UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended January 26, 2014

or

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

For the transition period from to

Commission File Number 000-06920

Applied Materials, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**94-1655526**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
3050 Bowers Avenue, **P.O. Box 58039** **Santa Clara, California**	**95052-8039**
(Address of principal executive offices)	*(Zip Code)*

(408) 727-5555

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

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

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

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

Number of shares outstanding of the issuer's common stock as of January 31, 2014: 1,211,068,250

APPLIED MATERIALS, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JANUARY 26, 2014

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended	
	January 26, 2014	January 27, 2013
	(Unaudited) (In millions, except per share amounts)	
Net sales	$ 2,190	$ 1,573
Cost of products sold	1,299	991
Gross margin	891	582
Operating expenses:		
Research, development and engineering	356	304
Marketing and selling	109	105
General and administrative	89	125
Restructuring charges and asset impairments	7	9
Total operating expenses	561	543
Income from operations	330	39
Impairment of strategic investments	3	—
Interest expense	25	24
Interest and other income, net	13	3
Income before income taxes	315	18
Provision (benefit) for income taxes	62	(16)
Net income	$ 253	$ 34
Earnings per share:		
Basic and diluted	$ 0.21	$ 0.03
Weighted average number of shares:		
Basic	1,206	1,198
Diluted	1,225	1,212

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended	
	January 26, 2014	January 27, 2013
	(Unaudited) (In millions)	
Net income	$ 253	$ 34
Other comprehensive income (loss), net of tax:		
Change in unrealized net gain on investments	(3)	—
Change in unrealized net gain on derivative investments	(1)	5
Change in defined benefit plan liability	—	(3)
Change in cumulative translation adjustments	(2)	(3)
Other comprehensive income (loss), net of tax	(6)	(1)
Comprehensive income	$ 247	$ 33

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

	January 26, 2014	October 27, 2013
	(In millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,144	$ 1,711
Short-term investments	145	180
Accounts receivable, net	1,510	1,633
Inventories	1,533	1,413
Other current assets	682	705
Total current assets	6,014	5,642
Long-term investments	833	1,005
Property, plant and equipment, net	846	850
Goodwill	3,294	3,294
Purchased technology and other intangible assets, net	1,057	1,103
Deferred income taxes and other assets	155	149
Total assets	$ 12,199	$ 12,043
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,576	$ 1,649
Customer deposits and deferred revenue	901	794
Total current liabilities	2,477	2,443
Long-term debt	1,946	1,946
Other liabilities	535	566
Total liabilities	4,958	4,955
Stockholders’ equity:		
Common stock	12	12
Additional paid-in capital	6,178	6,151
Retained earnings	12,619	12,487
Treasury stock	(11,524)	(11,524)
Accumulated other comprehensive loss	(44)	(38)
Total stockholders’ equity	7,241	7,088
Total liabilities and stockholders’ equity	$ 12,199	$ 12,043

Amounts as of January 26, 2014 are unaudited. Amounts as of October 27, 2013 are derived from the October 27, 2013 audited consolidated financial statements.

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC

CONSOLIDATED CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			Shares	Amount		
	(Unaudited) (In millions)							
Balance at October 27, 2013	1,204	$ 12	$ 6,151	$ 12,487	717	$ (11,524)	$ (38)	$ 7,088
Net income	—	—	—	253	—	—	—	253
Other comprehensive loss, net of tax	—	—	—	—	—	—	(6)	(6)
Dividends	—	—	—	(121)	—	—	—	(121)
Share-based compensation	—	—	46	—	—	—	—	46
Issuance under stock plans, net of a tax benefit of $18 and other	7	—	(19)	—	—	—	—	(19)
Balance at January 26, 2014	1,211	$ 12	$ 6,178	$ 12,619	717	$ (11,524)	$ (44)	$ 7,241

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	January 26, 2014	January 27, 2013
	(Unaudited) (In millions)	
Cash flows from operating activities:		
Net income	$ 253	$ 34
Adjustments required to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	94	106
Restructuring charges and asset impairments	7	9
Unrealized gain on derivative associated with announced business combination	(24)	—
Share-based compensation	46	42
Other	(16)	(78)
Changes in operating assets and liabilities:		
Accounts receivable	123	112
Inventories	(119)	(6)
Other assets	37	80
Accounts payable and accrued expenses	(86)	(248)
Customer deposits and deferred revenue	107	(77)
Other liabilities	(50)	42
Cash provided by operating activities	372	16
Cash flows from investing activities:		
Capital expenditures	(48)	(49)
Proceeds from sales and maturities of investments	364	445
Purchases of investments	(163)	(143)
Cash provided by investing activities	153	253
Cash flows from financing activities:		
Proceeds from common stock issuances and others	28	18
Common stock repurchases	—	(48)
Payments of dividends to stockholders	(120)	(108)
Cash used in financing activities	(92)	(138)
Increase in cash and cash equivalents	433	131
Cash and cash equivalents — beginning of year	1,711	1,392
Cash and cash equivalents — end of year	$ 2,144	$ 1,523
Supplemental cash flow information:		
Cash payments for income taxes	$ 26	$ 32
Cash refunds from income taxes	$ 9	$ 65
Cash payments for interest	$ 39	$ 39

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Basis of Presentation

Basis of Presentation

In the opinion of management, the unaudited interim consolidated condensed financial statements of Applied Materials, Inc. and its subsidiaries (Applied or the Company) included herein have been prepared on a basis consistent with the October 27, 2013 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These unaudited interim consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Applied's Annual Report on Form 10-K for the fiscal year ended October 27, 2013 (2013 Form 10-K). Applied's results of operations for the three months ended January 26, 2014 are not necessarily indicative of future operating results. Applied's fiscal year ends on the last Sunday in October of each year. Fiscal 2014 and 2013 each contain 52 weeks, and the first three months of fiscal 2014 and 2013 each contained 13 weeks.

Certain prior year amounts have been reclassified to conform to current year presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates. On an ongoing basis, Applied evaluates its estimates, including those related to accounts receivable and sales allowances, fair values of financial instruments, inventories, intangible assets and goodwill, useful lives of intangible assets and property and equipment, fair values of share-based awards, and income taxes, among others. Applied bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Revenue Recognition

Applied recognizes revenue when all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; seller's price to buyer is fixed or determinable; and collectability is probable. Applied's shipping terms are customarily FOB Applied shipping point or equivalent terms. Applied's revenue recognition policy generally results in revenue recognition at the following points: (1) for all transactions where legal title passes to the customer upon shipment or delivery, Applied recognizes revenue upon passage of title for all products that have been demonstrated to meet product specifications prior to shipment; the portion of revenue associated with certain installation-related tasks is deferred, and that revenue is recognized upon completion of the installation-related tasks; (2) for products that have not been demonstrated to meet product specifications prior to shipment, revenue is recognized at customer technical acceptance; (3) for transactions where legal title does not pass at shipment or delivery, revenue is recognized when legal title passes to the customer, which is generally at customer technical acceptance; and (4) for arrangements containing multiple elements, the revenue relating to the undelivered elements is deferred using the relative selling price method utilizing estimated sales prices until delivery of the deferred elements. Applied limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or adjustment. In cases where Applied has sold products that have been demonstrated to meet product specifications prior to shipment, Applied believes that at the time of delivery, it has an enforceable claim to amounts recognized as revenue. Spare parts revenue is generally recognized upon shipment, and services revenue is generally recognized over the period that the services are provided.

When a sales arrangement contains multiple elements, such as hardware and services and/or software products, Applied allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence (VSOE) if available, third party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. Applied generally utilizes the ESP due to the nature of its products. In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the guidance for recognizing software revenue.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board (FASB) issued authoritative guidance that will require an unrecognized tax benefit to be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, with certain exceptions. The authoritative guidance becomes effective for Applied in the first quarter of fiscal 2015, with early adoption permitted. The guidance is not expected to have an impact on Applied's financial position or results of operations.

Note 2 Earnings Per Share

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

	Three Months Ended	
	January 26, 2014	January 27, 2013
	(In millions, except per share amounts)	
Numerator:		
Net income	$ 253	$ 34
Denominator:		
Weighted average common shares outstanding	1,206	1,198
Effect of dilutive stock options, restricted stock units and employee stock purchase plan shares	19	14
Denominator for diluted earnings per share	1,225	1,212
Basic and diluted earnings per share	$ 0.21	$ 0.03
Potentially dilutive securities	1	8

Potentially dilutive securities attributable to outstanding stock options and restricted stock units were excluded from the calculation of diluted earnings per share because the combined exercise price, average unamortized fair value and assumed tax benefits upon the exercise of options and the vesting of restricted stock units were greater than the average market price of Applied common stock, and therefore their inclusion would have been anti-dilutive.

Note 3 Cash, Cash Equivalents and Investments

Summary of Cash, Cash Equivalents and Investments

The following tables summarize Applied's cash, cash equivalents and investments by security type:

January 26, 2014	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Cash	$ 872	$ —	$ —	$ 872
Cash equivalents:				
Money market funds	1,267	—	—	1,267
Municipal securities	5	—	—	5
Total Cash equivalents	1,272	—	—	1,272
Total Cash and Cash equivalents	$ 2,144	$ —	$ —	$ 2,144
Short-term and long-term investments:				
U.S. Treasury and agency securities	$ 74	$ —	$ —	$ 74
Non-U.S. government securities*	14	—	—	14
Municipal securities	380	2	—	382
Commercial paper, corporate bonds and medium-term notes	148	1	—	149
Asset-backed and mortgage-backed securities	234	1	2	233
Total fixed income securities	850	4	2	852
Publicly traded equity securities	22	28	—	50
Equity investments in privately-held companies	76	—	—	76
Total short-term and long-term investments	$ 948	$ 32	$ 2	$ 978
Total Cash, Cash equivalents and Investments	$ 3,092	$ 32	$ 2	$ 3,122

* Includes agency debt securities guaranteed by non-U.S. governments, which consist of Germany and Canada.

October 27, 2013	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Cash	$ 611	$ —	$ —	$ 611
Cash equivalents:				
Money market funds	1,095	—	—	1,095
Municipal securities	5	—	—	5
Total Cash equivalents	1,100	—	—	1,100
Total Cash and Cash equivalents	$ 1,711	$ —	$ —	$ 1,711
Short-term and long-term investments:				
U.S. Treasury and agency securities	$ 170	$ —	$ —	$ 170
Non-U.S. government securities	11	—	—	11
Municipal securities	379	2	—	381
Commercial paper, corporate bonds and medium-term notes	218	2	1	219
Asset-backed and mortgage-backed securities	268	2	2	268
Total fixed income securities	1,046	6	3	1,049
Publicly traded equity securities	27	33	—	60
Equity investments in privately-held companies	76	—	—	76
Total short-term and long-term investments	$ 1,149	$ 39	$ 3	$ 1,185
Total Cash, Cash equivalents and Investments	$ 2,860	$ 39	$ 3	$ 2,896

Maturities of Investments

The following table summarizes the contractual maturities of Applied’s investments at January 26, 2014:

	Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	$ 127	$ 128
Due after one through five years	489	491
No single maturity date**	332	359
	$ 948	$ 978

** Securities with no single maturity date include publicly-traded and privately-held equity securities, and asset-backed and mortgage-backed securities.

Gains and Losses on Investments

During the three months ended January 26, 2014, gross realized gains on investments were $12 million and gross realized losses on investments were not material. During the three months ended January 27, 2013, gross realized gains and losses on investments were not material.

At January 26, 2014 and October 27, 2013, gross unrealized losses related to Applied's investment portfolio were not material. Applied regularly reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether an unrealized loss is considered to be temporary, or other-than-temporary and therefore impaired, include: the length of time and extent to which fair value has been lower than the cost basis; the financial condition, credit quality and near-term prospects of the investee; and whether it is more likely than not that Applied will be required to sell the security prior to recovery. Generally, the contractual terms of investments in marketable securities do not permit settlement at prices less than the amortized cost of the investments. Applied determined that the gross unrealized losses on its marketable securities at January 26, 2014 and January 27, 2013 were temporary in nature and therefore it did not recognize any impairment of its marketable securities during the three months ended January 26, 2014 or January 27, 2013. Applied recognized $3 million of impairment charges on its equity investments in privately-held companies during the three months ended January 26, 2014, and did not record any impairment charges on its equity investments in privately-held companies during the three months ended January 27, 2013.

Unrealized gains and temporary losses on investments classified as available-for-sale are included within accumulated other comprehensive income (loss), net of any related tax effect. Upon realization, those amounts are reclassified from accumulated other comprehensive income (loss) to results of operations.

Note 4 Fair Value Measurements

Applied’s financial assets are measured and recorded at fair value, except for equity investments in privately-held companies. These equity investments are generally accounted for under the cost method of accounting and are periodically assessed for other-than-temporary impairment when events or circumstances indicate that an other-than-temporary decline in value may have occurred. Applied’s nonfinancial assets, such as goodwill, intangible assets, and property, plant and equipment, are recorded at cost and are assessed for impairment when events or circumstances indicate that an other-than-temporary decline in value may have occurred.

Fair Value Hierarchy

Applied uses the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 — Quoted prices in active markets for identical assets or liabilities;
- Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Applied’s investments are comprised primarily of debt securities that are classified as available-for-sale and recorded at their fair values. In determining the fair value of investments, Applied uses pricing information from pricing services that value securities based on quoted market prices and models that utilize observable market inputs. In the event a fair value estimate is unavailable from a pricing service, Applied generally obtains non-binding price quotes from brokers. Applied then reviews the information provided by the pricing services or brokers to determine the fair value of its short-term and long-term investments. In addition, to validate pricing information obtained from pricing services, Applied periodically performs supplemental analysis on a sample of securities. Applied reviews any significant unanticipated differences identified through this analysis to determine the appropriate fair value.

Investments with remaining effective maturities of 12 months or less from the balance sheet date are classified as short-term investments. Investments with remaining effective maturities of more than 12 months from the balance sheet date are classified as long-term investments. As of January 26, 2014, substantially all of Applied’s available-for-sale, short-term and long-term investments were recognized at fair value that was determined based upon observable inputs.

Assets Measured at Fair Value on a Recurring Basis

Financial assets (excluding cash balances) measured at fair value on a recurring basis are summarized below as of January 26, 2014 and October 27, 2013:

	January 26, 2014			October 27, 2013		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	(In millions)					
Assets:						
Money market funds	$ 1,267	$ —	$ 1,267	$ 1,095	$ —	$ 1,095
U.S. Treasury and agency securities	33	41	74	66	104	170
Non-U.S. government securities	—	14	14	—	11	11
Municipal securities	—	387	387	—	386	386
Commercial paper, corporate bonds and medium-term notes	—	149	149	—	219	219
Asset-backed and mortgage-backed securities	—	233	233	—	268	268
Publicly traded equity securities	50	—	50	60	—	60
Foreign exchange derivative assets	—	43	43	—	20	20
Total	$ 1,350	$ 867	$ 2,217	$ 1,221	$ 1,008	$ 2,229

There were no transfers between Level 1 and Level 2 fair value measurements during the three months ended January 26, 2014 or January 27, 2013. Applied did not have any financial assets measured at fair value on a recurring basis within Level 3 fair value measurements as of January 26, 2014 or October 27, 2013.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Equity investments in privately-held companies are generally accounted for under the cost method of accounting and are periodically assessed for other-than-temporary impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred. If Applied determines that an other-than-temporary impairment has occurred, the investment will be written down to its estimated fair value based on available information, such as pricing in recent rounds of financing, current cash positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data. At January 26, 2014 and October 27, 2013, equity investments in privately-held companies totaled $76 million, of which $66 million of investments were accounted for under the cost method of accounting and $10 million of investments had been measured at fair value on a non-recurring basis within Level 3 fair value measurements due to an other-than-temporary decline in value. Applied recognized $3 million of impairment charges on its equity investments in privately-held companies during the three months ended January 26, 2014, and did not record any impairment charges on its equity investments in privately-held companies during the three months ended January 27, 2013.

Other

The carrying amounts of Applied’s financial instruments, including cash and cash equivalents, accounts receivable, notes payable, and accounts payable and accrued expenses, approximate fair value due to their short maturities. At January 26, 2014 and October 27, 2013, the carrying amount of long-term debt was $1.9 billion and the estimated fair value was $2.1 billion. The estimated fair value of long-term debt is determined by Level 2 inputs and is based primarily on quoted market prices for the same or similar issues.

Note 5 Derivative Instruments and Hedging Activities

Derivative Financial Instruments

Applied conducts business in a number of foreign countries, with certain transactions denominated in local currencies, such as the Japanese yen, euro, Israeli shekel, Taiwanese dollar and Swiss franc. Applied uses derivative financial instruments, such as forward exchange contracts and currency option contracts, to hedge certain forecasted foreign currency denominated transactions expected to occur typically up to the next 24 months. The purpose of Applied's foreign currency management is to mitigate the effect of exchange rate fluctuations on certain foreign currency denominated revenues, costs and eventual cash flows. The terms of currency instruments used for hedging purposes are generally consistent with the timing of the transactions being hedged. Applied does not use derivative financial instruments for trading or speculative purposes.

Derivative instruments and hedging activities, including foreign currency exchange contracts, are recognized on the balance sheet at fair value. Changes in the fair value of derivatives that do not qualify for hedge treatment, as well as the ineffective portion of any hedges, are recognized currently in earnings. All of Applied's derivative financial instruments are recorded at their fair value in other current assets or in accounts payable and accrued expenses.

Hedges related to anticipated transactions are designated and documented at the inception of the hedge as cash flow hedges and are typically entered into once per month. Cash flow hedges are evaluated for effectiveness quarterly. The effective portion of the gain or loss on these hedges is reported as a component of accumulated other comprehensive income or loss (AOCI) in stockholders' equity and is reclassified into earnings when the hedged transaction affects earnings. The majority of the after-tax net income or loss related to derivative instruments included in AOCI at January 26, 2014 is expected to be reclassified into earnings within 12 months. Changes in the fair value of currency forward exchange and option contracts due to changes in time value are excluded from the assessment of effectiveness. Both ineffective hedge amounts and hedge components excluded from the assessment of effectiveness are recognized in earnings. If the transaction being hedged is no longer probable to occur, or if a portion of any derivative is deemed to be ineffective, Applied promptly recognizes the gain or loss on the associated financial instrument in general and administrative expenses. The amount recognized due to discontinuance of cash flow hedges that were probable not to occur by the end of the originally specified time period was not significant for the three months ended January 26, 2014 and January 27, 2013.

Additionally, forward exchange contracts are generally used to hedge certain foreign currency denominated assets or liabilities. These derivatives are typically entered into once per month and are not designated for hedge accounting treatment. Accordingly, changes in the fair value of these hedges are recorded in earnings to offset the changes in the fair value of the assets or liabilities being hedged.

During the fourth quarter of fiscal 2013, the Company purchased foreign exchange option contracts to limit its foreign exchange risk associated with the announced business combination with Tokyo Electron Limited (TEL). The derivatives used to hedge our currency exposure did not qualify for hedge accounting treatment. These derivatives are marked to market at the end of each reporting period with gains and losses recorded as general and administrative expenses. At January 26, 2014, the fair value of these foreign exchange option contracts was approximately $41 million. The Company recorded an unrealized gain of $24 million during the first quarter of fiscal 2014 related to such contracts. The cash flow impact of this derivative has been classified as operating cash flows in the Consolidated Condensed Statements of Cash Flows. To further mitigate credit exposure in connection with these foreign exchange option contracts, the Company entered into security arrangements with certain counterparties, which require the counterparties to post collateral amounting to the approximate fair value of the derivative contracts. The cash collateral is included in cash and cash equivalents in the Consolidated Condensed Statements of Financial Position, with the corresponding liability included in accounts payable and accrued expenses.

Other than the foreign exchange option contracts discussed in the preceding paragraph, the fair values of other derivative instruments at January 26, 2014 and October 27, 2013 were not material.

The effects of derivative instruments on the Consolidated Condensed Statements of Operations for the three months ended January 26, 2014 and January 27, 2013 were as follows:

		Three Months Ended January 26, 2014			Three Months Ended January 27, 2013		
		Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing	Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing
	Location of Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in AOCI	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in Income	Gain or (Loss) Recognized in AOCI	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in Income
		(In millions)					
Derivatives in Cash Flow Hedging Relationships							
Foreign exchange contracts	Cost of products sold	$ 5	$ 3	$ —	$ 10	$ 2	$ (1)
Foreign exchange contracts	General and administrative	—	3	(1)	—	—	—
Total		$ 5	$ 6	$ (1)	$ 10	$ 2	$ (1)

		Amount of Gain or (Loss) Recognized in Income	
		Three Months Ended	
	Location of Gain or (Loss) Recognized in Income	January 26, 2014	January 27, 2013
		(In millions)	
Derivatives Not Designated as Hedging Instruments			
Foreign exchange contracts	General and administrative	$ 39	$ 13
Total		$ 39	$ 13

Credit Risk Contingent Features

If Applied's credit rating were to fall below investment grade, it would be in violation of credit risk contingent provisions of the derivative instruments discussed above, and certain counterparties to the derivative instruments could request immediate payment on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk related contingent features that were in a net liability position was immaterial as of January 26, 2014.

Entering into foreign exchange contracts with banks exposes Applied to credit-related losses in the event of the banks' nonperformance. However, Applied's exposure is not considered significant.

Note 6 Accounts Receivable, Net

Applied has agreements with various financial institutions to sell accounts receivable and discount promissory notes from selected customers. Applied sells its accounts receivable without recourse. Applied, from time to time, also discounts letters of credit issued by customers through various financial institutions. The discounting of letters of credit depends on many factors, including the willingness of financial institutions to discount the letters of credit and the cost of such arrangements.

Applied factored accounts receivable of $45 million during the three months ended January 26, 2014 and none during the three months ended January 27, 2013. Applied did not discount promissory notes or utilize programs to discount letters of credit issued by customers during the three months ended January 26, 2014 and January 27, 2013. Financing charges on the sale of receivables and discounting of letters of credit are included in interest expense in the accompanying Consolidated Condensed Statements of Operations and were not material for all periods presented.

Accounts receivable are presented net of allowance for doubtful accounts of $74 million at both January 26, 2014 and October 27, 2013. Applied sells principally to manufacturers within the semiconductor, display and solar industries. While Applied believes that its allowance for doubtful accounts is adequate and represents Applied's best estimate as of January 26, 2014, Applied continues to closely monitor customer liquidity and other economic conditions, which may result in changes to Applied's estimates regarding collectability.

Note 7 Balance Sheet Detail

	January 26, 2014	October 27, 2013
	(In millions)	
Inventories		
Customer service spares	$ 280	$ 274
Raw materials	335	325
Work-in-process	292	283
Finished goods	626	531
	$ 1,533	$ 1,413

Included in finished goods inventory are $194 million at January 26, 2014, and $136 million at October 27, 2013, of newly-introduced systems at customer locations where the sales transaction did not meet Applied's revenue recognition criteria as set forth in Note 1. Finished goods inventory includes $190 million and $177 million of evaluation inventory at January 26, 2014 and October 27, 2013, respectively.

	January 26, 2014	October 27, 2013
	(In millions)	
Other Current Assets		
Deferred income taxes, net	$ 315	$ 323
Prepaid expenses	161	135
Prepaid income taxes and income taxes receivable	147	178
Other	59	69
	$ 682	$ 705

	Useful Life	January 26, 2014	October 27, 2013
	(In years)	(In millions)	
Property, Plant and Equipment, Net			
Land and improvements		$ 167	$ 167
Buildings and improvements	3-30	1,230	1,217
Demonstration and manufacturing equipment	3-5	815	792
Furniture, fixtures and other equipment	3-15	592	589
Construction in progress		43	52
Gross property, plant and equipment		2,847	2,817
Accumulated depreciation		(2,001)	(1,967)
		$ 846	$ 850

	January 26, 2014	October 27, 2013
	(In millions)	
Accounts Payable and Accrued Expenses		
Accounts payable	$ 645	$ 582
Compensation and employee benefits	326	417
Warranty	106	102
Dividends payable	121	121
Income taxes payable	49	73
Other accrued taxes	31	41
Interest payable	14	30
Restructuring reserve	28	39
Other	256	244
	$ 1,576	$ 1,649

	January 26, 2014	October 27, 2013
	(In millions)	
Customer Deposits and Deferred Revenue		
Customer deposits	$ 147	$ 175
Deferred revenue	754	619
	$ 901	$ 794

Applied typically receives deposits on future deliverables from customers in the Display and Energy and Environmental Solutions segments. In certain instances, customer deposits may be received from customers in the Applied Global Services segment.

	January 26, 2014	October 27, 2013
	(In millions)	
Other Liabilities		
Deferred income taxes	$ 65	$ 71
Income taxes payable	200	174
Defined and postretirement benefit plans	192	193
Other	78	128
	$ 535	$ 566

Note 8 Business Combination

On September 24, 2013, Applied and Tokyo Electron Limited (TEL) entered into the Business Combination Agreement, which was amended on February 14, 2014, to effect a strategic combination of their respective businesses into a new combined company. TEL, a Japanese corporation, is a global supplier of semiconductor and flat panel display production equipment, and a provider of technical support and services for semiconductor, flat panel display and photovoltaic panel production equipment. Under the terms of the Business Combination Agreement, TEL shareholders will receive 3.25 shares of the new combined company for every TEL share held. Applied shareholders will receive one share of the new combined company for every Applied share held. Based on the number of shares of Applied common stock and shares of TEL common stock expected to be issued and outstanding immediately prior to the closing of the transaction, it is anticipated that, immediately following the transaction, former Applied stockholders and former TEL shareholders will own approximately 68% and 32%, respectively, of the new combined company.

The new combined company will have a new name, dual headquarters in Tokyo and Santa Clara, and dual listing of its shares on the Tokyo Stock Exchange and NASDAQ, and will be incorporated in the Netherlands. The closing of the transaction is subject to customary conditions, including approval by Applied's and TEL's shareholders and regulatory approvals. It is expected that the combined company will commence a $3.0 billion stock repurchase program targeted to be executed within 12 months following the closing of the transaction.

The Business Combination Agreement contains mutual pre-closing covenants, including the obligation of Applied and TEL to conduct their businesses in the ordinary course consistent in all material respects with past practices. The agreement also contains termination rights for Applied and TEL and provides that upon certain events, such as a termination due to a change in recommendation by the other party or a termination relating to certain tax rulings, a termination fee of $400 million is payable.

Note 9 Goodwill, Purchased Technology and Other Intangible Assets

Goodwill and Purchased Intangible Assets

Applied’s methodology for allocating the purchase price relating to purchase acquisitions is determined through established and generally accepted valuation techniques. Goodwill is measured as the excess of the purchase price over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. Applied assigns assets acquired (including goodwill) and liabilities assumed to one or more reporting units as of the date of acquisition. Typically, acquisitions relate to a single reporting unit and thus do not require the allocation of goodwill to multiple reporting units. If the products obtained in an acquisition are assigned to multiple reporting units, the goodwill is distributed to the respective reporting units as part of the purchase price allocation process.

Goodwill and purchased intangible assets with indefinite useful lives are not amortized, but are reviewed for impairment annually during the fourth quarter of each fiscal year and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The process of evaluating the potential impairment of goodwill and intangible assets requires significant judgment, especially in emerging markets. Applied regularly monitors current business conditions and other factors including, but not limited to, adverse industry or economic trends, restructuring actions and lower projections of profitability that may impact future operating results.

To test goodwill for impairment, Applied first performs a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, Applied then performs the two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. Under the two-step goodwill impairment test, Applied would in the first step compare the estimated fair value of each reporting unit to its carrying value. Applied determines the fair value of each of its reporting units based on a weighting of income and market approaches. If the carrying value of a reporting unit exceeds its fair value, Applied would then perform the second step of the impairment test in order to determine the implied fair value of the reporting unit’s goodwill. If Applied determines that the carrying value of a reporting unit’s goodwill exceeds its implied fair value, Applied would record an impairment charge equal to the difference. Applied’s reporting units are consistent with the reportable segments identified in Note 16, Industry Segment Operations, which are based on the manner in which Applied operates its business and the nature of those operations.

The evaluation of goodwill and intangible assets for impairment requires the exercise of significant judgment. In the event of future changes in business conditions, Applied will be required to reassess and update its forecasts and estimates used in future impairment analyses. If the results of these future analyses are lower than current estimates, a material impairment charge may result at that time.

Details of goodwill and other indefinite-lived intangible assets as of January 26, 2014 and October 27, 2013 were as follows :

	Goodwill	Other Intangible Assets	Total
		(In millions)	
Silicon Systems Group	$ 2,151	$ 142	$ 2,293
Applied Global Services	1,027	—	1,027
Display	116	—	116
Carrying amount	$ 3,294	$ 142	$ 3,436

Other intangible assets that are not subject to amortization consist primarily of in-process technology, which will be subject to amortization upon commercialization. The fair value assigned to in-process technology was determined using the income approach taking into account estimates and judgments regarding risks inherent in the development process, including the likelihood of achieving technological success and market acceptance. If an in-process technology project is abandoned, the acquired technology attributable to the project will be written off.

A summary of Applied's purchased technology and intangible assets is set forth below:

	January 26, 2014	October 27, 2013
	(In millions)	
Purchased technology, net	$ 709	$ 748
Intangible assets - finite-lived, net	206	213
Intangible assets - indefinite-lived	142	142
Total	$ 1,057	$ 1,103

Finite-Lived Purchased Intangible Assets

Applied amortizes purchased intangible assets with finite lives using the straight-line method over the estimated economic lives of the assets, ranging from 1 to 15 years.

Applied evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset group may not be recoverable. Applied assesses the fair value of the assets based on the amount of the undiscounted future cash flow that the assets are expected to generate and recognizes an impairment loss when estimated undiscounted future cash flow expected to result from the use of the asset, plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When Applied identifies an impairment, Applied reduces the carrying value of the group of assets to comparable market values, when available and appropriate, or to its estimated fair value based on a discounted cash flow approach.

Intangible assets, such as purchased technology, are generally recorded in connection with a business acquisition. The value assigned to intangible assets is usually based on estimates and judgments regarding expectations for the success and life cycle of products and technology acquired. Applied evaluates the useful lives of its intangible assets each reporting period to determine whether events and circumstances require revising the remaining period of amortization. In addition, Applied reviews intangible assets for impairment when events or changes in circumstances indicate their carrying value may not be recoverable. Management considers such indicators as significant differences in actual product acceptance from the estimates, changes in the competitive and economic environments, technological advances, and changes in cost structure.

Details of finite-lived intangible assets were as follows as of January 26, 2014 and October 27, 2013:

	January 26, 2014			October 27, 2013		
	Purchased Technology	Other Intangible Assets	Total	Purchased Technology	Other Intangible Assets	Total
	(In millions)					
Gross carrying amount:						
Silicon Systems Group	$ 1,301	$ 252	$ 1,553	$ 1,301	$ 252	$ 1,553
Applied Global Services	28	44	72	28	44	72
Display	110	33	143	110	33	143
Energy and Environmental Solutions	5	15	20	5	15	20
Gross carrying amount	$ 1,444	$ 344	$ 1,788	$ 1,444	$ 344	$ 1,788
Accumulated amortization:						
Silicon Systems Group	$ (599)	$ (63)	$ (662)	$ (562)	$ (58)	$ (620)
Applied Global Services	(24)	(42)	(66)	(23)	(42)	(65)
Display	(110)	(30)	(140)	(110)	(29)	(139)
Energy and Environmental Solutions	(2)	(3)	(5)	(1)	(2)	(3)
Accumulated amortization	$ (735)	$ (138)	$ (873)	$ (696)	$ (131)	$ (827)
Carrying amount	$ 709	$ 206	$ 915	$ 748	$ 213	$ 961

Details of amortization expense by segment for the three months ended January 26, 2014 and January 27, 2013 were as follows:

	Three Months Ended	
	January 26, 2014	January 27, 2013
	(In millions)	
Silicon Systems Group	$ 42	$ 44
Applied Global Services	1	1
Display	1	2
Energy and Environmental Solutions	2	6
Total	$ 46	$ 53

For the three months ended January 26, 2014 and January 27, 2013, amortization expense was charged to the following categories:

	Three Months Ended	
	January 26, 2014	January 27, 2013
	(In millions)	
Cost of products sold	$ 40	$ 43
Marketing and selling	5	8
General and administrative	1	2
Total	$ 46	$ 53

As of January 26, 2014, future estimated amortization expense is expected to be as follows:

	Amortization Expense
	(In millions)
2014	135
2015	175
2016	169
2017	165
2018	163
Thereafter	108
Total	$ 915

Note 10 Borrowing Facilities and Long-Term Debt

Applied has credit facilities for unsecured borrowings in various currencies of up to $1.6 billion, of which $1.5 billion is comprised of a committed revolving credit agreement with a group of banks that is scheduled to expire in May 2017. This agreement provides for borrowings in United States dollars at interest rates keyed to one of the two rates selected by Applied for each advance and includes financial and other covenants with which Applied was in compliance at January 26, 2014. Remaining credit facilities in the amount of approximately $77 million are with Japanese banks. Applied's ability to borrow under these facilities is subject to bank approval at the time of the borrowing request, and any advances will be at rates indexed to the banks' prime reference rate denominated in Japanese yen. No amounts were outstanding under any of these facilities at both January 26, 2014 and October 27, 2013 and Applied has not utilized these credit facilities.

Long-term debt outstanding as of January 26, 2014 and October 27, 2013 was as follows:

	Principal Amount	Effective Interest Rate	Interest Pay Dates
	(In millions)		
2.650% Senior Notes Due 2016	$ 400	2.666%	June 15, December 15
7.125% Senior Notes Due 2017	200	7.190%	April 15, October 15
4.300% Senior Notes Due 2021	750	4.326%	June 15, December 15
5.850% Senior Notes Due 2041	600	5.879%	June 15, December 15
	1,950		
Total unamortized discount	(4)		
Total long-term debt	$ 1,946		

Applied has debt agreements that contain financial and other covenants. These covenants require Applied to maintain certain minimum financial ratios. At January 26, 2014, Applied was in compliance with all such covenants.

Note 11 Restructuring Charges and Asset Impairments

From time to time, Applied initiates restructuring activities to appropriately align its cost structure relative to prevailing economic and industry conditions and associated customer demand as well as in connection with certain acquisitions. Costs associated with restructuring actions can include termination benefits and related charges, in addition to facility closure, contract termination and other related activities.

The following table summarizes major components of the restructuring and asset impairment charges during the three months ended January 26, 2014 and January 27, 2013:

	Three Months Ended	
	January 26, 2014	January 27, 2013
	(In millions)	
2012 Global Restructuring Plan		
Severance and other employee-related costs	$ 7	$ 4
2012 EES Restructuring Plan		
Asset impairments	—	3
Others		
Severance and other employee-related costs	—	2
	$ 7	$ 9

Restructuring and asset impairment charges were recorded as follows:

	Three Months Ended	
	January 26, 2014	January 27, 2013
	(In millions)	
Silicon Systems Group	$ —	$ 1
Applied Global Services	—	1
Energy and Environmental Solutions	—	3
Corporate Unallocated	7	4
Total	$ 7	$ 9

2012 Global Restructuring Plan

On October 3, 2012, Applied announced a restructuring plan (the 2012 Global Restructuring Plan) to realign its global workforce and enhance its ability to invest for growth. Under this plan, Applied implemented a voluntary retirement program and other workforce reduction actions. The voluntary retirement program was available to certain U.S. employees who met minimum age and length of service requirements, as well as other business-specific criteria. Applied implemented other workforce reduction actions globally across multiple business segments and functions, the extent of which depended on the number of employees who participated in the voluntary retirement program and other considerations. A total of approximately 1,300 positions were affected under this plan.

During the three months ended January 26, 2014 and January 27, 2013, Applied recognized $7 million and $4 million, respectively, of employee-related costs in connection with the 2012 Global Restructuring Plan. These costs were not allocated to the segments. As of January 26, 2014, principal activities related to this plan were complete. Total costs incurred in implementing this plan were $152 million.

Restructuring Reserves

Changes in restructuring reserves during the three months ended January 26, 2014 were as follows:

	2012 Global Restructuring Plan	2012 EES Restructuring Plan		Others		
	Severance and Other Employee-Related Costs	Severance and Other Employee-Related Costs	Contract Cancellation and Other Costs	Severance and Other Employee-Related Costs	Contract Cancellation and Other Costs	Total
	(In millions)					
Balance, October 27, 2013	$ 26	$ 5	$ 5	$ 2	$ 1	$ 39
Provision for restructuring reserves	7	—	—	—	—	7
Consumption of reserves	(15)	(1)	—	(1)	—	(17)
Reclassification of restructuring reserves	—	(1)	—	—	—	(1)
Balance, January 26, 2014	$ 18	3	5	$ 1	$ 1	$ 28

Note 12 Stockholders' Equity, Comprehensive Income and Share-Based Compensation

Accumulated Other Comprehensive Income (Loss)

Changes in the components of AOCI, net of tax, were as follows:

	Unrealized Gain on Investments, Net	Unrealized Gain on Derivative Instruments Qualifying as Cash Flow Hedges	Pension Liability	Cumulative Translation Adjustments	Total
	(in millions)				
Balance at October 27, 2013	$ 25	$ 2	$ (72)	$ 7	$ (38)
Other comprehensive income before reclassifications	2	3	—	(2)	3
Amounts reclassified out of AOCI	(5)	(4)	—	—	(9)
Other comprehensive loss, net of tax	(3)	(1)	—	(2)	(6)
Balance at January 26, 2014	$ 22	$ 1	$ (72)	$ 5	$ (44)

The effects on net income of amounts reclassified from AOCI for the three months ended January 26, 2014 were as follows:

Comprehensive Income Components	Location	Gains (Losses) Reclassified from AOCI
		(in millions)
Unrealized Gain on Investments, Net	Interest and other income, net	$ 8
	Provision for income taxes	(3)
	Net of tax	$ 5
Unrealized Gain on Derivative Instruments Qualifying as Cash Flow Hedges	Costs of products sold	$ 3
	General and administrative	3
	Provision for income taxes	(2)
	Net of tax	$ 4
Total amount reclassified from AOCI, net of tax		$ 9

Stock Repurchase Program

On March 5, 2012, Applied's Board of Directors approved a stock repurchase program authorizing up to $3.0 billion in repurchases over the next three years ending in March 2015. Under this authorization, Applied purchases shares of its common stock on the open market. Applied did not repurchase any shares of its common stock during the three months ended January 26, 2014. At January 26, 2014, $1.6 billion remained available for future stock repurchases under this repurchase program.

The following table summarizes Applied's stock repurchases for the three months ended January 27, 2013:

	Three Months Ended
	January 27, 2013
	(In millions, except per share amounts)
Shares of common stock repurchased	4
Cost of stock repurchased	$ 48
Average price paid per share	$ 11.15

Applied records treasury stock purchases under the cost method using the first-in, first-out (FIFO) method. Upon reissuance of treasury stock, amounts in excess of the acquisition cost are credited to additional paid in capital. If Applied reissues treasury stock at an amount below its acquisition cost and additional paid in capital associated with prior treasury stock transactions is insufficient to cover the difference between the acquisition cost and the reissue price, this difference is recorded against retained earnings.

Dividends

In December 2013, Applied's Board of Directors declared a quarterly cash dividend in the amount of $0.10 per share to be paid in March 2014. Dividends declared during the three months ended January 26, 2014 and January 27, 2013 were $121 million and $108 million, respectively. Applied currently anticipates that cash dividends will continue to be paid on a quarterly basis, although the declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on Applied's financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination by the Board of Directors that cash dividends are in the best interests of Applied's stockholders.

Share-Based Compensation

Applied has a stockholder-approved equity plan, the Employee Stock Incentive Plan, which permits grants to employees of share-based awards, including stock options, restricted stock, restricted stock units, performance shares and performance units. In addition, the plan provides for the automatic grant of restricted stock units to non-employee directors and permits the grant of share-based awards to non-employee directors and consultants. Share-based awards made beginning in March 2012 under the plan may be subject to accelerated vesting under certain circumstances in the event of a change in control of Applied. Applied also has two Employee Stock Purchase Plans, one generally for United States employees and a second for employees of international subsidiaries (collectively, ESPP), which enable eligible employees to purchase Applied common stock.

During the three months ended January 26, 2014 and January 27, 2013, Applied recognized share-based compensation expense related to stock options, ESPP shares, restricted stock, restricted stock units, performance shares and performance units. Total share-based compensation and related tax benefits were as follows:

	Three Months Ended	
	January 26, 2014	January 27, 2013
	(In millions)	
Share-based compensation	$ 46	$ 42
Tax benefit recognized	$ 13	$ 12

The effect of share-based compensation on the results of operations for the three months ended January 26, 2014 and January 27, 2013 was as follows:

	Three Months Ended	
	January 26, 2014	January 27, 2013
	(In millions)	
Cost of products sold	$ 14	$ 12
Research, development, and engineering	17	12
Marketing and selling	6	5
General and administrative	9	8
Restructuring charge	—	5
Total	$ 46	$ 42

The cost associated with share-based awards that are subject solely to time-based vesting requirements, less expected forfeitures, is recognized over the awards' service period for the entire award on a straight-line basis. The cost associated with performance-based equity awards is recognized for each tranche over the service period, based on an assessment of the likelihood that the applicable performance goals will be achieved.

At January 26, 2014, Applied had $305 million in total unrecognized compensation expense, net of estimated forfeitures, related to grants of share-based awards and shares issued under Applied's ESPP, which will be recognized over a weighted average period of 2.8 years. At January 26, 2014, there were 177 million shares available for grants of share-based awards under the Employee Stock Incentive Plan, and an additional 40 million shares available for issuance under the ESPP.

Stock Options

Applied grants options to purchase, at future dates, shares of its common stock to employees and consultants. The exercise price of each stock option equals the fair market value of Applied common stock on the date of grant. Options typically vest over three to four years, subject to the grantee’s continued service with Applied through the scheduled vesting date, and expire no later than seven years from the grant date. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. This model was developed for use in estimating the value of publicly traded options that have no vesting restrictions and are fully transferable. Applied’s employee stock options have characteristics significantly different from those of publicly traded options.

Stock option activity for the three months ended January 26, 2014 was as follows:

	Shares	Weighted Average Exercise Price
	(In millions, except per share amounts)	
Outstanding at October 27, 2013	6	$ 9.12
Granted	—	$ —
Exercised	(1)	$ 8.45
Canceled and forfeited	(1)	$ 18.93
Outstanding at January 26, 2014	4	$ 8.98
Exercisable at January 26, 2014	3	$ 7.18

Restricted Stock Units, Restricted Stock, Performance Shares and Performance Units

Restricted stock units are converted into shares of Applied common stock upon vesting on a one-for-one basis. Restricted stock has the same rights as other issued and outstanding shares of Applied common stock except these shares generally have no right to dividends and are held in escrow until the award vests. Performance shares and performance units are awards that result in a payment to a grantee, generally in shares of Applied common stock on a one-for-one basis if performance goals and/or other vesting criteria established by the Human Resources and Compensation Committee of Applied's Board of Directors (the Committee) are achieved or the awards otherwise vest. Restricted stock units, restricted stock, performance shares and performance units typically vest over four years and vesting is usually subject to the grantee’s continued service with Applied and, in some cases, achievement of specified performance goals. The compensation expense related to the service-based awards is determined using the fair market value of Applied common stock on the date of the grant, and the compensation expense is recognized over the vesting period.

Restricted stock, performance shares and performance units granted to certain executive officers are also subject to the achievement of specified performance goals (performance-based awards). These performance-based awards become eligible to vest only if performance goals are achieved and then actually will vest only if the grantee remains employed by Applied through each applicable vesting date. These performance-based awards require the achievement of targeted levels of adjusted annual operating profit margin. For the fiscal 2013 and fiscal 2012 performance-based awards, additional shares become eligible for time-based vesting if Applied achieves certain levels of total shareholder return (TSR) relative to a peer group, comprised of companies in the Standard & Poor's 500 Information Technology Index, measured at the end of a two-year period.

The fair value of these performance-based awards is estimated on the date of grant and assumes that the specified performance goals will be achieved. If the goals are achieved, these awards vest over a specified remaining service period of generally three or four years, provided that the grantee remains employed by Applied through each scheduled vesting date. If the performance goals are not met, no compensation expense is recognized and any previously recognized compensation expense is reversed. The expected cost of each award is reflected over the service period and is reduced for estimated forfeitures.

A summary of the performance-based awards approved by the Committee is presented below:

	Number of Performance-Based Awards Granted		
Fiscal Year Granted	**Performance Shares/Performance Units**	**Shares of Restricted Stock**	**Percent of Performance-Based Awards Earned as of January 26, 2014***
	(in millions)		
2013	3	—	0%
2012	3	1	14%
2011	2	0.1	100%

* subject to additional time-based vesting requirements

A summary of the changes in restricted stock units, restricted stock, performance shares and performance units outstanding under Applied's equity compensation plans during the three months ended January 26, 2014 is presented below:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term
	(In millions, except per share amounts)		
Non-vested restricted stock units, restricted stock, performance shares and performance units at October 27, 2013	38	$ 11.11	2.4 years
Granted	8	$ 16.10	
Vested	(9)	$ 10.79	
Canceled	(1)	$ 11.28	
Non-vested restricted stock units, restricted stock, performance shares and performance units at January 26, 2014	36	$ 12.07	2.8 years

At January 26, 2014, 2 million additional performance-based awards could be earned upon certain levels of achievement of Applied's TSR relative to a peer group at a future date.

Note 13 Employee Benefit Plans

Applied sponsors a number of employee benefit plans, including defined benefit plans of certain foreign subsidiaries, and a plan that provides certain medical and vision benefits to eligible retirees. A summary of the components of net periodic benefit costs of these defined and postretirement benefit plans for the three months ended January 26, 2014 and January 27, 2013 is presented below:

	Three Months Ended	
	January 26, 2014	January 27, 2013
	(In millions)	
Service cost	$ 4	$ 5
Interest cost	4	4
Expected return on plan assets	(3)	(3)
Amortization of actuarial loss	1	2
Net periodic benefit cost	$ 6	$ 8

Note 14 Income Taxes

Applied’s effective tax rates for the first quarter of fiscal 2014 and 2013 were 19.7 percent and (88.9) percent, respectively.

The effective tax rate for the first quarter of fiscal 2014 was higher than in the same period in the prior year primarily due to an $11 million benefit in the first quarter of fiscal 2013 related to the resolution of income tax filings for Varian, a $10 million benefit in the first quarter of fiscal 2013 related to reinstatement of the U.S. federal research and development (R&D) tax credit retroactive to January 1, 2012, expiration of the U.S. federal R&D tax credit during the first quarter of fiscal 2014 and changes in the geographical composition of income.

During the next twelve months, it is reasonably possible that existing liabilities for unrecognized tax benefits could be reduced by up to $127 million as a result of agreements with taxing authorities and the expiration of statutes of limitation. Applied expects that such reductions will not have a material impact on its annual effective tax rate.

Note 15 Warranty, Guarantees and Contingencies

Warranty

Changes in the warranty reserves during the three months ended January 26, 2014 and January 27, 2013 were as follows:

	Three Months Ended	
	January 26, 2014	January 27, 2013
	(In millions)	
Beginning balance	$ 102	$ 119
Provisions for warranty	27	24
Consumption of reserves	(23)	(34)
Ending balance	$ 106	$ 109

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

Guarantees

In the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to third parties as required for certain transactions initiated by either Applied or its subsidiaries. As of January 26, 2014, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately $43 million. Applied has not recorded any liability in connection with these guarantee agreements beyond that required to appropriately account for the underlying transaction being guaranteed. Applied does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee agreements.

Applied also has agreements with various banks to facilitate subsidiary banking operations worldwide, including overdraft arrangements, issuance of bank guarantees, and letters of credit. As of January 26, 2014, Applied Materials, Inc. has provided parent guarantees to banks for approximately $102 million to cover these arrangements.

Legal Matters

Korea Criminal Proceedings

In 2010, the Seoul Eastern District Court began hearings on indictments brought by the Seoul Prosecutor's Office for the Eastern District of Korea (the Prosecutor's Office) alleging that employees of several companies improperly received and used confidential information belonging to Samsung Electronics Co., Ltd. (Samsung), a major Applied customer based in Korea. The individuals charged included the former head of Applied Materials Korea (AMK), who at the time of the indictment was a vice president of Applied Materials, Inc., and certain other AMK employees. Neither Applied nor any of its subsidiaries was named as a party to the proceedings. Hearings on these matters concluded in November 2012 and the Court issued its decision on February 7, 2013. As part of the ruling, nine AMK employees (including the former head of AMK) were acquitted of all charges, while one AMK employee was found guilty on some of the charges and received a suspended jail sentence. The Prosecutor's Office and various individuals filed notices of appeal, and hearings are underway in the appeals. A ruling is expected later in 2014.

Other Matters

From time to time, Applied receives notification from third parties, including customers and suppliers, seeking indemnification, litigation support, payment of money or other actions by Applied in connection with claims made against them. In addition, from time to time, Applied receives notification from third parties claiming that Applied may be or is infringing or misusing their intellectual property or other rights. Applied also is subject to various other legal proceedings and claims, both asserted and unasserted, that arise in the ordinary course of business.

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

Note 16 Industry Segment Operations

Applied's four reportable segments are: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. As defined in the accounting literature, Applied's chief operating decision-maker has been identified as the President and Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Segment information is presented based upon Applied's management organization structure as of January 26, 2014 and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to Applied's reportable segments.

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

Applied derives the segment results directly from its internal management reporting system. The accounting policies Applied uses to derive reportable segment results are substantially the same as those used for external reporting purposes. Management measures the performance of each reportable segment based upon several metrics including orders, net sales and operating income. Management uses these results to evaluate the performance of, and to assign resources to, each of the reportable segments. Applied does not allocate to its reportable segments certain operating expenses that it manages separately at the corporate level, which include costs related to share-based compensation; certain management, finance, legal, human resources, and research, development and engineering functions provided at the corporate level; and unabsorbed information technology and occupancy. In addition, Applied does not allocate to its reportable segments restructuring and asset impairment charges and any associated adjustments related to restructuring actions, unless these actions pertain to a specific reportable segment. Segment operating income excludes interest income/expense and other financial charges and income taxes. Management does not consider the unallocated costs in measuring the performance of the reportable segments.

The Silicon Systems Group segment includes semiconductor capital equipment for etch, rapid thermal processing, deposition, chemical mechanical planarization, metrology and inspection, wafer packaging, and ion implantation.

The Applied Global Services segment includes technically differentiated products and services to improve operating efficiency, reduce operating costs and lessen the environmental impact of semiconductor, display and solar customers' factories. Applied Global Services' products consist of spares, services, certain earlier generation products, remanufactured equipment, and products that have reached a particular stage in the product lifecycle. Customer demand for these products and services is fulfilled through a global distribution system with trained service engineers located in close proximity to customer sites.

The Display segment includes products for manufacturing LCDs, organic light-emitting diodes (OLEDs), and other display technologies for TVs, personal computers, tablets, smart phones, and other consumer-oriented devices.

The Energy and Environmental Solutions segment includes products for fabricating solar photovoltaic cells and modules, as well as high throughput roll-to-roll deposition equipment for flexible electronics and other applications.

Net sales and operating income (loss) for each reportable segment for the three months ended January 26, 2014 and January 27, 2013 were as follows:

	Three Months Ended	
	Net Sales	Operating Income (Loss)
	(In millions)	
January 26, 2014:		
Silicon Systems Group	$ 1,484	$ 314
Applied Global Services	507	125
Display	159	26
Energy and Environmental Solutions	40	(11)
Total Segment	$ 2,190	$ 454
January 27, 2013:		
Silicon Systems Group	$ 969	$ 134
Applied Global Services	471	89
Display	87	3
Energy and Environmental Solutions	46	(54)
Total Segment	$ 1,573	$ 172

Operating results for the three months ended January 26, 2014 and January 27, 2013 included restructuring charges and asset impairments as discussed in detail in Note 11, Restructuring Charges and Asset Impairments.

Reconciliations of total segment operating results to Applied consolidated totals for the three months ended January 26, 2014 and January 27, 2013 were as follows:

	Three Months Ended	
	January 26, 2014	January 27, 2013
	(In millions)	
Total segment operating income	$ 454	$ 172
Corporate and unallocated costs	(117)	(129)
Restructuring charges and asset impairments	(7)	(4)
Income from operations	$ 330	$ 39

The following customers accounted for at least 10 percent of Applied's net sales for the three months ended January 26, 2014, which were for products in multiple reportable segments.

	Percentage of Net Sales
Taiwan Semiconductor Manufacturing Company Limited	27%
Samsung Electronics Co., Ltd.	24%

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

The following management's discussion and analysis is provided in addition to the accompanying consolidated condensed financial statements and notes to assist in understanding Applied's results of operations and financial condition. Financial information as of January 26, 2014 should be read in conjunction with the financial statements for the fiscal year ended October 27, 2013 contained in the Company's Form 10-K filed December 4, 2013.

All statements in this report and those made by the management of Applied, other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include those regarding Applied's future financial or operating results, cash flows and cash deployment strategies, declaration of dividends, share repurchases, business strategies and priorities, costs and cost controls, products, competitive positions, management's plans and objectives for future operations, research and development, strategic acquisitions and joint ventures, the proposed business combination with Tokyo Electron Limited, growth opportunities, restructuring activities, customer demand and spending, backlog, working capital, liquidity, investment portfolio and policies, and legal proceedings and claims, as well as industry trends and outlooks. Forward-looking statements may contain words such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "potential" and "continue," the negative of these terms, or other comparable terminology. These forward-looking statements are based on management's estimates, projections and assumptions as of the date hereof and include the assumptions that underlie such statements. Any expectations based on forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in Part II, Item 1A, "Risk Factors" below and elsewhere in this report. These and many other factors could affect Applied's future financial condition and operating results and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by Applied or on its behalf. Applied undertakes no obligation to revise or update any forward-looking statements.

Overview

Applied provides manufacturing equipment, services and software to the global semiconductor, flat panel display, solar photovoltaic (PV) and related industries. Applied's customers include manufacturers of semiconductor wafers and chips, flat panel liquid crystal and other displays, solar PV cells and modules, and other electronic devices. These customers may use what they manufacture in their own end products or sell the items to other companies for use in advanced electronic components. Applied operates in four reportable segments: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. A summary of financial information for each reportable segment is found in Note 16 of Notes to Consolidated Condensed Financial Statements. A discussion of factors that could affect Applied's operations is set forth under "Risk Factors" in Part II, Item 1A, which is incorporated herein by reference. Product development and manufacturing activities occur primarily in the United States, Europe, Israel and Asia. Applied's broad range of equipment and service products are highly technical and are sold primarily through a direct sales force.

Applied's results are driven primarily by worldwide demand for semiconductors, which in turn depends on end-user demand for electronic products. Each of Applied's businesses is subject to highly cyclical industry conditions, as demand for manufacturing equipment and services can change depending on supply and demand for chips, display technologies, solar PVs and other electronic devices, as well as other factors, such as global economic and market conditions, and the nature and timing of technological advances in fabrication processes. In light of this cyclicality, Applied's results can vary significantly year-over-year, as well as quarter-over-quarter.

The following table presents certain significant measurements for the periods indicated:

	Three Months Ended			Change	
	January 26, 2014	October 27, 2013	January 27, 2013	Q1 2014 over Q4 2013	Q1 2014 over Q1 2013
	(In millions, except per share amounts and percentages)				
New orders	$ 2,285	$ 2,092	$ 2,113	$ 193	$ 172
Net sales	$ 2,190	$ 1,988	$ 1,573	$ 202	$ 617
Gross margin	$ 891	$ 795	$ 582	$ 96	$ 309
Gross margin percent	40.7%	40.0%	37.0%	0.7 point	3.7 points
Operating income	$ 330	$ 211	$ 39	$ 119	$ 291
Operating margin percent	15.1%	10.6%	2.5%	4.5 points	12.6 points
Net income	$ 253	$ 183	$ 34	$ 70	$ 219
Earnings per diluted share	$ 0.21	$ 0.15	$ 0.03	$ 0.06	$ 0.18
Non-GAAP Adjusted Results					
Non-GAAP adjusted gross margin	$ 930	$ 835	$ 626	$ 95	$ 304
Non-GAAP adjusted gross margin percent	42.5%	42.0%	39.8%	0.5 point	2.7 points
Non-GAAP adjusted operating income	$ 380	$ 323	$ 112	$ 57	$ 268
Non-GAAP adjusted operating margin percent	17.4%	16.2%	7.1%	1.2 points	10.3 points
Non-GAAP adjusted net income	$ 279	$ 228	$ 69	$ 51	$ 210
Non-GAAP adjusted earnings per diluted share	$ 0.23	$ 0.19	$ 0.06	$ 0.04	$ 0.17

Reconciliations of non-GAAP adjusted measures are presented below under "Non-GAAP Adjusted Results." Fiscal 2014 and 2013 each contain 52 weeks, and the first three months of fiscal 2014 and 2013 each contained 13 weeks.

Mobility continues to be the largest influence on semiconductor industry spending. The first quarter of fiscal 2014 was characterized by strong demand for semiconductor equipment by foundry customers driven by demand for advanced mobile chips. Mobility also represents a significant driver of display industry spending, resulting in continued capacity expansion for mobile applications. Demand for TV manufacturing equipment continues to be driven by the market for larger LCD TVs, although this sector remains susceptible to highly cyclical conditions. Investment in solar equipment remained low during the first quarter of fiscal 2014, despite continued end-market growth, due to ongoing excess manufacturing capacity in the industry.

On September 24, 2013, Applied announced an agreement with Tokyo Electron Limited (TEL), a Japanese corporation and global supplier of semiconductor and flat panel display production equipment, and provider of technical support and services for semiconductor, flat panel display and PV panel production equipment, to effect a combination of their respective businesses into a new combined company. The combination is expected to bring together leading technologies and products and create an expanded set of capabilities in precision materials engineering and patterning. Under the agreement, which was amended February 14, 2014, the closing of the transaction is subject to customary conditions, including approval by Applied’s and TEL’s stockholders and regulatory approvals.

Results of Operations

New Orders

New orders by reportable segment for the periods indicated were as follows:

	Three Months Ended								Change	
	January 26, 2014			October 27, 2013			January 27, 2013		Q1 2014 over Q4 2013	Q1 2014 over Q1 2013
	(In millions, except percentages)									
Silicon Systems Group	$	1,569	69%	$ 1,390	66%	$	1,363	64%	13%	15%
Applied Global Services		597	26%	548	26%		544	26%	9%	10%
Display		79	3%	114	6%		138	7%	(31)%	(43)%
Energy and Environmental Solutions		40	2%	40	2%		68	3%	—%	(41)%
Total	$	2,285	100%	$ 2,092	100%	$	2,113	100%	9%	8%

New orders for the first quarter of fiscal 2014 increased compared to the prior quarter due to higher demand for semiconductor equipment and for services, partially offset by lower demand for display equipment due to the segment's uneven orders pattern. The Silicon Systems Group's proportion of total new orders relative to other segments increased compared to the prior quarter and continues to comprise the majority of the Company's total new orders.

New orders for the first quarter of fiscal 2014 increased compared to the same period in fiscal 2013, primarily as a result of increased demand for semiconductor equipment and spares, partially offset by lower demand for display and solar equipment.

New orders by geographic region, determined by the product shipment destination specified by the customer, were as follows:

	Three Months Ended								Change	
	January 26, 2014			October 27, 2013			January 27, 2013		Q1 2014 over Q4 2013	Q1 2014 over Q1 2013
	(In millions, except percentages)									
Taiwan	$	984	43%	$ 721	34%	$	906	43%	36%	9%
China		326	14%	486	23%		238	11%	(33)%	37%
Korea		240	11%	209	10%		198	9%	15%	21%
Japan		163	7%	117	6%		181	9%	39%	(10)%
Southeast Asia		50	2%	95	5%		65	3%	(47)%	(23)%
Asia Pacific		1,763	77%	1,628	78%		1,588	75%	8%	11%
United States		403	18%	261	12%		391	19%	54%	3%
Europe		119	5%	203	10%		134	6%	(41)%	(11)%
Total	$	2,285	100%	$ 2,092	100%	$	2,113	100%	9%	8%

The change in new order composition by region in the first quarter of fiscal 2014 compared to the prior quarter primarily reflected changes in relative demand for semiconductor equipment among foundry, memory and logic customers. The decrease in new orders from customers in China reflected lower demand for TV equipment compared to the prior quarter, due to timing of customer orders.

The increase in new orders from customers in China in the first quarter of fiscal 2014 from the first quarter of fiscal 2013 was primarily due to higher demand for semiconductor equipment, partially offset by lower orders for TV and solar manufacturing equipment. The increases in new orders for these same periods from Taiwan and Korea were primarily due to improved demand for semiconductor equipment from foundry customers.

Changes in backlog during the three months ended January 26, 2014 were as follows:

		January 26, 2014
		(In millions)
Beginning balance	$	2,372
New orders		2,285
Net sales		(2,190)
Net adjustments		(32)
Ending balance	$	2,435

Backlog consists of: (1) orders for which written authorizations have been accepted and assigned shipment dates are within the next 12 months, or shipment has occurred but revenue has not been recognized; and (2) contractual service revenue and maintenance fees to be earned within the next 12 months. Applied's backlog at any particular time is not necessarily indicative of actual sales for any future periods due to the potential for customer changes in delivery schedules or cancellation of orders. Backlog adjustments included $33 million of currency adjustments. Approximately 83 percent of the backlog as of the end of the first quarter of fiscal 2014 is anticipated to be shipped within the next two quarters.

Backlog by reportable segment as of the end of the most recent three fiscal quarters was as follows:

	January 26, 2014			October 27, 2013			July 28, 2013			Q1 2014 over Q4 2013	Q1 2014 over Q3 2013
	(In millions, except percentages)										
Silicon Systems Group	$	1,370	56%	$	1,295	55%	$	1,171	51%	6%	17%
Applied Global Services		659	27%		591	25%		585	26%	12%	13%
Display		281	12%		361	15%		409	18%	(22)%	(31)%
Energy and Environmental Solutions		125	5%		125	5%		124	5%	—%	1%
Total	$	2,435	100%	$	2,372	100%	$	2,289	100%	3%	6%

Total backlog increased slightly in the first quarter of fiscal 2014 compared to the prior quarter, and backlog composition changed, due to higher demand for semiconductor equipment and services and lower orders for TV equipment due to uneven customer order patterns. In the first quarter of fiscal 2014, approximately 47 percent of net sales in the Silicon Systems Group, Applied's largest business segment, were for orders received and shipped within the quarter, slightly down from 49 percent in the prior quarter.

Net Sales

Net sales by reportable segment for the periods indicated were as follows:

	Three Months Ended									Change	
	January 26, 2014			October 27, 2013			January 27, 2013			Q1 2014 over Q4 2013	Q1 2014 over Q1 2013
	(In millions, except percentages)										
Silicon Systems Group	$	1,484	68%	$	1,243	63%	$	969	62%	19%	53%
Applied Global Services		507	23%		538	27%		471	30%	(6)%	8%
Display		159	7%		163	8%		87	5%	(2)%	83%
Energy and Environmental Solutions		40	2%		44	2%		46	3%	(9)%	(13)%
Total	$	2,190	100%	$	1,988	100%	$	1,573	100%	10%	39%

Net sales for the first quarter of fiscal 2014 increased compared to the prior quarter primarily reflecting increased investments in semiconductor equipment. The Silicon Systems Group's relative share of total net sales increased compared to the prior quarter and remains the largest contributor of net sales. The Silicon Systems Group and Applied Global Services comprised at least 90 percent of Applied's total net sales for all periods presented.

For the first quarter of fiscal 2014 compared to the same period in the prior year, net sales increased due to higher customer investments in semiconductor and display equipment.

Net sales by geographic region, determined by the location of customers' facilities to which products were shipped, were as follows:

	Three Months Ended									Change	
	January 26, 2014			October 27, 2013			January 27, 2013			Q1 2014 over Q4 2013	Q1 2014 over Q1 2013
	(In millions, except percentages)										
Taiwan	$	705	32%	$	589	30%	$	565	36%	20%	25%
China		589	27%		204	10%		127	8%	189%	364%
Korea		201	9%		231	12%		205	13%	(13)%	(2)%
Japan		164	8%		276	14%		98	6%	(41)%	67%
Southeast Asia		87	4%		89	4%		58	4%	(2)%	50%
Asia Pacific		1,746	80%		1,389	70%		1,053	67%	26%	66%
United States		280	13%		357	18%		401	25%	(22)%	(30)%
Europe		164	7%		242	12%		119	8%	(32)%	38%
Total	$	2,190	100%	$	1,988	100%	$	1,573	100%	10%	39%

The increase in net sales from customers in China in the first quarter of fiscal 2014 compared to the prior quarter primarily reflected higher investments in semiconductor and display equipment, while the decrease in net sales from customers in Japan and Europe was mainly due to reduced investments in semiconductor equipment.

The changes in net sales from customers in China, Taiwan and United States in the first quarter of fiscal 2014 compared to the same period in the prior year were primarily due to changes in relative demand for semiconductor equipment among foundry, memory and logic customers.

Gross Margin

Gross margins for the periods indicated were as follows:

	Three Months Ended			Change	
	January 26, 2014	October 27, 2013	January 27, 2013	Q1 2014 over Q4 2013	Q1 2014 over Q1 2013
	(In millions, except percentages)				
Gross margin	$ 891	$ 795	$ 582	$ 96	$ 309
Gross margin percent	40.7%	40.0%	37.0%	0.7 point	3.7 points
Non-GAAP Adjusted Results					
Non-GAAP adjusted gross margin	$ 930	$ 835	$ 626	$ 95	$ 304
Non-GAAP adjusted gross margin percent	42.5%	42.0%	39.8%	0.5 point	2.7 points

Reconciliations of non-GAAP adjusted measures are presented below under "Non-GAAP Adjusted Results."

Gross margin and non-GAAP adjusted gross margin, as well as gross margin percent and non-GAAP adjusted gross margin percent, increased in the first quarter of fiscal 2014 compared to the prior quarter and the comparable period in the prior year, primarily reflecting higher net sales, the absence of a regional customs duty assessment charge recorded in the fourth quarter of the fiscal 2013, and lower inventory charges and manufacturing costs. Gross margin and non-GAAP adjusted gross margin during the three months ended January 26, 2014, October 27, 2013 and January 27, 2013 included $14 million, $13 million and $12 million, respectively, of share-based compensation expense.

Research, Development and Engineering

Research, Development and Engineering (RD&E) expenses for the periods indicated were as follows:

	Three Months Ended			Change	
	January 26, 2014	October 27, 2013	January 27, 2013	Q1 2014 over Q4 2013	Q1 2014 over Q1 2013
	(In millions)				
Research, development and engineering	$ 356	$ 338	$ 304	$ 18	$ 52

Applied’s future operating results depend to a considerable extent on its ability to maintain a competitive advantage in the equipment and service products it provides. Applied believes that it is critical to continue to make substantial investments in RD&E to assure the availability of innovative technology that meets the current and projected requirements of its customers’ most advanced designs. Applied historically has maintained its commitment to investing in RD&E in order to continue to offer new products and technologies. Development cycles range from 12 to 36 months depending on whether the product is an enhancement of an existing product, which typically has a shorter development cycle, or a new product, which typically has a longer development cycle. Most of Applied’s existing products resulted from internal development activities and innovations involving new technologies, materials and processes. In certain instances, Applied acquires technologies, either in existing or new product areas, to complement its existing technology capabilities and to reduce time to market.

As part of its growth strategy, Applied has taken certain actions, including workforce reductions and reprioritization of existing spending, to enable increased funding for investments in technical capabilities and critical RD&E programs that address profitable opportunities in current and new markets, with a focus on semiconductor technologies. RD&E expenses in the first quarter of fiscal 2014 were higher than in the prior quarter and in the first quarter of fiscal 2013, reflecting the impact of these ongoing product development initiatives. RD&E expenses in the first quarter of fiscal 2014 compared to the fourth quarter of fiscal 2013 also reflected the absence of a favorable variable compensation adjustment recorded in the prior quarter. RD&E expenses during the three months ended January 26, 2014, October 27, 2013 and January 27, 2013 included $17 million, $14 million and $12 million, respectively, of share-based compensation expense.

Marketing and Selling

Marketing and selling expenses for the periods indicated were as follows:

	Three Months Ended			Change	
	January 26, 2014	October 27, 2013	January 27, 2013	Q1 2014 over Q4 2013	Q1 2014 over Q1 2013
			(In millions)		
Marketing and selling	$ 109	$ 99	$ 105	$ 10	$ 4

Marketing and selling expenses for the first quarter of fiscal 2014 were higher than in the prior quarter and the same period in fiscal 2013 primarily due to the reversal of provisions for bad debts recorded in the prior quarters. Marketing and selling expenses during the three months ended January 26, 2014, October 27, 2013 and January 27, 2013 included $6 million, $5 million, $5 million, respectively, of share-based compensation.

General and Administrative

General and administrative (G&A) expenses for the periods indicated were as follows:

	Three Months Ended			Change	
	January 26, 2014	October 27, 2013	January 27, 2013	Q1 2014 over Q4 2013	Q1 2014 over Q1 2013
			(In millions)		
General and administrative	$ 89	$ 117	$ 125	$ (28)	$ (36)

G&A expenses for the first quarter of fiscal 2014 decreased from the prior quarter and the comparable period in fiscal 2013 primarily due to the favorable impact of an unrealized gain of $24 million related to foreign exchange option contracts associated with the announced business combination with TEL. G&A expenses during the three months ended January 26, 2014, October 27, 2013 and January 27, 2013 included $9 million, $9 million and $8 million, respectively, of share-based compensation.

Restructuring Charges and Asset Impairments

Restructuring charges and asset impairments for the periods indicated were as follows:

	Three Months Ended			Change	
	January 26, 2014	October 27, 2013	January 27, 2013	Q1 2014 over Q4 2013	Q1 2014 over Q1 2013
			(In millions)		
Restructuring charges and asset impairments	$ 7	$ 30	$ 9	$ (23)	$ (2)

On October 3, 2012, Applied announced a restructuring plan (the 2012 Global Restructuring Plan) to realign its global workforce and enhance its ability to invest for growth. Under this plan, Applied implemented a voluntary retirement program and other workforce reduction actions that affected approximately 1,300 positions. During the three months months ended January 26, 2014, October 27, 2013 and January 27, 2013, Applied recognized $7 million, $27 million and $4 million, respectively, of employee-related costs in connection with the 2012 Global Restructuring Plan. These costs were not allocated to the segments. As of January 26, 2014, principal activities related to this plan were complete. Total costs incurred in implementing this plan were $152 million.

For further details, see Note 11 of Notes to Consolidated Condensed Financial Statements.

Impairments of Strategic Investments

Equity investments in privately-held companies are generally accounted for under the cost method of accounting and are periodically assessed for other-than-temporary impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred. If Applied determines that an other-than-temporary impairment has occurred, the investment will be written down to its estimated fair value based on available information, such as pricing in recent rounds of financing, current cash positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data. Applied recognized $3 million of impairment charges on its equity investments in privately-held companies during the three months ended January 26, 2014, and did not record any impairment charges on its equity investments in privately-held companies during the three months ended January 27, 2013.

Interest Expense and Interest and Other Income, net

Interest expense and interest and other income, net for the periods indicated were as follows:

	Three Months Ended			Change	
	January 26, 2014	October 27, 2013	January 27, 2013	Q1 2014 over Q4 2013	Q1 2014 over Q1 2013
	(In millions)				
Interest expense	$ 25	$ 24	$ 24	$ 1	$ 1
Interest and other income, net	$ 13	$ 8	$ 3	$ 5	$ 10

Interest expense remained essentially flat in the first quarter of fiscal 2014 compared to the prior quarter and to the comparable period in fiscal 2013. Interest expenses incurred were primarily associated with the senior unsecured notes issued in June 2011.

Interest and other income, net increased in the first quarter of fiscal 2014 compared to the prior quarter and to the comparable period in fiscal 2013 primarily due to realized gains on sales of securities.

Income Taxes

Income tax expense for the periods indicated was as follows:

	Three Months Ended			Change	
	January 26, 2014	October 27, 2013	January 27, 2013	Q1 2014 over Q4 2013	Q1 2014 over Q1 2013
	(In millions, except percentages)				
Provision for income taxes	$ 62	$ 11	$ (16)	$ 51	$ 78
Effective tax rate	19.7%	5.7%	(88.9)%	14.0 points	108.6 points

Applied’s tax rate is affected by the relative amount of income earned in different jurisdictions, including jurisdictions with income tax incentives, and the tax rates in those jurisdictions. It is also affected by discrete events that are not consistent from period to period such as changes in income tax legislation and income tax examinations. Management carefully monitors these factors and timely adjusts the effective income tax rate accordingly. The timing of the resolution of income tax examinations, and the amounts and timing of various tax payments that may be part of the settlement process, are highly uncertain.

The effective tax rates for the first quarter of fiscal 2014 and fourth quarter of fiscal 2013 were 19.7 percent and 5.7 percent, respectively. The effective tax rate for the first quarter of fiscal 2014 was higher than in the prior quarter primarily due to a $12 million tax benefit in the fourth quarter of fiscal 2013 related to the resolution of income tax filings, expiration of the U.S. federal R&D tax credit during the first quarter of fiscal 2014, and changes in the geographical composition of income.

The effective tax rates for the first quarter of fiscal 2014 and first quarter of fiscal 2013 were 19.7 percent and (88.9) percent, respectively. The effective tax rate for the first quarter of fiscal 2014 was higher than that in the same period in the prior year primarily due to an $11 million benefit related to the resolution of income tax filings for Varian during the first quarter of fiscal 2013, reinstatement of the U.S. federal R&D tax credit retroactive to January 1, 2012 during the first quarter of fiscal 2013, expiration of the U.S. federal R&D tax credit during the first quarter of fiscal 2014, and changes in the geographical composition of income.

Segment Information

Applied reports financial results in four segments: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. A description of the products and services, as well as financial data, for each reportable segment can be found in Note 16 of Notes to Consolidated Condensed Financial Statements. Applied does not allocate to its reportable segments certain operating expenses that it manages separately at the corporate level. These unallocated costs include costs for share-based compensation; certain management, finance, legal, human resources, and RD&E functions provided at the corporate level; and unabsorbed information technology and occupancy. In addition, Applied does not allocate to its reportable segments restructuring and asset impairment charges and any associated adjustments related to restructuring actions, unless these actions pertain to a specific reportable segment.

The results for each reportable segment are discussed below.

Silicon Systems Group Segment

The Silicon Systems Group segment includes semiconductor capital equipment for deposition, etch, ion implantation, rapid thermal processing, chemical mechanical planarization, metrology and inspection, and wafer packaging. Development efforts are focused on solving customers' key technical challenges in transistor, patterning, interconnect and packaging performance as devices scale to advanced technology nodes. The mobility trend remains the largest influence on industry spending, as it drives device manufacturers to deliver high-performance, low-power processors and affordable solid-state storage in a small form factor.

The competitive environment for the Silicon Systems Group in the first quarter of fiscal 2014 reflected continued investment by the semiconductor industry, with foundries remaining the primary driver of the segment’s net sales as customers ramp new factories to meet demand for advanced mobile chips. As manufacturers of DRAM and NAND balance supply with demand in their markets, net sales to memory customers improved from the same period last year.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	January 26, 2014	October 27, 2013	January 27, 2013	Q1 2014 over Q4 2013		Q1 2014 over Q1 2013	
	(In millions, except percentages and ratios)						
New orders	$ 1,569	$ 1,390	$ 1,363	$ 179	13%	$ 206	15%
Net sales	1,484	1,243	969	241	19%	515	53%
Book to bill ratio	1.1	1.1	1.4				
Operating income	314	213	134	101	47%	180	134%
Operating margin	21.2%	17.1%	13.8%		4.1 points		7.4 points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income	$ 357	$ 258	$ 180	99	38%	177	98%
Non-GAAP adjusted operating margin percent	24.1%	20.8%	18.6%		3.3 points		5.5 points

Reconciliations of non-GAAP adjusted measures are presented below under "Non-GAAP Adjusted Results."

New orders for the Silicon Systems Group by end use application for the periods indicated were as follows:

	Three Months Ended		
	January 26, 2014	October 27, 2013	January 27, 2013
Foundry	60%	47%	73%
Memory	32%	36%	15%
Logic and other	8%	17%	12%
	100%	100%	100%

New orders for the first quarter of fiscal 2014 increased from the fourth quarter of fiscal 2013 primarily due to higher demand from foundry customers, partially offset by decreased demand from logic customers. Net sales for the first quarter of fiscal 2014 increased sequentially primarily due to higher spending from memory customers. Approximately 47 percent of net sales in the first quarter of fiscal 2014 were for orders received and shipped within the quarter. Operating income and non-GAAP adjusted operating income increased in the first quarter of fiscal 2014 compared to the prior quarter, primarily reflecting increased net sales. In the first quarter of fiscal 2014, two customers accounted for approximately 64 percent of this segment's total new orders and 65 percent of net sales.

New orders and net sales for the first quarter of fiscal 2014 increased compared to the first quarter of fiscal 2013 mainly due to increased demand and spending from memory customers. Operating income and non-GAAP adjusted operating income increased in the first quarter of fiscal 2013 compared to the same period in the prior year, reflecting the increase in net sales, partially offset by increased RD&E spending and unfavorable changes in product mix.

The following regions accounted for at least 30 percent of total net sales for the Silicon Systems Group segment for one or more of the periods indicated:

	Three Months Ended						Change	
	January 26, 2014		October 27, 2013		January 27, 2013		Q1 2014 over Q4 2013	Q1 2014 over Q1 2013
	(In millions, except percentages)							
Taiwan	$ 593	40%	$ 460	37%	$ 462	48%	29%	28%

Applied Global Services Segment

The Applied Global Services segment encompasses services, products and integrated solutions to optimize equipment and fab performance and productivity, including spares, upgrades, services, remanufactured earlier generation equipment and factory automation software for semiconductor, display and solar products. Customer demand for products and services is fulfilled through a global distribution system with trained service engineers located in close proximity to customer sites.

Industry conditions that affected Applied Global Services' sales of spares and services during the first quarter of fiscal 2014 were principally semiconductor manufacturers' wafer starts, as well as utilization rates.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	January 26, 2014	October 27, 2013	January 27, 2013	Q1 2014 over Q4 2013		Q1 2014 over Q1 2013	
	(In millions, except percentages and ratios)						
New orders	$ 597	$ 548	$ 544	$ 49	9%	$ 53	10%
Net sales	507	538	471	(31)	(6)%	36	8%
Book to bill ratio	1.2	1.0	1.2				
Operating income	125	115	89	10	9%	36	40%
Operating margin	24.7%	21.4%	18.9%		3.3 points		5.8 points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income	126	116	91	10	9%	35	38%
Non-GAAP adjusted operating margin percent	24.9%	21.6%	19.3%		3.3 points		5.6 points

Reconciliations of non-GAAP adjusted measures are presented below under "Non-GAAP Adjusted Results."

New orders for the first quarter of fiscal 2014 increased compared to the prior quarter primarily due to increased demand for 200mm equipment and services. Net sales for the first quarter of fiscal 2014 decreased from the prior quarter primarily due to lower investment in display and mask equipment upgrades, semiconductor service and spares, as well as display spares. Operating income and non-GAAP adjusted operating income were higher than in the prior quarter, despite a decrease in net sales, primarily due to the absence of a regional customs duty assessment charge recorded in the prior quarter, as well as lower operating expenses from spending controls, favorable product mix and variable compensation adjustment.

New orders for the first quarter of fiscal 2014 increased compared to the same period in fiscal 2013 mainly due to increased demand for 200mm equipment and display equipment upgrades and semiconductor spares, partially offset by lower service demand due to timing of service renewals. Net sales for the first quarter of fiscal 2014 increased compared to the same period in fiscal 2013 primarily due to increased demand for 200mm equipment and upgrades, semiconductor services and display equipment upgrades. Operating income and non-GAAP adjusted operating income increased in the first quarter of fiscal 2014 compared to the same period in the prior year, reflecting the increase in net sales.

There was no single region that accounted for at least 30 percent of total net sales for the Applied Global Services segment for any of the periods presented.

Display Segment

The Display segment encompasses products for manufacturing LCDs, organic light-emitting diodes (OLEDs), and other display technologies for TVs, personal computers (PCs), tablets, smart phones, and other consumer-oriented devices. The segment is focused on expanding its presence through technologically-differentiated equipment for manufacturing large-scale TVs; entry into new markets such as the low temperature polysilicon (LTPS), metal oxide, and touch panel sectors; and development of products that enable cost reductions through productivity and uniformity. Display industry growth depends primarily on consumer demand for increasingly larger and more advanced LCD TVs and high resolution displays for next generation mobile devices.

The market environment for Applied's Display segment in 2014 is characterized by continued demand for manufacturing equipment for TV and high-end mobile devices, although this sector remains susceptible to highly cyclical conditions.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	January 26, 2014	October 27, 2013	January 27, 2013	Q1 2014 over Q4 2013		Q1 2014 over Q1 2013	
	(In millions, except percentages and ratios)						
New orders	$ 79	$ 114	$ 138	$ (35)	(31)%	$ (59)	(43)%
Net sales	159	163	87	(4)	(2)%	72	83%
Book to bill ratio	0.5	0.7	1.6				
Operating income	26	19	3	7	37%	23	767%
Operating margin	16.4%	11.7%	3.4%		4.7 points		13.0 points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income	$ 27	$ 20	$ 5	7	35%	22	440%
Non-GAAP adjusted operating margin percent	17.0%	12.3%	5.7%		4.7 points		11.3 points

Reconciliations of non-GAAP adjusted measures are presented below under "Non-GAAP Adjusted Results."

New orders for the first quarter of fiscal 2014 decreased compared to the prior quarter primarily due to the uneven order and revenue patterns of this business, which can cause significant fluctuations quarter-over-quarter, as well as year-over year. Net sales were flat compared to the prior quarter. Operating income and non-GAAP adjusted operating income increased as a result of better installation and warranty performance and material and manufacturing cost reductions. One customer accounted for approximately 36 percent of new orders for the Display segment in the first quarter of fiscal 2014. Two customers accounted for 90 percent of net sales for this segment in the first quarter of fiscal 2014, with each customer accounting for more than 40 percent of net sales.

New orders for the first quarter of fiscal 2014 decreased compared to the same period in the prior year primarily due to timing of customer demand. Net sales for the first quarter of fiscal 2014 increased compared to the same period in fiscal 2013 primarily due to increased investments in TV manufacturing equipment. Operating income and non-GAAP adjusted operating income increased for the first quarter of fiscal 2014 from the comparable period in fiscal 2013, reflecting increased net sales.

The following regions accounted for at least 30 percent of total net sales for the Display segment for one or more of the periods indicated:

	Three Months Ended						Change	
	January 26, 2014		October 27, 2013		January 27, 2013		Q1 2014 over Q4 2013	Q1 2014 over Q1 2013
	(In millions, except percentages)							
China	$ 155	97%	$ 69	42%	$ 44	51%	125%	252%
Korea	$ 4	3%	$ 46	28%	$ 43	49%	(91)%	(91)%

Energy and Environmental Solutions Segment

The Energy and Environmental Solutions segment includes products for fabricating c-Si solar PV wafers and cells, as well as high throughput roll-to-roll deposition equipment for flexible electronics, packaging and other applications. This business is focused on delivering solutions to generate and conserve energy, with an emphasis on lowering the cost to produce solar modules and increasing conversion efficiency. While end-demand for solar PVs has been robust over the last several years, investment levels in capital equipment remain depressed. Global PV production capacity exceeds anticipated demand, which has caused solar PV manufacturers to reduce or delay investments in manufacturing capacity and new technology, or in some instances to cease operations.

The solar PV industry environment in the first quarter of fiscal 2014 was characterized by continued excess manufacturing capacity despite continued growth in end-market demand, uncertainty related to international trade disputes, and tightened access to capital. As a result, solar cell and wafering customers are deferring purchases of new equipment.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	January 26, 2014	October 27, 2013	January 27, 2013	Q1 2014 over Q4 2013		Q1 2014 over Q1 2013	
	(In millions, except percentages and ratios)						
New orders	$ 40	$ 40	$ 68	$ —	—%	$ (28)	(41)%
Net sales	40	44	46	(4)	(9)%	(6)	(13)%
Book to bill ratio	1.0	0.9	1.5				
Operating loss	(11)	(30)	(54)	19	63%	43	80%
Operating margin	(27.5)%	(68.2)%	(117.4)%		40.7 points		89.9 points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating loss	(10)	(22)	(44)	12	55%	34	77%
Non-GAAP adjusted operating margin percent	(25.0)%	(50.0)%	(95.7)%		25.0 points		70.7 points

Reconciliations of non-GAAP adjusted measures are presented below under "Non-GAAP Adjusted Results.".

New orders and net sales for the first quarter of fiscal 2014 remained at low levels due to continued excess manufacturing capacity in the solar industry, which resulted in operating losses for the segment. Three customers each accounted for approximately 20 percent of net sales for this segment during the first quarter of fiscal 2014. Operating loss and non-GAAP adjusted operating loss decreased for the first quarter of fiscal 2014 compared to the prior quarter and the same period in fiscal 2013, despite lower net sales, due to lower inventory charges, continued cost reduction measures and spending reductions resulting from restructuring activities.

The following regions accounted for at least 30 percent of total net sales for the Energy and Environmental Solutions segment for one or more of the periods presented:

	Three Months Ended						Change	
	January 26, 2014		October 27, 2013		January 27, 2013		Q1 2014 over Q4 2013	Q1 2014 over Q1 2013
	(In millions, except percentages)							
China	$ 11	28%	$ 34	77%	$ 15	33%	(68)%	(27)%
Europe	$ 17	43%	$ 3	7%	$ 8	17%	467%	113%

Financial Condition, Liquidity and Capital Resources

Applied's cash, cash equivalents and investments consist of the following:

	January 26, 2014	October 27, 2013
	(In millions)	
Cash and cash equivalents	$ 2,144	$ 1,711
Short-term investments	145	180
Long-term investments	833	1,005
Total cash, cash-equivalents and investments	$ 3,122	$ 2,896

Sources and Uses of Cash

A summary of cash provided by (used in) operating, investing, and financing activities is as follows:

	Three Months Ended	
	January 26, 2014	January 27, 2013
	(In millions)	
Cash provided by operating activities	$ 372	$ 16
Cash provided by investing activities	$ 153	$ 253
Cash used in financing activities	$ (92)	$ (138)

Operating Activities

Cash from operating activities for the three months ended January 26, 2014 was $372 million, which reflects net income adjusted for the effect of non-cash charges and changes in working capital components. Non-cash charges included depreciation, amortization, share-based compensation, and restructuring and asset impairments. Cash from operations reflected higher business volumes and improved collection performance, partially offset by increases in inventories and decreases in accounts payable and accrued expenses. The increases in inventories were mainly due to higher deferred inventory at the end of the first quarter of fiscal 2014. The decreases in accounts payable and accrued expenses were mostly related to cash usage for variable compensation program, dividend and debt interest payments.

Applied did not discount promissory notes or utilize programs to discount letters of credit issued by customers during the three months ended January 26, 2014 and January 27, 2013. Discounting of letters of credit depends on many factors, including the willingness of financial institutions to discount the letters of credit and the cost of such arrangements. Applied factored accounts receivable of $45 million during the three months ended January 26, 2014 and none during the three months ended January 27, 2013.

Applied’s working capital was $3.5 billion at January 26, 2014 and $3.2 billion at October 27, 2013.

Days sales, inventory and payable outstanding at the end of each of the periods indicated were:

	January 26, 2014	October 27, 2013	January 27, 2013
Days sales outstanding	63	75	64
Days inventory outstanding	107	108	117
Days payable outstanding	45	44	39

Days sales outstanding varies due to the timing of shipments and payment terms. Days sales outstanding decreased in the first quarter of fiscal 2014 compared to the prior quarter primarily due to better sales linearity and improved collection performance. Days inventory outstanding and days payable outstanding in the first quarter of fiscal 2014 remained relatively flat compared to the prior quarter. Days inventory outstanding decreased during the first quarter of fiscal 2014 compared to the same period in the prior year reflecting higher business volumes, partially offset by higher deferred inventory at quarter end. Days payable outstanding increased during the first quarter of fiscal 2014 compared to the same period in the prior year reflecting higher inventory purchases and accounts payable balances due to increased business volumes.

Investing Activities

Applied generated $153 million of cash from investing activities during the three months ended January 26, 2014. Proceeds from sales and maturities of investments, net of purchases of investments, totaled $201 million and capital expenditures were $48 million during the three months ended January 26, 2014.

Financing Activities

Applied used cash for financing activities in the amount of $92 million during the three months ended January 26, 2014, consisting primarily of $120 million in payment of cash dividends to stockholders, offset by proceeds from stock issuances related to equity compensation awards, including associated tax benefits, of $28 million.

In December 2013, Applied's Board of Directors declared a quarterly cash dividend in the amount of $0.10 per share payable in March 2014. Applied currently anticipates that cash dividends will continue to be paid on a quarterly basis, although the declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on Applied’s financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination by the Board of Directors that cash dividends are in the best interests of Applied’s stockholders.

Applied has credit facilities for unsecured borrowings in various currencies of up to $1.6 billion, of which $1.5 billion is comprised of a committed revolving credit agreement with a group of banks that is scheduled to expire in May 2017. This agreement provides for borrowings in United States dollars at interest rates keyed to one of the two rates selected by Applied for each advance and includes financial and other covenants with which Applied was in compliance at January 26, 2014. Remaining credit facilities in the amount of approximately $77 million are with Japanese banks. Applied’s ability to borrow under these facilities is subject to bank approval at the time of the borrowing request, and any advances will be at rates indexed to the banks’ prime reference rate denominated in Japanese yen. No amounts were outstanding under any of these facilities at both January 26, 2014 and October 27, 2013 and Applied has not utilized these credit facilities.

Applied has debt agreements that contain financial and other covenants. These covenants require Applied to maintain certain minimum financial ratios. At January 26, 2014, Applied was in compliance with all such covenants. See Note 10 of Notes to Consolidated Condensed Financial Statements for additional discussion of long-term debt.

In the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to third parties as required for certain transactions initiated by either Applied or its subsidiaries. As of January 26, 2014, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately $43 million. Applied has not recorded any liability in connection with these guarantee agreements beyond that required to appropriately account for the underlying transaction being guaranteed. Applied does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee agreements.

Applied also has agreements with various banks to facilitate subsidiary banking operations worldwide, including overdraft arrangements, issuance of bank guarantees, and letters of credit. As of January 26, 2014, Applied Materials, Inc. has provided parent guarantees to banks for approximately $102 million to cover these arrangements.

Others

During the fourth quarter of fiscal 2013, the Company purchased foreign exchange option contracts to limit its foreign exchange risk associated with the announced business combination with TEL. At January 26, 2014, the fair value of these foreign exchange option contracts was approximately $41 million. To further mitigate credit exposure in connection with these foreign exchange option contracts, the Company entered into security arrangements with certain counterparties, which require the counterparties to post collateral amounting to the approximate fair value of the derivative contracts. The cash collateral is included in cash and cash equivalents in the Consolidated Condensed Statements of Financial Position, with the corresponding liability included in accounts payable and accrued expenses. See Note 5 of Notes to Consolidated Condensed Financial Statements for additional discussion of derivative instruments.

Applied's investment portfolio consists principally of investment grade money market mutual funds, U.S. Treasury and agency securities, municipal bonds, corporate bonds and mortgage-backed and asset-backed securities, as well as equity securities. Applied regularly monitors the credit risk in its investment portfolio and takes appropriate measures, which may include the sale of certain securities, to manage such risks prudently in accordance with its investment policies. During the three months ended January 26, 2014, Applied did not recognize any impairment of its fixed income and publicly traded equity securities. At January 26, 2014, gross unrealized losses due to a decrease in the fair value of certain fixed income securities were not material.

During the three months ended January 26, 2014, Applied did not record a bad debt provision. While Applied believes that its allowance for doubtful accounts at January 26, 2014 is adequate, it will continue to closely monitor customer liquidity and economic conditions.

As of January 26, 2014, approximately $1.7 billion of cash, cash equivalents, and marketable securities held by foreign subsidiaries may be subject to U.S. taxes if repatriated for U.S. operations. Of this amount, Applied intends to permanently reinvest approximately $1.2 billion of these funds outside of the U.S. and does not plan to repatriate these funds. For the remaining cash, cash equivalents and marketable securities held by foreign subsidiaries, U.S. taxes have been provided for in the financial statements.

Although cash requirements will fluctuate based on the timing and extent of factors such as those discussed above, Applied's management believes that cash generated from operations, together with the liquidity provided by existing cash balances and borrowing capability, will be sufficient to satisfy Applied's liquidity requirements for the next 12 months. For further details regarding Applied's operating, investing and financing activities, see the Consolidated Condensed Statements of Cash Flows in this report.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported. Note 1 of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K and Note 1 of Notes to Consolidated Condensed Financial Statements in this report describe the significant accounting policies used in the preparation of the consolidated financial statements. Certain of these significant accounting policies are considered to be critical accounting policies.

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

Estimates and assumptions about future events and their effects cannot be determined with certainty. Applied bases its estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as Applied's operating environment changes. These changes have historically been minor and have been included in the consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. These uncertainties include those discussed in Part II, Item 1A, “Risk Factors.” Based on a critical assessment of its accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that Applied's consolidated financial statements are fairly stated in accordance with accounting principles generally accepted in the United States of America, and provide a meaningful presentation of Applied's financial condition and results of operations.

Management believes that the following are critical accounting policies and estimates:

Revenue Recognition

Applied recognizes revenue when all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; sales price is fixed or determinable; and collectability is probable. Each sale arrangement may contain commercial terms that differ from other arrangements. In addition, Applied frequently enters into contracts that contain multiple deliverables. Judgment is required to properly identify the accounting units of the multiple deliverable transactions and to determine the manner in which revenue should be allocated among the accounting units. Moreover, judgment is used in interpreting the commercial terms and determining when all criteria of revenue recognition have been met in order for revenue recognition to occur in the appropriate accounting period. While changes in the allocation of the estimated sales price between the units of accounting will not affect the amount of total revenue recognized for a particular sales arrangement, any material changes in these allocations could impact the timing of revenue recognition, which could have a material effect on Applied's financial condition and results of operations.

Warranty Costs

Applied provides for the estimated cost of warranty when revenue is recognized. Estimated warranty costs are determined by analyzing specific product, current and historical configuration statistics and regional warranty support costs. Applied's warranty obligation is affected by product and component failure rates, material usage and labor costs incurred in correcting product failures during the warranty period. As Applied's customer engineers and process support engineers are highly trained and deployed globally, labor availability is a significant factor in determining labor costs. The quantity and availability of critical replacement parts is another significant factor in estimating warranty costs. Unforeseen component failures or exceptional component performance can also result in changes to warranty costs. If actual warranty costs differ substantially from Applied's estimates, revisions to the estimated warranty liability would be required, which could have a material adverse effect on Applied's business, financial condition and results of operations.

Allowance for Doubtful Accounts

Applied maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. This allowance is based on historical experience, credit evaluations, specific customer collection history and any customer-specific issues Applied has identified. Changes in circumstances, such as an unexpected material adverse change in a major customer's ability to meet its financial obligation to Applied or its payment trends, may require Applied to further adjust its estimates of the recoverability of amounts due to Applied, which could have a material adverse effect on Applied's business, financial condition and results of operations.

Inventory Valuation

Inventories are generally stated at the lower of cost or market, with cost determined on a first-in, first-out basis. The carrying value of inventory is reduced for estimated obsolescence by the difference between its cost and the estimated market value based upon assumptions about future demand. Applied evaluates the inventory carrying value for potential excess and obsolete inventory exposures by analyzing historical and anticipated demand. In addition, inventories are evaluated for potential obsolescence due to the effect of known and anticipated engineering change orders and new products. If actual demand were to be substantially lower than estimated, additional adjustments for excess or obsolete inventory may be required, which could have a material adverse effect on Applied's business, financial condition and results of operations.

Goodwill and Intangible Assets

Applied reviews goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable, and also annually reviews goodwill and intangibles with indefinite lives for impairment. Intangible assets, such as purchased technology, are generally recorded in connection with a business acquisition. The value assigned to intangible assets is usually based on estimates and judgments regarding expectations for the success and life cycle of products and technology acquired. If actual product acceptance differs significantly from the estimates, Applied may be required to record an impairment charge to reduce the carrying value of the reporting unit to its estimated fair value. The fair value of a reporting unit is estimated using both the income approach and the market approach taking into account such factors as future anticipated operating results and estimated cost of capital. Management uses significant judgment when assessing goodwill for potential impairment, especially in emerging markets. A severe decline in market conditions could result in an unexpected impairment charge for impaired goodwill, which could have a material adverse effect on Applied's business, financial condition and results of operations.

Income Taxes

The effective tax rate is highly dependent upon the geographic composition of worldwide earnings, tax regulations governing each region, nondeductible expenses incurred in connection with acquisitions and availability of tax credits. Management carefully monitors the changes in many factors and adjusts the effective tax rate as required. If actual results differ from these estimates, Applied could be required to record a valuation allowance on deferred tax assets or adjust its effective tax rate, which could have a material adverse effect on Applied's business, financial condition and results of operations.

Applied accounts for income taxes by recognizing deferred tax assets and liabilities using statutory tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities, net operating losses and tax credit carryovers. Deferred tax assets are also reduced by a valuation allowance if it is more likely than not that a portion of the deferred tax asset will not be realized. Management has determined that it is more likely than not that Applied's future taxable income will be sufficient to realize its deferred tax assets, net of existing valuation allowance.

The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with Applied's expectations could have a material impact on Applied's results of operations and financial condition.

Non-GAAP Adjusted Results

Management uses non-GAAP adjusted results to evaluate operating and financial performance in light of business objectives and for planning purposes. Applied believes these measures enhance investors’ ability to review the Company’s business from the same perspective as management and facilitate comparisons of this period’s results with prior periods. The non-GAAP adjusted results presented below exclude the impact of the following, where applicable: certain acquisition-related costs; restructuring charges and any associated adjustments; impairments of assets, goodwill, or investments; gain or loss on sale of facilities; and certain tax items. These non-GAAP adjusted measures are not in accordance with GAAP and may differ from non-GAAP methods of accounting and reporting used by other companies. The presentation of this additional information should not be considered a substitute for results prepared in accordance with GAAP.

The following tables present a reconciliation of the GAAP and non-GAAP adjusted consolidated results:

APPLIED MATERIALS, INC.

UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED RESULTS

	Three Months Ended		
(In millions, except percentages)	**January 26, 2014**	**October 27, 2013**	**January 27, 2013**
Non-GAAP Adjusted Gross Margin			
Reported gross margin - GAAP basis	$ 891	$ 795	$ 582
Certain items associated with acquisitions[1]	39	40	43
Acquisition integration and deal costs	—	—	1
Non-GAAP adjusted gross margin	$ 930	$ 835	$ 626
Non-GAAP adjusted gross margin percent (% of net sales)	42.5%	42.0%	39.8%
Non-GAAP Adjusted Operating Income			
Reported operating income - GAAP basis	$ 330	$ 211	$ 39
Certain items associated with acquisitions[1]	45	47	54
Acquisition integration and deal costs	11	11	10
Unrealized loss (gain) on derivative associated with announced business combination	(24)	7	—
Certain items associated with announced business combination[2]	11	17	—
Restructuring charges and asset impairments[3, 4, 5]	7	30	9
Non-GAAP adjusted operating income	$ 380	$ 323	$ 112
Non-GAAP adjusted operating margin percent (% of net sales)	17.4%	16.2%	7.1%
Non-GAAP Adjusted Net Income			
Reported net income - GAAP basis	$ 253	$ 183	$ 34
Certain items associated with acquisitions[1]	45	47	54
Acquisition integration and deal costs	11	11	10
Unrealized loss (gain) on derivative associated with announced business combination	(24)	7	—
Certain items associated with announced business combination[2]	11	17	—
Restructuring charges and asset impairments[3, 4, 5]	7	30	9
Impairment (gain on sale) of strategic investments, net	(5)	(3)	—
Reinstatement of federal R&D tax credit	—	—	(10)
Resolution of prior years' income tax filings and other tax items	(15)	(10)	(11)
Income tax effect of non-GAAP adjustments	(4)	(54)	(17)
Non-GAAP adjusted net income	$ 279	$ 228	$ 69

1 These items are incremental charges attributable to completed acquisitions, consisting of inventory fair value adjustments on products sold, and amortization of purchased intangible assets.

2 These items are incremental charges related to the announced business combination agreement with Tokyo Electron Limited, consisting of acquisition-related and integration costs.

3 Results for the three months ended January 26, 2014 included employee-related costs of $7 million related to the restructuring program announced on October 3, 2012.

4 Results for the three months ended October 27, 2013 included $27 million of employee-related costs related to the restructuring program announced on October 3, 2012, and restructuring and asset impairment charges of $7 million related to the restructuring program announced on May 10, 2012, partially offset by a favorable adjustment of $4 million in restructuring charges related to other restructuring plans.

5 Results for the three months ended January 27, 2013 included $4 million of employee-related costs related to the restructuring program announced on October 3, 2012, asset impairment charges of $3 million related to the restructuring program announced on May 10, 2012 and severance charges of $2 million related to the integration of Varian.

APPLIED MATERIALS, INC.

UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED RESULTS

(In millions, except per share amounts)	Three Months Ended January 26, 2014	Three Months Ended October 27, 2013	Three Months Ended January 27, 2013
<u>Non-GAAP Adjusted Earnings Per Diluted Share</u>			
Reported earnings per diluted share - GAAP basis	$ 0.21	$ 0.15	$ 0.03
Certain items associated with acquisitions	0.03	0.03	0.03
Acquisition integration and deal costs	0.01	—	0.01
Unrealized gain on derivative associated with announced business combination	(0.01)	—	—
Certain items associated with announced business combination	—	0.01	—
Restructuring charges and asset impairments	—	0.01	0.01
Reinstatement of federal R&D tax credit and resolution of prior years' income tax filings and other tax items	(0.01)	(0.01)	(0.02)
Non-GAAP adjusted earnings per diluted share	$ 0.23	$ 0.19	$ 0.06
Weighted average number of diluted shares	1,225	1,222	1,212

The following table presents a reconciliation of the GAAP and non-GAAP adjusted segment results:

APPLIED MATERIALS, INC.
UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED RESULTS

	Three Months Ended		
(In millions, except percentages)	**January 26, 2014**	**October 27, 2013**	**January 27, 2013**
SSG Non-GAAP Adjusted Operating Income			
Reported operating income - GAAP basis	$ 314	$ 213	$ 134
Certain items associated with acquisitions[1]	42	44	44
Acquisition integration and deal costs, net	1	1	1
Restructuring charges and asset impairments[3]	—	—	1
Non-GAAP adjusted operating income	$ 357	$ 258	$ 180
Non-GAAP adjusted operating margin percent (% of net sales)	24.1 %	20.8 %	18.6 %
AGS Non-GAAP Adjusted Operating Income			
Reported operating income - GAAP basis	$ 125	$ 115	$ 89
Certain items associated with acquisitions[1]	1	1	1
Restructuring charges and asset impairments[3]	—	—	1
Non-GAAP adjusted operating income	$ 126	$ 116	$ 91
Non-GAAP adjusted operating margin percent (% of net sales)	24.9 %	21.6 %	19.3 %
Display Non-GAAP Adjusted Operating Income			
Reported operating income - GAAP basis	$ 26	$ 19	$ 3
Certain items associated with acquisitions[1]	1	1	2
Non-GAAP adjusted operating income	$ 27	$ 20	$ 5
Non-GAAP adjusted operating margin percent (% of net sales)	17.0 %	12.3 %	5.7 %
EES Non-GAAP Adjusted Operating Loss			
Reported operating loss - GAAP basis	$ (11)	$ (30)	$ (54)
Certain items associated with acquisitions[1]	1	1	7
Restructuring charges and asset impairments[2, 3]	—	7	3
Non-GAAP adjusted operating loss	$ (10)	$ (22)	$ (44)
Non-GAAP adjusted operating margin percent (% of net sales)	(25.0)%	(50.0)%	(95.7)%

1 These items are incremental charges attributable to completed acquisitions, consisting of inventory fair value adjustments on products sold, and amortization of purchased intangible assets.

2 Results for the three months ended October 27, 2013 included restructuring and asset impairment charges of $7 million related to the restructuring program announced on May 10, 2012.

3 Results for the three months ended January 27, 2013 included asset impairment charges of $3 million related to the restructuring program announced on May 10, 2012 and severance charges of $2 million related to the integration of Varian.

Note: The reconciliation of GAAP and non-GAAP adjusted segment results above does not include certain operating expenses that are managed separately at the corporate level and certain expenses that are not absorbed by the segments, which are reported within corporate and unallocated costs and included in consolidated operating income.

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

Applied is exposed to interest rate risk related to its investment portfolio and debt issuances. Applied’s investment portfolio includes fixed-income securities with a fair value of approximately $0.9 billion at January 26, 2014. These securities are subject to interest rate risk and will decline in value if interest rates increase. Based on Applied’s investment portfolio at January 26, 2014, an immediate 100 basis point increase in interest rates would result in a decrease in the fair value of the portfolio of approximately $14 million. While an increase in interest rates reduces the fair value of the investment portfolio, Applied will not realize the losses in the consolidated statement of operations unless the individual fixed-income securities are sold prior to recovery or the loss is determined to be other-than-temporary. At January 26, 2014, the carrying amount of debt issued by Applied was $1.9 billion with an estimated fair value of $2.1 billion. A hypothetical decrease in interest rates of 100 basis points would result in an increase in the fair value of Applied’s debt issuances of approximately $170 million at January 26, 2014.

Certain operations of Applied are conducted in foreign currencies, such as Japanese yen, euro, Israeli shekel, Taiwanese dollar and Swiss franc. Applied enters into currency forward exchange and option contracts to hedge a portion of, but not all, existing and anticipated foreign currency denominated transactions generally expected to occur within the next 24 months. Gains and losses on these contracts are generally recognized in income at the time that the related transactions being hedged are recognized. Because the effect of movements in currency exchange rates on currency forward exchange and option contracts generally offsets the related effect on the underlying items being hedged, these financial instruments are not expected to subject Applied to risks that would otherwise result from changes in currency exchange rates. Applied does not use derivative financial instruments for trading or speculative purposes.

In certain cases, Applied uses derivatives to hedge specific foreign currency exposures. During the fourth quarter of fiscal 2013, as part of an overall risk management strategy, Applied purchased foreign exchange option contracts to limit its foreign exchange risk associated with the announced business combination with TEL in the event there is a significant weakening in the Japanese yen as compared to the U.S. dollar. The derivatives used to hedge the currency exposure did not qualify for hedge accounting treatment. At January 26, 2014, the fair value of the foreign exchange currency option contracts was approximately $41 million. Applied recorded an unrealized gain of $24 million during the first quarter of fiscal 2014 related to such contracts. Changes in the exchange rate between the U.S. dollar and the Japanese yen would impact Applied's consolidated financial statements. The future maximum loss exposure on this option contract is generally limited to its fair value as of the most recent balance sheet date. For further details, see Note 5 of Notes to Consolidated Condensed Financial Statements.

Item 4. *Controls and Procedures*

Disclosure Controls and Procedures

As of the end of the period covered by this report, management of Applied conducted an evaluation, under the supervision and with the participation of Applied’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of Applied’s disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the Exchange Act). Based upon that evaluation, Applied’s Chief Executive Officer and Chief Financial Officer concluded that Applied’s disclosure controls and procedures were effective as of the end of the period covered by this report in ensuring that information required to be disclosed was recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and to provide reasonable assurance that information required to be disclosed by Applied in such reports is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the first quarter of fiscal 2014, there were no changes in the internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act, that materially affected, or are reasonably likely to materially affect, Applied’s internal control over financial reporting.

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

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

The information set forth above under the caption “Legal Matters” in Note 15 contained in Notes to Consolidated Condensed Financial Statements is incorporated herein by reference.

Item 1A: *Risk Factors*

The risk factors set forth below include any material changes to, and supersede the description of, the risk factors disclosed in Part I, Item 1A of Applied’s 2013 Form 10-K. These factors could materially and adversely affect Applied’s business, financial condition or results of operations and cause reputational harm, and they should be carefully considered in evaluating the Company and its business, in addition to other information presented elsewhere in this report.

The industries that Applied serves are volatile and difficult to predict.

As a supplier to the global semiconductor, flat panel display, and solar industries, Applied is subject to business cycles, the timing, length and volatility of which can be difficult to predict and which vary by reportable segment. These industries historically have been cyclical due to sudden changes in customers’ requirements for new manufacturing capacity and advanced technology, which depend in part on customers’ capacity utilization, production volumes, access to affordable capital, end-use demand, consumer buying patterns, and inventory levels relative to demand, as well as the rate of technology transitions and general economic conditions. These changes have affected the timing and amounts of customers’ purchases and investments in technology, and continue to affect Applied’s orders, net sales, operating expenses and net income.

To meet rapidly changing demand in the industries it serves, Applied must accurately forecast demand and effectively manage its resources and production capacity for each of its segments as well as across multiple segments, and may incur unexpected or additional costs to align its business operations. During periods of increasing demand for its products, Applied must have sufficient manufacturing capacity and inventory to meet customer demand; effectively manage its supply chain; attract, retain and motivate a sufficient number of qualified employees; and continue to control costs. During periods of decreasing demand, Applied must reduce costs and align its cost structure with prevailing market conditions; effectively manage its supply chain; and motivate and retain key employees.

Applied is exposed to risks associated with the uncertain global economy.

Uncertain global economic conditions and weak or moderate growth in China, Europe, and the United States, along with uncertainties in the financial markets, national debt and fiscal concerns in various regions, and government austerity measures, are posing challenges to the industries in which Applied operates. The markets for semiconductors and flat panel displays in particular depend largely on consumer spending, while the solar market depends in part on government incentives and the availability of financing for PV installations. Economic uncertainty and related factors exacerbate negative trends in business and consumer spending and may cause certain Applied customers to push out, cancel, or refrain from placing orders for equipment or services, which may in turn reduce Applied's net sales, reduce backlog, and affect Applied’s ability to convert backlog to sales. Uncertain market conditions, difficulties in obtaining capital, or reduced profitability may also cause some customers to scale back operations, exit businesses, merge with other manufacturers, or file for bankruptcy protection and potentially cease operations, which can also result in lower sales and/or additional inventory or bad debt expense for Applied. These conditions may similarly affect key suppliers, which could impair their ability to deliver parts and result in delays for Applied’s products or added costs. In addition, these conditions may lead to strategic alliances by, or consolidation of, other equipment manufacturers, which could adversely affect Applied’s ability to compete effectively.

Uncertainty about future economic and industry conditions also makes it more challenging for Applied to forecast its operating results, make business decisions, and identify and prioritize the risks that may affect its businesses, sources and uses of cash, financial condition and results of operations. Applied may be required to implement additional cost reduction efforts, including restructuring activities, which may adversely affect Applied’s ability to capitalize on opportunities. In addition, Applied maintains an investment portfolio that is subject to general credit, liquidity, foreign exchange, market and interest rate risks. The risks to Applied’s investment portfolio may be exacerbated if financial market conditions deteriorate and, as a result, the value and liquidity of the investment portfolio, as well as returns on pension assets, could be negatively impacted and lead to impairment charges. Applied also maintains cash balances in various bank accounts globally in order to fund normal operations. If any of these financial institutions becomes insolvent, it could limit Applied’s ability to access cash in the affected accounts.

Applied is exposed to risks as a result of ongoing changes in the various industries in which it operates.

The global semiconductor, flat panel display, solar and related industries in which Applied operates are characterized by ongoing changes affecting some or all of these industries that impact demand for and/or the profitability of Applied's products, including:

- the nature, timing and degree of visibility of changes in end demand for electronic products, including those related to fluctuations in consumer buying patterns tied to seasonality or the introduction of new products, and the effects of these changes on foundry and other customers' businesses and, in turn, on demand for Applied's products;
- increasing capital requirements for building and operating new fabrication plants and customers' ability to raise the necessary capital;
- differences in growth rates among the semiconductor, display and solar industries;
- the increasing importance of establishing, improving and maintaining strong relationships with customers;
- the increasing cost and complexity for customers to move from product design to volume manufacturing, which may slow the adoption rate of new manufacturing technology;
- the need to continually reduce the total cost of manufacturing system ownership, due in part to greater demand for lower-cost consumer electronics compared to business information technology spending;
- the heightened importance to customers of system reliability and productivity and the effect on demand for fabrication systems as a result of their increasing productivity, device yield and reliability;
- manufacturers' ability to reconfigure and re-use fabrication systems;
- the increasing importance of, and difficulties in, developing products with sufficient differentiation to influence customers' purchasing decisions;
- requirements for shorter cycle times for the development, manufacture and installation of manufacturing equipment;
- price and performance trends for semiconductor devices, displays and solar PVs, and the corresponding effect on demand for such products;
- the increasing importance of the availability of spare parts to maximize the time that customers' systems are available for production;
- the increasing role for and complexity of software in Applied products; and
- the increasing focus on reducing energy usage and improving the environmental impact and sustainability associated with manufacturing operations.

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

The largest proportion of Applied's consolidated net sales and profitability has been and continues to be derived from sales of manufacturing equipment by the Silicon Systems Group to the global semiconductor industry. In addition, a majority of the revenues of Applied Global Services is from sales of service products to semiconductor manufacturers. The semiconductor industry is characterized by ongoing changes particular to this industry that impact demand for and/or the profitability of Applied's semiconductor equipment and service products, including:

- the increasing cost of research and development due to many factors, including: decreasing linewidths on a chip, the use of new materials, new and more complex device structures, more applications and process steps, increasing chip design costs, and the increasing cost and complexity of integrated manufacturing processes;
- the need to reduce product development time, despite the increasing difficulty of technical challenges;
- the growing number of types and varieties of semiconductors and number of applications across multiple substrate sizes;
- the increasing cost and complexity for semiconductor manufacturers to move more technically advanced capability and smaller linewidths to volume manufacturing, and the resulting impact on the rates of technology transition and investment in capital equipment;
- challenges in generating organic growth given semiconductor manufacturers' levels of capital expenditures and the allocation of capital investment to market segments that Applied does not serve, such as lithography, or segments where Applied's products have lower relative market presence;
- the importance of increasing market positions in under-penetrated segments, such as etch and inspection;

- the growing demand for mobility products, such as tablets and smartphones, and corresponding industry investment in devices that require fewer Applied products to manufacture, such as NAND flash memory, than are needed to make devices used in other applications, such as DRAM for personal computers;
- the adoption of cloud-based memory storage particularly for mobility products, and the associated inhibiting effect on NAND bit growth rates;
- the increasing frequency and complexity of technology transitions and inflections, such as 3-D transistors and advanced interconnects, and Applied's ability to timely and effectively anticipate and adapt to these changes;
- shorter cycle times between order placements by customers (particularly foundries) and product shipment, which may lead to inventory write-offs and manufacturing inefficiencies that decrease gross margin;
- competitive factors that make it difficult to enhance position, including challenges in securing development-tool-of-record (DTOR) and production-tool-of-record (PTOR) positions with customers;
- shifts in sourcing strategies by computer and electronics companies that impact the equipment requirements of Applied's foundry customers;
- the concentration of new wafer starts in Korea and Taiwan, where Applied's service penetration and service-revenue-per-wafer-start have been lower than in other regions; and
- the increasing fragmentation of semiconductor markets, leading certain markets to become too small to support the cost of a new fabrication plant, while others require less technologically advanced products.

Applied must accurately forecast, and allocate appropriate resources and investment towards addressing, key technology changes and inflections, such as the transition to 20nm devices, in order to enable opportunities for gains. In addition, the industry transition from 300mm to 450mm wafers presents opportunities as well as risks and uncertainties, including those related to cost, technical complexity, timing, and the resulting effect on demand for manufacturing equipment and services. Several semiconductor customers have invested in another wafer fabrication equipment supplier to help fund development of 450mm and other new technologies, which may influence the timing of technology transitions, funding allocations or other matters.

Applied is exposed to risks as a result of ongoing changes specific to the flat panel display industry.

The global flat panel display industry historically has experienced considerable volatility in capital equipment investment levels, due in part to the limited number of display manufacturers, the concentrated nature of end-use applications, excess production capacity relative to end-use demand, and panel manufacturer profitability. Industry growth has depended primarily on consumer demand for increasingly larger and more advanced TVs and, more recently, on demand for smartphones and other mobile devices, which demand is highly sensitive to cost and improvements in technologies and features. The display industry is characterized by ongoing changes particular to this industry that impact demand for and/or the profitability of Applied's display products, including:

- the timing and extent of an expansion of manufacturing facilities in China by Chinese display manufacturers and manufacturers from other countries, and the ability of non-Chinese manufacturers to obtain government approvals on a timely basis;
- the rate of transition to larger substrate sizes for TVs and the resulting effect on capital intensity in the industry and on Applied's product differentiation, gross margin and return on investment;
- the importance of new types of display technologies, such as low temperature polysilicon (LTPS), organic light-emitting diode (OLED) and metal oxide, and new touch panel films, such as anti-reflective and anti-fingerprint; and
- uncertainty with respect to future display technology end-use applications and growth drivers.

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

Investment levels in capital equipment for the global solar industry have experienced considerable volatility. In recent years, global solar PV production capacity has exceeded end-use demand, causing customers to significantly reduce or delay investments in manufacturing capacity and new technology, or to cease operations. The global solar market is characterized by ongoing changes specific to this industry that impact demand for and/or the profitability of Applied’s solar products, including:

- the need to continually decrease the cost-per-watt of electricity produced by solar PV products to at or below grid parity in more global regions by, among other things, reducing operating costs and increasing throughputs for solar PV manufacturing, and improving the conversion efficiency of solar PVs;
- the variability and uncertainty of government energy policies and their effect in influencing the rate of growth of the solar PV market, including the availability and amount of incentives for solar power such as tax credits, feed-in tariffs, rebates, renewable portfolio standards that require electricity providers to sell a targeted amount of energy from renewable sources, and goals for solar installations on government facilities;
- the number of solar PV manufacturers and amount of global production capacity for solar PVs, primarily in China;
- the filing of regulatory unfair trade proceedings against solar PVs from China, where most of Applied’s solar equipment sales are concentrated, which has resulted in the assessment of duties on solar cells and modules imported from China and led to other trade-related conflicts and outcomes;
- the varying levels of operating and industry experience among solar PV manufacturers and the resulting differences in the nature and extent of customer support services requested from Applied;
- challenges associated with marketing and selling manufacturing equipment and services to a diverse and diffuse customer base;
- the growth of market segments in which Applied does not participate, such as passivation and furnaces;
- the availability and condition of used solar equipment, which impacts demand for new equipment;
- complexities associated with government-affiliated entities as customers, for example in China;
- the financial condition of solar PV customers and their access to affordable financing and capital; and
- solar panel manufacturing overcapacity, which has led to weak industry operating performance and outlooks, deterioration of the solar equipment market, and a worsening of the financial condition of certain customers.

Applied must continually innovate, commercialize its products, and adapt its business and product offerings to respond to competition and rapid technological changes.

As Applied operates in a highly competitive environment in which innovation is critical, its future success depends on many factors, including the effective commercialization and customer acceptance of its equipment, services and related products. In addition, Applied must successfully execute its growth strategy, including enhancing its presence in existing markets, expanding into related markets, cultivating new markets and exceeding industry growth rates, while constantly improving its operational performance. The development, introduction and support of a broadening set of products in more collaborative, geographically diverse, open and varied competitive environments have grown more complex and expensive over time. Furthermore, new or improved products may entail higher costs and reduced profits. Applied’s performance may be adversely affected if it does not timely, cost-effectively and successfully:

- identify and address technology inflections, market changes, new applications, customer requirements and end-use demand;
- develop new products (including disruptive technologies), improve and/or develop new applications for existing products, and adapt similar products for use by customers in different applications and/or markets with varying technical requirements;
- differentiate its products from those of competitors and any disruptive technologies, meet customers’ performance specifications, appropriately price products, and achieve market acceptance;
- maintain operating flexibility to enable different responses to different markets, customers and applications;
- enhance its worldwide operations across all business segments to reduce cycle time, enable continuous quality improvement, reduce costs, and enhance design for manufacturability and serviceability;
- focus on product development and sales and marketing strategies that address customers' high value problems and foster strong customer relationships;

- allocate resources, including people and R&D funding, among Applied's products and between the development of new products and the enhancement of existing products, as most appropriate and effective for future growth;
- reduce the cost and improve the productivity of capital invested in R&D activities;
- accurately forecast demand, work with suppliers and meet production schedules for its products;
- improve its manufacturing processes and achieve cost efficiencies across product offerings;
- adapt to changes in value offered by companies in different parts of the supply chain;
- qualify products for evaluation and, in turn, volume manufacturing with its customers; and
- implement changes in its design engineering methodology, including those that enable reduction of material costs and cycle time, greater commonality of platforms and types of parts used in different systems, greater effectiveness of product life cycle management, and reduced energy usage and environmental impact.

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

Applied's semiconductor customer base historically has been, and is becoming even more, highly concentrated as a result of economic and industry conditions. In the first quarter of fiscal 2013, two semiconductor manufacturers accounted for approximately 65 percent of Silicon Systems Group net sales and two customers accounted for 51 percent of Applied's consolidated net sales. Applied's display customer base is also highly concentrated, while concentration within Applied's solar customer base varies depending on the product line but is increasing due to challenging industry conditions. Applied's customer base is also geographically-concentrated. See Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for tabular presentations of net sales by geographic region.

In addition, certain customers have experienced significant ownership or management changes, consolidated with other manufacturers, outsourced manufacturing activities, or engaged in collaboration or cooperation arrangements with other manufacturers. Customers have entered into strategic alliances or industry consortia that have increased the influence of key industry participants in technology decisions made by their partners. Also, certain customers are making an increasingly greater percentage of their respective industry's capital equipment investments. Further, claims or litigation involving key industry participants have resulted and may continue to result in changes in their sourcing strategies and other outcomes.

In this environment, contracts or orders from a relatively limited number of manufacturers have accounted for, and are expected to continue to account for, a substantial portion of Applied's business. The mix and type of customers, and sales to any single customer, may vary significantly from quarter to quarter and from year to year. As Applied's products are configured to customer specifications, changing, rescheduling or canceling orders may result in significant, non-recoverable costs. If customers do not place orders, or they substantially reduce, delay or cancel orders, Applied may not be able to replace the business, which could have a material adverse effect on the Company's results of operations. Major customers may also seek, and on occasion receive, pricing, payment, intellectual property-related, or other commercial terms that are less favorable to Applied.

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

In the first quarter of fiscal 2014, approximately 87 percent of Applied's net sales were to customers in regions outside the United States. Moreover, China now represents the largest market for various electronic products, such as TVs, PCs, and smartphones. Certain of Applied's R&D and manufacturing facilities, as well as suppliers to Applied, are also located outside the United States, including in Singapore, Taiwan, China, Korea, Israel, Germany and Italy. Applied is also expanding its business and operations in new countries. The global nature of Applied's business and operations, combined with the need to continually improve the Company's operating cost structure, presents challenges, including but not limited to those arising from:

- varying regional and geopolitical business conditions and demands;
- political and social attitudes, laws, rules, regulations and policies within countries that favor domestic companies over non-domestic companies, including customer- or government-supported efforts to promote the development and growth of local competitors;
- customer- or government-supported efforts to influence Applied to conduct more of its operations and sourcing in a particular country, such as Korea and China;
- variations among, and changes in, local, regional, national or international laws and regulations (including intellectual property, labor, tax, and import/export laws), as well as the interpretation and application of such laws and regulations;
- global trade issues, including those related to the interpretation and application of import and export licenses, as well as international trade disputes;

- positions taken by governmental agencies regarding possible national commercial and/or security issues posed by international business operations;
- fluctuating raw material, commodity, energy and shipping costs or shipping delays;
- challenges associated with managing more geographically diverse operations and projects, which require an effective organizational structure and appropriate business processes, procedures and controls;
- a more diverse workforce with different experience levels, cultures, customs, business practices and worker expectations;
- variations in the ability to develop relationships with local customers, suppliers and governments;
- fluctuations in interest rates and currency exchange rates, including the relative strength or weakness of the U.S. dollar against the Japanese yen, euro, Taiwanese dollar, Israeli shekel or Chinese yuan;
- the need to provide sufficient levels of technical support in different locations around the world;
- political instability, natural disasters (such as earthquakes, floods or storms), pandemics, social unrest, terrorism or acts of war in locations where Applied has operations, suppliers or sales, or that may influence the value chain of the industries that Applied serves;
- the need for an effective business continuity plan if a disaster or other event occurs that could disrupt business operations;
- the need to regularly reassess the size, capability and location of global infrastructure and make appropriate changes;
- cultural and language differences;
- difficulties and uncertainties associated with the entry into new countries;
- hiring and integration of an increasing number of new workers, including in countries such as India and China;
- the increasing need for the workforce to be more mobile and work in or travel to different regions;
- uncertainties with respect to economic growth rates in various countries; and
- uncertainties with respect to growth rates for the manufacture and sale of semiconductors, displays and solar PVs in the developing economies of certain countries.

Many of these challenges are present in China and Korea, which are experiencing significant growth of customers, suppliers and competitors to Applied. Applied further believes that China and Korea present large potential markets for its products and opportunity for growth over the long term, although at lower projected levels of profitability and margins for certain products than historically have been achieved in other regions.

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

Applied has made, and in the future may make, acquisitions of or investments in companies, technologies or products in existing, related or new markets for Applied. Business combinations, acquisitions and investments involve numerous risks that vary depending on their scale and nature, including but not limited to:

- diversion of management’s attention from other operational matters;
- contractual restrictions on the conduct of Applied’s business during the pendency of a proposed transaction;
- inability to complete proposed transactions as anticipated or at all and any ensuing obligation to pay a termination fee;
- the failure of acquired businesses to meet or exceed expected returns;
- requirements imposed by government regulators in connection with their review of a transaction, which may include, among other things, divestitures and/or restrictions on the conduct of Applied’s existing business or the acquired business;
- ineffective integration of operations, systems, technologies, products or employees, which can impact the ability to realize anticipated synergies or other benefits;

- failure to commercialize purchased technologies;
- initial dependence on unfamiliar supply chains or relatively small supply partners;
- inability to capitalize on characteristics of new markets that may be significantly different from Applied's existing markets and where competitors may have stronger market positions and customer relationships;
- failure to attract, retain and motivate key employees;
- the potential impact of the announcement or consummation of a proposed transaction on relationships with third parties;
- potential changes in Applied's credit rating, which could adversely impact the Company's access to and cost of capital;
- reductions in cash balances and/or increases in debt obligations to finance activities associated with a transaction, which reduce the availability of cash flow for general corporate or other purposes;
- exposure to new operational risks, rules, regulations, worker expectations, customs and practices to the extent acquired businesses are located in regions where Applied has not historically conducted business;
- challenges associated with managing new, more diverse and more widespread operations, projects and people;
- inability to obtain and protect intellectual property rights in key technologies;
- inadequacy or ineffectiveness of an acquired company's internal financial controls, disclosure controls and procedures, and/or environmental, health and safety, anti-corruption, human resource, or other policies or practices;
- impairment of acquired intangible assets and goodwill as a result of changing business conditions, technological advancements or worse-than-expected performance of the segment;
- the risk of litigation or claims associated with a proposed or completed transaction;
- unknown, underestimated and/or undisclosed commitments or liabilities; and
- the inappropriate scale of acquired entities' critical resources or facilities for business needs.

Applied also makes strategic investments in other companies, including companies formed as joint ventures, which may decline in value and/or not meet desired objectives. The success of these investments depends on various factors over which Applied may have limited or no control and, particularly with respect to joint ventures, requires ongoing and effective cooperation with strategic partners. The risks to Applied's strategic investment portfolio may be exacerbated by unfavorable financial market and macroeconomic conditions and, as a result, the value of the investment portfolio could be negatively impacted and lead to impairment charges.

The proposed business combination with Tokyo Electron Limited may not be completed or, if completed, the intended benefits may not be fully realized.

On September 24, 2013, Applied announced an agreement with Tokyo Electron Limited (TEL), a Japanese corporation and global supplier of semiconductor and flat panel display production equipment, and provider of technical support and services for semiconductor, flat panel display and PV panel production equipment, to effect a strategic combination of their respective businesses. Under the agreement, which was amended February 14, 2014, the closing of the transaction is subject to customary conditions, including approval by Applied's and TEL's shareholders and regulatory approvals. The proposed business combination is subject to the risk factors described immediately above, including the risks that the combination may not be consummated in a timely manner or at all; that required regulatory approvals may not be obtained or may be subject to conditions that reduce the estimated benefits of the combination; that the businesses and operations of Applied and TEL may not be integrated successfully; and, following completion of the transaction, that the inability to effectively integrate operations, systems, technologies, products or employees, or other factors, may impact the combined company's ability to realize anticipated synergies and benefits.

Operating in multiple industries, and the entry into new markets and industries, entail additional challenges and obligations.

As part of its growth strategy, Applied must successfully expand into related or new markets and industries, either with its existing products or with new products developed internally or obtained through acquisitions. The entry into different markets involves additional challenges, including those arising from:

- the need to devote additional resources to develop new products for, and operate in, new markets;
- the need to develop new sales and technical marketing strategies, cultivate relationships with new customers and meet different customer service requirements;
- differing rates of profitability and growth among multiple businesses;
- Applied's ability to anticipate demand, capitalize on opportunities, and avoid or minimize risks;

- the complexity of managing multiple businesses with variations in production planning, execution, supply chain management and logistics;
- the adoption of new business models, business processes and systems;
- Applied’s ability to rapidly expand or reduce its operations to meet increased or decreased demand, respectively, and the associated effect on working capital;
- new materials, processes and technologies;
- the need to attract, motivate and retain employees with skills and expertise in these new areas;
- new and more diverse customers and suppliers, including some with limited operating histories, uncertain and/or limited funding, evolving business models and/or locations in regions where Applied does not have, or has limited, operations;
- new or different competitors with potentially more financial or other resources, industry experience and/or established customer relationships;
- entry into new industries and countries, with differing levels of government involvement, laws and regulations, and business, employment and safety practices;
- third parties’ intellectual property rights; and
- the need to comply with, or work to establish, industry standards and practices.

In addition, Applied from time to time receives funding from United States and other government agencies for certain strategic development programs to increase its research and development resources and address new market opportunities. As a condition to this government funding, Applied may be subject to certain record-keeping, audit, intellectual property rights-sharing and/or other obligations.

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

Applied’s business depends on its timely supply of equipment, services and related products that meet the rapidly changing technical and volume requirements of its customers, which depends in part on the timely delivery of parts, components and subassemblies (collectively, parts) from suppliers, including contract manufacturers. Some key parts are subject to long lead-times and/or obtainable only from a single supplier or limited group of suppliers, and some sourcing or subassembly is provided by suppliers located in countries other than the countries where Applied conducts its manufacturing, including China and Korea. Cyclical industry conditions and the volatility of demand for manufacturing equipment increase capital, technical, operational and other risks for Applied and for companies throughout its supply chain. Further, these conditions may cause some suppliers to scale back operations, exit businesses, merge with other companies, or file for bankruptcy protection and possibly cease operations. Applied may also experience significant interruptions of its manufacturing operations, delays in its ability to deliver products or services, increased costs or customer order cancellations as a result of:

- the failure or inability of suppliers to timely deliver sufficient quantities of quality parts on a cost-effective basis;
- volatility in the availability and cost of materials, including rare earth elements;
- difficulties or delays in obtaining required import or export approvals;
- information technology or infrastructure failures; and
- natural disasters or other events beyond Applied's control (such as earthquakes, floods or storms, regional economic downturns, pandemics, social unrest, political instability, terrorism, or acts of war), particularly where it conducts manufacturing.

If a supplier fails to meet Applied’s requirements concerning quality, cost, socially-responsible business practices, or other performance factors, Applied may transfer its business to alternative sources, which could entail manufacturing delays, additional costs, or other difficulties. In addition, if Applied needs to rapidly increase its business and manufacturing capacity to meet increases in demand or expedited shipment schedules, this may exacerbate any interruptions in Applied’s manufacturing operations and supply chain and the associated effect on Applied’s working capital. Moreover, if actual demand for Applied’s products is different than expected, Applied may purchase more/fewer parts than necessary or incur costs for canceling, postponing or expediting delivery of parts. If Applied purchases inventory in anticipation of customer demand that does not materialize, or if customers reduce or delay orders, Applied may incur excess inventory charges.

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

Applied's success, competitiveness and ability to execute on its global strategies and maintain a culture of innovation depend in large part on its ability to attract, retain and motivate key employees, especially in critical positions. Achieving this objective may be difficult due to many factors, including fluctuations in global economic and industry conditions, management changes, Applied's organizational structure, hiring practices of competitors and other companies, cost reduction activities (including workforce reductions and unpaid shutdowns), availability of career development opportunities, the ability to obtain necessary authorizations for workers to provide services outside their home countries, and the effectiveness of Applied's compensation and benefit programs, including its share-based programs. Restructuring programs present particular challenges to the extent they involve the departure of knowledgeable and experienced employees and the resulting need to identify and train existing or new workers to perform necessary functions, which may result in unexpected costs, reduced productivity, and/or difficulties with respect to internal processes and controls.

Applied is exposed to various risks related to protection and enforcement of intellectual property rights.

Applied's success depends in significant part on the protection of its intellectual property and other rights. Infringement of Applied's rights by a third party, such as the unauthorized manufacture or sale of equipment or spare parts, could result in uncompensated lost market and revenue opportunities for Applied. Policing any unauthorized use of intellectual property is difficult and costly and Applied cannot be certain that the measures it has implemented will prevent misuse. Applied's intellectual property rights may not provide significant competitive advantages if they are circumvented, invalidated, rendered obsolete by the rapid pace of technological change, or if Applied does not adequately protect or assert these rights or obtain necessary licenses on commercially reasonable terms. Furthermore, the laws and practices of other countries, including China, India, Taiwan and Korea, permit the protection and enforcement of Applied's rights to varying extents, which may not be sufficient to adequately protect Applied's rights. In addition, changes in intellectual property laws or their interpretation, such as recent changes in U.S. patent laws, may impact Applied's ability to protect and assert its intellectual property rights, increase costs and uncertainties in the prosecution of patent applications and enforcement or defense of issued patents, and diminish the value of Applied's intellectual property.

Applied is exposed to risks related to cybersecurity threats and incidents.

In the conduct of its business, Applied collects, uses, transmits and stores data on information technology systems. This data includes confidential information belonging to Applied or its customers or other business partners, as well as personally-identifiable information of individuals. Applied has experienced, and expects to continue to be subject to, cybersecurity threats and incidents, ranging from employee error or misuse to individual attempts to gain unauthorized access to information systems to sophisticated and targeted measures known as advanced persistent threats, none of which have been material to the Company to date. Applied devotes significant resources to network security, data encryption and other measures to protect its systems and data from unauthorized access or misuse. However, depending on their nature and scope, cybersecurity incidents could result in business disruption; the misappropriation, corruption or loss of confidential information and critical data (Applied's and that of third parties); reputational damage; litigation with third parties; diminution in the value of Applied's investment in research, development and engineering; data privacy issues; and increased cybersecurity protection and remediation costs.

Applied is exposed to various risks related to legal proceedings.

Applied from time to time is, and in the future may be, involved in legal proceedings or claims regarding patent infringement, intellectual property rights, antitrust, environmental regulations, securities, contracts, product performance, product liability, unfair competition, misappropriation of trade secrets, employment, workplace safety, and other matters. Applied also on occasion receives notification from customers who believe that Applied owes them indemnification or other obligations related to claims made against such customers by third parties.

Legal proceedings and claims, whether with or without merit, and associated internal investigations, may (1) be time-consuming and expensive to prosecute, defend or conduct; (2) divert management's attention and other Applied resources; (3) inhibit Applied's ability to sell its products; (4) result in adverse judgments for damages, injunctive relief, penalties and fines; and/or (5) negatively affect Applied's business. There can be no assurance regarding the outcome of current or future legal proceedings, claims or investigations.

The failure to successfully implement and conduct outsourcing activities and other operational initiatives could adversely affect results of operations.

To better align its costs with market conditions, locate closer to customers, enhance productivity, and improve efficiencies, Applied conducts certain engineering, software development, manufacturing, sourcing and other operations in regions outside the United States, including India, Taiwan, China, and Korea. Applied has implemented a distributed manufacturing model, under which certain manufacturing and supply chain activities are conducted in various countries, including the United States, Europe, Israel, Singapore, Taiwan and other countries in Asia, and assembly of some systems is completed at customer sites. In addition, Applied outsources certain functions to third parties, including companies in the United States, India, China, Korea, Malaysia and other countries. Outsourced functions include contract manufacturing, engineering, customer support, software development, information technology support, finance and administrative activities. The expanding role of third party providers has required changes to Applied’s existing operations and the adoption of new procedures and processes for retaining and managing these providers, as well as redistributing responsibilities as warranted, in order to realize the potential productivity and operational efficiencies, assure quality and continuity of supply, and protect the intellectual property of Applied and its customers, suppliers and other partners. If Applied does not accurately forecast the amount, timing and mix of demand for products, or if contract manufacturers or other outsource providers fail to perform in a timely manner or at satisfactory quality levels, Applied’s ability to meet customer requirements could suffer, particularly during a market upturn.

In addition, Applied must regularly implement or update comprehensive programs and processes to better align its global organizations, including initiatives to enhance the Asia supply chain and improve back office and information technology infrastructure for more efficient transaction processing. Applied also is implementing a multi-year, company-wide program to transform certain business processes or extend established processes, including the transition to a single enterprise resource planning (ERP) software system to perform various functions. The implementation of additional functionality to the ERP system entails certain risks, including difficulties with changes in business processes that could disrupt Applied’s operations, such as its ability to track orders and timely ship products, project inventory requirements, manage its supply chain and aggregate financial and operational data. During transitions Applied must continue to rely on legacy information systems, which may be costly or inefficient, while the implementation of new initiatives may not achieve the anticipated benefits and may divert management’s attention from other operational activities, negatively affect employee morale, or have other unintended consequences.

If Applied does not effectively develop and implement its outsourcing and relocation strategies, if required export and other governmental approvals are not timely obtained, if Applied’s third party providers do not perform as anticipated, or if there are delays or difficulties in enhancing business processes, Applied may not realize anticipated productivity improvements or cost efficiencies, and may experience operational difficulties, increased costs (including energy and transportation), manufacturing interruptions or delays, inefficiencies in the structure and/or operation of its supply chain, loss of its intellectual property rights, quality issues, reputational harm, increased product time-to-market, and/or inefficient allocation of human resources.

Applied may incur impairment charges to goodwill or long-lived assets.

Applied has a significant amount of goodwill and other acquired intangible assets related to acquisitions. Goodwill and purchased intangible assets with indefinite useful lives are not amortized, but are reviewed for impairment annually during the fourth quarter of each fiscal year, and more frequently when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The review compares the fair value for each of Applied’s reporting units to its associated carrying value, including goodwill. Factors that could lead to impairment of goodwill and intangible assets include adverse industry or economic trends, reduced estimates of future cash flows, declines in the market price of Applied common stock, changes in Applied’s strategies or product portfolio, and restructuring activities. Applied’s valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and projections of future operating performance. Applied may be required to record future charges to earnings during the period in which an impairment of goodwill or intangible assets is determined to exist.

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

As a global company, Applied is subject to taxation in the United States and various other countries. Significant judgment is required to determine and estimate worldwide tax liabilities. Applied's future annual and quarterly tax rates could be affected by numerous factors, including changes in the: (1) applicable tax laws; (2) amount and composition of pre-tax income in countries with differing tax rates; (3) plans of the Company to permanently reinvest certain funds held outside of the U.S.; or (4) valuation of Applied's deferred tax assets and liabilities.

To better align with the international nature of its business, Applied conducts certain manufacturing, supply chain, and other operations in Asia, bringing these activities closer to customers and reducing operating costs. Applied has received authorization to use tax incentives that provide that income earned in certain countries outside the U.S. will be subject to tax holidays or reduced income tax rates. To obtain the benefit of these tax provisions, Applied must meet requirements relating to various activities. Applied's ability to realize benefits from these provisions could be materially affected if, among other things, applicable requirements are not met, or if Applied incurs net losses for which it cannot claim a deduction.

In addition, Applied is subject to regular examination by the Internal Revenue Service and other tax authorities, and from time to time initiates amendments to previously filed tax returns. Applied regularly assesses the likelihood of favorable or unfavorable outcomes resulting from these examinations and amendments to determine the adequacy of its provision for income taxes, which requires estimates and judgments. Although Applied believes its tax estimates are reasonable, there can be no assurance that the tax authorities will agree with such estimates. Applied may have to engage in litigation to achieve the results reflected in the estimates, which may be time-consuming and expensive. There can be no assurance that Applied will be successful or that any final determination will not be materially different from the treatment reflected in Applied's historical income tax provisions and accruals.

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

Applied is subject to environmental and safety regulations in connection with its global business operations, including but not limited to: regulations related to the development, manufacture and use of its products; recycling and disposal of materials used in its products or in producing its products; the operation of its facilities; and the use of its real property. The failure or inability to comply with existing or future environmental and safety regulations, such as those related to climate change, could result in: (1) significant remediation liabilities; (2) the imposition of fines; (3) the suspension or termination of the development, manufacture, sale or use of certain of its products; (4) limitations on the operation of its facilities or ability to use its real property; and/or (5) a decrease in the value of its real property.

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

Applied is subject to various risks related to: (1) new, different, inconsistent or conflicting laws, rules and regulations that may be enacted by executive order, legislative bodies or regulatory agencies in the countries in which Applied operates; (2) disagreements or disputes between national or regional regulatory agencies related to international trade; and (3) the interpretation and application of laws, rules and regulations. As a public company with global operations, Applied is subject to the laws of multiple jurisdictions and the rules and regulations of various governing bodies, including those related to financial and other disclosures, corporate governance, privacy, and anti-corruption. One such law imposes new disclosure requirements regarding the use of certain minerals, referred to as "conflict minerals," originating from mines in or near the Democratic Republic of Congo. This requirement could affect the price, sourcing and availability of these or related minerals used to make components incorporated in Applied products, and it also requires Applied to incur costs and maintain processes to investigate its supply chain to determine the source of any of the covered minerals in its products. Applied's supply chain is complex, and industry tracing protocols are still under development, so the Company may be unable to verify the origin of all such minerals in its products. These and other changes and ambiguities in laws, regulations and standards create uncertainty and challenges regarding compliance matters. Efforts to comply with new and changing regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

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

During the first quarter of fiscal 2014, there were no shares of common stock repurchased by Applied. On March 5, 2012, the Board of Directors approved a stock repurchase program authorizing up to $3.0 billion in repurchases over the next three years, ending March 2015. At January 26, 2014, $1.6 billion remained available for future stock repurchases under this repurchase program.

Item 6. *Exhibits*

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

		Incorporated by Reference			
Exhibit No.	**Description**	**Form**	**File No.**	**Exhibit No.**	**Filing Date**
10.1	Retention and Equity Award Amendment Agreement, dated December 20, 2013, between Applied Materials, Inc. and Michael R. Splinter†				
10.2	Form of Performance Unit Agreement for use under the Applied Materials, Inc. Employee Stock Incentive Plan, as amended†				
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†				
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†				
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002‡				
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002‡				
101.INS	XBRL Instance Document‡				
101.SCH	XBRL Taxonomy Extension Schema Document‡				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document‡				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document‡				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document‡				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document‡				

† Filed herewith.
‡ Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

APPLIED MATERIALS, INC.

By: /s/ ROBERT J. HALLIDAY

Robert J. Halliday
Senior Vice President,
Chief Financial Officer
(Principal Financial Officer)

February 20, 2014

By: /s/ CHARLES W. READ

Charles W. Read
Corporate Vice President,
Corporate Controller
and Chief Accounting Officer
(Principal Accounting Officer)

February 20, 2014

December 20, 2013

Michael R. Splinter
3225 Oakmead Village Drive, M/S 1223
P.O. Box 58039
Santa Clara, CA 95052-8039

Re: Retention Arrangement: Equity Award Amendments

Dear Mike:

As you know, on September 24, 2013, Applied Materials, Inc. ("*Applied*" or the "*Company*") announced a strategic combination with Tokyo Electron Limited (the "*Transaction*"). This Transaction is a large and highly complex undertaking that may take a lengthy period of time to complete. Your continued contributions as a part of Applied's deep and talented leadership team are critical to the Company in order to help achieve the successful closing of the Transaction and post-closing planning and integration, while simultaneously leading the continued effective operations of Applied's business. Applied desires to recognize your continuing dedication to Applied and to provide further incentive for you to remain with Applied through and beyond the Transaction by providing you with this agreement (the "*Agreement*"). We are pleased to offer to you the changes to your equity awards that are described below. In order to accept these changes to your equity awards, please sign and return this Agreement by the deadline indicated below.

Please note that certain capitalized terms that are used in this Agreement are defined in the attached Appendix A, which is considered a part of this Agreement.

1. PRSUs Retirement Amendment. Previously, you and Applied entered into an Offer Letter which generally provides in relevant part that upon your Retirement,[1] all of your Performance Shares that are unvested and outstanding when you retire, will remain outstanding and eligible to become earned and vested based on actual performance, and any continued Employment requirements under those Performance Shares will be considered fully satisfied. By signing this Agreement, you agree that as of the date of this Agreement and regardless of any contrary provisions in your Offer Letter, Section III.B. of your Offer Letter no longer applies to any of your Performance Shares (although your Offer Letter still shall govern your Time-based Shares, except as expressly modified in Section 3, Section 5 and Section 6(b) herein). This change is referred to as the "*Offer Letter Amendment*." For purposes of this Agreement, this Offer Letter Amendment will occur before the application of any other amendments to your Performance Shares that are described below.

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[1] The provisions relating to your Retirement are described in Section III.B. of your Offer Letter.

2. **Performance Shares**. Your Performance Shares are amended so that, subject to the terms and conditions of this Agreement, the following terms apply to them.

(a) ***Transaction***. Subject to Section 4 with respect to TSR Shares, if you remain an Employee through either the Pre-closing Date or Transaction Termination Date (whichever date that actually occurs is referred to as the "*Achievement Date*"), then as of the Achievement Date, your then-outstanding and unvested Performance Shares will Target Accelerate. In addition, provided that the Transaction closes and you remain an Employee through the Pre-closing Date, then as of the Pre-closing Date, your then-outstanding and unvested Performance Shares will Time Accelerate.

(b) ***Term End Date***. If you remain Employed through March 31, 2015 (the "*Term End Date*"), then as of the Term End Date, your then-outstanding and unvested Performance Shares will both Target Accelerate and Time Accelerate.

(c) ***Involuntary Termination***. If your Employment is terminated by the Company without "*Cause*," as determined by Applied's Board of Directors, in its sole discretion, or you resign your Employment for "*Good Reason*" (as these terms are defined in your Offer Letter) (referred to as an "*Involuntary Termination*"), then as of the Termination Date, your then-outstanding and unvested Performance Shares will both Target Accelerate and Time Accelerate.

3. **Time-based Shares**. Your Time-based Shares are amended to provide that, subject to the terms and conditions of this Agreement and provided that the Transaction is completed and you remain an Employee through the Pre-closing Date, then as of the Pre-closing Date, your then-outstanding and unvested Time-based Shares that are scheduled to vest during calendar year 2014 will accelerate vesting in full. We refer to this vesting acceleration of your Time-based Shares as the "*2014 Acceleration*." Please note that any Retirement-related acceleration provisions in your Offer Letter applicable to your Time-based Shares remain in effect in accordance with their terms, as modified by Section 5, Section 6 and Section 7 below.

4. **TSR**. With respect to any of your TSR Shares, if the applicable TSR Date occurs:

(a) On or before the date on which the TSR Share otherwise would Target Accelerate, then provided the TSR was achieved so that the TSR Share is not forfeited and remains eligible to be earned (upon achievement of other performance goals and/or continued Employment requirements), the TSR Share will remain eligible to Target Accelerate; or

(b) After the date on which the TSR Share otherwise would Target Accelerate, then the TSR Share automatically will be forfeited as of the Target Acceleration date (i.e., no Target Acceleration or Time Acceleration will apply to the TSR Share).

5. **Share Issuance**. Any Shares that vest and become issuable under this Agreement, and any Time-based Shares under your restricted stock awards that vest under your Offer Letter due to your Retirement (and, but for the Offer Letter release agreement requirements, become issuable), will be issued or released, as applicable, to you notwithstanding anything in the Offer Letter to the contrary, (a) as soon as practicable, but (b) in no event later than 60 days following the date on which the Shares vested, and (c) in no event later than immediately prior to the closing of the Transaction, subject to the provisions of Section 7 below. However, any Time-based Shares, other than Shares of your restricted stock, that vest and become issuable as a result of the 2014 Acceleration will be issued to you on the date(s) that those Time-based Shares otherwise are scheduled to vest under the original time-based vesting schedule described in the applicable award agreement, as modified by the Offer Letter.[2, 3] In all cases, the issuance of any Shares to you is subject to any additional delay required under the Section 409A provisions described in Section 10 below.

6. **Release Agreement**.

(a) **Equity Release Requirements**. You must sign an Equity Release Agreement in order for you to be entitled to the 2014 Acceleration on the Pre-Closing Date and the Target Acceleration and Time Acceleration of your Performance Shares on the Pre-Closing Date, upon your Involuntary Termination as described in Section 2(c) above or on the Term End Date as described in Section 2(b) above, as applicable (whichever event applies is referred to as the "*Release Event*" and the date on which the applicable Release Event occurs is referred to as the "*Release Event Date*"). If the Release Event occurs, the Equity Release Agreement must become effective and irrevocable within 2 days after the Release Event Date (the applicable deadline date is referred to as the "*Release Deadline Date*"). For the avoidance of doubt, if you execute the Equity Release Agreement in connection with a Release Event that occurs while you are an Employee, no provision of the Equity Release Agreement will be deemed to waive any then-existing rights or grounds you may have to resign for Good Reason under this Agreement or your Offer Letter, and the Equity Release Agreement will explicitly provide that such rights are preserved and not waived.

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[2] Generally, Section III.B.(e) of your Offer Letter states that if you retire, the Shares that vest and become issuable in connection with your Retirement will be issued to you on the 61st day after your Retirement date.

[3] For example, assume that the Transaction closes on August 1, 2014, and you remain an employee through December 19, 2014. Any Time-based Shares otherwise scheduled to vest on December 19, 2014, will vest on the Pre-closing Date but the Time-based Shares (other than Shares of restricted stock) will be issued to you on December 19, 2014. As another example, assume that the Transaction closes on August 1, 2014, and you terminate your Employment due to your Retirement on November 15, 2014. Any Time-based Shares otherwise scheduled to vest on December 19, 2014, will vest on the Pre-closing Date but the Time-based Shares (other than Shares of restricted stock) will not be issued to you until May 16, 2015 (which is 6 months and 1 day after your Retirement date), assuming the 6-month and 1-day delay requirement described in Section 10 of this Agreement applies.

(b) **Modification to Offer Letter Release Requirements**. Please note that under your Offer Letter, your equity benefits related to your Retirement also are subject to your signing and not revoking a Release Agreement (as defined in your Offer Letter). This Agreement amends your Offer Letter so that the Release Deadline Date with respect to equity benefits under Section III.B. of your Offer Letter (as modified by this Agreement) is reduced from 60 days to 2 days after your employment termination date. In addition, in order to receive your Cash Severance under Section III.A. of your Offer Letter, you must sign and not revoke a Cash Severance Release Agreement and the Cash Severance Release Agreement must become effective within 29 days after your employment termination date. You will not receive any of the Cash Severance if the Cash Severance Release Agreement does not become effective by this deadline.

7. Claw Back. If you have received 2014 Acceleration, Target Acceleration and/or Time Acceleration under this Agreement or received acceleration of vesting the Offer Letter, and in either case you have not signed the Equity Release Agreement by the Release Deadline Date, then within 10 days after the applicable Release Deadline Date, (i) you must return to Applied any Shares issued or released to you in connection with such acceleration that you hold, as well as an amount equal to the value of any tax payments related to the Shares made on your behalf; (ii) you must pay to Applied the full amount of any proceeds derived from the Shares issued to you in connection with such acceleration that exceeds the Fair Market Value of the Shares as of the date that the Shares were issued or released to you; and (iii) you automatically will forfeit any Shares that otherwise were issuable or releasable but had not yet been issued or released to you in connection with such acceleration.

8. Expected Disqualified Individual Status under Section 4985. In order for the Time Acceleration under Section 2(a) and/or the 2014 Acceleration under Section 3 above to apply, you must be expected to be a "disqualified individual" [4] under Code Section 4985 so that some or all of your Performance Shares and/or Time-based Shares, as applicable, are expected to be taxed by Code Section 4985. We have made a determination that you are expected to be a "disqualified individual" [4] of Applied when the Transaction closes and therefore some or all of your Performance Shares and/or Time-based Shares are expected to be taxed by Code Section 4985.

9. Assignment. Applied may assign this Agreement and its rights and obligations to Applied's parent entity or any other entity within the controlled group that includes Applied and its parent.

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[4] A "disqualified individual" generally includes all individuals of an expatriated corporation (e.g., a corporation that moves its domicile outside of the U.S.) who were Section 16 officers within the six months prior to or six months following the date of expatriation.

10. **Section 409A**.

(a) General. The payments and benefits under this Agreement are intended to be exempt from or otherwise comply with the requirements of Section 409A (as defined below) so that none of the payments or benefits to be provided under this Agreement will be subject to the additional tax imposed under Section 409A, and any ambiguities or ambiguous terms in this Agreement will be interpreted to be so exempt or otherwise comply with Section 409A. Each payment and benefit under this Agreement is deemed to be a separate payment for Section 409A purposes. You and Applied agree to work together in good faith to consider amendments to this Agreement and to take such reasonable actions that are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to you under Section 409A. For purposes of this Agreement, "*Section 409A*" means Section 409A of the Code, any final regulations and guidance under that statute, and any applicable state law equivalent, as each may be amended or promulgated from time to time.

(b) Required Delay. If and only to the extent it is necessary to avoid subjecting you to an additional tax under Section 409A, payment of all or a portion of the termination-related payments or benefits described in this Agreement or otherwise will be delayed until the date that is six months and one day after your Termination Date. However, in the event that your death occurs after your Termination Date but prior to the six month anniversary of your Termination Date, any payments and/or benefits due to you but delayed under the prior sentence will be payable to you in a lump sum as soon as administratively practicable after the date of your death and any other separation pay and/or benefits will be payable according to the payment schedule applicable to each payment.

11. **Tax Consequences**. Applied makes no representations or warranties with respect to the tax consequences of any payments or benefits provided under this Agreement. You agree and understand that you are responsible for payment, if any, of local, state, and/or federal taxes on the payments and benefits provided under this Agreement or otherwise and any penalties or assessments related to such taxes (including but not limited to under Section 409A, Code Section 4985, and Code Section 457A).

12. **Severability**. If any provision of this Agreement is held to be void, voidable, unlawful or unenforceable, the remaining portions of this Agreement will remain in full force and effect.

13. **Arbitration of Disputes Relating to Agreement**. Any dispute, controversy or claim arising under or in connection with this Agreement, or the breach of this Agreement, will be settled exclusively by arbitration in accordance with the Employment Arbitration Rules of the American Arbitration Association ("AAA") now in effect, which are available online at http://www.adr.org/employment. Judgment upon the award rendered by the Arbitrator(s) may be entered in any court having jurisdiction of the matter. The arbitration will take place in Santa Clara County, California, unless otherwise required by law or ordered by the AAA. The Arbitrator will have full authority to award interim injunctive relief in addition to any and all other appropriate remedies otherwise available to the Arbitrator.

14. **Governing Law**. Unless otherwise governed by federal law, this Agreement will be governed by and construed in accordance with the laws of the State of California (except for its conflict of laws provisions).

15. **Complete Agreement; Modifications**. This Agreement contains the entire agreement of the parties with respect to this subject matter, and supersedes all prior and contemporaneous written and oral agreements, discussions, negotiations, understandings or courses of conduct with respect to this subject matter; provided, however, that except as expressly modified herein, your Offer Letter shall remain in full force and effect. Each of your Performance Shares and Time-based Shares remain subject to the terms and conditions of the applicable award agreement and the Applied equity plan under which it was granted, as modified by your Offer Letter, to the extent those terms have not been modified by this Agreement. This Agreement may not be modified or changed in any manner except by a writing executed by you and a duly authorized executive officer of Applied or by the HRCC Chair. No party is relying upon any other agreement, representation, statement, omission, understanding or course of conduct which is not expressly set forth in this Agreement. Headings used in this Agreement are for convenience only and will not be used to interpret its substantive terms.

To accept this Agreement, please date and sign this letter below where indicated and return it to Greg Lawler. If you do not accept this Agreement by Monday, December 23, 2013, this Agreement will not become effective and the changes to your equity awards under this Agreement will not become effective.

We greatly appreciate your many contributions to Applied and look forward to your continued efforts towards the effective operations of Applied’s business, successful closing of the Transaction and post-closing planning and integration.

Sincerely,

/s/ Willem P. Roelandts

Willem P. Roelandts
Chair of the Human Resources and
Compensation Committee of the
Board of Directors
Applied Materials, Inc.

By signing this letter, I acknowledge that I have had the opportunity to review this Agreement carefully with an attorney of my choice; that I have read this Agreement and understand its terms; that I enter into this Agreement knowingly and voluntarily; and that I agree to and accept all of the terms set forth in this Agreement.

Agreed and Accepted:

Dated: December 20, 2013 Michael R. Splinter

/s/ Michael R. Splinter

APPENDIX A

Certain Definitions

Each of the defined terms below will have the following meaning for purposes of this Agreement.

(A) **Cash Severance**. "*Cash Severance*" has the meaning assigned to it in your Offer Letter.

(B) **Cash Severance Release Agreement**. "*Cash Severance Release Agreement*" means a release of claims related to age discrimination and older worker benefit protections.

(C) **Code**. "*Code*" means the Internal Revenue Code of 1986, as amended.

(D) **Employee; Employed; Employment**. "*Employee,*" "*Employed*" and "*Employment*" each means your employment with Applied, any parent entity of Applied, or any direct or indirect subsidiary of Applied or its parent entity.

(E) **ESIP**. "*ESIP*" means Applied's Employee Stock Incentive Plan.

(F) **Equity Release Agreement**. "*Equity Release Agreement*" means a release of claims, non-solicitation of employees and non-disparagement agreement in a form supplied by Applied; the Equity Release Agreement shall not include a release of claims related to age discrimination and older worker benefit protections.

(G) **Fair Market Value**. "*Fair Market Value*" means, with respect to a Share, the closing per share selling price of a Share on the relevant date, or if there were no sales on such date, the average of the closing sale prices on the immediately following and preceding Trading Dates, in either case as reported by the NASDAQ Global Select Market/National Market or such other source selected in the discretion of the Committee (as defined in the ESIP) administering the ESIP.

(H) **HRCC Chair**. "*HRCC Chair*" means the Chair of the Human Resources and Compensation Committee of Applied's Board of Directors.

(I) **Offer Letter**. "*Offer Letter*" means the Offer Letter dated August 14, 2013, entered into between you and Applied.

(J) **Performance Shares**. "*Performance Shares*" means Shares under your equity awards (including performance restricted stock awards, performance-based performance shares, performance-based performance units and performance restricted stock unit awards) granted before September 24, 2013, that as of the date of this Agreement, are outstanding and may become eligible to vest subject to the future achievement of performance goal(s).

(K) **Pre-closing Date**. "*Pre-closing Date*" means the date that is three Trading Days before the Transaction is expected to close. The Pre-closing Date as well as the date on which the Transaction is expected to close will be determined solely in the discretion of the HRCC Chair.

(L) **Retirement**. "*Retirement*" is as defined in the ESIP, as amended and restated on March 6, 2012.

(M) **Share**. "*Share*" means a share of Applied's common stock.

(N) **Target Accelerate; Target Acceleration**. "*Target Accelerate*" and "*Target Acceleration*" each means that all applicable performance goals automatically will be considered achieved at 100% of target levels so that the target number of Shares under your equity award will become eligible to vest. The Target Acceleration applies to a Performance Share only to the extent that the Performance Share still is subject to any performance goals. As a result, the Target Acceleration, if any, will apply only once to any Performance Share upon the earliest event to occur that triggers the Target Acceleration. Once an event occurs that Target Accelerates a Performance Share, the occurrence of any subsequent event that otherwise also would Target Accelerate the same Share will not result in Target Accelerating that Share. Target Acceleration does not affect any requirements under your Performance Shares that relate to your continued Employment. For a discussion of the TSR goal, please see Section 4 of this Agreement.

(O) **Termination Date**. "*Termination Date*" means the date of termination of your Employment.

(P) **Time Accelerate; Time Acceleration**. "*Time Accelerate*" and "*Time Acceleration*" each means full accelerated vesting by considering any vesting requirements that are based on further continued Employment to be fully satisfied. Time Acceleration applies only to the extent that the vesting of the Performance Share or Time-based Share, as applicable, still is subject to your continued Employment. As a result, the Time Acceleration will apply only once to any Share subject to an equity award that you hold upon the earliest event to occur that triggers the Time Acceleration. Once an event occurs that Time Accelerates a Share, the occurrence of any subsequent event that otherwise also would Time Accelerate the same Share will not result in Time Accelerating that Share. Time Acceleration does not affect any requirements under your Performance Shares relating to any performance goals. In the event that the Target Acceleration occurs on the same day as the Time Acceleration with respect to any of your Performance Shares, the Target Acceleration will be considered to have applied to those Performance Shares before the Time Acceleration is applied.

(Q) **Time-based Shares**. "*Time-based Shares*" means Shares under your equity awards (including restricted stock awards and performance shares) granted before September 24, 2013, that as of the date of this Agreement, are outstanding and eligible to vest solely based on your continued Employment (or any applicable qualifying termination of employment).

(R) **Trading Day**. "*Trading Day*" means any day on which Applied's common stock is traded on the NASDAQ Global Select Market.

(S) **Transaction Termination Date**. "*Transaction Termination Date*" means the date on which the Transaction is terminated without having been completed.

(T) **TSR**. "*TSR*" means total shareholder return.

(U) **TSR Date**. "*TSR Date*" means the date that the TSR goal applicable to a TSR Share is scheduled to be measured, in accordance with the terms of the applicable equity award agreement and the ESIP.

(V) **TSR Shares**. "*TSR Shares*" means only that portion of the maximum number of Performance Shares under each Performance Share award that as of the date of this Agreement, are subject in relevant part to the achievement of a TSR goal.

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

APPLIED MATERIALS, INC.

PERFORMANCE UNITS AGREEMENT

NOTICE OF GRANT

Applied Materials, Inc. (the "Company") hereby grants you, **[EMPL_NAME]** (the "Employee"), an award of Performance Units under the Company's Employee Stock Incentive Plan (the "Plan"). The date of this Performance Units Agreement (the "Agreement") is **[GRANT_DT]** (the "Grant Date"). Subject to the provisions of the Terms and Conditions of Performance Units Agreement (the "Terms and Conditions") [and Exhibit(s) [__]] (attached), which constitute part of this Agreement, and of the Plan, the principal features of this Award are as follows:

Total Performance Units:	$___________
Vesting of Performance Units:	[**VESTING SCHEDULE and/or PERFORMANCE VESTING CONDITIONS**]*

* Except as otherwise provided in the Terms and Conditions, the Employee will not vest in the Performance Units unless he or she is employed by the Company or one of its Affiliates through the applicable vesting date [except as specifically provided in the Terms and Conditions and/or Exhibit [___]].

***IMPORTANT**:*

Your electronic or written signature below indicates your agreement and understanding that this Award is subject to all of the terms and conditions contained in the Terms and Conditions to this Agreement (including exhibits thereto) and the Plan. For example, important additional information on vesting and forfeiture of this Award is contained in paragraphs 3 through 5, 7 and 11 of the Terms and Conditions [as well as in [Exhibit(s) [__]] and in Sections 4.5 and 13.10 of the Plan (such Plan sections relating to treatment of Awards in connection with a Change of Control (as defined in the Plan)). **PLEASE BE SURE TO READ ALL OF THE TERMS AND CONDITIONS [AND EXHIBIT(S) [__]], WHICH CONTAINS THE SPECIFIC TERMS AND CONDITIONS OF THIS GRANT.**

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

EMPLOYEE

____

[NAME]

Date: ___________, 20___

Be sure to retain a copy of your returned [electronically] signed Agreement. You may obtain a paper copy at any time and at the Company's expense by requesting one from Stock Programs (see paragraph 12 of the Terms and Conditions). If you prefer not to electronically sign this Agreement, you may accept this Agreement by signing a paper copy of the Agreement and delivering it to Stock Programs.

[Any international materials to be added if/as appropriate.]

TERMS AND CONDITIONS OF PERFORMANCE UNITS AGREEMENT

1. Grant. The Company hereby grants to the Employee the number of Performance Units set forth on the first page of the Notice of Grant of this Agreement, subject to all the terms and conditions in this Agreement and the Plan. Unless otherwise defined herein, capitalized terms used herein will have the meanings ascribed to them in the Plan.

2. Company's Obligation to Pay. Each Performance Unit has an initial value of one U.S. dollar (U.S.$1.00) as of the Grant Date. Each Performance Unit represents the right to receive on the vesting date (or such later time indicated in this Agreement) the cash amount of one U.S. dollar (U.S.$1.00). Payment of cash amounts in settlement for Performance Units shall be subject to applicable tax withholdings. Unless and until the Performance Units have vested in the manner set forth in paragraphs 3 through 5, or paragraph 11, the Employee will have no right to payment of such Performance Units. Prior to actual payment of any vested Performance Units, such Performance Units will represent an unsecured obligation of the Company. For purposes of this Agreement, "cash" will be deemed to be cash or any cash equivalents, such as checks, wire transfers or electronic delivery of cash amounts to an account.

3. Vesting Schedule/Period of Restriction. Except as provided in paragraphs 4, 5 and 11 of this Agreement, and Sections 4.5 and 13.10 of the Plan, and subject to paragraph 7, the Performance Units awarded by this Agreement will vest in accordance with the vesting provisions set forth in [in Exhibit [__]][on the first page of the Notice of Grant] of this Agreement. Performance Units will not vest in accordance with any of the provisions of this Agreement unless the Employee will have been continuously employed by the Company or by one of its Affiliates from the Grant Date up to and including the scheduled vesting date of the Performance Units.

4. Modifications to Vesting Schedule**.**

(a) *Vesting upon Personal Leave of Absence*. In the event that the Employee takes a personal leave of absence ("PLOA"), the Performance Units awarded by this Agreement that are scheduled to vest will be modified as follows:

(i) if the duration of the Employee's PLOA is six (6) months or fewer, the vesting schedule set forth in [in Exhibit [__]][on the first page of the Notice of Grant] of this Agreement will not be affected by the Employee's PLOA.

(ii) if the duration of the Employee's PLOA is greater than six (6) months but not more than twelve (12) months, the scheduled vesting of any Performance Units awarded by this Agreement that are not then vested will be deferred for a period of time equal to the duration of the Employee's PLOA, minus six (6) months.

(iii) if the duration of the Employee's PLOA is greater than twelve (12) months, any Performance Units awarded by this Agreement that are not then vested will immediately terminate.

(iv) Example 1. Employee’s Performance Units are scheduled to vest on January 1, 2014. On May 1, 2013, Employee begins a six-month PLOA. The vesting schedule of Employee’s Performance Units remains unchanged and will still be scheduled to vest on January 1, 2014.

(v) Example 2. Employee’s Performance Units are scheduled to vest on January 1, 2014. On May 1, 2013, Employee begins a nine-month PLOA. Employee’s Performance Units awarded by this Agreement that are scheduled to vest after November 2, 2013 will be modified (this is the date on which the Employee’s PLOA exceeds six (6) months). Employee’s Performance Units now will be scheduled to vest on April 1, 2014 (three (3) months after the originally scheduled date).

(vi) Example 3. Employee’s Performance Units are scheduled to vest on January 1, 2014. On May 1, 2013, Employee begins a 13-month PLOA. Employee’s Performance Units will terminate on May 2, 2014.

In general, a “personal leave of absence” does not include any legally required leave of absence. The duration of the Employee’s PLOA will be determined over a rolling twelve (12) month measurement period. Performance Units awarded by this Agreement that are scheduled to vest during the first six (6) months of the Employee’s PLOA will continue to vest as scheduled. However, Performance Units awarded by this Agreement that are scheduled to vest after the first six (6) months of the Employee’s PLOA will be deferred or terminated, depending on the length of the Employee’s PLOA. The vesting schedule for the Performance Units awarded by this Agreement will be modified as soon as the duration of the Employee’s PLOA exceeds six (6) months.

(b) *Death of Employee*. In the event that the Employee incurs a Termination of Service due to his or her death, one hundred percent (100%) of the Performance Units awarded by this Agreement will vest on the date of the Employee’s death. In the event that any Applicable Law limits the Company’s ability to accelerate the vesting of this award of Performance Units, this paragraph 4(b) will be limited to the extent required to comply with Applicable Law. If the Employee is subject to Hong Kong’s ORSO provisions, this paragraph 4(b) will not apply to this award of Performance Units.

(c) *Change of Control*. In the event of a Change of Control, the Performance Units awarded under this Agreement will be treated in accordance with Section 4.5 of the Plan. In addition, in the event Employee experiences a qualifying Termination of Service within 12 months following a Change of Control, the vesting of the Performance Units awarded under this Agreement may be accelerated to the extent provided under Section 13.10 of the Plan.

(d) *[Reserved for any additional vesting provisions applicable to Award]*

5. <u>Committee Discretion</u>. The Committee, in its discretion, may at any time accelerate the vesting of all or a portion of any unvested Performance Units, subject to the terms of the Plan *[To be added for Awards intended to be performance-based compensation for Section 162(m) purposes:*, but only with respect to Performance Units that are [Eligible OPM Units], as defined in Exhibit A*]*. If so accelerated, such Performance Units will be considered as having vested as of the date specified by the Committee. Subject to the provisions of this paragraph 5, if the Committee, in its discretion, accelerates the vesting of all or a portion of any unvested Performance Units, the payment of such accelerated Performance Units shall be made as soon as practicable upon or following the accelerated vesting date, but in no event later than 60 days following the vesting date of such accelerated Performance Units.

Notwithstanding anything in the Plan or this Agreement to the contrary, if the vesting of all or a portion of any unvested Performance Units is accelerated in connection with the Employee's Termination of Service (provided that such termination is a "separation from service" within the meaning of Section 409A, as determined by the Company), other than due to death, and if both (a) the Employee is a "specified employee" within the meaning of Section 409A at the time of such Termination of Service, and (b) the payment of such accelerated Performance Units would result in the imposition of additional tax under Section 409A if paid to the Employee within the six (6) month period following the Employee's Termination of Service, then the payment of such accelerated Performance Units will not be made until the date that is six (6) months and one (1) day following the date of the Employee's Termination of Service, unless the Employee dies following his or her Termination of Service, in which case, the Performance Units will be paid in cash to the Employee's estate as soon as practicable following his or her death. It is the intent of this Agreement to be exempt from or comply with the requirements of Section 409A so that none of the Performance Units provided under this Agreement or cash amounts issuable thereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities or ambiguous terms herein will be interpreted to be so exempt or comply. For purposes of this Agreement, "Section 409A" means Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and any proposed, temporary or final Treasury Regulations and Internal Revenue Service guidance thereunder, as each may be amended from time to time.

6. Payment after Vesting. Any Performance Units that vest in accordance with paragraphs 3 or 4 of this Agreement or Sections 4.5 or 13.10 of the Plan (subject in each case to withholding under paragraph 8) will be paid to the Employee (or in the event of the Employee's death, to his or her estate) as soon as practicable, but in all cases within 60 days following the vesting date of such Performance Units. Any Performance Units that vest in accordance with paragraphs 5 or 11 (subject to withholding under paragraph 8) will be paid to the Employee (or in the event of the Employee's death, to his or her estate) in accordance with the provisions of such paragraph. For each Performance Unit that vests, the Employee will receive one U.S. dollar (U.S.$1.00), subject to withholding under paragraph 8.

7. Forfeiture. Notwithstanding any contrary provision of this Agreement and except in the event of Employee's death (see paragraph 4(b)) [*to be inserted as appropriate:* or as provided pursuant to paragraph 4(d)], any Performance Units that have not vested pursuant to paragraphs 3 through 5 or paragraph 11 of this Agreement or Sections 4.5 or 13.10 of the Plan at the time of the Employee's Termination of Service for any or no reason will be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Board, in its sole discretion, may require the Employee to forfeit, return or reimburse the Company all or a portion of the Performance Units subject to this Award in accordance with paragraph 15 of the Agreement.

8. Withholding of Taxes. When cash is delivered as payment for vested Performance Units or, in the discretion of the Company, at such earlier time as the Tax Obligations (defined below) are due, the Company (or the employing Affiliate) will withhold a portion of the Performance Units that have an aggregate market value sufficient to pay all taxes and social insurance liability and other requirements in connection with the Performance Units, including, without limitation, (a) all federal, state and local income, employment and any other applicable taxes that are required to be withheld by the Company or the employing Affiliate, (b) the Employee's and, to the extent required by the Company (or the employing Affiliate), the Company's (or the employing Affiliate's) fringe benefit tax liability,

if any, associated with the grant, vesting, or settlement of the Performance Units awarded and the cash paid thereunder, and (c) all other taxes or social insurance liabilities with respect to which the Employee has agreed to bear responsibility (collectively, the "Tax Obligations"). Notwithstanding the foregoing, the Company, in its sole discretion, may require the Employee to make alternate arrangements satisfactory to the Company for such Tax Obligations in advance of the arising of any Tax Obligations.

Notwithstanding any contrary provision of this Agreement, no Performance Units will be settled through the payment of cash or otherwise unless and until satisfactory arrangements (as determined by the Company) have been made by the Employee with respect to the payment of any Tax Obligations that the Company determines must be withheld or collected with respect to such Performance Units. In addition and to the maximum extent permitted by law, the Company (or the employing Affiliate) has the right to retain without notice from salary or other amounts payable to the Employee, cash having a sufficient value to satisfy any Tax Obligations that the Company determines cannot be satisfied through the withholding of otherwise cash in settlement of the Performance units or that are due prior to the settlement of Performance Units under the Performance Units award. All Tax Obligations related to the Performance Units award and any amounts delivered in payment thereof are the sole responsibility of the Employee. Further, Employee shall be bound by any additional withholding requirements included in the Notice of Grant [and/or Exhibit [__]] of this Agreement.

9. <u>No Rights as Stockholder; No Interest</u>. Neither the Employee nor any person claiming under or through the Employee will have any of the rights or privileges of a stockholder of the Company in respect of any Performance Units deliverable hereunder. Any cash in settlement of Performance Units under this Agreement will be paid without any interest thereon.

10. <u>No Effect on Employment</u>. Subject to any authorized, written employment contract with the Employee, the terms of the Employee's employment will be determined from time to time by the Company, or the Affiliate employing the Employee, as the case may be, and the Company, or the Affiliate employing the Employee, as the case may be, will have the right, which is hereby expressly reserved, to terminate or change the terms of the employment of the Employee at any time for any reason whatsoever, with or without good cause. The transactions contemplated hereunder and the vesting schedule set forth in [in Exhibit [__]][on the first page of the Notice of Grant] of this Agreement do not constitute an express or implied promise of continued employment for any period of time. A leave of absence or an interruption in service (including an interruption during military service) authorized or acknowledged by the Company or the Affiliate employing the Employee, as the case may be, will not be deemed a Termination of Service for the purposes of this Agreement.

11. <u>Changes in Performance Units</u>. The number and value of the Performance Units under this Agreement will not be adjusted as a result of any stock or extraordinary cash dividend, stock split, distribution, reclassification, recapitalization, combination of Shares or the adjustment in capital stock of the Company or otherwise, or as a result of a merger, consolidation, spin-off or other corporate transaction or event.

12. <u>Address for Notices</u>. Any notice to be given to the Company under this Agreement shall be addressed to the Company, in care of Stock Programs, at Applied Materials, Inc., 3225 Oakmead Village Drive, M/S 1213, P.O. Box 58039, Santa Clara, CA 95054, U.S.A., or at such other address as the Company may hereafter designate in writing.

13. Grant is Not Transferable. Except to the limited extent provided in this Agreement, this grant of Performance Units and the rights and privileges conferred hereby shall not be sold, pledged, assigned, hypothecated, transferred or disposed of any way (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment or similar process, until the Employee has been issued cash in payment of the Performance Units. Upon any attempt to sell, pledge, assign, hypothecate, transfer or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

14. Binding Agreement. Subject to the limitation on the transferability of this Performance Units award contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

15. *[To be included for Awards subject to performance-based vesting:* Clawback in Connection with a Material Negative Financial Restatement. Pursuant to the Company's clawback policy, the Board, in its sole discretion, may require the Employee to forfeit, return or reimburse the Company all or a portion of his or her Performance Units subject to this Award if: (i) the Employee is or was a Section 16 Person during the performance period applicable to the performance-based vesting of the Performance Units, and (ii) the Employee deliberately engaged in "Intentional Misconduct" (as defined below) that was determined by the Board, in its sole discretion, to be the primary cause of a material negative restatement of a Company financial statement that was filed with the U.S. Securities and Exchange Commission and such financial statement, as originally filed, is one of the Company's three (3) most recently-filed annual financial statements. The portion of this Award, if any, that the Employee may be required to forfeit, return or reimburse under the prior sentence will be determined by the Board, in its sole discretion, but will be no more than the "Clawback Maximum" (as defined below).

For purposes of this Agreement, "Clawback Maximum" means the portion of the Award that was in excess of the amount that the Employee would have received under this Award had the Company's financial results been calculated under the restated financial statements.

To the extent Tax Obligations on such Performance Units were paid or due, such forfeiture, return or reimbursement shall be limited to the after-tax portion of the Clawback Maximum, unless otherwise required by Applicable Laws.

For purposes of this Agreement, "Intentional Misconduct" means the Employee's deliberate engagement in any one or more of the following: (a) fraud, misappropriation, embezzlement or any other act or acts of similar gravity resulting or intended to result directly or indirectly in substantial personal enrichment to the Employee at the expense of the Company; (b) a material violation of a federal, state or local law or regulation applicable to the Company's business that has a significant negative effect on the Company's financial results; or (c) a material breach of the Employee's fiduciary duty owed to the Company that has a significant negative effect on the Company's financial results; provided, however, that the Employee's exercise of judgment or actions (or abstention from action), and/or decision-making will not constitute Intentional Misconduct if such judgment, action (or abstention from action) and/or decision is, in the good faith determination of the Board, reasonable based on the facts and circumstances known to the Employee at the time of such judgment, action (or abstention from action) and/or decision; and such judgment, action (or abstention from action) and/or decision is in an area or situation in which (i) discretion must be exercised by the Employee or (ii) differing views or opinions may apply.

Further, the Board, in its sole discretion, may require the Employee to forfeit, return and/or reimburse the Company for all or a portion of his or her Performance Units award and any amounts paid thereunder ("Clawback Amount"), in accordance with the Company's clawback policy as may be established and/or amended from time to time or as necessary or appropriate to comply with Applicable Laws. To the extent Tax Obligations on such Clawback Amount were paid or due, the forfeiture, return or reimbursement shall be limited to the after-tax portion of the Clawback Amount, unless otherwise required by Applicable Laws.*]*

[To be included for Awards not subject to performance-based vesting: The Board, in its sole discretion, may require the Employee to forfeit, return and/or reimburse the Company for all or a portion of his or her Performance Units award and any amounts paid thereunder ("Clawback Amount"), in accordance with the Company's clawback policy as may be established and/or amended from time to time or as necessary or appropriate to comply with Applicable Laws. To the extent Tax Obligations on such Clawback Amount were paid or due, the forfeiture, return or reimbursement shall be limited to the after-tax portion of the Clawback Amount, unless otherwise required by Applicable Laws.*]*

16. Additional Conditions to Issuance of Performance Units. The Company will not be required to issue any amounts for Performance Units payable under this Agreement prior to fulfillment of all of the following conditions: (a) the completion of any registration or other qualification of such Performance Units under any U.S. state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, which the Committee, in its sole discretion, will have determined to be necessary or advisable; (b) the obtaining of any approval or other clearance from any U.S. state or federal governmental agency, which the Committee, in its sole discretion, will have determined to be necessary or advisable; and (c) the lapse of such reasonable period of time following the vesting date of the Performance Units, as the Committee may establish from time to time, for reasons of administrative convenience.

17. Plan Governs. This Agreement is subject to all the terms and provisions of the Plan. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will govern.

18. Committee Authority. The Committee will have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules (including, but not limited to, the determination of whether or not any Performance Units have vested). All actions taken and all interpretations and determinations made by the Committee in good faith will be final and binding upon the Employee, the Company and all other interested persons. No member of the Committee will be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

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

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

21. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. The Employee expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of the Employee, to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A prior to the actual payment of amounts pursuant to this award of Performance Units.

22. Amendment, Suspension or Termination of the Plan. By accepting this Performance Units award, the Employee expressly warrants that he or she has received a right to receive cash amounts under the Plan, and has received, read and understood a description of the Plan. The Employee understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

23. Labor Law. By accepting this Performance Units award, the Employee acknowledges that: (a) the grant of these Performance Units is a one-time benefit which does not create any contractual or other right of the Employee to receive future grants of Performance Units, or benefits in lieu of Performance Units; (b) all determinations with respect to any future grants, including, but not limited to, when the Performance Units will be granted, the number of Performance Units subject to each award and when the Performance Units will vest, shall be at the sole discretion of the Company; (c) the Employee's participation in the Plan is voluntary; (d) the value of these Performance Units is an extraordinary item of compensation that is outside the scope of the Employee's employment contract, if any; (e) these Performance Units are not part of the Employee's normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; (f) the vesting of these Performance Units shall cease upon Termination of Service for any reason, except as may otherwise be explicitly provided in the Plan or this Agreement; (g) these Performance Units have been granted to the Employee in the Employee's status as an employee of the Company or its Affiliates; and (h) there shall be no additional obligations for any Affiliate employing the Employee as a result of these Performance Units.

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

for the purpose of implementation, administration and management of his or her participation in the Plan, and that the Company and/or any of its Affiliates may each further transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan. The Employee understands that these recipients may be located in the European Economic Area, or elsewhere, such as in the U.S. or Asia. The Employee authorizes the Company to receive, possess, use, retain and transfer the Data in electronic or other form, for the purposes of implementing, administering and managing his or her participation in the Plan, including any requisite transfer of such Data to a broker or other third party with whom the Employee may elect to deposit any cash amounts acquired from this award of Performance Units, as may be required for the administration of the Plan and/or the subsequent holding of any cash amounts acquired from this award of Performance Units on his or her behalf. The Employee understands that he or she may, at any time, view the Data, require any necessary amendments to the Data or withdraw the consent herein in writing by contacting the Human Resources department and/or the Stock Programs Administrator for the Company and/or its applicable Affiliates. The Employee understands, however, that refusing or withdrawing the Employee's consent may affect the Employee's ability to participate in the Plan. For more information on the consequences of the Employee's refusal to consent or withdrawal of consent, the Employee understands that he or she may contact the Employee's local Human Resources representative.

25. Notice of Governing Law. This award of Performance Units will be governed by, and construed in accordance with, the laws of the State of California, in the U.S.A., without regard to principles of conflict of laws.

oOo

[Exhibit]

EXHIBIT 31.1

CERTIFICATION

I, Gary E. Dickerson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Applied Materials, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2014

/s/ GARY E. DICKERSON

Gary E. Dickerson
President, Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Robert J. Halliday, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Applied Materials, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2014

/s/ ROBERT J. HALLIDAY

Robert J. Halliday

Senior Vice President, Chief Financial Officer

EXHIBIT 32.1

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

In connection with this Quarterly Report on Form 10-Q of Applied Materials, Inc. for the period ended January 26, 2014, I, Gary E. Dickerson, President, Chief Executive Officer of Applied Materials, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-Q for the period ended January 26, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in this Form 10-Q for the period ended January 26, 2014 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: February 20, 2014

/s/ GARY E. DICKERSON

Gary E. Dickerson
President, Chief Executive Officer

EXHIBIT 32.2

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

In connection with this Quarterly Report on Form 10-Q of Applied Materials, Inc. for the period ended January 26, 2014, I, Robert J. Halliday, Senior Vice President, Chief Financial Officer of Applied Materials, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-Q for the period ended January 26, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in this Form 10-Q for the period ended January 26, 2014 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: February 20, 2014

/s/ ROBERT J. HALLIDAY

Robert J. Halliday

Senior Vice President, Chief Financial Officer