



## **Applied Materials Announces Results for Third Fiscal Quarter 1998; New Orders of \$608 Million, Net Sales of \$884 Million**

August 11, 1998

**SANTA CLARA, Calif.--(BUSINESS WIRE)--Aug. 11, 1998--**Applied Materials, Inc. (NASDAQ/NMS:AMAT), the world's largest supplier of wafer fabrication systems and services to the global semiconductor industry, reported results for its third fiscal quarter ended July 26, 1998, with net sales of \$884 million, down 16 percent from \$1.06 billion for the third fiscal quarter of 1997 and down 25 percent from \$1.18 billion for the second fiscal quarter of 1998. Ongoing net income (net income, excluding one-time items, as applicable) for the third fiscal quarter of 1998 was \$70.6 million, or \$0.19 per diluted share, down from \$145.2 million, or \$0.38 per diluted share, for the third fiscal quarter of 1997, and down from \$141.2 million, or \$0.37 per diluted share, for the second fiscal quarter of 1998. Strong asset management performance resulted in a record \$1.6 billion of cash and short-term investments as of the end of the third fiscal quarter.

New orders of \$608 million for the third fiscal quarter of 1998 decreased significantly from \$1.24 billion for the third fiscal quarter of 1997 and from \$1.03 billion for the second fiscal quarter of 1998. Geographically, North America new orders for the third fiscal quarter of 1998 were 45 percent of the Company's total new orders, Europe 11 percent, Japan 18 percent, Korea 5 percent, Taiwan 20 percent and Southeast Asia and China 1 percent. Backlog at the end of the third fiscal quarter of 1998 decreased to \$1 billion, from \$1.41 billion at the end of the second fiscal quarter of 1998.

"The semiconductor industry downturn continued to deepen during our third fiscal quarter because of poor economic conditions in Asia, industry overcapacity, and weaker than expected PC sales, compounded by a movement to lower priced PCs," said James C. Morgan, chairman and chief executive officer. "The sharp decline in new orders and net sales was broad-based, as customers in all regions reacted to further business difficulties by delaying equipment deliveries and investments in capacity and strategic programs. At this time, we are unable to predict how long this cycle will last, and are therefore assessing the appropriate level of infrastructure necessary to support a lower business volume, while assuring our industry leadership position."

Gross margin for the third fiscal quarter of 1998 was 44.6 percent, down from 47.2 percent for the third fiscal quarter of 1997 and down from 47.1 percent for the second fiscal quarter of 1998. Ongoing net income as a percentage of net sales was 8 percent for the third fiscal quarter of 1998, compared to 13.7 percent for the third fiscal quarter of 1997 and 12 percent for the second fiscal quarter of 1998. The Company's results of operations for the third fiscal quarter of 1998 include a pre-tax restructuring charge of \$35 million, or \$0.06 per diluted share after tax, associated with a voluntary separation plan that was announced on May 26, 1998, together with a consolidation of certain facilities. In addition, the Company changed its effective income tax rate for fiscal 1998 from 35 percent to 34 percent. The effect on ongoing net income of recording this change in the third fiscal quarter of 1998 was a favorable \$5.7 million, or \$0.02 per diluted share. Results of operations for the third fiscal quarter of 1997 included \$80 million of pre-tax non-operating income, or \$0.14 per diluted share after tax, from a litigation settlement and a pre-tax bad debt expense of \$16.3 million, or \$0.03 per diluted share after tax.

"Industry downturns provide an excellent opportunity to work closely with our customers to develop and commercialize leading-edge technologies that position the Company for significant growth," continued Morgan. For example, during the 1996 downturn, the Company developed its Ultima HDP-CVD(tm) (high density plasma - chemical vapor deposition) Centura(R) and Mirra(R) CMP (chemical mechanical polishing) products, which are now market leaders. Today, the Company is continuing its strategy by developing and qualifying a broad range of Total Solutions(tm) for the industry's most challenging device structure requirements.

Applied Materials most recently demonstrated its technology leadership with the introduction of the Producer(tm), a high-throughput system for depositing blanket dielectric films, including low dielectric constant (low k) films for copper interconnects. The Producer has a unique new architecture that supports both 200mm and 300mm wafer production. In addition, the Endura(R) Electra Cu(tm) system has established market leadership in depositing critical barrier and seed layers for copper interconnects. These products further extend the Company's range of technologies and processes that will enable chipmakers to build next-generation interconnect structures for all types of semiconductors.

"Despite the current challenges facing the industry, we remain confident about our long-term growth opportunities. Based on established relationships with our customers, a broad portfolio of advanced products and a strong balance sheet, we believe Applied Materials is well-positioned to emerge from this downturn with greater capabilities to enable our customers' success," concluded Morgan.

This press release contains certain forward-looking statements that are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. In addition to the possible exacerbation of the factors discussed above, such risks and uncertainties include, but are not limited to, the ability of the Company to timely align its cost structure with prevailing market conditions and the successful and timely development of new markets, products, processes and services. The Company assumes no obligation to update the information in this press release.

Applied Materials, Inc. is a Fortune 500 global growth company and the world's largest supplier of wafer fabrication systems and services to the global semiconductor industry. Applied Materials is traded on the Nasdaq National Market under the symbol, "AMAT". Applied Materials' website is <http://www.AppliedMaterials.com>.

Applied Materials, Inc.  
Consolidated Statements of Operations  
(Unaudited)  
(In thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	July 26, 1998	July 27, 1997	July 26, 1998	July 27, 1997
Net sales	\$ 884,491	\$1,057,241	\$3,368,492	\$2,793,879
Cost of products sold	490,102	558,345	1,790,373	1,509,310
Gross margin	394,389	498,896	1,578,119	1,284,569
Operating expenses:				
Research, development and engineering	154,044	143,880	518,310	392,345
Marketing and selling	79,896	81,191	250,974	222,427
General and administrative	69,667	60,569	212,180	179,794
Restructuring	35,000	--	35,000	--
Bad debt expense	--	16,318	--	16,318
Acquired in-process research and development	--	--	32,227	59,500
Income from operations	55,782	196,938	529,428	414,185
Income from litigation settlement	--	80,000	80,000	80,000
Interest expense	11,282	4,851	35,031	15,586
Interest income	18,868	15,038	58,377	43,193
Income from consolidated companies before taxes	63,368	287,125	632,774	521,792
Provision for income taxes	15,851	100,494	215,143	203,453
Income from consolidated companies	47,517	186,631	417,631	318,339
Equity in net income/(loss) of joint venture	--	--	--	--
Net income	\$ 47,517	\$ 186,631	\$ 417,631	\$ 318,339
Earnings per share:(a)				
Basic	\$ 0.13	\$ 0.51	\$ 1.14	\$ 0.88
Diluted	\$ 0.13	\$ 0.49	\$ 1.10	\$ 0.85
Weighted average number of shares:(a)				
Basic	366,942	364,012	366,584	362,662
Diluted	378,072	379,218	378,808	375,540

(a) Amounts for the three and nine months ended July 27, 1997 have been retroactively restated to reflect a two-for-one stock split in the form of a 100 percent stock dividend, effective October 13, 1997.

Applied Materials, Inc.  
Consolidated Condensed Balance Sheets(b)

(In thousands)	July 26, 1998	Oct. 26, 1997
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ASSETS

Current assets:

Cash and cash equivalents	\$ 387,057	\$ 448,043
Short-term investments	1,215,710	1,094,912
Accounts receivable, net	814,883	1,110,885
Inventories	632,513	686,451
Deferred income taxes	324,144	324,568
Other current assets	208,871	105,498
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Total current assets	3,583,178	3,770,357
Property, plant and equipment, net	1,234,151	1,066,053
Other assets	222,427	234,356
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Total assets	\$ 5,039,756	\$ 5,070,766
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Notes payable	\$ 153	\$ 55,943
Current portion of long-term debt	6,444	10,563
Accounts payable and accrued expenses	933,434	1,157,808
Income taxes payable	117,314	177,774
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Total current liabilities	1,057,345	1,402,088
Long-term debt	611,812	623,090
Deferred income taxes and other liabilities	110,396	103,417
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Total liabilities	1,779,553	2,128,595
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Stockholders' equity:		
Common stock	3,676	3,672
Additional paid-in capital	769,263	850,902
Retained earnings	2,515,669	2,098,038
Cumulative translation adjustments	(28,405)	(10,441)
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Total stockholders' equity	3,260,203	2,942,171
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Total liabilities and stockholders' equity	\$ 5,039,756	\$ 5,070,766
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(b) Amounts as of July 26, 1998 are unaudited. Amounts as of October 26, 1997 are from the October 26, 1997 audited financial statements.