all material respects with the Exchange Act and the applicable rules and regulations of the Commission thereunder, (ii) each part of the Registration Statement, when such part became effective, did not contain and each such part, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading, (iii) the Registration Statement and the Prospectus comply and, as amended or supplemented, if applicable, will comply in all material respects with the Securities Act and the applicable rules and regulations of the Commission thereunder and (iv) the Prospectus does not contain and, as amended or supplemented, if applicable, will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that (1) the representations and warranties set forth in this Section 1(b) do not apply (A) to statements or omissions in the Registration Statement or the Prospectus based upon information relating to an Agent furnished to the Company in writing by such Agent expressly for use therein or (B) to that part of the Registration Statement that constitutes the Statement of Eligibility (Form T-1) under the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), of the Trustee and (2) the representations and warranties set forth in clauses (iii) and (iv) above, when made as of the Commencement Date or as of any date on which an Agent solicits offers to purchase Notes or on which the

Company accepts an offer to purchase Notes, shall be deemed not to cover information concerning an offering of particular Notes to the extent such information will be set forth in a supplement to the Basic Prospectus.

(c) The Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the State of Delaware, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(d) Each subsidiary of the Company has been duly incorporated, is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, has the corporate power and authority to own its property and to conduct its business as described in the Prospectus and as then currently being conducted and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(e) Each of this Agreement and any applicable Written Terms Agreement (as hereinafter defined) has been duly authorized, executed and delivered by the Company.

(f) The Indenture has been duly qualified under the Trust Indenture Act and has been duly authorized, executed and delivered by the Company and is a valid and binding agreement of the Company, enforceable in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency or similar laws relating to or affecting creditors' rights generally or the effect of general principles of equity, including the possible unavailability of specific performance or injunctive relief, whether considered in a proceeding in equity or at law.

(g) The Notes have been duly authorized by the Board of Directors of the Company and, when executed and authenticated in accordance with the provisions of the Indenture and delivered to and paid for by the purchasers thereof, will be entitled to the benefits of the Indenture and will be valid and binding obligations of the Company, enforceable in accordance with their respective terms, except as the enforceability thereof may be limited by bankruptcy, insolvency or similar laws relating to or affecting creditors' rights generally or the effect of general principles of

equity, including the possible unavailability of specific performance or injunctive relief, whether considered in a proceeding in equity or at law.

(h) The authorized capital stock of the Company conforms as to legal matters to the description thereof contained in the Prospectus.

(i) The execution and delivery by the Company of, and the performance by the Company of its obligations under, this Agreement, the Notes, the Indenture and any applicable Written Terms Agreement will not contravene, or give rise to any additional rights or remedies under, any provision of applicable law or the Certificate of Incorporation or by-laws of the Company or any agreement or other instrument binding upon the Company or any of its subsidiaries that is material to the Company and its subsidiaries, taken as a whole, or any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Company or any subsidiary, and no consent, approval, authorization or order of, or qualification with, any governmental body or agency is required for the performance by the Company of its obligations under this Agreement, the Notes, the Indenture and any applicable Terms Agreement, except such as may be required by the securities or Blue Sky laws of the various states in connection with the offer and sale of the Notes.

(j) There has not occurred any material adverse change, or any development which could be reasonably expected to result in a prospective material adverse change, in the condition, financial or otherwise, or in the business or operations, of the Company and its subsidiaries, taken as a whole, from that set forth in the Prospectus.

(k) There are no legal or governmental proceedings pending or threatened to which the Company or any of its subsidiaries is a party or to which any of the properties of the Company or any of its subsidiaries is subject that are required to be described in the Registration Statement or the Prospectus and are not so described in all material respects (other than proceedings that would not have material adverse effect on the Company and its subsidiaries taken as a whole, or on the power or ability of the Company to perform its obligations under this Agreement, the Notes, the Indenture or any applicable Terms Agreement or to consummate the transactions contemplated by the Prospectus) or any statutes, regulations, contracts or other documents that are required to be described in the Registration Statement or the Prospectus or to be filed or incorporated by reference as exhibits to the Registration Statement that are not described, filed or incorporated as required.

(l) The Company is not an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended.

(m) To the best knowledge of the Company after due inquiry, the Company and its subsidiaries (i) are in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("Environmental Laws"), (ii) have received all permits, licenses or other approvals required of them under applicable Environmental Laws which are necessary to conduct their respective businesses and (iii) are in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals would not reasonably be expected to, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(n) The Company has a process of conducting periodic internal reviews relating to compliance by the Company and its subsidiaries with Environmental Laws. On the basis of such reviews, except as set forth in the Prospectus, nothing has come to the attention of the Company which would lead it to believe that costs associated with compliance with Environmental Laws or liabilities arising due to noncompliance with Environmental Laws (including, without limitation, any capital or operating expenses required for cleanup, closure of properties or compliance with Environmental Laws or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties) would have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(o) Each of the Company and its subsidiaries owns or possesses adequate and sufficient licenses or other rights to use all patents, copyrights, trademarks, service marks, tradenames, technology and knowhow necessary (in any material respect) to conduct its business in the manner described in the Prospectus, except such as are not material to the business of the Company and its subsidiaries taken as a whole and except as disclosed in the Prospectus. Except as disclosed in the Prospectus, neither the Company nor any of its subsidiaries has received any notice of infringement or conflict with (and knows of no infringement or conflict with) asserted rights of others with respect to any patents, copyrights, trademarks, service marks, trade names or knowhow which would reasonably be expected to result in any material adverse effect upon the Company and its subsidiaries taken as a whole.

(p) The Company has complied with all provisions of Section 517.075, Florida Statutes (Chapter 92-198, Laws of Florida).

Notwithstanding the foregoing, (i) the representations and warranties set forth in Section 1(b)(iii) and (iv), (g) (except as to due authorization of the Notes) and (i), when made as of the Commencement Date, or as of any date on which an Agent solicits offers to purchase Notes, with respect to any Notes the payments of principal or interest on which will be determined by reference to one or more currency exchange rates, commodity prices, equity indices or other factors, shall be deemed not to address the application of the Commodity Exchange Act, as amended, or the rules, regulations or interpretations of the Commodity Futures Trading Commission and (ii) the representations and warranties contained in this Section 1 shall not be deemed to have been made by the Company as of any date on which an Agent solicits an offer to purchase Notes if (x) such offer is not accepted by the Company or (y) a fact, condition or event resulting in a breach of a representation and warranty contained in this Section 1 is included or incorporated by reference in the Prospectus at or prior to the acceptance by the Company of such offer to purchase Notes.

2. SOLICITATIONS AS AGENT; PURCHASES AS PRINCIPAL.

(a) Solicitations as Agent. In connection with an Agent's actions as agent hereunder, such Agent agrees to use reasonable efforts to solicit offers to purchase Notes upon the terms and conditions set forth in the Prospectus as then amended or supplemented.

The Company reserves the right, in its sole discretion, to instruct the Agents to suspend at any time, for any period of time or permanently, the solicitation of offers to purchase Notes. Upon receipt of notice from the Company, the Agents will forthwith suspend solicitations of offers to purchase Notes from the Company until such time as the Company has advised the Agents that such solicitation may be resumed. While such solicitation is suspended, the Company shall not be required to deliver any certificates, opinions or letters in accordance with Sections 5(a), 5(b) and 5(c); provided, however, that if the Registration Statement or Prospectus is amended or supplemented during the period of suspension (other than by an amendment or supplement setting forth solely the terms or a description of particular Notes or providing for a change the Agents deem to be immaterial), no Agent shall be required to resume soliciting offers to purchase Notes until the Company has delivered such certificates, opinions and letters pursuant to Sections 5(a), 5(b) and 5(c) as such Agent may request.

The Company agrees to pay to each Agent, as consideration for the sale of each Note resulting from an offer to purchase presented by such Agent to the Company, a commission in the form of a discount from the purchase price of such Note equal to the percentage set forth below of the purchase price of such Note:

| Term ----- | Commission Rate ----- |
|--|--------------------------|
| From more than 9 months to less than 1 year | .125% |
| From 1 year to less than 18 months | .150% |
| From 18 months to less than 2 years | .200% |
| From 2 years to less than 3 years | .250% |
| From 3 years to less than 4 years | .350% |
| From 4 years to less than 5 years | .450% |
| From 5 years to less than 6 years | .500% |
| From 6 years to less than 7 years | .550% |
| From 7 years to less than 10 years | .600% |
| From 10 years to less than 15 years | .625% |
| From 15 years to less than 20 years | .700% |
| From 20 years to 30 years | .750% |

Each Agent shall communicate to the Company, orally or in writing, each offer to purchase Notes received by such Agent as agent that in its reasonable judgment should be considered by the Company; provided that, if requested by the Company, each Agent shall, for a period of 10 business days, communicate to the Company each offer to purchase Notes received by such Agent subsequent to the date of such request. The Company shall have the sole right to accept offers to purchase Notes and may reject any offer in whole or in part. Each Agent shall have the right to reject any offer to purchase Notes that it reasonably considers to be unacceptable, and any such rejection shall not be deemed a breach of its agreements contained herein. The procedural details relating to the issue and delivery of Notes sold by the Agents as agents and the payment therefor shall be as set forth in the Administrative Procedures (as hereinafter defined).

(b) Purchases as Principal. Each sale of Notes to an Agent as principal shall be made in accordance with the terms of this Agreement. In connection with each such sale, the Company will enter into a Terms Agreement that will provide for the sale of such Notes to and the purchase thereof by such Agent. Each Terms Agreement will take the form of either (i) a written agreement between such Agent and the Company, which may be substantially in the form of Exhibit A hereto (a "Written Terms Agreement"), or (ii) an oral agreement between such Agent and the Company confirmed in writing by such Agent to the Company which the Company indicates in writing is acceptable.

An Agent's commitment to purchase Notes pursuant to a Terms Agreement shall be deemed to have been made on the basis of the representations and warranties of the Company herein contained and shall be subject to the terms and conditions herein set forth. Each Terms Agreement shall specify the principal amount of Notes to be purchased by such Agent pursuant thereto, the maturity date of such Notes, the price to be paid to the Company for such Notes, the interest rate and interest rate formula, if any, applicable to such Notes and any other terms of such Notes. Each such Terms Agreement may also specify any requirements for officers' certificates, opinions of counsel and letters from the independent public accountants of the Company pursuant to Section 4 hereof. A Terms Agreement may also specify certain provisions relating to the reoffering of such Notes by such Agent.

Each Terms Agreement shall specify the time and place of delivery of and payment for such Notes. Unless otherwise specified in a Terms Agreement, the procedural details relating to the issue and delivery of Notes purchased by an Agent as principal and the payment therefor shall be as set forth in the Administrative Procedures. Each date of delivery of and payment for Notes to be purchased by an Agent pursuant to a Terms Agreement is referred to herein as a "Settlement Date."

Unless otherwise specified in a Terms Agreement, if you are purchasing Notes as principal you may resell such Notes to other dealers. Any such sales may be at a discount, which shall not exceed the amount set forth in the Prospectus Supplement relating to such Notes.

(c) Administrative Procedures. The Agents and the Company agree to perform the respective duties and obligations specifically provided to be performed in the Medium-Term Notes, Series A, Administrative Procedures (attached hereto as Exhibit B) (the "Administrative Procedures"), as amended from time to time. The Administrative Procedures may be amended only by written agreement of the Company and the Agents.

(d) Delivery. The documents required to be delivered by Section 4 of this Agreement as a condition precedent to each Agent's obligation to begin soliciting offers to purchase Notes as an agent of the Company shall be delivered at the office of Wilson, Sonsini, Goodrich & Rosati, P.C., counsel for the Agents, not later than 10:00 a.m., San Francisco time, on the date hereof, or at such other time and/or place as the Agents and the Company may agree upon in writing, but in no event later than the day prior to the earlier of (i) the date on which the Agents begin soliciting offers to purchase Notes and (ii) the first date on which the Company accepts any offer by an Agent to purchase Notes pursuant to a Terms Agreement. The date of delivery of such documents is referred to herein as the "Commencement Date."

(e) Obligations Several. The Company acknowledges that the obligations of the Agents under this Agreement are several and not joint.

3. AGREEMENTS. The Company agrees with each Agent that:

(a) Prior to the termination of the offering of the Notes pursuant to this Agreement or any Terms Agreement, the Company will not file any Prospectus Supplement relating to the Notes or any amendment to the Registration Statement unless the Company has previously furnished to the Agents copies thereof for their review and will not file any such proposed supplement or amendment to which the Agents reasonably object; provided, however, that (i) the foregoing requirement shall not apply to any of the Company's periodic filings with the Commission required to be filed pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, copies of which filings the Company will cause to be delivered to the Agents promptly after being transmitted for filing with the Commission and (ii) any Prospectus Supplement that merely sets forth the terms or a description of particular Notes shall only be reviewed and approved by the Agent or Agents offering such Notes. Subject to the foregoing sentence, the Company will promptly cause each Prospectus Supplement to be filed with or transmitted for filing to the Commission in accordance with Rule 424(b) under the Securities Act. The Company will promptly advise the Agents (i) of the filing of any amendment or supplement to the Basic Prospectus (except that notice of the filing of an amendment or supplement to the Basic Prospectus that merely sets forth the terms or a description of particular Notes shall only be given to the Agent or Agents offering such Notes), (ii) of the filing and effectiveness of any amendment to the Registration Statement, (iii) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Basic Prospectus or for any additional information, (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the institution or threatening of any proceeding for that purpose and (v) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Notes for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose. The Company will use its best efforts to prevent the issuance of any such stop order or notice of suspension of qualification and, if issued, to obtain as soon as possible the withdrawal thereof. If the Basic Prospectus is amended or supplemented as a result of the filing under the Exchange Act of any document incorporated by reference in the Prospectus, no Agent shall be obligated to solicit offers to purchase Notes so long as it is not reasonably satisfied with such document.

(b) If, at any time when a prospectus relating to the Notes is required to be delivered under the Securities Act, any event occurs or condition exists as a result of which the Prospectus, as then amended or supplemented, would include an untrue statement of a material fact, or omit to state any material fact necessary to make the statements therein, in the light of the circumstances when the Prospectus, as then amended or supplemented, is delivered to a purchaser, not misleading, or if, in the opinion of counsel for the Agents or in the opinion of the Company, it is necessary at any time to amend or supplement the Prospectus, as then amended or supplemented, to comply with applicable law, the Company will immediately notify the Agents by telephone (with confirmation in writing) to suspend solicitation of offers to purchase Notes and, if so notified by the Company, the Agents shall forthwith suspend such solicitation and cease using the Prospectus, as then amended or supplemented. If, at any time when a prospectus relating to the Notes is required to be delivered under the Securities Act, the Company shall decide to amend or supplement the Registration Statement or Prospectus, as then amended or supplemented, it shall so advise the Agents promptly by telephone (with confirmation in writing) and, at its expense, shall prepare and cause to be filed promptly with the Commission an amendment or supplement to the Registration Statement or Prospectus, as then amended or supplemented, reasonably satisfactory to the Agents, that will correct such statement or omission or effect such compliance and will supply such amended or supplemented Prospectus to the Agents in such quantities as they may reasonably request. If any documents, certificates, opinions and letters furnished to the Agents pursuant to paragraph (f) below and Sections 5(a), 5(b) and 5(c) in connection with the preparation and filing of such amendment or supplement are satisfactory in all respects to the Agents, upon the filing with the Commission of such amendment or supplement to the Prospectus or upon the effectiveness of an amendment to the Registration Statement, the Agents will resume the solicitation of offers to purchase Notes hereunder. Notwithstanding any other provision of this Section 3(b), until the distribution of any Notes an Agent has purchased as principal from the Company has been completed, if any event described above in this paragraph (b) occurs, the Company will, at its own expense, forthwith prepare and cause to be filed promptly with the Commission an amendment or supplement to the Registration Statement or Prospectus, as then amended or supplemented, reasonably satisfactory to such Agent, will supply such amended or supplemented Prospectus to such Agent in such quantities as it may reasonably request and shall, for a period of 60 days following the date on which such Agent purchased the Notes, be required to furnish to such Agent pursuant to paragraph (f) below and Sections 5(a), 5(b) and 5(c) such documents, certificates, opinions and letters as it may request in connection with the preparation and filing of such amendment or supplement; provided, however, that the Company shall not be required to furnish any such documents,

certificates, opinions or letters pursuant to this Section 3(b) to such Agent if such documents, certificates, opinions or letters were delivered to such Agent on the Settlement Date relating to such Notes.

(c) The Company will make generally available to its security holders and to the Agents as soon as practicable earning statements that satisfy the provisions of Section 11(a) of the Securities Act and the rules and regulations of the Commission thereunder covering twelve month periods beginning, in each case, not later than the first day of the Company's fiscal quarter next following the "effective date" (as defined in Rule 158 under the Securities Act) of the Registration Statement with respect to each sale of Notes. If such fiscal quarter is the last fiscal quarter of the Company's fiscal year, such earning statement shall be made available not later than 90 days after the close of the period covered thereby and in all other cases shall be made available not later than 45 days after the close of the period covered thereby.

(d) The Company will furnish to Morgan Stanley, without charge, a signed copy of the Registration Statement, including exhibits and all amendments thereto, and to each other Agent, without charge, a conformed copy of the Registration Statement, including exhibits and all amendments thereto, and as many copies of the Prospectus, any documents incorporated by reference therein and any supplements and amendments thereto as such Agent may reasonably request.

(e) The Company will endeavor to qualify the Notes for offer and sale under the securities or Blue Sky laws of such jurisdictions as the Agents shall reasonably request and to maintain such qualifications for as long as the Agents shall reasonably request.

(f) The Company shall furnish to the Agents such relevant documents and certificates of officers of the Company relating to the business, operations and affairs of the Company, the Registration Statement, the Basic Prospectus, any amendments or supplements thereto, the Indenture, the Notes, this Agreement, the Administrative Procedures, any Terms Agreement and the performance by the Company of its obligations hereunder or thereunder as the Agents may from time to time reasonably request.

(g) The Company shall notify the Agents promptly in writing of any downgrading, or of its receipt of any notice of any intended or potential downgrading, in the rating accorded any of the Company's securities by any "nationally recognized statistical rating organization," as such term is defined for purposes of Rule 436(g)(2) under the Securities Act; provided, however, that, if the Company has instructed the Agents to suspend the solicitation of offers to purchase Notes pursuant to Section 2(a), the Company

shall not be required, during the time that solicitation is suspended, to notify the Agents of any such downgrading or of the receipt of any such intended or potential downgrading; provided further that before any Agent shall be required to resume soliciting offers to purchase Notes, the Company shall confirm in writing to such Agent if any downgrading has occurred and if any notice of any intended or potential downgrading has been received during the time that such solicitation was suspended.

(h) The Company will, whether or not any sale of Notes is consummated, pay all expenses incident to the performance of its obligations under this Agreement and any Terms Agreement, including: (i) the preparation and filing of the Registration Statement and the Prospectus and all amendments and supplements thereto, (ii) the preparation, issuance and delivery of the Notes, (iii) the fees and disbursements of the Company's counsel and accountants and of the Trustee and its counsel, (iv) the qualification of the Notes under securities or Blue Sky laws in accordance with the provisions of Section 3(e), including filing fees and the fees and disbursements of counsel for the Agents in connection therewith and in connection with the preparation of any Blue Sky or Legal Investment Memoranda, (v) the printing and delivery to the Agents in quantities as hereinabove stated of copies of the Registration Statement and all amendments thereto and of the Prospectus and any amendments or supplements thereto, (vi) the printing and delivery to the Agents of copies of any Blue Sky or Legal Investment Memoranda, (vii) any fees charged by rating agencies for the rating of the Notes, (viii) any expenses incurred by the Company in connection with a "road show" presentation to potential investors and (ix) the reasonable fees and disbursements of counsel for the Agents in connection with the offering and sale of the Notes, including any opinions to be rendered by such counsel hereunder, and (x) any out-of-pocket expenses incurred by the Agents; provided that any such out-of-pocket expenses incurred by the Agents shall have been approved in advance by the Company.

(i) If provided for in the applicable Terms Agreement, during the period beginning the date of any Terms Agreement and continuing to and including the Settlement Date with respect to such Terms Agreement, the Company will not, without such Agent's prior written consent, offer, sell, contract to sell or otherwise dispose of any debt securities of the Company or warrants to purchase debt securities of the Company having terms substantially similar to the Notes to which such Terms Agreement relates (other than (i) the Notes that are to be sold pursuant to such Terms Agreement, (ii) Notes previously agreed to be sold by the Company and (iii) commercial paper issued in the ordinary course of business), except as may otherwise be provided in such Terms Agreement.

4. CONDITIONS OF THE OBLIGATIONS OF THE AGENTS. Each Agent's obligation to solicit offers to purchase Notes as agent of the Company, each Agent's obligation to purchase Notes pursuant to any Terms Agreement and the obligation of any other purchaser to purchase Notes will be subject to the accuracy of the representations and warranties on the part of the Company herein, to the accuracy of the statements of the Company's officers made in each certificate furnished pursuant to the provisions hereof and to the performance and observance by the Company of all covenants and agreements herein contained on its part to be performed and observed (in the case of an Agent's obligation to solicit offers to purchase Notes, at the time of such solicitation, and, in the case of an Agent's or any other purchaser's obligation to purchase Notes, at the time the Company accepts the offer to purchase such Notes and at the time of issuance and delivery) and (in each case) to the following additional conditions precedent when and as specified:

(a) Prior to such solicitation or purchase, as the case may be:

(i) there shall not have occurred any change, or any development involving a prospective change, in the condition, financial or otherwise, or in the business or operations, of the Company and its subsidiaries, taken as a whole, from that set forth in the Prospectus, as amended or supplemented at the time of such solicitation or at the time such offer to purchase was made, that, in the judgment of the relevant Agent, is material and adverse and that makes it, in the judgment of such Agent, impracticable to market the Notes on the terms and in the manner contemplated by the Prospectus, as so amended or supplemented;

(ii) there shall not have occurred any (A) suspension or material limitation of trading generally on or by, as the case may be, any of the New York Stock Exchange, the American Stock Exchange, the National Association of Securities Dealers, Inc., or any other over-the-counter market, (B) suspension of trading of any securities of the Company on any exchange or in any over-the-counter market, (C) declaration of a general moratorium on commercial banking activities in New York by either Federal or New York State authorities or (D) any outbreak or escalation of hostilities or any change in financial markets or any calamity or crisis that, in the judgment of the relevant Agent, is material and adverse and, in the case of any of the events described in clauses (ii)(A) through (D), such event, singly or together with any other such event, makes it, in the judgment of such Agent, impracticable to market the Notes on the terms and in the manner contemplated by the Prospectus, as amended or

supplemented at the time of such solicitation or at the time such offer to purchase was made; and

(iii) there shall not have occurred any downgrading, nor shall any notice have been given of any intended or potential downgrading, in the rating accorded any of the Company's securities by any "nationally recognized statistical rating organization," as such term is defined for purposes of Rule 436(g)(2) under the Securities Act;

(A) except, in each case described in paragraph (i), (ii) or (iii) above, as disclosed to the relevant Agent in writing by the Company prior to such solicitation or, in the case of a purchase of Notes, as disclosed to the relevant Agent before the offer to purchase such Notes was made or (B) unless in each case described in (ii) above, the relevant event shall have occurred and been known to the relevant Agent before such solicitation or, in the case of a purchase of Notes, before the offer to purchase such Notes was made.

(b) On the Commencement Date and, if called for by any Terms Agreement, on the corresponding Settlement Date, the relevant Agents shall have received:

(i) The opinion, dated as of such date, of Orrick, Herrington & Sutcliffe, outside counsel for the Company, to the effect that:

(A) the Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has the full corporate power and corporate authority to own, lease and operate its properties and conduct its business as described in the Prospectus, as then amended or supplemented;

(B) each of this Agreement and any applicable Written Terms Agreement has been duly authorized by all necessary corporate action on the part of the Company and has been duly executed and delivered by the Company;

(C) the Indenture has been duly authorized by all necessary corporate action on the part of the Company and has been executed and delivered by the Company; the Indenture is a valid and binding agreement of the Company enforceable against the Company in accordance with its terms except as (a) the enforceability thereof may be limited by bankruptcy, insolvency or other similar laws affecting creditors' rights generally and (b) the enforceability thereof may be limited by general principles of equity and the unavailability of specific

performance or injunctive relief; the Indenture is qualified under the Trust Indenture Act;

(D) the Notes have been duly authorized by the Board of Directors of the Company and by the Public Offering Committee thereof and, when authorized by an Authorized Officer (as defined in the resolutions of the Public Offering Committee) or by an employee duly authorized by an Authorized Officer, the Notes will have been duly authorized by all necessary corporate action on the part of the Company and, when the Notes have been duly completed to insert the terms thereof, if executed and authenticated in accordance with the provisions of the Indenture and delivered to and paid for by the purchasers thereof on the date of such opinion, would be (1) entitled to the benefits of the Indenture and (2) valid and binding agreements of the Company enforceable against the Company in accordance with their respective terms except as (a) the enforceability thereof may be limited by bankruptcy, insolvency or other similar laws affecting creditors' rights generally and (b) the enforceability thereof may be limited by general principles of equity and the unavailability of specific performance or injunctive relief;

(E) the execution, delivery and performance by the Company of this Agreement, the Notes, the Indenture and any applicable Written Terms Agreement on the date of such opinion (1) do not conflict with or violate the Company's Certificate of Incorporation or by-laws, (2) to such counsel's knowledge, do not conflict with or violate or constitute a breach of, or constitute a default under, the Bank Agreement or any agreement set forth as an exhibit to any of the documents incorporated by reference in the Prospectus, as then amended or supplemented, (3) to such counsel's knowledge, do not result in the creation or imposition of any lien, charge, claim or encumbrance upon any property or asset of the Company in any manner that would have a material adverse effect on the condition (financial or other), results of operations, business or business prospects of the Company and its subsidiaries, taken as a whole, and (4) do not violate applicable law;

(F) no permit, authorization, consent, approval of or qualification with any U.S. federal or state governmental authority is required for the execution, delivery or performance by the Company of its obligations under this Agreement, the Notes, the Indenture and any applicable Terms Agreement, except such as have been obtained under the Securities Act and such as may be

required under state or other Blue Sky laws (on which such counsel need not express any opinion) in connection with the offer and sale of the Notes;

(G) to such counsel's knowledge, except as set forth in the Prospectus, as then amended or supplemented, there is no action, suit or proceeding at law or in equity or by or before any governmental instrumentality or other agency now pending or overtly threatened in writing against or affecting the Company which would require disclosure in the Registration Statement or the Prospectus, as then amended or supplemented;

(H) the terms and provisions of the Notes conform in all material respects to the description thereof contained in the Prospectus, as then amended or supplemented; the statements (1) in the Prospectus, as then amended or supplemented, under the captions "Description of Debt Securities" and "Description of Capital Stock" (in the Basic Prospectus), "Description of Notes" (in the Prospectus Supplement) and "Plan of Distribution" (in the Basic Prospectus and in the Prospectus Supplement) and (2) in the Registration Statement under Item 15, in each case insofar as such statements constitute summaries of the legal matters, documents or proceedings referred to therein, fairly present the information called for with respect to such legal matters, documents and proceedings and fairly summarize the matters referred to therein;

(I) the Registration Statement is effective under the Securities Act and, to the best of such counsel's knowledge, no proceedings for a stop order have been instituted or are pending or threatened under the Securities Act and any required filings pursuant to Rule 424(b) have been made in accordance therewith;

(J) the Registration Statement, the Prospectus and each amendment thereof or supplement thereto (except the financial statements, schedules and other financial and statistical information contained or incorporated by reference therein and that part of the Registration Statement that constitutes the Form T-1 as to which such counsel need not express any opinion), as of their respective effective or issue dates, complied as to form in all material respects with the requirements of the Securities Act and the rules and regulations of the Commission thereunder; provided that in the case of an opinion delivered on the Commencement Date or pursuant to Section 5(b), the opinion and belief set forth in this subparagraph (J) shall be deemed not to cover information

concerning an offering of particular Notes to the extent such information will be set forth in a supplement to the Basic Prospectus;

(K) each document filed pursuant to the Exchange Act and incorporated by reference in the Prospectus, as then amended or supplemented (except the financial statements, schedules and other financial and statistical information contained or incorporated by reference therein as to which such counsel need not express any opinion), complied when it was filed as to form in all material respects with the requirements of the Exchange Act and the rules and regulations of the Commission thereunder;

(L) nothing has come to such counsel's attention to cause it to believe that (1) (except for financial statements, schedules and other financial and statistical information contained or incorporated by reference therein and that part of the Registration Statement that constitutes the Form T-1 as to which such counsel need not express any belief) the Registration Statement, at the time it became effective contained, and as of the date such opinion is delivered contains, any untrue statement of a material fact or omitted or omits, respectively, to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and (2) (except for financial statements, schedules and other financial and statistical information contained therein as to which such counsel need not express any belief) the Prospectus as of its issue date and, as then amended or supplemented, if applicable, as of the date such opinion is delivered contained or contains, respectively, any untrue statement of a material fact or omitted or omits, respectively, to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that in the case of an opinion delivered on the Commencement Date or pursuant to Section 5(b), the opinion and belief set forth in clause (2) above shall be deemed not to cover information concerning an offering of particular Notes to the extent such information will be set forth in a supplement to the Basic Prospectus;

(M) such counsel is of the opinion ascribed to it in the Prospectus, as then amended or supplemented, under the caption "Taxation," and

(N) the Company is not an "investment company" or an entity "controlled" by an "investment company," as

such terms are defined in the Investment Company Act of 1940, as amended.

(ii) The opinion, dated as of such date, of the Vice President, Legal Affairs and Intellectual Property, of the Company, to the effect that:

(A) each of the Company's Significant Subsidiaries (as such term is defined in Rule 405 under the Securities Act) (each, a "Subsidiary" and collectively, the "Subsidiaries") has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, with full power and authority to own, lease and operate its properties and conduct its business as described in the Prospectus, as then amended or supplemented, and as then currently being conducted, and the Company and each Subsidiary is duly qualified to do business and is in good standing in each jurisdiction in which the character of the business conducted by it or the location of the properties owned or leased by it makes such qualification necessary, except where the failure to be so qualified would not have a material adverse effect on the condition (financial or other), results of operations, business or business prospects of the Company and its subsidiaries, taken as a whole;

(B) to such counsel's knowledge, except as described in the Prospectus, as then amended or supplemented, there are no rights to subscribe for or to purchase any securities of the Company pursuant to any agreement to which the Company or any of the Subsidiaries is a party or by which it or any of its properties is bound; to such counsel's knowledge, no holders of shares of Common Stock of the Company have registration rights with respect to such securities;

(C) the execution and delivery by the Company of this Agreement, the Notes, the Indenture and any applicable Written Terms Agreement and the consummation by the Company of the transactions contemplated thereby (i) do not conflict with or violate the charter documents of any Subsidiary, (ii) to such counsel's knowledge, do not result in the material breach or violation of any of the terms or provisions of, or constitute a material default under, any agreement to which the Company or any of the Subsidiaries is a party or by which it is or any of its properties is bound, and (iii) do not violate any applicable law or any judgment, order or decree of any court or any governmental agency or body having jurisdiction over the Company or any of the Subsidiaries,

in each case in any manner that would have a material adverse effect on the condition (financial or other), results of operations, business or business prospects of the Company and its subsidiaries, taken as a whole, or that would affect the power or ability of the Company in any manner to perform its obligations under this Agreement, the Notes, the Indenture or any applicable Written Terms Agreement or to consummate the transactions contemplated by the Prospectus, as then amended or supplemented;

(D) there is no action, suit or proceeding at law or in equity or by or before any governmental instrumentality or other agency now pending or, to such counsel's knowledge, threatened against or affecting the Company or any Subsidiary or any of their respective properties, other than (i) proceedings fairly summarized in all material respects in the Prospectus, as then amended or supplemented, and (ii) proceedings which are not likely to have a material adverse effect on the Company and its subsidiaries, taken as a whole, or on the power or ability of the Company to perform its obligations under this Agreement, the Notes, the Indenture or any applicable Written Terms Agreement or to consummate the transactions contemplated thereby;

(E) the statements in Item 3 -- Legal Proceedings, of the Company's most recent Annual Report on Form 10-K incorporated by reference in the Prospectus and in Part II, Item 1 -- Legal Proceedings, of the Company's Quarterly Reports on Form 10-Q, if any, filed since such Annual Report, insofar as such statements constitute a summary of the legal matters, documents or proceedings referred to therein, fairly present the information called for with respect to such legal matters, documents or proceedings and fairly summarize in all material respects the matters referred to therein;

(F) to such counsel's knowledge, the Company and its Subsidiaries are in compliance with all applicable Environmental Laws, have received all permits, licenses or other approvals required of them under all applicable Environmental Laws to conduct their respective businesses and are in compliance with all terms and conditions of such permits, licenses or approvals, in each case (i) except as described in or contemplated by the Prospectus and (ii) except where such noncompliance with such Environmental Laws, failure to receive such required permits, licenses or approvals or failure to comply with the terms and conditions of such permits, licenses or approvals would not reasonably be expected to, singly or

in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole;

(G) to such counsel's knowledge and except as described in or contemplated by the Prospectus, as then amended or supplemented, (i) each of the Company and its Subsidiaries owns or possesses adequate and sufficient licenses or other rights to use, all patents, copyrights, trademarks, service marks, trade names, technology and knowhow necessary in any material respect to conduct its business as described in the Prospectus, as then amended or supplemented, and (ii) neither the Company nor any of its Subsidiaries has received any notice of infringement or conflict with (and knows of no infringement or conflict with) asserted rights of others with respect to any patents, copyrights trademarks, service marks, trade names or knowhow which would reasonably be expected to result in any material adverse effect upon the Company and its subsidiaries, taken as a whole; and

(H) such counsel does not know of any statutes, regulations, contracts, indentures, mortgages, loan agreements, leases or other documents of a character required to be described in the Registration Statement or the Prospectus, as then amended or supplemented, or to be filed or incorporated by reference as exhibits to the Registration Statement that are not described, filed or incorporated by reference as required by the Securities Act and the rules and regulations of the Commission thereunder.

(iii) The opinion, dated as of such date, of Wilson, Sonsini, Goodrich & Rosati, P.C., counsel for the Agents, covering the matters in subparagraphs (B), (C), (D), (H) (but only as to the statements in the Prospectus, as then amended or supplemented, under the captions "Description of Debt Securities" (in the Basic Prospectus), "Description of Notes" (in the Prospectus Supplement) and "Plan of Distribution" (in the Basic Prospectus and in the Prospectus Supplement)), (J) and (L) in paragraph (b)(i) above.

Notwithstanding the foregoing, the opinions described in subparagraphs (D) (except as to due authorization of the Notes), (E), (H)(1), (J) and (L)(2) of paragraph (b)(i) above and subparagraph (C) of paragraph (b)(ii) above, when contained in an opinion delivered on the Commencement Date or pursuant to Section 5(b), shall be deemed not to address the application of the Commodity Exchange Act, as amended, or the rules, regulations or interpretations of the Commodity Futures Trading Commission to Notes the payments of principal or interest on which will be determined by reference to one or

more currency exchange rates, commodity prices, equity indices or other factors.

With respect to subparagraphs (J) and (L) of paragraph (b)(i) above, Orrick, Herrington & Sutcliffe may state that their opinion and belief are based upon their participation in the preparation of the Registration Statement and Prospectus and any amendments or supplements thereto and documents incorporated therein by reference and review and discussion of the contents thereof, but are without independent check or verification, except as specified. With respect to subparagraphs (J) and (L) of paragraph (b)(i) above, Wilson, Sonsini, Goodrich & Rosati, P.C., may state that their opinion and belief are based upon their participation in the preparation of the Registration Statement and Prospectus and any amendments or supplements thereto (but not including documents incorporated therein by reference) and review and discussion of the contents thereof (including documents incorporated therein by reference), but are without independent check or verification, except as specified.

The opinion of Orrick, Herrington & Sutcliffe described in paragraph (b)(i) above shall be rendered to the Agents at the request of the Company and shall so state therein.

(c) On the Commencement Date and, if called for by any Terms Agreement, on the corresponding Settlement Date, the relevant Agents shall have received a certificate, dated the Commencement Date or such Settlement Date, as the case may be, and signed by an executive officer of the Company, to the effect set forth in subparagraph (a)(iii) above and to the effect that the representations and warranties of the Company contained in this Agreement are true and correct as of such date and that the Company has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied on or before such date.

The officer signing and delivering such certificate may rely upon the best of his knowledge as to proceedings threatened.

(d) On the Commencement Date and, if called for by any Terms Agreement, on the corresponding Settlement Date, Price Waterhouse LLP, independent public accountants, shall have furnished to the relevant Agents a letter or letters, dated the Commencement Date or such Settlement Date, as the case may be, in form and substance satisfactory to such Agents containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in

or incorporated by reference into the Prospectus, as then amended or supplemented.

(e) On the Commencement Date and on each Settlement Date, the Company shall have furnished to the relevant Agents such appropriate further information, certificates and documents as they may reasonably request.

5. ADDITIONAL AGREEMENTS OF THE COMPANY. (a) Except as set forth in Section 2(a), each time the Registration Statement or Prospectus is amended or supplemented (other than by an amendment or supplement setting forth solely the terms or a description of particular Notes or providing for a change the Agents deem to be immaterial), if requested by an Agent, the Company will deliver or cause to be delivered forthwith to each Agent a certificate signed by an executive officer of the Company, dated the date of such amendment or supplement, as the case may be, in form reasonably satisfactory to the Agents, of the same tenor as the certificate referred to in Section 4(c) relating to the Registration Statement or the Prospectus as amended or supplemented to the time of delivery of such certificate.

(b) Each time the Company furnishes a certificate pursuant to Section 5(a), the Company will furnish or cause to be furnished forthwith to each Agent written opinions of independent counsel for the Company and of the Vice President, Legal Affairs and Intellectual Property, of the Company. Any such opinions shall be dated the date of such amendment or supplement, as the case may be, shall be in a form satisfactory to the Agents and shall be of the same tenor as the opinions referred to in Sections 4(b)(i) and (ii), but modified to relate to the Registration Statement and the Prospectus as amended and supplemented to the time of delivery of such opinion. In lieu of any such opinion, counsel last furnishing such an opinion to an Agent may furnish to each Agent a letter to the effect that such Agent may rely on such last opinion to the same extent as though it were dated the date of such letter (except that statements in such last opinion will be deemed to relate to the Registration Statement and the Prospectus as amended or supplemented to the time of delivery of such letter.)

(c) Except as set forth in Section 2(a), each time the Registration Statement or the Prospectus is amended or supplemented to set forth amended or supplemental financial information or such amended or supplemental information is incorporated by reference in the Prospectus, if requested by an Agent, the Company shall cause its independent public accountants forthwith to furnish each Agent with a letter, dated the date of such amendment or supplement, as the case may be, in form satisfactory to the Agents, of the same tenor as the letter referred to in Section 4(d), with regard to the amended or supplemental financial information included or

incorporated by reference in the Registration Statement or the Prospectus as amended or supplemented to the date of such letter.

6. INDEMNITY AND CONTRIBUTION. (a) The Company agrees to indemnify and hold harmless each Agent and each person, if any, who controls any Agent within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred by any Agent or any such controlling person in connection with defending or investigating any such action or claim) caused by any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment thereof or the Prospectus (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto), or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information relating to such Agent furnished to the Company in writing by such Agent expressly for use therein; provided, however, that the indemnity agreement contained in this paragraph (a) with respect to any preliminary prospectus shall not inure to the benefit of any Agent (or any person controlling such Agent) from whom the person asserting any such losses, claims, damages or liabilities purchased Notes, if a copy of the Prospectus (as then amended or supplemented if the Company shall have furnished any amendments or supplements thereto) was not sent or given by or on behalf of such Agent to such person, if required by law so to have been delivered, at or prior to the written confirmation of the sale of the Notes to such person, and if the Prospectus (as so amended or supplemented) would have cured the defect giving rise to such loss, claim, damage or liability.

(b) Each Agent agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers who sign the Registration Statement and each person, if any, who controls the Company within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act to the same extent as the foregoing indemnity from the Company to such Agent, but only with reference to information relating to such Agent furnished to the Company in writing by such Agent expressly for use in the Registration Statement or the Prospectus or any amendments or supplements thereto. The information set forth on the cover page of, and under the caption "Plan of Distribution" in the Prospectus, insofar as it relates to the distribution by the Agents of the Notes, constitutes the only written information furnished by the Agents to the Company for use in the Registration Statement or Prospectus.

(c) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to either paragraph (a) or (b) above, such person (the "indemnified party") shall promptly notify the person against whom such indemnity may be sought (the "indemnifying party") in writing and the indemnifying party, upon request of the indemnified party, shall retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and any others the indemnifying party may designate in such proceeding and shall pay the fees and disbursements of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel or (ii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate due to actual or potential differing interests between them. It is understood that the indemnifying party shall not, in respect of the legal expenses of any indemnified party in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for all such indemnified parties and that all such fees and expenses shall be reimbursed as they are incurred. Such firm shall be designated in writing by Morgan Stanley or, if Morgan Stanley is not an indemnified party and is not reasonably likely to become an indemnified party, by the Agents that are indemnified parties, in the case of parties indemnified pursuant to paragraph (a) above, and by the Company, in the case of parties indemnified pursuant to paragraph (b) above. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel as contemplated by the second and third sentences of this paragraph, the indemnifying party agrees that it shall be liable for any settlement of any proceeding effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request and (ii) such indemnifying party shall not have reimbursed the indemnified party in accordance with such request prior to the date of such settlement. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could

have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

(d) To the extent the indemnification provided for in paragraph (a) or (b) of this Section 6 is unavailable to an indemnified party or insufficient in respect of any losses, claims, damages or liabilities referred to therein in connection with any offering of Notes, then each indemnifying party under such paragraph, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and each Agent on the other hand from the offering of such Notes or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and each Agent on the other hand in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and each Agent on the other hand in connection with the offering of such Notes shall be deemed to be in the same respective proportions as the total net proceeds from the offering of such Notes (before deducting expenses) received by the Company bear to the total discounts and commissions received by each Agent in respect thereof. The relative fault of the Company on the one hand and each Agent on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or by such Agent and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. Each Agent's obligation to contribute pursuant to this Section 6 shall be several in the proportion that the principal amount of the Notes the sale of which by or through such Agent gave rise to such losses, claims, damages or liabilities bears to the aggregate principal amount of the Notes the sale of which by or through any Agent gave rise to such losses, claims, damages or liabilities, and not joint.

(e) The Company and the Agents agree that it would not be just or equitable if contribution pursuant to this Section 6 were determined by pro rata allocation (even if the Agents were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in paragraph (d) of this Section 6. The amount paid or payable by an indemnified party as a result of the

losses, claims, damages and liabilities referred to in paragraph (d) of this Section 6 shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 6, no Agent shall be required to contribute any amount in excess of the amount by which the total price at which the Notes referred to in paragraph (d) of this Section 6 that were offered and sold to the public through such Agent exceeds the amount of any damages that such Agent has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The remedies provided for in this Section 6 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any indemnified party at law or in equity.

(f) The indemnity and contribution provisions contained in this Section 6, representations, warranties and other statements of the Company, its officers and the Agents set forth in or made pursuant to this Agreement or any Terms Agreement will remain in full force and effect regardless of (i) any termination of this Agreement or any such Terms Agreement, (ii) any investigation made by or on behalf of any Agent or any person controlling any Agent or by or on behalf of the Company, its officers or directors or any person controlling the Company and (iii) acceptance of and payment for any of the Notes.

7. POSITION OF THE AGENTS. In acting under this Agreement and in connection with the sale of any Notes by the Company (other than Notes sold to an Agent pursuant to a Terms Agreement), each Agent is acting solely as agent of the Company and does not assume any obligation towards or relationship of agency or trust with any purchaser of Notes. An Agent shall make reasonable efforts to assist the Company in obtaining performance by each purchaser whose offer to purchase Notes has been solicited by such Agent and accepted by the Company, but such Agent shall not have any liability to the Company in the event any such purchase is not consummated for any reason. If the Company shall default in its obligations to deliver Notes to a purchaser whose offer it has accepted (other than as a result of the purchaser exercising its right to refuse to purchase the Notes because of the failure of any condition of such purchaser's obligation to purchase Notes pursuant to Section 4 hereof), the Company shall hold the relevant Agent harmless against any loss, claim, damage or liability arising from or as a result of such default and shall, in particular, pay to such Agent the commission it would have received had such sale been consummated.

8. TERMINATION. This Agreement may be terminated at any time by the Company or, as to any Agent, by the Company or such Agent upon the giving of written notice of such termination to the other parties hereto, but without prejudice to any rights, obligations or liabilities of any party hereto accrued or incurred prior to such termination. The termination of this Agreement shall not require termination of any Terms Agreement, and the termination of any such Terms Agreement shall not require termination of this Agreement. If this Agreement is terminated, the provisions of the third paragraph of Section 2(a), Section 2(e), the last sentence of Section 3(b) and Sections 3(c), 3(h), 6, 7, 9, 10 and 13 shall survive; provided that if at the time of termination an offer to purchase Notes has been accepted by the Company but the time of delivery to the purchaser or its agent of such Notes has not occurred, the provisions of Sections 2(b), 2(c), 3(a), 3(e), 3(f), 3(g), 3(i), 4 and 5 shall also survive until such delivery has been made.

9. NOTICES. All communications hereunder will be in writing and effective only on receipt, and, if sent to Morgan Stanley, will be mailed, delivered or telefaxed and confirmed to Morgan Stanley at 1251 Avenue of the Americas, New York, New York 10020, Attention: Manager, Credit Department (telefax number: 212-703-4575), with a copy to 1221 Avenue of the Americas, New York, New York 10020, Attention: Managing Director, Debt Syndicate (telefax number: 212-764-7490); if sent to Lehman Brothers Inc., will be mailed, delivered or telefaxed and confirmed to Lehman Brothers Inc. at 3 World Financial Center, 12th Floor, New York, New York 10285-1200, Attention: MTN Product Management (telefax number: 212-528-1718); if sent to J.P. Morgan Securities Inc., will be mailed, delivered or telefaxed and confirmed to J.P. Morgan Securities Inc. at 60 Wall Street, New York, New York 10260, Attention: Medium-Term Note Desk, 3rd Floor (telefax number: 212-648-5907); or, if sent to the Company, will be mailed, delivered or telefaxed and confirmed to the Company at 3050 Bowers Avenue, Santa Clara, California 95054, Attention: Treasurer (telefax number: 408-986-7825).

10. SUCCESSORS. This Agreement and any Terms Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers, directors and controlling persons referred to in Section 6 and the purchasers of Notes (to the extent expressly provided in Section 4), and no other person will have any right or obligation hereunder.

11. AMENDMENTS. This Agreement may be amended or supplemented if, but only if, such amendment or supplement is in writing and is signed by the Company and each Agent; provided that the Company may from time to time, without the consent of any Agent or the necessity of any Agent signing an amendment or supplement to this Agreement, amend this Agreement to add as a party hereto one

or more additional firms registered under the Exchange Act, whereupon each such firm shall become an Agent hereunder on the same terms and conditions as the other Agents that are parties hereto. The Company shall give each Agent prompt notice of the addition of any party hereto as an Agent hereunder.

12. COUNTERPARTS. This Agreement may be signed in two or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

13. APPLICABLE LAW. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York.

14. HEADINGS. The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed a part of this Agreement.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicate hereof, whereupon this letter and your acceptance shall represent a binding agreement between the Company and you.

Very truly yours,

APPLIED MATERIALS, INC.

By /s/ Nancy H. Handel

Title: Vice President, Corporate
Finance

The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

MORGAN STANLEY & CO. INCORPORATED

By /s/ Laurie Campbell

Title: Vice President

LEHMAN BROTHERS INC.

By /s/ John F. Coghlan

Title: Managing Director

J.P. MORGAN SECURITIES INC.

By /s/ Thomas Hagerstrom

Title: Vice President

APPLIED MATERIALS, INC.
MEDIUM-TERM NOTES, SERIES A
TERMS AGREEMENT

_____, 19__

Applied Materials, Inc.
3050 Bowers Avenue
Santa Clara, California 95054

Attention:

Re: Distribution Agreement dated August 24, 1995
(the "Distribution Agreement")

We agree to purchase your Medium-Term Notes, Series A, having
the following terms:

[We agree to purchase, severally and not jointly, the principal
amount of Notes set forth below opposite our names:

| Name ---- | Principal Amount of Notes ----- |
|--------------|---------------------------------------|
|--------------|---------------------------------------|

[Insert syndicate list](1)

| | |
|-----------------|--------|
| Total | \$ |
| | =====] |

- -----
(1) Delete if the transaction will not be syndicated.

The Notes shall have the following terms:

| All Notes: ----- | Fixed Rate Notes: ----- | Floating Rate Notes: ----- |
|---|-------------------------------|----------------------------------|
| Principal amount: | Interest Rate: | Base rate: |
| Purchase price: | Applicability of modified | Index maturity: |
| Price to public: | payment upon acceleration: | Spread (plus or minus): |
| Settlement date and time: | If yes, state issue price: | Spread multiplier: |
| Place of delivery: | Amortization schedule: | Alternate rate event spread: |
| Maturity date: Original issue date: | | Initial interest rate: |
| Interest accrual date: | | Initial interest reset date: |
| Initial accrual period OID: | | Interest reset dates: |
| Total amount of OID: | | Interest reset period: |
| Original yield to maturity: | | Maximum interest rate: |
| Optional repayment date(s): | | Minimum interest rate: |
| Optional redemption date(s): | | Interest payment period: |
| Initial redemption date: | | Interest payment date(s): |
| Initial redemption percentage: | | Calculation agent: |
| Annual redemption percentage reduction: | | Reporting Service: |
| | | Index Currency: |
| Other provisions: | | |

The provisions of Sections 1, 2(b) and 2(c) and 3 through 6, 9, 10 and 13 of the Distribution Agreement and the related definitions are incorporated by reference herein and shall be

deemed to have the same force and effect as if set forth in full herein.

[During the period beginning the date hereof and continuing to and including the Settlement Date, the Company will not, without the prior written consent of [NAME OF RELEVANT AGENT(S)], offer, sell, contract to sell or otherwise dispose of any debt securities of the Company or warrants to purchase debt securities of the Company having terms substantially similar to the Notes to which this Terms Agreement relates (other than (i) the Notes that are to be sold pursuant hereto, (ii) Notes previously agreed to be sold by the Company and (iii) commercial paper issued in the ordinary course of business).]

[If on the Settlement Date any one or more of the Agents shall fail or refuse to purchase Notes that it has or they have agreed to purchase on such date, and the aggregate amount of Notes which such defaulting Agent or Agents agreed but failed or refused to purchase is not more than one-tenth of the aggregate amount of the Notes to be purchased on such date, the other Agents shall be obligated severally in the proportions that the amount of Notes set forth opposite their respective names above bears to the aggregate amount of Notes set forth opposite the names of all such non-defaulting Agents, or in such other proportions as _____ may specify, to purchase the Notes which such defaulting Agent or Agents agreed but failed or refused to purchase on such date; provided that in no event shall the amount of Notes that any Agent has agreed to purchase pursuant to this Agreement be increased pursuant to this paragraph by an amount in excess of one-ninth of such amount of Notes without the written consent of such Agent. If on the Settlement Date any Agent or Agents shall fail or refuse to purchase Notes and the aggregate amount of Notes with respect to which such default occurs is more than one-tenth of the aggregate amount of Notes to be purchased on such date, and arrangements satisfactory to _____ and the Company for the purchase of such Notes are not made within 36 hours after such default, this Agreement shall terminate without liability on the part of any non-defaulting Agent or the Company. In any such case either _____ or the Company shall have the right to postpone the Settlement Date but in no event for longer than seven days, in order that the required changes, if any, in the Registration Statement and in the Prospectus or in any other documents or arrangements may be effected. Any action taken under this paragraph shall not relieve any defaulting Agent from liability in respect of any default of such Agent under this Agreement.] (2)

This Agreement is subject to termination on the terms incorporated by reference herein. If this Agreement is so terminated, the provisions of Sections 3(h), 6, 9, 11 and 13 of the Distribution Agreement shall survive for the purposes of this Agreement.

- - - - -
(2) Delete if the transaction will not be syndicated.

The following information, opinions, certificates, letters and documents referred to in Section 4 of the Distribution Agreement will be required: _____.

[NAME OF RELEVANT AGENT(S)]

By _____
Title:

Accepted:

APPLIED MATERIALS, INC.

By _____
Title:

APPLIED MATERIALS, INC.

MEDIUM-TERM NOTES, SERIES A

ADMINISTRATIVE PROCEDURES

Explained below are the administrative procedures and specific terms of the offering of Medium-Term Notes, Series A (the "Notes"), on a continuing basis by Applied Materials, Inc. (the "Company") pursuant to the Distribution Agreement, dated as of August 24, 1995 (the "Distribution Agreement"), among the Company and Morgan Stanley & Co. Incorporated, Lehman Brothers Inc. (including Lehman Government Securities Inc.) and J.P. Morgan Securities Inc. (the "Agents"). The Notes will be issued under an Indenture dated as of August 24, 1994 (the "Indenture") between the Company and Harris Trust Company of California, as trustee (together with Harris Trust and Savings Bank, acting as agent of the trustee, the "Trustee"). In the Distribution Agreement, the Agents have agreed to use reasonable efforts to solicit purchases of the Notes, and the administrative procedures explained below will govern the issuance and settlement of any Notes sold through an Agent, as agent of the Company. An Agent, as principal, may also purchase Notes for its own account, and if requested by such Agent, the Company and such Agent will enter into a terms agreement (a "Terms Agreement"), as contemplated by the Distribution Agreement. The administrative procedures explained below will govern the issuance and settlement of any Notes purchased by an Agent, as principal, unless otherwise specified in the applicable Terms Agreement.

Harris Trust and Savings Bank, acting as agent of Harris Trust Company of California, will be the Registrar, Authenticating Agent and Paying Agent for the Notes and will perform the duties specified herein. Each Note will be represented by either a Global Security (as defined below) delivered to the Trustee, as agent for The Depository Trust Company ("DTC"), and recorded in the book-entry system maintained by DTC (a "Book-Entry Note") or a certificate delivered to the holder thereof or a person designated by such holder (a "Certificated Note"). Except as set forth in the Indenture, an owner of a Book-Entry Note will not be entitled to receive a Certificated Note.

Security (or any portion thereof) issued subsequently upon exchange of a Global Security, or in lieu of a destroyed, lost or stolen Global Security, the most recent Interest Payment Date to which interest has been paid or duly provided for on the predecessor Global Security (or if no such payment or provision has been made, the original issuance date of the predecessor Global Security), regardless of the date of authentication of such subsequently issued Global Security. No Global Security will represent any Certificated Note.

Denominations:

Book-Entry Notes will be issued in principal amounts of U.S. \$100,000 or any amount in excess thereof that is an integral multiple of U.S. \$1,000. Global Securities will be denominated in principal amounts not in excess of U.S. \$200,000,000. If one or more Book-Entry Notes having an aggregate principal amount in excess of \$200,000,000 would, but for the preceding sentence, be represented by a single Global Security, then one Global Security will be issued to represent each U.S. \$200,000,000 principal amount of such Book-Entry Note or Notes and an additional Global Security will be issued to represent any remaining principal amount of such Book-Entry Note or Notes. In such a case, each of the Global Securities representing such Book-Entry Note or Notes shall be assigned the same CUSIP number.

Preparation
of Pricing
Supplement:

If any offer to purchase a Book-Entry Note is accepted by or on behalf of the Company, the Company will prepare a pricing supplement (a "Pricing Supplement") reflecting the terms of such Note. The Company (i) will arrange to file such Pricing Supplement with the Commission in

accordance with the applicable paragraph of Rule 424(b) under the Act and (ii) will, not later than the Business Day following the date on which the offer to purchase the Book-Entry Note is accepted, deliver such Pricing Supplement by facsimile to the relevant Agent.

In each instance that a Pricing Supplement is prepared, the relevant Agent will affix the Pricing Supplement to Prospectuses prior to their use. Outdated Pricing Supplements, and the Prospectuses to which they are attached (other than those retained for files), will be destroyed.

Settlement:

The receipt by the Company of immediately available funds in payment for a Book-Entry Note and the authentication and issuance of the Global Security representing such Note shall constitute "settlement" with respect to such Note. All offers accepted by the Company will be settled on the third Business Day next succeeding the date of acceptance pursuant to the timetable for settlement set forth below, unless the Company and the purchaser agree to settlement on another day, which shall be no earlier than the next Business Day.

Settlement Procedures:

Settlement Procedures with regard to each Book-Entry Note sold by the Company to or through an Agent (unless otherwise specified pursuant to a Terms Agreement) shall be as follows:

A. The relevant Agent will advise the Company by telephone that such Note is a Book-Entry Note and of the following settlement information:

1. Principal amount.
2. Maturity Date.
3. In the case of a Fixed Book-Entry Note, the Interest Rate, the Interest Payment Dates and whether such Note is an Amortizing Note, and, if so, the amortization schedule, or, in the case of a Floating Rate Book-Entry Note, the Initial Interest Rate (if known at such time), Interest Payment Date(s), Interest Payment Period, Calculation Agent, Base Rate, Index Maturity, Interest Reset Period, Initial Interest Reset Date, Interest Reset Dates, Spread or Spread Multiplier (if any), Minimum Interest Rate (if any), Maximum Interest Rate (if any) and the Alternate Rate Event Spread (if any).
4. Redemption or repayment provisions (if any).
5. Settlement date and time (Original Issue Date).
6. Interest Accrual Date.
7. Purchase Price.
8. Agent's commission (if any) determined as provided in the Distribution Agreement.
9. Any original issue discount information for tax purposes.

10. Trade Date.

11. Depository Participant
Account Number of such Agent.

12. [Whether or not such Agent is purchasing such Note as principal, and, if such Note is sold through such Agent, that neither such Agent nor its affiliate is the purchaser of such Note.]

13. Any other applicable terms.

B. The Company will advise the Trustee by telephone or electronic transmission (confirmed in writing at any time on the same date) of the information set forth in Settlement Procedure "A" above. The Company will then assign a CUSIP number to the Global Security representing such Note and will notify the Trustee and the relevant Agent of such CUSIP number by telephone as soon as practicable.

C. The Trustee will enter a pending deposit message through DTC's Participant Terminal System, providing the following settlement information to DTC, the relevant Agent and Standard & Poor's Corporation:

1. The information set forth in Settlement Procedure "A".

2. The Initial Interest Payment Date for such Note, the number of days by which such date succeeds the

related DTC Record Date (which in the case of Floating Rate Notes which reset daily or weekly, shall be the date five calendar days immediately preceding the applicable Interest Payment Date and, in the case of all other Notes, shall be the Record Date as defined in the Note) and, if known, the amount of interest payable on such Initial Interest Payment Date.

3. The CUSIP number of the Global Security representing such Note.

4. Whether such Global Security will represent any other Book-Entry Note (to the extent known at such time).

5. Whether such Note is an Amortizing Note (by an appropriate notation in the comments field of DTC's Participant Terminal System).

6. The number of participant accounts to be maintained by DTC on behalf of the relevant Agent and the Trustee.

D. The Trustee will complete and authenticate the Global Security representing such Note.

E. DTC will credit such Note to the Trustee's participant account at DTC.

F. The Trustee will enter an SDFS deliver order through DTC's

Participant Terminal System instructing DTC to (i) debit such Note to the Trustee's participant account and credit such Note to the relevant Agent's participant account and (ii) debit such Agent's settlement account and credit the Trustee's settlement account for an amount equal to the price of such Note less such Agent's commission (if any). The entry of such a deliver order shall constitute a representation and warranty by the Trustee to DTC that (a) the Global Security representing such Book-Entry Note has been issued and authenticated and (b) the Trustee is holding such Global Security pursuant to the MTN Certificate Agreement.

G. Unless the relevant Agent is the end purchaser of such Note, such Agent will enter an SDFS deliver order through DTC's Participant Terminal System instructing DTC (i) to debit such Note to such Agent's participant account and credit such Note to the participant accounts of the Participants with respect to such Note and (ii) to debit the settlement accounts of such Participants and credit the settlement account of such Agent for an amount equal to the price of such Note.

H. Transfers of funds in accordance with SDFS deliver orders described in Settlement Procedures "F" and "G" will be settled in accordance with SDFS operating procedures in effect on the settlement date.

I. The Trustee will credit to the account of the Company maintained at Bank of America, Concord, California, or to such other account as the Company shall have specified to the Trustee, in immediately available funds the amount transferred to the Trustee in accordance with Settlement Procedure "F".

J. Unless the relevant Agent is the end purchaser of such Note, such Agent will confirm the purchase of such Note to the purchaser either by transmitting to the Participants with respect to such Note a confirmation order or orders through DTC's institutional delivery system or by mailing a written confirmation to such purchaser.

K. Monthly, the Trustee will send to the Company a statement setting forth the principal amount of Notes outstanding as of that date under the Indenture and setting forth a brief description of any sales of which the Company has advised the Trustee that have not yet been settled.

Settlement
Procedures
Timetable:

For sales by the Company of Book-Entry Notes to or through an Agent (unless otherwise specified pursuant to a Terms Agreement) for settlement on the first Business Day after the sale date, Settlement Procedures "A" through "J" set forth above shall be completed as soon as possible but not later than the respective times in New York City set forth below:

| Settlement Procedure | Time |
|-------------------------|------|
| ----- | ---- |

| | |
|-----|-------------------------------|
| A | 11:00 A.M. on sale date |
| B | 12:00 Noon on sale date |
| C | 2:00 P.M. on sale date |
| D | 9:00 A.M. on settlement date |
| E | 10:00 A.M. on settlement date |
| F-G | 2:00 P.M. on settlement date |
| H | 4:45 P.M. on settlement date |
| I-J | 5:00 P.M. on settlement date |

If a sale is to be settled more than one Business Day after the sale date, Settlement Procedures "A", "B" and "C" shall be completed as soon as practicable but no later than 11:00 A.M., 12:00 Noon and 2:00 P.M., respectively, on the first Business Day after the sale date. If the Initial Interest Rate for a Floating Rate Book-Entry Note has not been determined at the time that Settlement Procedure "A" is completed, Settlement Procedures "B" and "C" shall be completed as soon as such rate has been determined but no later than 12:00 Noon and 2:00 P.M., respectively, on the first Business Day before the settlement date. Settlement Procedure "H" is subject to extension in accordance with any extension of Fedwire closing deadlines and in the other events specified in the SDFS operating procedures in effect on the settlement date.

If settlement of a Book-Entry Note is rescheduled or cancelled, the Trustee, after receiving notice from the Company or the relevant Agent, will deliver to DTC, through DTC's Participant Terminal System, a cancellation message to such effect by no later than 2:00 P.M. on the Business Day immediately preceding the scheduled settlement date.

Failure
to Settle:

If the Trustee fails to enter an SDFS deliver order with respect to a Book-Entry Note pursuant to

Settlement Procedure "F", the Trustee may deliver to DTC, through DTC's Participant Terminal System, as soon as practicable a withdrawal message instructing DTC to debit such Note to the Trustee's participant account, provided that the Trustee's participant account contains a principal amount of the Global Security representing such Note that is at least equal to the principal amount to be debited. If a withdrawal message is processed with respect to all the Book-Entry Notes represented by a Global Security, the Trustee will mark such Global Security "cancelled," make appropriate entries in the Trustee's records and send such cancelled Global Security to the Company. The CUSIP number assigned to such Global Security shall, in accordance with the procedures of the CUSIP Service Bureau of Standard & Poor's Corporation, be cancelled and not immediately reassigned. If a withdrawal message is processed with respect to one or more, but not all, of the Book-Entry Notes represented by a Global Security, the Trustee will exchange such Global Security for two Global Securities, one of which shall represent such Book-Entry Note or Notes and shall be cancelled immediately after issuance and the other of which shall represent the remaining Book-Entry Notes previously represented by the surrendered Global Security and shall bear the CUSIP number of the surrendered Global Security.

If the purchase price for any Book-Entry Note is not timely paid to the Participants with respect to such Note by the beneficial purchaser thereof (or a person, including an indirect participant in DTC, acting on behalf of such purchaser), such

Participants and, in turn, the relevant Agent may enter SDFS deliver orders through DTC's Participant Terminal System reversing the orders entered pursuant to Settlement Procedures "F" and "G", respectively. Thereafter, the Trustee will deliver the withdrawal message and take the related actions described in the preceding paragraph.

Notwithstanding the foregoing, upon any failure to settle with respect to a Book-Entry Note, DTC may take any actions in accordance with its SDFS operating procedures then in effect.

In the event of a failure to settle with respect to one or more, but not all, of the Book-Entry Notes to have been represented by a Global Security, the Trustee will provide, in accordance with Settlement Procedures "D" and "F", for the authentication and issuance of a Global Security representing the Book-Entry Notes to be represented by such Global Security and will make appropriate entries in its records.

PART II: ADMINISTRATIVE PROCEDURES FOR CERTIFICATED NOTES

The Trustee will serve as Registrar in connection with the Certificated Notes.

Issuance: Each Certificated Note will be dated and issued as of the date of its authentication by the Trustee. Each Certificated Note will bear an Original Issue Date, which will be (i) with respect to an original Certificated Note (or any portion thereof), its original issuance date (which will be the settlement date) and (ii) with respect to any Certificated Note (or portion thereof) issued subsequently upon transfer or exchange of a Certificated Note or in lieu of a destroyed, lost or stolen Certificated Note, the original issuance date of the predecessor Certificated Note, regardless of the date of authentication of such subsequently issued Certificated Note.

Preparation of Pricing Supplement: If any offer to purchase a Certificated Note is accepted by or on behalf of the Company, the Company will prepare a Pricing Supplement reflecting the terms of such Note. The Company (i) will arrange to file such Pricing Supplement with the Commission in accordance with the applicable paragraph of Rule 424(b) under the Act and (ii) will, not later than the Business Day following the date on which the offer to purchase the Certificated Note is accepted, deliver such Pricing Supplement by facsimile to the relevant Agent.

In each instance that a Pricing Supplement is prepared, the relevant Agent will affix the Pricing Supplement to Prospectuses prior to their use. Outdated Pricing

Supplements, and the Prospectuses to which they are attached (other than those retained for files), will be destroyed.

Settlement:

The receipt by the Company of immediately available funds in exchange for an authenticated Certificated Note delivered to the relevant Agent and such Agent's delivery of such Note against receipt of immediately available funds shall constitute "settlement" with respect to such Note. All offers accepted by the Company will be settled on the third Business Day next succeeding the date of acceptance pursuant to the timetable for settlement set forth below, unless the Company and the purchaser agree to settlement on another date, which date shall be no earlier than the next Business Day.

Settlement
Procedures:

Settlement Procedures with regard to each Certificated Note sold by the Company to or through an Agent (unless otherwise specified pursuant to a Terms Agreement) shall be as follows:

A. The relevant Agent will advise the Company by telephone that such Note is a Certificated Note and of the following settlement information:

1. Name in which such Note is to be registered ("Registered Owner").
2. Address of the Registered Owner and address for payment of principal and interest.
3. Taxpayer identification number of the Registered Owner (if available).
4. Principal amount.

5. Maturity Date.
6. In the case of a Fixed Rate Certificated Note, the Interest Rate, the Interest Payment Dates and whether such Note is an Amortizing Note and, if so, the amortization schedule, or, in the case of a Floating Rate Certificated Note, the Initial Interest Rate (if known at such time), Interest Payment Date(s), Interest Payment Period, Calculation Agent, Base Rate, Index Maturity, Interest Reset Period, Initial Interest Reset Date, Interest Reset Dates, Spread or Spread Multiplier (if any), Minimum Interest Rate (if any), Maximum Interest Rate (if any) and the Alternate Rate Event Spread (if any).
7. Redemption or repayment provisions (if any).
8. Settlement date and time (Original Issue Date).
9. Interest Accrual Date.
10. Purchase Price.
11. Agent's commission (if any) determined as provided in the Distribution Agreement.
12. Denominations.
13. Any original issue discount information for tax purposes.
14. Trade Date.
15. Depository Participant Account Number of such Agent.

16. [Whether or not such Agent is purchasing such Note as principal, and, if such Note is sold through such Agent, that neither such Agent nor its affiliate is the purchaser of such Note.]

17. Any other applicable terms.

B. The Company will advise the Trustee by telephone or electronic transmission (confirmed in writing at any time on the same date) of the information set forth in Settlement Procedure "A" above.

C. The Company will have delivered to the Trustee a pre-printed four-ply packet for such Note, which packet will contain the following documents in forms that have been approved by the Company, the relevant Agent and the Trustee:

1. Note with customer confirmation.
2. Stub One - For the Trustee.
3. Stub Two - For the relevant Agent.
4. Stub Three - For the Company.

D. The Trustee will complete such Note and authenticate such Note and deliver it (with the confirmation) and Stubs One and Two to the relevant Agent, and such Agent will acknowledge receipt of the Note by stamping or otherwise marking Stub One and returning it to the Trustee. Such delivery will be made only against such acknowledgment of receipt and evidence that instructions have been given by such Agent for payment to the account of the Company at Bank of America,

Concord, California, or to such other account as the Company shall have specified to such Agent and the Trustee, in immediately available funds, of an amount equal to the price of such Note less such Agent's commission (if any). In the event that the instructions given by such Agent for payment to the account of the Company are revoked, the Company will as promptly as possible wire transfer to the account of such Agent an amount of immediately available funds equal to the amount of such payment made.

E. Unless the relevant Agent is the end purchaser of such Note, such Agent will deliver such Note (with confirmation) to the customer against payment in immediately available funds. Such Agent will obtain the acknowledgment of receipt of such Note by retaining Stub Two.

F. The Trustee will send Stub Three to the Company by first-class mail. Monthly, the Trustee will also send to the Company a statement setting forth the principal amount of the Notes outstanding as of that date under the Indenture and setting forth a brief description of any sales of which the Company has advised the Trustee that have not yet been settled.

Settlement
Procedures
Timetable:

For sales by the Company of Certificated Notes to or through an Agent (unless otherwise specified pursuant to a Terms Agreement), Settlement Procedures "A" through "F" set forth above shall be completed on or before the respective times in New York City set forth below:

| Settlement Procedure ----- | Time ----- |
|----------------------------------|--|
| A | 2:00 P.M. on day before settlement date |
| B | 3:00 P.M. on day before settlement date |
| C-D | 2:15 P.M. on settlement date |
| E | 3:00 P.M. on settlement date |
| F | 5:00 P.M. on settlement date |

Failure
to Settle:

If a purchaser fails to accept delivery of and make payment for any Certificated Note, the relevant Agent will notify the Company and the Trustee by telephone and return such Note to the Trustee. Upon receipt of such notice, the Company will immediately wire transfer to the account of such Agent an amount equal to the price of such Note less such Agent's commission in respect of such Note (if any). Such wire transfer will be made on the settlement date, if possible, and in any event not later than the Business Day following the settlement date. If the failure shall have occurred for any reason other than a default by such Agent in the performance of its obligations hereunder and under the Distribution Agreement, then the Company will reimburse such Agent or the Trustee, as appropriate, on an equitable basis for its loss of the use of the funds during the period when they were credited to the account of the Company. Immediately upon receipt of the Certificated Note in respect of which such failure occurred, the

Trustee will mark such Note
"cancelled," make appropriate entries
in the Trustee's records and send
such Note to the Company.

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RATIO OF EARNINGS TO FIXED CHARGES

| | Fiscal Year | | | | |
|--|-------------|-----------|-----------|----------|----------|
| | 1995 | 1994 | 1993 | 1992 | 1991 |
| Income from consolidated companies before provision for income taxes and cumulative effect of accounting change | \$698,543 | \$334,497 | \$153,558 | \$58,925 | \$40,355 |
| Fixed charges: | | | | | |
| Interest expense | 21,401 | 15,962 | 14,206 | 15,207 | 13,969 |
| Interest component of rent expense (1) | 13,103 | 11,070 | 9,021 | 7,197 | 5,968 |
| Total fixed charges | 34,504 | 27,032 | 23,227 | 22,404 | 19,937 |
| Earnings from consolidated companies before income taxes, cumulative effect of accounting change and fixed charges | \$733,047 | \$361,529 | \$176,785 | \$81,329 | \$60,292 |
| Ratio of earnings to fixed charges | 21.25x | 13.37x | 7.61x | 3.63x | 3.02x |

(1) For leases where the interest factor can be specifically identified, the actual interest factor was used. For all other leases, the interest factor is estimated at one-third of total rent expense for the applicable period, which management believes represents a reasonable approximation of the interest factor.

selected consolidated FINANCIAL DATA

| Fiscal year ended* | 1995 | 1994 | 1993 | 1992 | 1991 |
|--|-------------|-------------|-------------|------------|------------|
| ----- | | | | | |
| (In thousands, except per share and headcount data) | | | | | |
| Net sales | \$3,061,881 | \$1,659,807 | \$1,080,047 | \$ 751,383 | \$ 638,606 |
| Gross margin | \$1,409,848 | \$ 768,295 | \$ 475,684 | \$ 308,204 | \$ 268,581 |
| (% of net sales) | 46.0 | 46.3 | 44.0 | 41.0 | 42.1 |
| Research, development and engineering | \$ 329,676 | \$ 189,126 | \$ 140,161 | \$ 109,196 | \$ 102,665 |
| (% of net sales) | 10.8 | 11.4 | 13.0 | 14.5 | 16.1 |
| Marketing, selling and administrative | \$ 386,240 | \$ 239,932 | \$ 174,529 | \$ 130,632 | \$ 116,544 |
| (% of net sales) | 12.6 | 14.4 | 16.2 | 17.4 | 18.2 |
| Income from consolidated companies before taxes and cumulative effect of accounting change | \$ 698,543 | \$ 334,497 | \$ 153,558 | \$ 58,925 | \$ 40,355 |
| (% of net sales) | 22.8 | 20.2 | 14.2 | 7.8 | 6.3 |
| Tax rate (%) | 35.0 | 35.0 | 33.0 | 33.0 | 35.0 |
| Net income | \$ 454,053 | \$ 220,696 | \$ 99,695 | \$ 39,480 | \$ 26,231 |
| Earnings per share** | \$ 2.56 | \$ 1.30 | \$.61 | \$.27 | \$.19 |
| Average common shares and equivalents** | 177,348 | 170,042 | 164,588 | 145,360 | 137,800 |
| ----- | | | | | |
| Order backlog | \$1,508,800 | \$ 715,200 | \$ 365,800 | \$ 253,900 | \$ 213,400 |
| Working capital | \$1,449,882 | \$ 734,104 | \$ 395,388 | \$ 333,590 | \$ 234,211 |
| Working capital ratio | 2.7 | 2.5 | 2.0 | 2.3 | 2.2 |
| Long-term debt | \$ 279,807 | \$ 209,114 | \$ 121,076 | \$ 118,445 | \$ 123,967 |
| Stockholders' equity | \$1,783,503 | \$ 966,264 | \$ 598,762 | \$ 474,111 | \$ 325,454 |
| Book value per share** | \$ 9.95 | \$ 5.74 | \$ 3.73 | \$ 3.03 | \$ 2.41 |
| Total assets | \$2,965,379 | \$1,702,665 | \$1,120,152 | \$ 853,822 | \$ 660,756 |
| Capital expenditures | \$ 265,557 | \$ 180,440 | \$ 95,351 | \$ 60,943 | \$ 62,670 |
| Regular full-time employees | 10,537 | 6,497 | 4,739 | 3,909 | 3,543 |
| ----- | | | | | |

* The fiscal year ends on the last Sunday in October each year. The fiscal year-end for the periods presented are October 29, 1995, October 30, 1994, October 31, 1993, October 25, 1992, and October 27, 1991.

**Retroactively restated for the two-for-one stock split in the form of a 100 percent stock dividend effective October 12, 1995 (see note nine to the consolidated financial statements).

[CHART 1]

[CHART 2]

[CHART 3]

management's DISCUSSION AND ANALYSIS

For the fiscal year ended October 29, 1995, Applied Materials achieved record net sales of \$3.1 billion, record new orders of \$3.9 billion and a backlog of \$1.5 billion compared to \$715.2 million of backlog at the end of fiscal 1994.

Results of Operations

The Company's net sales increased by 84 percent for fiscal 1995 compared to fiscal 1994 and 54 percent for fiscal 1994 compared to fiscal 1993. This increase was driven by a strong worldwide demand for the Company's advanced wafer process technology, multi-chamber equipment and installed base support services. The increased demand for the Company's multi-chamber systems (the Precision 5000, Endura and Centura platforms) reflects the robust demand for advanced semiconductor devices and the industry's continued investment in systems capable of performing processes required for smaller device geometries, as well as the complex multi-level metal structures of the most advanced semiconductor devices. The Company's installed base support services revenue increased 47 percent from fiscal 1994, reflecting our global customers' requirements for high reliability and uptime specifications.

Applied Materials operates in all major geographic regions of the worldwide semiconductor industry with 68 percent of the Company's net sales in fiscal 1995 to customers located outside North America compared to 63 percent in fiscal 1994 and 62 percent in fiscal 1993. Major North American manufacturers of microprocessors, memory and logic devices continued their capacity expansions both in Europe and in the United States. Fiscal 1995 sales in Asia-Pacific and Korea continued to show significant increases from fiscal 1994 levels, reflecting customers' needs for increased dynamic random access memory (DRAM) capacity in South Korea and increased DRAM, logic and foundry capacity in Taiwan and Singapore. Sales in Japan increased from the prior fiscal year as Japanese DRAM manufacturers increased their eight-inch wafer capacity for 16 Mbit production and 64 Mbit pilot lines.

[CHART 4]

Gross margin as a percentage of net sales was 46 percent in fiscal 1995 and 1994 and 44 percent in fiscal 1993. The economies of scale in the manufacturing and the service and support operations were offset by production inefficiencies and costs incurred to meet the significant ramp in product shipments during fiscal 1995.

Operating expenses as a percentage of net sales were 23 percent in fiscal 1995 compared to 26 percent and 29 percent in fiscal 1994 and 1993, respectively. The reduction during the past three years results primarily from the Company's accelerated revenue growth and management of the growth in operating expenses. The Company plans to continue to increase investments in strategic facilities expansion, information systems technology and personnel to support its current and future volumes of business. Thus, there can be no assurance that current operating expense levels as a percentage of net sales are indicative of future operating expenses as a percentage of net sales.

The Company's future results depend, to a considerable extent, on its ability to maintain a competitive advantage in both the products and services it provides. For this reason, Applied Materials believes it is critical to continue to make substantial investments in research and development to ensure the flow of innovative, productive, high-quality products and support services. Research, development and engineering spending grew to \$330 million or 11 percent of net sales in 1995 compared to \$189 million or 11 percent of net sales in 1994 and \$140 million or 13 percent of net sales in 1993. This considerable investment reflects the Company's commitment to meet its customers' requirements which are driven by rapid technological advancement. New products introduced during fiscal 1995 include the Endura VHP (Very High Productivity) PVD system, Precision Implant 9500 xR, MxP+ Dielectric Etch Chamber, RPS Centura, DxZ Process Chamber, the rapid thermal processing (RTP) system, and the Precision Implant xR80. The Company also introduced additional sub-atmospheric chemical vapor deposition processes for existing products.

[CHART 5]

Marketing, selling and administrative expenses as a percentage of net sales were 13 percent, 14 percent and 16 percent in fiscal 1995, 1994 and 1993, respectively. During each of these fiscal years, the Company increased spending in marketing and selling programs to support the development of international markets and increase awareness of new products. Increases in administrative expenses over the last three fiscal years have been primarily to support the Company's growth. As a percentage of net sales, these expenses have decreased due to the revenue growth rate exceeding the growth rate in marketing, selling and administrative expenses.

Applied Materials' effective income tax rate was 35 percent in fiscal 1995 and 1994 and 33 percent in fiscal 1993. The two percentage point increase in the effective tax rate from fiscal 1993 is primarily the result of changes in U.S. tax laws and variations in the Company's composition of worldwide income and foreign taxes. The Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," prospectively on November 1, 1993 and recorded a one-time \$7 million credit as the favorable impact of the accounting change. In fiscal 1996, the Company's effective tax rate is anticipated to remain at 35 percent.

While international markets provide the Company with significant growth opportunities, periodic economic downturns, fluctuations in interest and foreign currency exchange rates, trade balance issues, and potential economic and political instability are all risks which could affect global product and service demand. Significant operations of the Company are conducted in Japanese yen. Forward exchange contracts and options are purchased to hedge certain existing firm commitments and foreign currency denominated transactions expected to occur during the next year. Gains and losses on hedge contracts are reported as a component of the related transaction. Because the impact of movements in currency exchange rates on foreign exchange contracts offsets the related impact on the underlying items being hedged, these financial instruments do not subject the Company to speculative risk that would otherwise result from changes in currency exchange rates. While not significant in fiscal 1995, the strength of the Japanese yen relative to the U.S. dollar resulted in a favorable impact to the Company's results of operations after the effect of foreign currency hedging activities. Exchange rate fluctuations between the local currencies of the Company's subsidiaries and the U.S. dollar did not materially affect the consolidated balance sheet.

Financial Condition, Liquidity and Capital Resources

[CHART 6]

At October 29, 1995, the Company had \$769 million in cash, cash equivalents and short-term investments, compared to \$422 million at October 30, 1994. The increase is due primarily to the increase in earnings, \$321 million raised by the sale of common stock in July 1995, the issuance of \$73 million in medium-term notes, other long-term debt borrowings, and increases in accounts payable and accrued expenses offset by capital expenditures and increased levels of accounts receivable and inventory. Accounts receivable increased \$412 million from October 1994 primarily due to increased sales volumes. Inventories increased \$182 million from October 1994 primarily to support increased demand for products and spare parts. Capital expenditures of \$266 million consisted primarily of facility improvements and expansion, demonstration and test equipment and information systems.

Major facility improvement and expansion projects are currently underway in Texas, California, Japan, Taiwan, and Korea. These projects reflect efforts by the Company to manage its manufacturing and applications lab capacity to ensure that customer needs will continue to be met. Capital expenditures are expected to approximate \$500 million during 1996. This amount includes funds for further expansion of facilities and investments in demonstration and test equipment, information systems and other capital items. These expenditures are anticipated to be financed by operating cash flows, cash on hand and the Company's existing debt arrangements. Domestic and foreign credit facilities available at October 29, 1995 totaled \$189 million.

During fiscal 1995, the Company registered \$267 million in medium-term notes to be issued from time to time, at fixed or variable interest rates, as determined at the time of issuance. As of October 29, 1995, the Company had issued \$73 million of 6.65 to 7.00 percent fixed rate, 5- and 10-year notes. The Company's liquidity is affected by many factors, some based on the normal on-going operations of the business and others related to the uncertainties of the industry and global economies. Although the Company's cash requirements will fluctuate based on the timing and extent of these factors, management believes that cash generated from operations, together with the liquidity provided by existing cash and investment balances and current borrowing arrangements, will be sufficient to satisfy commitments for capital expenditures and other cash requirements for the next fiscal year.

[CHART 7]

The Company entered into a joint venture agreement in September 1993 with Komatsu Ltd. to form Applied Komatsu Technology, Inc. (AKT), a joint venture corporation whose mission is to develop, manufacture and market systems used to produce flat panel displays (see note five to the consolidated financial statements). During fiscal 1995, AKT continued to expand its product offerings and revenue base and in the fourth quarter recognized net income for the first time. Applied Materials believes that AKT will not materially impact the Company's financial condition or results of operations during fiscal 1996.

consolidated STATEMENTS OF OPERATIONS

| Fiscal year ended | 1995 | 1994 | 1993 |
|---|-------------|-------------|-------------|
| ----- | | | |
| (In thousands, except per share data) | | | |
| Net sales | \$3,061,881 | \$1,659,807 | \$1,080,047 |
| Cost of products sold | 1,652,033 | 891,512 | 604,363 |
| ----- | | | |
| Gross margin | 1,409,848 | 768,295 | 475,684 |
| Operating expenses: | | | |
| Research, development and engineering | 329,676 | 189,126 | 140,161 |
| Marketing and selling | 223,296 | 157,303 | 107,275 |
| General and administrative | 162,944 | 82,629 | 67,254 |
| ----- | | | |
| Income from operations | 693,932 | 339,237 | 160,994 |
| Interest expense | 21,401 | 15,962 | 14,206 |
| Interest income | 26,012 | 11,222 | 6,770 |
| ----- | | | |
| Income from consolidated companies before taxes and cumulative effect of accounting change | 698,543 | 334,497 | 153,558 |
| Provision for income taxes | 244,490 | 117,074 | 50,674 |
| ----- | | | |
| Income from consolidated companies before cumulative effect of accounting change | 454,053 | 217,423 | 102,884 |
| Equity in net loss of joint venture | -- | 3,727 | 3,189 |
| ----- | | | |
| Income before cumulative effect of accounting change | 454,053 | 213,696 | 99,695 |
| Cumulative effect of a change in accounting for income taxes | -- | 7,000 | -- |
| ----- | | | |
| Net income | \$ 454,053 | \$ 220,696 | \$ 99,695 |
| ----- | | | |
| Earnings per share: | | | |
| Income before cumulative effect of accounting change | \$ 2.56 | \$ 1.26 | \$.61 |
| ----- | | | |
| Net income | \$ 2.56 | \$ 1.30 | \$.61 |
| ----- | | | |
| Average common shares and equivalents | 177,348 | 170,042 | 164,588 |
| ----- | | | |

See accompanying notes to the consolidated financial statements.

consolidated BALANCE SHEETS

| Fiscal year ended | 1995 | 1994 |
|--|-------------|-------------|
| ----- | | |
| (In thousands, except per share data) | | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 285,845 | \$ 160,320 |
| Short-term investments | 483,487 | 262,005 |
| Accounts receivable, less allowance for doubtful accounts of \$3,017 and \$1,089 | 817,730 | 405,813 |
| Inventories | 427,413 | 245,710 |
| Deferred income taxes | 198,888 | 99,766 |
| Other current assets | 98,250 | 56,923 |
| ----- | | |
| Total current assets | 2,311,613 | 1,230,537 |
| Property, plant and equipment, less accumulated depreciation | 630,746 | 452,454 |
| Other assets | 23,020 | 19,674 |
| ----- | | |
| Total assets | \$2,965,379 | \$1,702,665 |
| ----- | | |
| Liabilities and Stockholders' Equity | | |
| Current Liabilities: | | |
| Notes payable | \$ 61,748 | \$ 43,081 |
| Current portion of long-term debt | 21,064 | 15,432 |
| Accounts payable and accrued expenses | 659,572 | 378,238 |
| Income taxes payable | 119,347 | 59,682 |
| ----- | | |
| Total current liabilities | 861,731 | 496,433 |
| Long-term debt | 279,807 | 209,114 |
| Deferred income taxes | 11,612 | 11,581 |
| Other non-current obligations | 28,726 | 19,273 |
| ----- | | |
| Total liabilities | 1,181,876 | 736,401 |
| ----- | | |
| Commitments and contingencies | -- | -- |
| ----- | | |
| Stockholders' equity: | | |
| Preferred stock; \$.01 par value per share; 1,000 shares authorized; no shares issued | -- | -- |
| Common stock; \$.01 par value per share; 200,000 shares authorized; 179,278 and 168,208 shares outstanding | 1,792 | 1,682 |
| Additional paid-in capital | 760,057 | 389,814 |
| Retained earnings | 999,979 | 545,926 |
| Cumulative translation adjustments | 21,675 | 28,842 |
| ----- | | |
| Total stockholders' equity | 1,783,503 | 966,264 |
| ----- | | |
| Total liabilities and stockholders' equity | \$2,965,379 | \$1,702,665 |
| ----- | | |

See accompanying notes to the consolidated financial statements.

consolidated STATEMENTS OF CASH FLOWS

| Fiscal year ended | 1995 | 1994 | 1993 |
|--|------------|------------|------------|
| ----- | | | |
| (In thousands) | | | |
| Cash flows from operating activities: | | | |
| Net income | \$ 454,053 | \$ 220,696 | \$ 99,695 |
| Adjustments required to reconcile net income to cash provided by operations: | | | |
| Depreciation and amortization | 83,231 | 59,051 | 38,894 |
| Equity in net loss of joint venture | -- | 3,727 | 3,189 |
| Deferred income taxes | (99,345) | (32,510) | (21,869) |
| Cumulative effect of a change in accounting for income taxes | -- | (7,000) | -- |
| Changes in assets and liabilities: | | | |
| Accounts receivable | (442,935) | (135,851) | (53,188) |
| Inventories | (186,412) | (80,507) | (42,731) |
| Other current assets | (43,097) | (18,216) | (18,342) |
| Other assets | (3,462) | (3,733) | (836) |
| Accounts payable and accrued expenses | 304,807 | 83,119 | 85,607 |
| Income taxes payable | 64,246 | 12,329 | 21,601 |
| Other non-current obligations | 11,613 | 9,919 | 4,938 |
| ----- | | | |
| Cash provided by operations | 142,699 | 111,024 | 116,958 |
| ----- | | | |
| Cash flows from investing activities: | | | |
| Capital expenditures | (265,557) | (180,440) | (95,351) |
| Investment in joint venture | -- | -- | (5,860) |
| Proceeds from sales of short-term investments | 351,230 | 151,305 | 155,668 |
| Purchases of short-term investments | (572,712) | (266,727) | (239,034) |
| ----- | | | |
| Cash used for investing | (487,039) | (295,862) | (184,577) |
| ----- | | | |
| Cash flows from financing activities: | | | |
| Short-term borrowings, net | 18,847 | (1,420) | 9,907 |
| Long-term debt borrowings | 134,992 | 98,594 | 5,505 |
| Long-term debt repayments | (51,303) | (7,256) | (9,158) |
| Sales of common stock, net | 370,353 | 134,263 | 21,566 |
| ----- | | | |
| Cash provided by financing | 472,889 | 224,181 | 27,820 |
| ----- | | | |
| Effect of exchange rate changes on cash | (3,024) | 1,380 | (57) |
| ----- | | | |
| Increase (decrease) in cash and cash equivalents | 125,525 | 40,723 | (39,856) |
| Cash and cash equivalents at beginning of year | 160,320 | 119,597 | 159,453 |
| ----- | | | |
| Cash and cash equivalents at end of year | \$ 285,845 | \$ 160,320 | \$ 119,597 |
| ----- | | | |

Cash payments for interest were \$22,349, \$14,120 and \$14,187 for 1995, 1994 and 1993, respectively. Cash payments for income taxes were \$221,430, \$79,498 and \$31,177 for 1995, 1994, and 1993, respectively.

See accompanying notes to the consolidated financial statements.

notes to consolidated FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation The consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of all significant intercompany balances and transactions. The Company's 50 percent joint venture investment in Applied Komatsu Technology, Inc. (AKT) is accounted for using the equity method and is included in other long-term assets. The Company's fiscal years reported are the 52- or 53-week periods which end on the last Sunday of October.

Cash Equivalents All highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

Short-Term Investments Prior to fiscal 1995, short-term investments were carried at cost, which approximated market value. Effective October 31, 1994, the Company adopted Statement of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities." SFAS 115 requires investment securities to be classified as trading, available for sale, or held to maturity. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the classification at each balance sheet date. As of October 29, 1995, all investments in the short-term investment portfolio are classified as available for sale. Under SFAS 115, investments classified as available for sale are required to be recorded at fair value and any temporary difference between an investment's cost and its fair value is required to be recorded as a separate component of stockholders' equity. This adoption had no material effect on the Company's financial statements. Prior year consolidated financial statements have not been restated to reflect this change.

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

Property, Plant and Equipment Property, plant and equipment is stated at cost. Depreciation is provided using a straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the useful lives of the improvements or the lease term, whichever is shorter. Gains and losses on sales of property, plant and equipment are reflected in income. Maintenance and repairs are charged to income as incurred. Improvements which extend the useful life of property, plant and equipment are capitalized.

Revenue Recognition Revenue related to systems is generally recognized upon shipment, which usually precedes customer acceptance. A provision for the estimated future cost of system installation and warranty is recorded at the time revenue is recognized. Service revenue is recognized ratably over the period of the related contract.

Derivative Financial Instruments In fiscal 1995, the Company adopted Statement of Financial Accounting Standards No. 119 (SFAS119), "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments." Estimated fair values have been determined using available market information and various valuation methods depending on the type of instrument. The Company enters into derivative financial instruments such as forward exchange contracts to hedge certain firm commitments denominated in foreign currencies and purchases currency option contracts to hedge certain anticipated, but not yet committed, transactions expected to be denominated in foreign currencies. The purpose of the Company's foreign currency management activity is to protect the Company from the risk that eventual cash flows from foreign currency denominated transactions

may be adversely affected by changes in exchange rates. The term of the currency instruments used is consistent with the timing of the committed or anticipated transactions being hedged. The Company does not hold or issue financial instruments for trading or speculative purposes. Deferred results of forward and option contracts are recognized in income when the related transactions being hedged are recognized.

Foreign Currency Translation The Company's subsidiaries located in Japan and Europe operate using local functional currencies. Accordingly, all assets and liabilities of these operations are translated at current exchange rates at the end of the period and revenues and costs at average exchange rates in effect during the period. The resulting cumulative translation adjustments are recorded as a separate component of stockholders' equity.

Subsidiaries in Korea and in the Asia-Pacific region use the U.S. dollar as the functional currency. Accordingly, assets and liabilities are translated at period-end exchange rates, except for inventories and property, plant and equipment, which are translated at historical rates. Revenues and expenses are translated at average exchange rates in effect during the period, except for costs related to balance sheet items which are held and translated at historical rates. Foreign currency translation gains and losses are included in income as they are incurred.

Earnings Per Share Earnings per common share and equivalents is computed using the weighted average number of common shares and equivalents outstanding (see note nine).

Reclassifications Certain amounts in fiscal years prior to fiscal 1995 have been reclassified to conform to the fiscal 1995 presentation.

2. Financial Instruments

Investments At October 29, 1995, the fair value of the Company's short-term investments approximated cost. Information about the contractual maturities of short-term investments at October 29, 1995 is as follows:

| | Due in One Year or Less | Due After One Year Through Three Years | Due After Three Years |
|---|----------------------------|--|--------------------------|
| ----- | | | |
| (In thousands) | | | |
| Obligations of States and Political Subdivisions | \$ 77,569 | \$ 25,375 | \$ 17,764 |
| U.S. Commercial Paper, Corporate Bonds and Medium-Term Notes | 90,492 | 13,169 | 7,079 |
| Bank Certificates of Deposit | 97,101 | -- | -- |
| U.S. Treasury Securities | 101,641 | 24,109 | 11,465 |
| Other Debt Securities | 3,150 | 8,687 | 5,886 |
| | ----- | ----- | ----- |
| | \$369,953 | \$ 71,340 | \$ 42,194 |
| | ----- | ----- | ----- |

At October 29, 1995, \$201,684,000 of investments in debt securities are included in cash and cash equivalents on the balance sheet.

Gross unrealized holding gains and losses and gross realized gains and losses on sales of short-term investments were not significant as of or for the year ended October 29, 1995. The Company manages its cash equivalents and short-term investments as a single portfolio of highly marketable securities, all of which are intended to be available to meet the Company's current cash requirements.

Derivative Financial Instruments At October 29, 1995, deferred premiums on purchased option contracts were \$4,682,000, and deferred gains and losses on forward contracts were not material. At October 29, 1995, the Company had forward exchange contracts to sell U.S. dollars for foreign currency with notional amounts of \$308,879,000 and forward exchange contracts to buy U.S. dollars for foreign currency with notional amounts of \$460,721,000. At October 29, 1995, the Company has currency option contracts to sell yen with gross notional amounts of \$400,000,000. All currency forward and option contracts have maturities of less than two years and are primarily to buy or sell Japanese yen in exchange for U.S. dollars. Management believes that these contracts should not subject the Company to undue risk from foreign exchange movements because gains and losses on these contracts should offset gains and losses on the assets, liabilities and transactions being hedged. The Company is exposed to credit-related losses in the event of nonperformance by counterparties to financial instruments, but it does not expect any counterparties to fail to meet their obligations.

Concentrations of Credit Risk Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash equivalents, short-term investments, trade accounts receivable, and financial instruments used in hedging activities.

The Company invests in a variety of financial instruments such as certificates of deposit, municipal bonds and treasury bills. The Company, by policy, limits the amount of credit exposure with any one financial institution or commercial issuer.

The Company's customers consist of semiconductor manufacturers located throughout the world. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from them. The Company maintains an allowance for uncollectible accounts receivable based upon expected collectibility of all accounts receivable.

Fair Value of Financial Instruments For certain of the Company's financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, notes payable, accounts payable, and accrued expenses, the carrying amounts approximate fair value due to their short maturities. Consequently, such instruments are not included in the following table which provides information regarding the estimated fair values of other financial instruments, both on and off the balance sheet:

| | 1995 | | 1994 | |
|--------------------------------------|-----------------|----------------------|-----------------|----------------------|
| | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| (In thousands) | | | | |
| Long-term debt | \$300,871 | \$316,599 | \$224,546 | \$221,471 |
| Forward exchange contracts:* | | | | |
| Sell foreign currency, primarily yen | \$408,200 | \$409,397 | \$214,637 | \$219,318 |
| Buy foreign currency, primarily yen | \$282,978 | \$283,770 | \$136,454 | \$139,921 |

*Notional amount

The estimated fair value for long-term debt is based primarily on quoted market prices for the same or similar issues. The fair value of forward exchange contracts is based on quoted market prices of comparable instruments. At October 29, 1995, the fair value of foreign currency option contracts was \$29,400,000 and the premiums paid were \$5,410,000. The fair value and premium amounts of foreign currency option contracts were not material as of October 30, 1994.

3. Inventories

| | 1995 | 1994 |
|-------------------------|-----------|-----------|
| ----- | | |
| (In thousands) | | |
| Customer service spares | \$131,411 | \$ 75,860 |
| Systems raw materials | 118,627 | 56,309 |
| Work-in-process | 139,537 | 81,389 |
| Finished goods | 37,838 | 32,152 |
| ----- | | |
| | \$427,413 | \$245,710 |
| ----- | | |

4. Property, Plant and Equipment

| | Useful Lives In Years | 1995 | 1994 |
|---|--------------------------|-----------|-----------|
| ----- | | | |
| (In thousands) | | | |
| Land | | \$ 62,710 | \$ 58,950 |
| Buildings and leasehold improvements | 2 - 65 | 342,629 | 266,892 |
| Demonstration and manufacturing equipment | 3 - 7 | 174,956 | 114,880 |
| Furniture, fixtures and other equipment | 3 - 10 | 176,408 | 110,951 |
| Construction in progress | | 102,960 | 70,917 |
| ----- | | | |
| | | 859,663 | 622,590 |
| Less accumulated depreciation | | 228,917 | 170,136 |
| ----- | | | |
| | | \$630,746 | \$452,454 |
| ----- | | | |

5. Applied Komatsu Technology Joint Venture

In September 1993, the Company entered into an agreement with Komatsu Ltd. to form Applied Komatsu Technology, Inc. (AKT), a joint venture corporation to develop, manufacture and market systems used to produce flat panel displays. The Company's initial investment in AKT aggregated \$6,916,000, which included the net book value of contributed cash and certain tangible and intangible assets, as well as the costs of formation. Komatsu Ltd. contributed \$35,000,000 of cash to AKT. The Company's investment in AKT was reduced to zero as a result of its share of AKT's net losses in fiscal 1993 and 1994. The difference between the Company's investment and its interest in the book value of AKT's net assets will be amortized when AKT achieves sustained profitability. Royalties received by the Company on AKT sales did not materially affect the Company's results of operations in fiscal 1995, 1994 or 1993.

6. Notes Payable

The Company has credit facilities for borrowings in various currencies up to \$250,595,000 on an unsecured basis; \$125,000,000 represents a revolving credit agreement in the U.S. with a group of eight banks. This agreement includes facility fees, allows for borrowings at rates including the lead bank's prime reference rate, requires compliance with certain financial and nonfinancial covenants and expires in September 1998. The remaining \$125,595,000 of credit facilities are primarily with Japanese and European banks at rates indexed to their prime reference rate. At October 29, 1995, \$61,748,000 was outstanding under Japanese credit facilities at an average annual rate of 2 percent.

7. Long-Term Debt

| | Interest Rate | Maturity Date | 1995 | 1994 |
|------------------------------------|---------------|---------------|-----------|-----------|
| (In thousands) | | | | |
| Secured Japanese debt | 1.55 - 5.55% | 1997 - 2010 | \$ 60,371 | \$ 49,546 |
| Unsecured senior notes | 9.62% | 1996 - 1999 | 67,500 | 75,000 |
| Noncallable unsecured senior notes | 8.00% | 2004 | 100,000 | 100,000 |
| Medium-term notes | 6.65 - 7.00% | 2000 - 2005 | 73,000 | -- |
| | | | 300,871 | 224,546 |
| Less current portion | | | 21,064 | 15,432 |
| | | | \$279,807 | \$209,114 |

Japanese debt is due in equal periodic installments and is secured by property and equipment having an approximate net book value of \$80,707,000 at October 29, 1995.

The unsecured senior notes are fixed-rate and require annual principal payments each April 1 from 1995 through 1999. There is a prepayment penalty based on current interest rates and the remaining time to maturity. The notes contain covenants that include limitations on additional borrowings, liens placed on assets, dividends and certain other major transactions, and require compliance with certain financial tests and ratios.

The noncallable unsecured senior notes are fixed-rate and require semi-annual interest payments on March 1 and September 1 with the principal payable in 2004. The notes contain certain financial covenants that include limitations on additional borrowings by U.S. subsidiaries, liens placed on assets, and sale and leaseback transactions.

On August 24, 1995, the Company commenced a program to offer from time to time up to \$266,931,000 in medium-term notes. At October 29, 1995, the Company had issued \$73,000,000 of fixed-rate notes, and the remaining notes may be issued at fixed or variable rates, as determined at the time of issuance. The notes contain certain financial covenants that include limitations on additional borrowings by U.S. subsidiaries, liens placed on assets, and sale and leaseback transactions.

Aggregate principal payments required on long-term debt are:

| | |
|----------------|-----------|
| (In thousands) | |
| 1996 | \$ 21,064 |
| 1997 | \$ 21,720 |
| 1998 | \$ 25,569 |
| 1999 | \$ 28,097 |
| 2000 | \$ 34,904 |
| Thereafter | \$169,517 |

8. Accounts Payable and Accrued Expenses

| | 1995 | 1994 |
|------------------------------------|-----------|-----------|
| ----- | | |
| (In thousands) | | |
| Accounts payable | \$244,014 | \$119,039 |
| Compensation and employee benefits | 109,388 | 70,474 |
| Installation and warranty | 133,035 | 77,057 |
| Unearned income | 32,530 | 24,324 |
| Other | 140,605 | 87,344 |
| ----- | | |
| | \$659,572 | \$378,238 |
| ----- | | |

9. Stockholders' Equity

On September 14, 1995, the Company declared a two-for-one stock split in the form of a 100 percent stock dividend to holders of record of the Company's common stock on September 26, 1995. The dividend shares were distributed to stockholders on October 12, 1995. All prior period common stock and applicable share data appearing in the consolidated financial statements and notes thereto have been restated to reflect this stock dividend.

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Retained Earnings | Cumulative Translation Adjustments |
|----------------------------------|------------------------|------------------------|----------------------------------|----------------------|--|
| ----- | | | | | |
| (In thousands) | | | | | |
| Balance at October 25, 1992 | 156,392 | \$1,564 | \$234,103 | \$225,535 | \$ 12,909 |
| Net issuances under stock plans* | 4,364 | 44 | 21,522 | -- | -- |
| Translation adjustments | -- | -- | -- | -- | 3,390 |
| Net income | -- | -- | -- | 99,695 | -- |
| ----- | | | | | |
| Balance at October 31, 1993 | 160,756 | 1,608 | 255,625 | 325,230 | 16,299 |
| Net issuances under stock plans* | 2,852 | 28 | 23,562 | -- | -- |
| Stock offering | 4,600 | 46 | 110,627 | -- | -- |
| Translation adjustments | -- | -- | -- | -- | 12,543 |
| Net income | -- | -- | -- | 220,696 | -- |
| ----- | | | | | |
| Balance at October 30, 1994 | 168,208 | 1,682 | 389,814 | 545,926 | 28,842 |
| Net issuances under stock plans* | 3,020 | 30 | 49,132 | -- | -- |
| Stock offering | 8,050 | 80 | 321,111 | -- | -- |
| Translation adjustments | -- | -- | -- | -- | (7,167) |
| Net income | -- | -- | -- | 454,053 | -- |
| ----- | | | | | |
| Balance at October 29, 1995 | 179,278 | \$1,792 | \$760,057 | \$999,979 | \$ 21,675 |
| ----- | | | | | |

* Includes 200 shares of treasury stock issued under stock plans in 1994. Includes tax benefits of \$36,940, \$27,402, and \$18,708 for 1995, 1994 and 1993, respectively.

In July 1995, the Company sold 8,050,000 shares of common stock in a public offering at a price of \$41.38 per share prior to underwriters' commissions. Proceeds after underwriters' commissions and other offering costs were \$321,191,000. In March 1994, the Company sold 4,600,000 shares of common stock in a public offering at a price of \$25.13 per share prior to underwriters' commissions. Proceeds after underwriters' commissions and other offering costs were \$110,673,000.

Common shares reserved for issuance upon exercise of outstanding stock options and shares available for future grants aggregated approximately 23,423,000 shares at October 29, 1995.

10. Employee Benefit Plans

Stock Options The Company grants options to key employees and non-employee directors to purchase its common stock at fair market value at the date of grant. Generally, options vest over a four-year period. The stock option plan provides for the payment of the stock option exercise price with cash or previously owned shares of the Company's common stock at fair market value. There were 9,454,000, 7,310,000, and 11,446,000 shares available for grant at the end of fiscal 1995, 1994 and 1993, respectively. Stock option activity was as follows:

| | 1995 | 1994 | 1993 |
|--|-----------|-----------|----------|
| ----- | | | |
| (In thousands, except per share data) | | | |
| Outstanding, beginning of year | 11,538 | 10,926 | 15,384 |
| Granted | 5,808 | 4,582 | 1,052 |
| Exercised | (3,049) | (3,522) | (5,294) |
| Canceled | (328) | (448) | (216) |
| ----- | | | |
| Outstanding, end of year | 13,969 | 11,538 | 10,926 |
| ----- | | | |
| Exercisable, end of year | 3,846 | 3,744 | 3,216 |
| ----- | | | |
| Consideration received for options exercised during year (ranging from \$2.41 to \$23.00 per share in 1995, \$1.44 to \$18.06 per share in 1994 and \$1.03 to \$9.44 per share in 1993) | \$ 13,545 | \$ 12,556 | \$13,123 |
| ----- | | | |
| Aggregate purchase price of options outstanding at end of year (ranging from \$2.41 to \$52.50 per share in 1995, \$2.38 to \$25.50 per share in 1994 and \$1.03 to \$18.06 per share in 1993) | \$294,585 | \$112,114 | \$46,451 |
| ----- | | | |

Employee Stock Purchase Plan On September 25, 1995, the Company's Board of Directors approved an Employee Stock Purchase Plan which provides substantially all employees with the right to acquire shares of the Company's common stock based on a percentage of compensation. The purchase price will be equal to 85% of the lower of the fair market values as of the beginning or end of the six-month offering period. The plan is effective December 1, 1995.

Employee Bonus Plans The Company has various employee bonus plans. A profit sharing bonus plan distributes a percentage of pretax profits to substantially all of the Company's employees up to a maximum percentage of compensation. Another plan awards annual bonuses to the Company's executive staff based on the achievement of profitability and other specific performance criteria. The Company also has agreements with certain key technical employees that provide for additional compensation related to the success of new product development as well as achievement of specified profitability criteria. Charges to expense under these plans were \$55,805,000, \$31,166,000 and \$19,838,000 in fiscal 1995, 1994 and 1993, respectively.

Employee Savings and Retirement Plan The Employee Savings and Retirement Plan is qualified under Section 401(k) of the Internal Revenue Code. The Company contributes a percentage of the amount of salary deferral contributions made by each participating employee. Company contributions become 20 percent vested after an employee's third year of service and vest an additional 20 percent for each year of service thereafter, becoming fully vested after seven years of service. All Company contributions are invested in the Company's common stock. Expenses were \$14,837,000, \$6,417,000 and \$4,935,000 for fiscal 1995, 1994 and 1993, respectively.

Defined Benefit Plans of Foreign Subsidiaries Certain of the Company's foreign subsidiaries have defined benefit pension plans covering substantially all of their eligible employees. The benefits under these plans are based on years of service and final average compensation levels. Funding is limited to statutory requirements. The provisions under these plans aggregated \$4,240,000, \$3,344,000 and \$2,973,000, consisting principally of service cost, for fiscal 1995, 1994 and 1993, respectively. The aggregate accumulated benefit obligation, projected benefit obligation and fair value of plan assets at October 29, 1995 were \$15,769,000, \$22,623,000 and \$8,125,000, respectively.

11. Income Taxes

Effective November 1, 1993, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes." The Company adopted SFAS 109 prospectively, and amounts presented for fiscal 1993 have not been restated. The cumulative effect of adopting SFAS 109 resulted in a one-time credit of \$7,000,000, or \$0.04 per share, and is reported separately in the consolidated statement of operations. Adoption of SFAS 109 did not have any other significant effects on the fiscal 1994 tax provision.

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

Provisions are made for estimated United States and foreign income taxes, less available tax credits and deductions, which may be incurred on the remittance of the Company's share of foreign subsidiaries' undistributed earnings.

The components of income from consolidated companies before taxes and cumulative effect of accounting change were as follows:

| | 1995 | 1994 | 1993 |
|--|-----------|-----------|-----------|
| ----- | | | |
| (In thousands) | | | |
| U.S. | \$584,804 | \$276,483 | \$132,434 |
| Foreign | 113,739 | 58,014 | 21,124 |
| ----- | | | |
| Income from consolidated companies before taxes and cumulative effect of accounting change | \$698,543 | \$334,497 | \$153,558 |
| ----- | | | |

The components of the provision for income taxes were as follows:

| | 1995 | 1994 | 1993 |
|----------------------------|-----------|------------|-----------|
| ----- | | | |
| (In thousands) | | | |
| Current: | | | |
| U.S. | \$243,576 | \$ 96,106 | \$ 47,050 |
| Foreign | 62,627 | 32,343 | 14,170 |
| State | 37,378 | 17,083 | 11,259 |
| ----- | | | |
| | 343,581 | 145,532 | 72,479 |
| ----- | | | |
| Deferred: | | | |
| U.S. | (90,264) | (21,672) | (18,015) |
| Foreign | (4,179) | (4,555) | (3,790) |
| State | (4,648) | (2,231) | -- |
| ----- | | | |
| | (99,091) | (28,458) | (21,805) |
| ----- | | | |
| Provision for income taxes | \$244,490 | \$117,074* | \$ 50,674 |
| ----- | | | |

*Excludes cumulative effect of accounting change.

The provision for income taxes differs from the amount computed by applying the statutory U.S. federal income tax rate as follows:

| | 1995 | 1994 | 1993 |
|--|-----------|------------|-----------|
| ----- | | | |
| (In thousands) | | | |
| Tax provision at U.S. statutory rate | \$244,490 | \$117,074 | \$ 53,438 |
| Effect of foreign operations taxed at various rates | 16,457 | 7,480 | 2,643 |
| State income taxes, net of federal benefit | 21,274 | 9,654 | 7,341 |
| Research tax credits | (4,273) | (3,063) | (1,690) |
| FSC benefit | (14,770) | (6,900) | (4,566) |
| Tax exempt interest | (2,514) | (1,600) | (1,379) |
| Foreign tax credits | (18,352) | (6,808) | (5,193) |
| Other | 2,178 | 1,237 | 80 |
| ----- | | | |
| Provision for income taxes | \$244,490 | \$117,074* | \$ 50,674 |
| ----- | | | |

*Excludes cumulative effect of accounting change.

The components of the net deferred income tax asset under SFAS 109 are as follows:

| | 1995 | 1994 |
|---|-----------|-----------|
| ----- | | |
| (In thousands) | | |
| Deferred tax assets: | | |
| Inventory reserves and basis difference | \$ 41,203 | \$ 20,366 |
| Warranty and installation reserves | 51,594 | 23,470 |
| Other | 106,091 | 55,930 |
| Deferred tax liabilities: | | |
| Depreciation | (9,636) | (2,681) |
| Other | (1,976) | (8,900) |
| ----- | | |
| Net deferred tax assets | \$187,276 | \$ 88,185 |
| ----- | | |

For fiscal 1993, the components of the deferred tax provision under APB 11 were as follows:

| | 1993 |
|--|------------|
| ----- | |
| (In thousands) | |
| Net increase in financial accruals not currently tax deductible: | |
| Warranty and installation | \$ (6,617) |
| Other financial accruals | (11,377) |
| Difference in tax versus book depreciation | 1,207 |
| Cost inventoriable for tax, not for books | 138 |
| Other | (5,156) |
| ----- | |
| Total deferred tax provision | \$(21,805) |
| ----- | |

12. Industry Segment and Foreign Operations

The Company currently operates exclusively in the semiconductor wafer fabrication equipment industry. The Company's sales and service operations are the principal revenue producing activities. For geographical reporting, revenues are attributed to the geographic location of the sales and service organizations, and costs directly and indirectly incurred in generating revenues are similarly assigned. Corporate assets consist primarily of cash, cash equivalents and short-term investments. Corporate operating expenses consist primarily of general and administrative expenses not allocable to geographic regions.

During fiscal years 1995 and 1994, no sales to individual customers were greater than 10 percent of net sales. Sales to one customer represented 16 percent of the Company's net sales in 1993.

| | Net Sales | Income from Operations | Total Assets |
|----------------|-------------|---------------------------|--------------|
| ----- | | | |
| (In thousands) | | | |
| ----- | | | |
| 1995: | | | |
| North America | \$ 988,709 | \$ 228,247 | \$1,226,231 |
| Japan | 790,773 | 150,893 | 574,914 |
| Korea | 504,273 | 205,766 | 46,557 |
| Europe | 470,609 | 103,617 | 249,216 |
| Asia-Pacific | 307,517 | 120,002 | 183,290 |
| Corporate | -- | (114,593) | 685,171 |
| ----- | | | |
| Consolidated | \$3,061,881 | \$ 693,932 | \$2,965,379 |
| ----- | | | |
| 1994: | | | |
| North America | \$ 611,670 | \$ 139,562 | \$ 724,093 |
| Japan | 454,939 | 75,324 | 378,571 |
| Korea | 192,260 | 57,374 | 30,996 |
| Europe | 292,189 | 77,956 | 121,822 |
| Asia-Pacific | 108,749 | 38,101 | 52,809 |
| Corporate | -- | (49,080) | 394,374 |
| ----- | | | |
| Consolidated | \$1,659,807 | \$ 339,237 | \$1,702,665 |
| ----- | | | |
| 1993: | | | |
| North America | \$ 405,991 | \$ 71,338 | \$ 454,085 |
| Japan | 269,552 | 8,961 | 255,827 |
| Korea | 105,396 | 34,184 | 14,625 |
| Europe | 218,825 | 49,322 | 104,110 |
| Asia-Pacific | 80,283 | 34,602 | 34,071 |
| Corporate | -- | (37,413) | 257,434 |
| ----- | | | |
| Consolidated | \$1,080,047 | \$ 160,994 | \$1,120,152 |
| ----- | | | |

Intercompany transfers of products from the United States to other regions were \$1,267,077,000, \$538,442,000 and \$370,668,000 in fiscal years 1995, 1994 and 1993, respectively, and from Europe were \$81,429,000, \$67,934,000 and \$28,462,000 in 1995, 1994 and 1993, respectively. Transfers and commission arrangements between geographic areas are at prices sufficient to recover a reasonable profit. At October 29, 1995, net accounts receivable from customers located in the United States were \$160,095,000, while net accounts receivable from customers located in Japan, Korea, Europe and the Asia-Pacific regions were \$368,895,000, \$58,571,000, \$141,195,000, and \$88,974,000, respectively.

13. Commitments and Contingencies

The Company leases certain of its facilities and equipment under noncancelable operating leases and has options to renew most leases, with rentals to be negotiated. In February 1993, the Company entered into a four-year operating lease for previously leased office and general operating facilities in Santa Clara, California, providing for monthly payments which vary based on the London interbank offering rate (LIBOR). At the end of this lease, the Company has the option to acquire the property at its original cost or arrange for the property to be acquired. The Company is contingently liable under an 85 percent first-loss clause for up to \$33,786,000 at October 29, 1995. Management believes that this contingent liability will not have a material adverse effect on the Company's financial position or results of operations. In addition, the Company must maintain compliance with financial covenants similar to those included in its credit facilities.

Total rent expense in fiscal 1995, 1994 and 1993 was \$41,672,000, \$28,083,000 and \$23,870,000, respectively. Aggregate minimum future rental commitments are:

(In thousands)

| | |
|------------|----------|
| 1996 | \$38,909 |
| 1997 | 28,549 |
| 1998 | 18,630 |
| 1999 | 13,138 |
| 2000 | 9,449 |
| Thereafter | 62,018 |

Selected trade notes, representing Japan's accounts receivable, are discounted at financial institutions with recourse. As of October 29, 1995, \$107,447,000 of such receivables were outstanding.

The Company is the plaintiff in two patent infringement lawsuits against another company. The defendant has filed a counterclaim in one of these lawsuits and has other claims against the Company in three separate patent infringement lawsuits. The Company has also filed a declaratory judgment action against the aforementioned company. Trials have been successfully completed in the two lawsuits initiated by the Company; the Court found the Company's patents valid and infringed. The Company also initiated a suit for patent infringement against a second company; the defendant filed counterclaims for unfair competition which were severed and stayed. The Company recently filed a second suit against this same company alleging claims of patent infringement and seeking a declaration of invalidity of the defendant's patents. The defendant company also filed suit against the Company on the same patents. Finally, the Company is named as a defendant in a lawsuit in which the plaintiff alleges the Company infringes five patents. The Company is also named as a defendant in other litigation arising in the normal course of business. Also in the normal course of business, the Company from time to time receives and makes inquiries with regard to possible patent infringement. Management believes that it is unlikely that the outcome of these lawsuits or of the patent infringement inquiries will have a material adverse effect on the Company's financial position or results of operations.

14. Unaudited Quarterly Consolidated Financial Data

| | Quarter | | | | Total Year |
|---------------------------------------|-----------|-----------|-----------|-----------|---------------|
| | First | Second | Third | Fourth | |
| (In thousands, except per share data) | | | | | |
| 1995: | | | | | |
| Net sales | \$506,108 | \$675,439 | \$897,684 | \$982,650 | \$3,061,881 |
| Gross margin | 238,012 | 305,010 | 408,428 | 458,398 | 1,409,848 |
| Net income | 65,808 | 93,635 | 139,212 | 155,398 | 454,053 |
| Earnings per share | .38 | .54 | .78 | .84 | 2.56 |

| | Quarter | | | | Total Year |
|---|-----------|-----------|-----------|-----------|---------------|
| | First | Second | Third | Fourth | |
| (In thousands, except per share data) | | | | | |
| 1994: | | | | | |
| Net sales | \$340,449 | \$411,332 | \$440,228 | \$467,798 | \$1,659,807 |
| Gross margin | 155,979 | 189,391 | 205,572 | 217,353 | 768,295 |
| Income before cumulative effect of accounting change | 37,391 | 55,071 | 58,136 | 63,098 | 213,696 |
| Net income | 44,391 | 55,071 | 58,136 | 63,098 | 220,696 |
| Earnings per share: Income before cumulative effect of accounting change | .22 | .32 | .34 | .37 | 1.26 |
| Net income | .27 | .32 | .34 | .37 | 1.30 |

Management is responsible for the preparation and integrity of the consolidated financial statements appearing in the Annual Report. The financial statements were prepared in conformity with generally accepted accounting principles appropriate in the circumstances and, accordingly, include some amounts based on management's best judgments and estimates. Financial information in the Annual Report is consistent with that in the financial statements.

Management is responsible for maintaining a system of internal business controls and procedures to provide reasonable assurance, at an appropriate cost/benefit relationship, that assets are safeguarded and that transactions are authorized, recorded and reported properly. The internal control system is augmented by appropriate reviews by management, written policies and guidelines, careful selection and training of qualified personnel, and a written Code of Business Ethics applicable to all employees of the Company. Management believes that the Company's internal controls provide reasonable assurance that assets are safeguarded against material loss from unauthorized use or disposition and that the financial records are reliable for preparing financial statements and other data and maintaining accountability for assets.

The Audit Committee of the Board of Directors, composed solely of Directors who are not officers of the Company, meets periodically with the independent accountants, our internal auditors and management to discuss internal business controls, auditing and financial reporting matters. The Committee reviews with the independent accountants the scope and results of the audit effort. The Committee also meets with the independent accountants without management present to ensure that the independent accountants have free access to the Committee.

The independent accountants, Price Waterhouse LLP, are engaged to examine the consolidated financial statements of the Company and conduct such tests and related procedures as they deem necessary in accordance with generally accepted auditing standards. The opinion of the independent accountants, based upon their audit of the consolidated financial statements, is contained in this Annual Report.

/s/ James C. Morgan

/s/ James W. Bagley

James C. Morgan
Chairman and Chief Executive Officer

James W. Bagley
Vice Chairman and Chief Operating Officer

/s/ Dan Maydan

/s/ Gerald F. Taylor

Dan Maydan
President

Gerald F. Taylor
Senior Vice President, Finance and
Chief Financial Officer

November 22, 1995

To the Stockholders and Board of Directors of Applied Materials, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and of cash flows present fairly, in all material respects, the financial position of Applied Materials, Inc. and its subsidiaries at October 29, 1995 and October 30, 1994 and the results of their operations and their cash flows for each of the three years in the period ended October 29, 1995, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in Note 11 to the consolidated financial statements, the Company changed its method of accounting for income taxes effective November 1, 1993.

Price Waterhouse LLP

San Jose, California
November 22, 1995

Stockholders' Information

Legal Counsel
Orrick, Herrington & Sutcliffe
San Francisco, California

Independent Accountants
Price Waterhouse LLP
San Jose, California

Number of Registered Stockholders: 1,619

Stock Listing
Applied Materials, Inc. is traded on the
Nasdaq National Market, Nasdaq Symbol: AMAT

Transfer Agent
Harris Trust Company of California
Los Angeles, California

Form 10-K
A copy of Applied Materials' 10-K Annual Report,
filed with the Securities and Exchange Commission,
which contains additional information relating to the
Company, is available without charge. We welcome
questions from potential and existing stockholders.

Please contact:
William W. Ong
Manager, Investor Relations
Applied Materials, Inc.
3050 Bowers Avenue
Santa Clara, California 95054-3299
(800) 882-0373

Stock Price History

| Fiscal Year | 1995 | | 1994 | |
|----------------|----------|---------|--------|----------|
| | High | Low | High | Low |
| First Quarter | 26 1/4 | 19 1/2 | 21 7/8 | 15 |
| Second Quarter | 30 13/16 | 19 1/4 | 25 7/8 | 18 13/16 |
| Third Quarter | 53 11/16 | 30 1/16 | 24 5/8 | 19 3/8 |
| Fourth Quarter | 59 1/8 | 45 3/8 | 26 1/4 | 21 1/2 |

The preceding table sets forth the high and low closing sale prices as reported on the Nasdaq National Market during the last two years. Stock prices reported prior to October 12, 1995 have been restated to reflect the two-for-one stock split in the form of a 100 percent stock dividend (see note nine to the consolidated financial statements).

APPENDIX TO 1995 ANNUAL REPORT
DESCRIPTION OF GRAPHS

In this Appendix, the following descriptions of certain graphs in the Company's 1995 Annual Report that are omitted from the EDGAR version are more specific with respect to the actual numbers, amounts and percentages than is determinable from the graphs themselves. The Company submits such more specific descriptions only for the purpose of complying with the requirements for transmitting this Annual Report on Form 10-K electronically via EDGAR; such more specific descriptions are not intended in any way to provide information that is additional to the information otherwise provided in the Annual Report.

Page Number 26

Graph Title: REVENUE PER EMPLOYEE
(Dollars in thousands)

Bar graph with horizontal axis containing years 1995, 1994, 1993, 1992, and 1991 and vertical axis containing thousands of dollars. Revenue per employee is \$291, \$255, \$228, \$192, and \$180 thousand for 1995, 1994, 1993, 1992, and 1991, respectively.

Page Number 26

Graph Title: TOTAL ASSETS
(Dollars in millions)

Bar graph with horizontal axis containing years 1995, 1994, 1993, 1992, and 1991 and vertical axis containing dollars in millions. Assets are split by Cash and Short-term Investments and Other Assets. Cash and Short-term Investments are \$769, \$422, \$266, \$223, and \$140 million for 1995, 1994, 1993, 1992, and 1991, respectively. Other Assets are \$2,196, \$1,280, \$854, \$631, and \$521 million for 1995, 1994, 1993, 1992, and 1991, respectively.

Page Number 26

Graph Title: DEBT TO EQUITY RATIO
(Percent)

Bar graph with horizontal axis containing years 1995, 1994, 1993, 1992, and 1991 and vertical axis containing percent. Debt to equity ratio is 17%, 22%, 22%, 24%, and 33% for 1995, 1994, 1993, 1992, and 1991, respectively.

Page Number 27

Graph Title: SALES BY GEOGRAPHIC REGION
(Dollars in millions)

Bar graph with horizontal axis containing years 1995, 1994, 1993, 1992, and 1991 and vertical axis containing dollars in millions. Each bar is split by the United States, Japan, Europe, Korea, and Asia-Pacific. The following table lists the amount of net sales by geographic region in millions of dollars:

| SALES BY GEOGRAPHIC REGION | 1991 | 1992 | 1993 | 1994 | 1995 |
|----------------------------|---------|---------|-----------|-----------|----------|
| | ---- | ---- | ---- | ---- | ---- |
| U.S. | \$216.5 | \$296.7 | \$ 406.0 | \$ 611.7 | \$ 988.7 |
| Japan | 258.4 | 227.3 | 269.6 | 455.0 | 790.8 |
| Europe | 95.3 | 136.1 | 218.7 | 292.1 | 470.6 |
| Korea | 34.2 | 46.7 | 105.4 | 192.2 | 504.2 |
| Asia-Pacific | 34.2 | 44.6 | 80.3 | 108.8 | 307.5 |
| | ----- | ----- | ----- | ----- | ----- |
| Total | \$638.6 | \$751.4 | \$1,080.0 | \$1,659.8 | \$3061.8 |
| | ===== | ===== | ===== | ===== | ===== |

Page Number 28

Graph Title: R D & E EXPENSES
(Dollars in millions)

Bar graph with horizontal axis containing years 1995, 1994, 1993, 1992, and 1991 and vertical axis containing dollars in millions. Data contained in the graph is located on page 26 of the 1995 Annual Report in the Selected Consolidated Financial Data Table on the Research, development and engineering line item.

Page Number 29

Graph Title: CAPITAL EXPENDITURES
(Dollars in millions)

Bar graph with horizontal axis containing years 1995, 1994, 1993, 1992, and 1991 and vertical axis containing dollars in millions. Capital expenditures are split by Land, Buildings and Improvements and Other. Land, Buildings and Improvements are \$118, \$107, \$49, \$33, and \$45 million for 1995, 1994, 1993, 1992, and 1991, respectively. Other is \$148, \$73, \$46, \$28, and \$18 million for 1995, 1994, 1993, 1992, and 1991, respectively.

Page Number 30

Graph Title: WORKING CAPITAL
(Dollars in millions)

Bar graph with horizontal axis containing years 1995, 1994, 1993, 1992, and 1991, and vertical axis containing dollars in millions. Data contained in the graph is located on page 26 of the 1995 Annual Report in the Selected Consolidated Financial Data Table on the Working capital line item.

SUBSIDIARIES OF APPLIED MATERIALS, INC.

| Subsidiaries of Applied Materials, Inc. | State or Country of Incorporation or Organization |
|---|---|
| ----- | ----- |
| Applied Materials Japan, Inc. | Japan |
| Applied Materials Europe BV | (1) Netherlands |
| Applied Materials International BV | Netherlands |
| Applied Acquisition Subsidiary | California |
| Applied Materials International, Inc. | California |
| Applied Materials (Holdings) | (2) California |
| Applied Materials Asia-Pacific, Ltd. | (3) Delaware |
| Applied Materials Israel, Ltd. | Israel |
| ----- | ----- |
| (1) Applied Materials Europe BV owns the following subsidiaries: | |
| Applied Materials GmbH | Germany |
| Applied Materials France SARL | France |
| Applied Materials Ltd. | England |
| Applied Materials Ireland Ltd. | Ireland |
| Applied Materials Sweden AB | Sweden |
| Applied Materials Israel Services (1994) Ltd. | Israel |
| ----- | ----- |
| (2) Applied Materials (Holdings) owns the following subsidiary: | |
| Applied Implant Technology, Ltd. | California |
| ----- | ----- |
| (3) Applied Materials Asia-Pacific, Ltd. owns the following subsidiaries: | |
| Applied Materials Korea, Ltd. | Korea |
| Applied Materials Taiwan, Ltd. | Taiwan |
| Applied Materials South East Asia, Ltd. | Singapore |
| Applied Materials China, Ltd. | Hong Kong |
| ----- | ----- |
| 50-50 joint venture between Applied Materials, Inc. and Komatsu Ltd.: | |
| Applied Komatsu Technology, Inc. | Japan |

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. ; 2-69114; 2-77988; 2-77987; 2-85545; 2-94205; 33-24530; 33-24531; 33-52072; 33-52076; 33-63847; 33-64285) and to the incorporation by reference in the Prospectus constituting part of the Registration Statement on Form S-3 (No. 33-60301) of Applied Materials, Inc. of our report dated November 22, 1995 appearing on page 48 of the Annual Report to Stockholders which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report on the Financial Statement Schedule, which appears on page 21 of this Annual Report on Form 10-K.

/s/ Price Waterhouse LLP

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Price Waterhouse LLP
San Jose, California
January 11 , 1996

POWER OF ATTORNEY

The undersigned directors and officers of Applied Materials, Inc., a Delaware corporation (the "Company") hereby constitute and appoint James C. Morgan and Gerald F. Taylor, and each of them with full power to act without the other, the undersigned's true and lawful attorney-in-fact, with full power of substitution and resubstitution, for the undersigned and in the undersigned's name, place and stead in the undersigned's capacity as an officer and/or director of the Company, to execute in the name and on behalf of the undersigned an annual report of the Company on Form 10-K for the fiscal year ended October 29, 1995 (the "Report"), under the Securities and Exchange Act of 1934, as amended, and to file such Report, with exhibits thereto and other documents in connection therewith and any and all amendments thereto, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing necessary or desirable to be done and to take any other action of any type whatsoever in connection with the foregoing which, in the opinion of such attorney-in-fact, may be of benefit to, in the best interest of, or legally required of, the undersigned, it being understood that the documents executed by such attorney-in-fact on behalf of the undersigned pursuant to this Power of Attorney shall be in such form and shall contain such terms and conditions as such attorney-in-fact may approve in such attorney-in-fact's discretion.

IN WITNESS WHEREOF, I have hereunto set my hand this 7th day of December, 1995.

/s/ MICHAEL H. ARMACOST

Michael H. Armacost
Director

/s/ HERBERT M. DWIGHT, JR.

Herbert M. Dwight, Jr.
Director

/s/ GEORGE B. FARNSWORTH

George B. Farnsworth
Director

/s/ PHILIP V. GERDINE

Philip V. Gerdine
Director

/s/ TSUYOSHI KAWANISHI

Tsuyoshi Kawanishi
Director

/s/ PAUL R. LOW

Paul R. Low
Director

/s/ ALFRED J. STEIN

Alfred J. Stein
Director

/s/ JAMES C. MORGAN

James C. Morgan
Chairman, Chief Executive Officer
and Director (Principal Executive
Officer)

/s/ JAMES W. BAGLEY

James W. Bagley
Vice Chairman and Director

/s/ DAN MAYDAN

Dan Maydan
President and Director

/s/ GERALD F. TAYLOR

Gerald F. Taylor
Senior Vice President and Chief
Financial Officer (Principal
Financial Officer)

/s/ MICHAEL K. O'FARRELL

Michael K. O'Farrell
Corporate Controller (Principal
Accounting Officer)

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE
 CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED OCTOBER 29, 1995.

1,000

| YEAR | | |
|-----------|-------------|-----------|
| | OCT-29-1995 | |
| | OCT-29-1995 | |
| | | 285,845 |
| | | 483,487 |
| | | 820,747 |
| | | 3,017 |
| | | 427,413 |
| | 2,311,613 | |
| | | 859,663 |
| | | 228,917 |
| | 2,965,379 | |
| 861,731 | | 300,871 |
| | 1,792 | |
| | | 0 |
| | | 0 |
| | | 1,781,711 |
| 2,965,379 | | |
| | | 3,061,881 |
| | 3,061,881 | |
| | | 1,652,033 |
| | | 1,652,033 |
| | | 329,676 |
| | | 0 |
| | | 21,401 |
| | | 698,543 |
| | | 244,490 |
| 454,053 | | |
| | | 0 |
| | | 0 |
| | | 0 |
| | | 454,053 |
| | | 2.56 |
| | | 2.56 |