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 31, 2021

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)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value $.01 per share	AMAT	The NASDAQ Stock Market LLC

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 every Interactive Data File required to be submitted 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 such files). Yes ☑ No ☐

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

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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, 2021: 917,660,832

APPLIED MATERIALS, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2021

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(In millions, except per share amounts)

	Three Months Ended	
	January 31, 2021	January 26, 2020
	(Unaudited)	
Net sales	$ 5,162	$ 4,162
Cost of products sold	2,813	2,304
Gross profit	2,349	1,858
Operating expenses:		
Research, development and engineering	606	552
Marketing and selling	147	135
General and administrative	161	129
Severance and related charges	152	—
Total operating expenses	1,066	816
Income from operations	1,283	1,042
Interest expense	61	59
Interest and other income, net	18	22
Income before income taxes	1,240	1,005
Provision for income taxes	110	113
Net income	$ 1,130	$ 892
Earnings per share:		
Basic	$ 1.23	$ 0.97
Diluted	$ 1.22	$ 0.96
Weighted average number of shares:		
Basic	915	916
Diluted	925	927

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Three Months Ended	
	January 31, 2021	January 26, 2020
	(Unaudited)	
Net income	$ 1,130	$ 892
Other comprehensive income (loss), net of tax:		
Change in unrealized gain (loss) on available-for-sale investments	(2)	2
Change in unrealized net loss on derivative instruments	4	(10)
Other comprehensive income (loss), net of tax	2	(8)
Comprehensive income	$ 1,132	$ 884

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS
(In millions)

	January 31, 2021	October 25, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,213	$ 5,351
Short-term investments	410	387
Accounts receivable, net	3,045	2,963
Inventories	3,925	3,904
Other current assets	676	764
Total current assets	14,269	13,369
Long-term investments	1,601	1,538
Property, plant and equipment, net	1,638	1,604
Goodwill	3,479	3,466
Purchased technology and other intangible assets, net	140	153
Deferred income taxes and other assets	2,178	2,223
Total assets	$ 23,305	$ 22,353
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 2,932	$ 3,138
Contract liabilities	1,572	1,321
Total current liabilities	4,504	4,459
Long-term debt	5,449	5,448
Income taxes payable	1,210	1,206
Other liabilities	669	662
Total liabilities	11,832	11,775
Stockholders' equity:		
Common stock	9	9
Additional paid-in capital	7,869	7,904
Retained earnings	28,137	27,209
Treasury stock	(24,245)	(24,245)
Accumulated other comprehensive loss	(297)	(299)
Total stockholders' equity	11,473	10,578
Total liabilities and stockholders' equity	$ 23,305	$ 22,353

Amounts as of January 31, 2021 are unaudited. Amounts as of October 25, 2020 are derived from the October 25, 2020 audited consolidated financial statements.

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions)

Three Months Ended January 31, 2021	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			Shares	Amount		
				(Unaudited)				
Balance as of October 25, 2020	914	$ 9	$ 7,904	$ 27,209	1,091	$ (24,245)	$ (299)	$ 10,578
Net income	—	—	—	1,130	—	—	—	1,130
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	2	2
Dividends declared ($0.22 per common share)	—	—	—	(202)	—	—	—	(202)
Share-based compensation	—	—	107	—	—	—	—	107
Issuance under stock plans	4	—	(142)	—	—	—	—	(142)
Balance as of January 31, 2021	918	$ 9	$ 7,869	$ 28,137	1,091	$ (24,245)	$ (297)	$ 11,473

Three Months Ended January 26, 2020	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			Shares	Amount		
				(Unaudited)				
Balance as of October 27, 2019	916	$ 9	$ 7,595	$ 24,386	1,079	$ (23,596)	$ (180)	$ 8,214
Net income	—	—	—	892	—	—	—	892
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(8)	(8)
Dividends declared ($0.21 per common share)	—	—	—	(193)	—	—	—	(193)
Share-based compensation	—	—	93	—	—	—	—	93
Issuance under stock plans	6	—	(138)	—	—	—	—	(138)
Common stock repurchases	(3)	—	—	—	3	(200)	—	(200)
Balance as of January 26, 2020	919	$ 9	$ 7,550	$ 25,085	1,082	$ (23,796)	$ (188)	$ 8,660

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(In millions)

	Three Months Ended	
	January 31, 2021	January 26, 2020
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 1,130	$ 892
Adjustments required to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	94	94
Severance and related charges	148	—
Share-based compensation	107	93
Deferred income taxes	28	30
Other	—	15
Changes in operating assets and liabilities:		
Accounts receivable	(81)	(146)
Inventories	(21)	2
Other current and non-current assets	94	(99)
Accounts payable and accrued expenses	(335)	(6)
Contract liabilities	251	64
Income taxes payable	(8)	23
Other liabilities	14	25
Cash provided by operating activities	1,421	987
Cash flows from investing activities:		
Capital expenditures	(121)	(102)
Cash paid for acquisitions, net of cash acquired	(12)	—
Proceeds from sales and maturities of investments	358	368
Purchases of investments	(441)	(428)
Cash used in investing activities	(216)	(162)
Cash flows from financing activities:		
Proceeds from common stock issuances	—	15
Common stock repurchases	—	(200)
Tax withholding payments for vested equity awards	(142)	(153)
Payments of dividends to stockholders	(201)	(192)
Cash used in financing activities	(343)	(530)
Increase in cash, cash equivalents and restricted cash equivalents	862	295
Cash, cash equivalents and restricted cash equivalents — beginning of period	5,466	3,129
Cash, cash equivalents and restricted cash equivalents — end of period	$ 6,328	$ 3,424
Reconciliation of cash, cash equivalents, and restricted cash equivalents		
Cash and cash equivalents	$ 6,213	$ 3,424
Restricted cash equivalents included in deferred income taxes and other assets	115	—
Total cash, cash equivalents, and restricted cash equivalents	$ 6,328	$ 3,424
Supplemental cash flow information:		
Cash payments for income taxes	$ 110	$ 82
Cash refunds from income taxes	$ 19	$ 1
Cash payments for interest	$ 35	$ 34

See accompanying Notes to Consolidated Condensed Financial Statements.

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 25, 2020 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 25, 2020 (2020 Form 10-K). Applied's results of operations for the three months ended January 31, 2021 are not necessarily indicative of future operating results. Applied's fiscal year ends on the last Sunday in October of each year. Fiscal 2021 and 2020 contain 53 weeks and 52 weeks, respectively, and the first three months of fiscal 2021 and 2020 contained 14 and 13 weeks, respectively.

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 standalone selling price (SSP) related to revenue recognition, 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.

As of January 31, 2021, the COVID-19 pandemic and worldwide response remains fluid. As a result, many of Applied's estimates and assumptions are subject to increased judgment and volatility. These estimates may differ materially in future periods as the pandemic continues to evolve and additional information becomes available.

Revenue Recognition from Contracts with Customers

Applied recognizes revenue when promised goods or services are transferred to a customer in an amount that reflects the consideration to which Applied expects to be entitled in exchange for those goods or services. Applied determines revenue recognition through the following five steps; (1) identification of the contract(s) with customers, (2) identification of the performance obligations in the contract, (3) determination of the transaction price, (4) allocation of the transaction price to the performance obligations in the contract, and (5) recognition of revenue when, or as, a performance obligation is satisfied.

Identifying the contract(s) with customers. Applied sells manufacturing equipment, services, and spare parts directly to its customers in the semiconductor, display, and related industries. The Company generally considers written documentation including, but not limited to, signed purchase orders, master agreements, and sales orders as contracts provided that collection is probable. Collectability is assessed based on the customer's creditworthiness determined by reviewing the customer's published credit and financial information, historical payment experience, as well as other relevant factors.

Identifying the performance obligations. Applied's performance obligations include delivery of manufacturing equipment, service agreements, spare parts, installation, extended warranty and training. Applied's service agreements are considered one performance obligation and may include multiple goods and services that Applied provides to the customer to deliver against a performance metric. Judgment is used to determine whether multiple promised goods or services in a contract should be accounted for separately or as a group.

Determine the transaction price. The transaction price for Applied's contracts with customers may include fixed and variable consideration. Applied includes variable consideration in the transaction price to the extent that it is probable that a significant reversal of revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Allocate the transaction price to the performance obligations. A contract's transaction price is allocated to each distinct performance obligation identified within the contract. Applied generally estimates the standalone selling price of a distinct performance obligation based on historical cost plus an appropriate margin. For contracts with multiple performance obligations, Applied allocates the contract's transaction price to each performance obligation using the relative standalone selling price of each distinct good or service in the contract.

Recognizing the revenue as performance obligations are satisfied. Applied recognizes revenue from equipment and spares parts at a point in time when Applied has satisfied its performance obligation by transferring control of the goods to the customer which typically occurs at shipment or delivery. Revenue from service agreements is recognized over time, typically within 12 months, as customers receive the benefits of services.

The incremental costs to obtain a contract are not material.

Payment Terms. Payment terms vary by contract. Generally, the majority of payments are due within a certain number of days from shipment of goods or performance of service. The remainder is typically due upon customer technical acceptance. Applied typically receives deposits on future deliverables from customers in the Display and Adjacent Markets segment and, in certain instances, may also receive deposits from customers in the Applied Global Services segment. Applied's payment terms do not generally contain a significant financing component.

Recent Accounting Pronouncements

Accounting Standards Adopted

Retirement Benefits: Changes to the Disclosure Requirements for Defined Benefit and other Postretirement Plans. In August 2018, the Financial Accounting Standard Board (FASB) issued authoritative guidance that adds, removes, and clarifies disclosure requirements for defined benefit and other postretirement plans. Applied adopted this guidance in the first quarter of fiscal 2021 under the retrospective basis. The adoption of this guidance did not have a significant impact on Applied's defined benefit and other postretirement disclosures.

Goodwill Impairment. In January 2017, the FASB issued authoritative guidance that simplifies the process required to test goodwill for impairment. Applied adopted this guidance in the first quarter of fiscal 2021. The adoption of this guidance did not have a significant impact on Applied's consolidated condensed financial statements.

Financial Instruments: Credit Losses. In June 2016, the FASB issued authoritative guidance that modifies the impairment model for certain financial assets by requiring use of an expected loss methodology, which will result in more timely recognition of credit losses. Applied adopted this guidance in the first quarter of fiscal 2021 under the modified retrospective basis. The adoption of this guidance did not have a significant impact on Applied's consolidated condensed financial statements.

Accounting Standards Not Yet Adopted

Simplifying the Accounting for Income Taxes: In December 2019, the FASB issued an accounting standard update to simplify the accounting for income taxes (Topic 740). This amendment removes certain exceptions and improves consistent application of accounting principles for certain areas in Topic 740. This authoritative guidance will be effective for Applied in the first quarter of fiscal 2022, with early adoption permitted. Applied is currently evaluating the effect of this new guidance on Applied's consolidated financial statements.

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 restricted stock units and employee stock purchase plan 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 31, 2021	January 26, 2020
	(In millions, except per share amounts)	
Numerator:		
Net income	$ 1,130	$ 892
Denominator:		
Weighted average common shares outstanding	915	916
Effect of weighted dilutive restricted stock units and employee stock purchase plan shares	10	11
Denominator for diluted earnings per share	925	927
Basic earnings per share	$ 1.23	$ 0.97
Diluted earnings per share	$ 1.22	$ 0.96
Potentially weighted dilutive securities	—	—

Potentially weighted dilutive securities attributable to outstanding restricted stock units are excluded from the calculation of diluted earnings per share where the combined exercise price and average unamortized fair value are greater than the average market price of Applied common stock, and therefore their inclusion would be 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 31, 2021	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Cash	$ 1,150	$ —	$ —	$ 1,150
Cash equivalents:				
Money market funds	5,038	—	—	5,038
Municipal securities	15	—	—	15
Commercial paper, corporate bonds and medium-term notes	10	—	—	10
Total Cash equivalents	5,063	—	—	5,063
Total Cash and Cash equivalents	$ 6,213	$ —	$ —	$ 6,213
Short-term and long-term investments:				
Bank certificate of deposit	$ 2	$ —	$ —	$ 2
U.S. Treasury and agency securities	332	2	—	334
Non-U.S. government securities*	6	—	—	6
Municipal securities	354	6	—	360
Commercial paper, corporate bonds and medium-term notes	552	7	—	559
Asset-backed and mortgage-backed securities	540	8	—	548
Total fixed income securities	1,786	23	—	1,809
Publicly traded equity securities	12	42	1	53
Equity investments in privately-held companies	132	26	9	149
Total equity investments	144	68	10	202
Total short-term and long-term investments	$ 1,930	$ 91	$ 10	$ 2,011
Total Cash, Cash equivalents and Investments	$ 8,143	$ 91	$ 10	$ 8,224

* Includes agency debt securities guaranteed by Canada

October 25, 2020	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Cash	$ 1,136	$ —	$ —	$ 1,136
Cash equivalents:				
Money market funds	4,209	—	—	4,209
Municipal securities	6	—	—	6
Total Cash equivalents	4,215	—	—	4,215
Total Cash and Cash equivalents	$ 5,351	$ —	$ —	$ 5,351
Short-term and long-term investments:				
U.S. Treasury and agency securities	$ 394	$ 4	$ —	$ 398
Municipal securities	359	6	—	365
Commercial paper, corporate bonds and medium-term notes	492	8	1	499
Asset-backed and mortgage-backed securities	470	9	—	479
Total fixed income securities	1,715	27	1	1,741
Publicly traded equity securities	11	36	2	45
Equity investments in privately-held companies	121	25	7	139
Total equity investments	132	61	9	184
Total short-term and long-term investments	$ 1,847	$ 88	$ 10	$ 1,925
Total Cash, Cash equivalents and Investments	$ 7,198	$ 88	$ 10	$ 7,276

Maturities of Investments

The following table summarizes the contractual maturities of Applied’s investments as of January 31, 2021:

	Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	$ 390	$ 392
Due after one through five years	857	869
No single maturity date**	683	750
Total	$ 1,930	$ 2,011

** 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 31, 2021 and January 26, 2020 gross realized gains and losses on investments were not material.

As of January 31, 2021, and October 25, 2020, gross unrealized losses related to Applied’s debt investment portfolio were not material. Applied regularly reviews its debt investment portfolio to identify and evaluate investments that have indications of possible impairment from credit losses or other factors. Factors considered in determining whether an unrealized loss is considered to be a credit loss include: the significance of the decline in value compared to 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. Credit losses related to available-for-sale debt securities are recorded as an allowance for credit losses through interest and other income, net. Any additional changes in fair value that are not related to credit losses are recognized in accumulated other comprehensive income.

During the three months ended January 31, 2021, with the adoption of credit losses authoritative guidance, Applied did not recognize significant credit losses and the ending allowance for credit losses was not material. Applied determined that the gross unrealized losses on its marketable fixed-income securities as of January 26, 2020 were temporary in nature and therefore it did not recognize any impairment of its marketable fixed-income securities during the three months ended January 26, 2020. Impairment charges on equity investments in privately-held companies during the three months ended January 31, 2021 and January 26, 2020 were not material. These impairment charges are included in interest and other income, net in the Consolidated Condensed Statement of Operations.

The components of gain (loss) on equity investments for the three months ended January 31, 2021 and January 26, 2020 were as follows:

	Three Months Ended	
	January 31, 2021	January 26, 2020
	(In millions)	
Publicly traded equity securities		
Unrealized gain	$ 8	$ 2
Unrealized loss	—	(3)
Equity investments in privately-held companies		
Unrealized gain	1	—
Unrealized loss	(3)	(1)
Realized gain on sales	2	—
Realized loss on sales or impairment	—	(2)
Total gain (loss) on equity investments, net	$ 8	$ (4)

Note 4 Fair Value Measurements

Applied's financial assets are measured and recorded at fair value on a recurring basis, except for equity investments in privately-held companies. These equity investments are generally accounted for under the measurement alternative, defined as cost, less impairments, adjusted for subsequent observable price changes and are periodically assessed for impairment when events or circumstances indicate that a 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 whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

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 consist 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. As of January 31, 2021, 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.

Applied's equity investments with readily determinable values consist of publicly traded equity securities. These investments are measured at fair value using quoted prices for identical assets in an active market and the changes in fair value of these equity investments are recognized in the consolidated statements of operations.

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.

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:

	January 31, 2021			October 25, 2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	(In millions)					
Assets:						
Available-for-sale debt security investments						
Money market funds*	$ 5,153	$ —	$ 5,153	$ 4,324	$ —	$ 4,324
Bank certificate of deposit	—	2	2	—	—	—
U.S. Treasury and agency securities	308	26	334	375	23	398
Non-U.S. government securities	—	6	6	—	—	—
Municipal securities	—	375	375	—	371	371
Commercial paper, corporate bonds and medium-term notes	—	569	569	—	499	499
Asset-backed and mortgage-backed securities	—	548	548	—	479	479
Total available-for-sale debt security investments	$ 5,461	$ 1,526	$ 6,987	$ 4,699	$ 1,372	$ 6,071
Equity investments with readily determinable values						
Publicly traded equity securities	$ 53	$ —	$ 53	$ 45	$ —	$ 45
Total equity investments with readily determinable values	$ 53	$ —	$ 53	$ 45	$ —	$ 45
Total	$ 5,514	$ 1,526	$ 7,040	$ 4,744	$ 1,372	$ 6,116

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* Amount as of January 31, 2021 and October 25, 2020, each includes $115 million invested in money market funds related to deferred compensation plans. Due to restrictions on the distribution of these funds, they are classified as restricted cash equivalents and are included in deferred income taxes and other assets in the Consolidated Condensed Balance Sheets.

Applied did not have any financial assets measured at fair value on a recurring basis within Level 3 fair value measurements as of January 31, 2021 or October 25, 2020.

Assets and Liabilities without Readily Determinable Values Measured on a Non-recurring Basis

Applied's equity investments without readily determinable values consist of equity investments in privately-held companies. Applied elected the measurement alternative, defined as cost, less impairments, adjusted for subsequent observable price changes on a prospective basis for certain equity investments without readily determinable fair values and is required to account for any subsequent observable changes in fair value within the statements of operations. These investments are periodically assessed for impairment when an event or circumstance indicates that a decline in value may have occurred. Impairment charges on equity investments in privately-held companies during the three months ended January 31, 2021 and January 26, 2020 were not material.

Other

The carrying amounts of Applied's financial instruments, including cash and cash equivalents, restricted cash equivalents, accounts receivable, notes payable - short term, and accounts payable and accrued expenses, approximate fair value due to their short maturities. As of January 31, 2021 and October 25, 2020, the aggregate principal amount of long-term senior notes was $5.5 billion and the estimated fair value was $6.6 billion. The estimated fair value of long-term senior unsecured notes is determined by Level 2 inputs and is based primarily on quoted market prices for the same or similar issues. See Note 11 of the Notes to the Consolidated Condensed Financial Statements for further detail of existing debt.

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, Israeli shekel, euro and Taiwanese dollar. 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 within 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 and interest rate 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 foreign exchange derivatives 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 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 foreign exchange derivative instruments included in AOCI as of January 31, 2021 is expected to be reclassified into earnings within 12 months. Changes in the fair value of option contracts due to changes in time value are excluded from the assessment of effectiveness. The initial value of this excluded component is amortized on a straight-line basis over the life of the hedging instrument and recognized in the financial statement line item to which the hedge relates. 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 the consolidated condensed statement of operations. 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 were not significant for the three months ended January 31, 2021 and January 26, 2020.

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.

The fair values of foreign exchange derivative instruments as of January 31, 2021 and October 25, 2020 were not material.

Applied is also exposed to interest rate risk associated with its potential future borrowings. During the three months ended January 26, 2020, Applied entered into a series of interest rate contracts to hedge against the variability of cash flows due to changes in the benchmark interest rate of fixed rate debt. These instruments were designated as cash flow hedges at inception and were settled in conjunction with the issuance of debt in May 2020.

The gain (loss) on derivatives in cash flow hedging relationships recognized in AOCI for derivatives designated as hedging instruments for the indicated periods were as follows:

	Three Months Ended	
	January 31, 2021	January 26, 2020
	(In millions)	
Derivatives in Cash Flow Hedging Relationships:		
Foreign exchange contracts	$ 1	$ 7
Interest rate contracts	—	(18)
Total	$ 1	$ (11)

The effects of derivative instruments and hedging activities on the Consolidated Condensed Statements of Operations were as follows:

	Three Months Ended					
	January 31, 2021			January 26, 2020		
		Derivatives in Cash Flow Hedging Relationships			Derivatives in Cash Flow Hedging Relationships	
	Total Amount Presented in the Consolidated Condensed Statement of Operations in which the Effects of Cash Flow Hedges are Recorded	Amount of Gain or (Loss) Reclassified from AOCI into Consolidated Condensed Statement of Operations	Amount of Gain (Loss) Excluded from Effectiveness Testing Recognized in Consolidated Condensed Statement of Operations	Total Amount Presented in the Consolidated Condensed Statement of Operations in which the Effects of Cash Flow Hedges are Recorded	Amount of Gain or (Loss) Reclassified from AOCI into Consolidated Condensed Statement of Operations	Amount of Gain (Loss) Excluded from Effectiveness Testing Recognized in Consolidated Condensed Statement of Operations
	(In millions)					
Foreign Exchange Contracts:						
Net Sales	$ 5,162	$ (4)	$ —	$ 4,162	$ (1)	$ 2
Cost of products sold	$ 2,813	2	(1)	$ 2,304	2	—
Research, development and engineering	$ 606	1	—	$ 552	1	—
Interest Rate Contracts:						
Interest expense	$ 61	(3)	—	$ 59	(1)	—
		$ (4)	$ (1)		$ 1	$ 2

	Location of Gain or (Loss) Recognized in Consolidated Condensed Statement of Operations	Amount of Gain or (Loss) Recognized in Consolidated Condensed Statement of Operations — Three Months Ended January 31, 2021	January 26, 2020
		(In millions)	
Derivatives Not Designated as Hedging Instruments			
Foreign exchange contracts	Interest and other income, net	$ —	$ 4
Total return swaps - deferred compensation	Cost of products sold	1	—
Total return swaps - deferred compensation	Operating expenses	7	—
Total		$ 8	$ 4

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 31, 2021.

Entering into derivative 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 generally 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 sold $369 million and $206 million of account receivables during the three months ended January 31, 2021 and January 26, 2020, respectively. Applied did not discount letters of credit issued by customers or discount promissory notes during the three months ended January 31, 2021 and January 26, 2020. 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 credit losses of $30 million as of January 31, 2021 and October 25, 2020. Applied sells its products principally to manufacturers within the semiconductor and display industries. While Applied believes that its allowance for credit losses is adequate and represents its best estimate as of January 31, 2021, it continues to closely monitor customer liquidity and industry and economic conditions, which may result in changes to Applied's estimates.

Note 7 Contract Balances

Contract assets primarily result from receivables for goods transferred to customers where payment is conditional upon technical sign off and not just the passage of time. Contract liabilities consist of unsatisfied performance obligations related to advance payments received and billings in excess of revenue recognized. Applied's contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period.

Contract assets are generally classified as current and are included in Other Current Assets in the Consolidated Condensed Balance Sheets. Contract liabilities are classified as current or non-current based on the timing of when performance obligations will be satisfied and associated revenue is expected to be recognized.

Contract balances at the end of each reporting period were as follows:

	January 31, 2021	October 25, 2020
	(In millions)	
Contract assets	$ 167	$ 148
Contract liabilities	$ 1,572	$ 1,321

The increase in contract assets during the three months ended January 31, 2021, was primarily due to goods transferred to customers where payment was conditional upon technical sign off, offset by the reclassification of contract assets to net accounts receivable upon meeting conditions to the right to payment.

During the three months ended January 31, 2021, Applied recognized revenue of approximately $731 million related to contract liabilities at October 25, 2020. This reduction in contract liabilities was offset by new billings for products and services for which there were unsatisfied performance obligations to customers and revenue had not yet been recognized as of January 31, 2021.

There were no credit losses recognized on Applied's accounts receivables and contract assets during both the three months ended January 31, 2021 and January 26, 2020.

As of January 31, 2021, the amount of remaining unsatisfied performance obligations on contracts with an original estimated duration of one year or more was approximately $844 million, of which approximately 62% is expected to be recognized within 12 months and the remainder is expected to recognized within the following 24 months thereafter.

Applied has elected the available practical expedient to exclude the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less.

Note 8 Balance Sheet Detail

	January 31, 2021	October 25, 2020
	(In millions)	
Inventories		
Customer service spares	$ 1,290	$ 1,270
Raw materials	879	870
Work-in-process	687	624
Finished goods	1,069	1,140
	$ 3,925	$ 3,904

Included in finished goods inventory are $21 million as of January 31, 2021, and $16 million as of October 25, 2020, 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 $396 million and $416 million of evaluation inventory as of January 31, 2021 and October 25, 2020, respectively.

	January 31, 2021	October 25, 2020
	(In millions)	
Other Current Assets		
Prepaid income taxes and income taxes receivable	$ 167	$ 162
Prepaid expenses and other	509	602
	$ 676	$ 764

	Useful Life	January 31, 2021	October 25, 2020
	(In years)	(In millions)	
Property, Plant and Equipment, Net			
Land and improvements		$ 271	$ 256
Buildings and improvements	3-30	1,662	1,655
Demonstration and manufacturing equipment	3-5	1,660	1,586
Furniture, fixtures and other equipment	3-5	670	646
Construction in progress		232	237
Gross property, plant and equipment		4,495	4,380
Accumulated depreciation		(2,857)	(2,776)
		$ 1,638	$ 1,604

	January 31, 2021	October 25, 2020
	(In millions)	
Deferred Income Taxes and Other Assets		
Non-current deferred income taxes	$ 1,684	$ 1,711
Operating lease right-of-use assets	241	252
Income tax receivables and other assets	253	260
	$ 2,178	$ 2,223

	January 31, 2021	October 25, 2020
	(In millions)	
Accounts Payable and Accrued Expenses		
Accounts payable	$ 1,076	$ 1,124
Compensation and employee benefits	532	800
Warranty	196	201
Dividends payable	202	201
Income taxes payable	210	222
Other accrued taxes	12	33
Interest payable	55	36
Operating lease liabilities, current	63	64
Other	586	457
	$ 2,932	$ 3,138

	January 31, 2021	October 25, 2020
	(In millions)	
Other Liabilities		
Defined and postretirement benefit plans	$ 247	$ 241
Operating lease liabilities, non-current	186	195
Other	236	226
	$ 669	$ 662

Note 9 Business Combination

Kokusai Electric Corporation

On June 30, 2019, Applied entered into a Share Purchase Agreement (SPA) with Kokusai Electric Corporation (Kokusai Electric) and KKR HKE Investment L.P. (KKR) providing for Applied's acquisition of all outstanding shares of Kokusai Electric for a base purchase price of $2.2 billion in cash, subject to certain adjustments. Kokusai Electric is a leading company in providing high-productivity batch processing systems and services for memory, foundry and logic customers. These systems complement Applied's portfolio of single-wafer processing systems. Following the close of the transaction, Kokusai Electric will operate as a business unit of Applied's Semiconductor Systems segment and continue to be based in Tokyo, with technology and manufacturing centers in Toyama, Japan and Cheonan, Korea. The transaction is subject to regulatory approvals and other customary closing conditions. The SPA provides that if the SPA is terminated under certain circumstances involving the failure to obtain required regulatory approvals, Applied would be obligated to pay KKR a termination fee equal to $154 million in cash, and that either Applied or KKR may terminate the SPA if closing does not occur by December 30, 2020, which was the extended outside date mutually agreed by the parties pursuant to the SPA (Outside Date). On January 1, 2021, the parties to the SPA entered into an amendment, pursuant to which they agreed, among other things, to extend the Outside Date to March 19, 2021 (Extended Outside Date); increase the base purchase price to $3.5 billion; if all the closing conditions are satisfied on or prior to the Extended Outside Date, the Extended Outside Date is automatically extended to the first business day following the first date on which the parties would otherwise be obligated to consummate the closing in accordance with the SPA (or such other date mutually agreed in writing by Applied and KKR); if all the closing conditions are not satisfied on or prior to the Extended Outside Date, the SPA is deemed to be automatically terminated by KKR effective as of the Extended Outside Date (unless otherwise mutually agreed in writing by Applied and KKR); and if the SPA is terminated or deemed to be automatically terminated under certain circumstances involving the failure to obtain required regulatory approvals, Applied is obligated to pay KKR a termination fee equal to $154 million in cash.

Note 10 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. When reviewing 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.

In performing a qualitative assessment, Applied considers business conditions and other factors including, but not limited to (i) adverse industry or economic trends, (ii) restructuring actions and lower projections that may impact future operating results, (iii) sustained decline in share price, and (iv) overall financial performance and other events affecting the reporting units. If Applied concludes that is more likely than not that the fair value of a reporting unit is less than its carrying amount, then a quantitative impairment test is performed by estimating the fair value of the reporting unit and comparing it to its carrying value. If the carrying value of a reporting unit exceeds its fair value, Applied would record an impairment charge equal to the excess of the carrying value of the reporting unit's goodwill over its fair value.

As of January 31, 2021, Applied's reporting units include Semiconductor Products Group and Imaging and Process Control Group, which combine to form the Semiconductor Systems reporting segment, Applied Global Services, Display and Adjacent Markets and other reporting units recorded under Corporate and Other.

Details of goodwill as of January 31, 2021 and October 25, 2020 were as follows:

	January 31, 2021	October 25, 2020
	(In millions)	
Semiconductor Systems	$ 2,207	$ 2,208
Applied Global Services	1,032	1,018
Display and Adjacent Markets	199	199
Corporate and Other	41	41
Carrying amount	$ 3,479	$ 3,466

From time to time, Applied makes acquisitions of companies related to existing or new markets for Applied. During the first quarter of fiscal 2021, goodwill increased by $13 million primarily due to the preliminary purchase accounting for an acquisition during the first quarter of 2021, which was not material to Applied's results of operations.

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

	January 31, 2021	October 25, 2020
	(In millions)	
Purchased technology, net	$ 67	$ 75
Intangible assets - finite-lived, net	73	78
Total	$ 140	$ 153

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:

	January 31, 2021			October 25, 2020		
	Purchased Technology	Other Intangible Assets	Total	Purchased Technology	Other Intangible Assets	Total
	(In millions)					
Gross carrying amount:						
Semiconductor Systems	$ 1,477	$ 256	$ 1,733	$ 1,476	$ 256	$ 1,732
Applied Global Services	35	44	79	35	44	79
Display and Adjacent Markets	163	38	201	163	38	201
Corporate and Other	12	16	28	13	16	29
Gross carrying amount	$ 1,687	$ 354	$ 2,041	$ 1,687	$ 354	$ 2,041
Accumulated amortization:						
Semiconductor Systems	$ (1,431)	$ (189)	$ (1,620)	$ (1,423)	$ (185)	$ (1,608)
Applied Global Services	(31)	(44)	(75)	(31)	(44)	(75)
Display and Adjacent Markets	(157)	(38)	(195)	(157)	(37)	(194)
Corporate and Other	(1)	(10)	(11)	(1)	(10)	(11)
Accumulated amortization	$ (1,620)	$ (281)	$ (1,901)	$ (1,612)	$ (276)	$ (1,888)
Carrying amount	$ 67	$ 73	$ 140	$ 75	$ 78	$ 153

Details of amortization expense by segment were as follows:

	Three Months Ended	
	January 31, 2021	January 26, 2020
	(In millions)	
Semiconductor Systems	$ 12	$ 10
Display and Adjacent Markets	1	4
Total	$ 13	$ 14

Amortization expense was charged to the following categories:

	Three Months Ended	
	January 31, 2021	January 26, 2020
	(In millions)	
Cost of products sold	$ 8	$ 9
Marketing and selling	5	5
Total	$ 13	$ 14

As of January 31, 2021, future estimated amortization expense is expected to be as follows:

	Amortization Expense
	(In millions)
2021 (remaining 9 months)	$ 36
2022	33
2023	20
2024	17
2025	15
Thereafter	19
Total	$ 140

Note 11 Borrowing Facilities and Debt

Revolving Credit Facilities

In February 2020, Applied entered into a five-year $1.5 billion committed unsecured revolving credit agreement (Revolving Credit Agreement) with a group of banks. The Revolving Credit Agreement includes a provision under which Applied may request an increase in the amount of the facility of up to $500 million for a total commitment of no more than $2.0 billion, subject to the receipt of commitments from one or more lenders for any such increase and other customary conditions. The Revolving Credit Agreement is scheduled to expire in February 2025, unless extended as permitted under the Revolving Credit Agreement. The Revolving Credit Agreement provides for borrowings that bear interest for each advance at one of two rates selected by Applied, plus an applicable margin, which varies according to Applied's public debt credit ratings.

No amounts were outstanding under the Revolving Credit Agreement as of January 31, 2021 and October 25, 2020.

In addition, Applied has revolving credit facilities with Japanese banks pursuant to which it may borrow up to approximately $77 million in aggregate at any time. 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. As of January 31, 2021 and October 25, 2020, no amounts were outstanding under these revolving credit facilities.

Term Loan and Short-term Commercial Paper

In August 2019, Applied entered into a term loan credit agreement (Term Loan Credit Agreement) with a group of lenders (Term Loan Lenders). Under the agreement, the lenders have committed to make an unsecured term loan to Applied of up to $2.0 billion to finance in part Applied's planned acquisition of all outstanding shares of Kokusai Electric, to pay related transaction fees and expenses and for general corporate purposes. In December 2020, Applied entered into an amendment to the Term Loan Credit Agreement with the Term Loan Lenders which, among other things, (i) extends to April 30, 2021 the expiration date of the Lenders' commitments to fund the term loan and (ii) provides that the Lenders' commitments to fund the term loan shall terminate automatically if the SPA is terminated without the consummation of the transactions contemplated by the SPA. The term loan, if advanced, will bear interest at one of two rates selected by Applied, plus an applicable margin, which varies according to Applied's public debt credit ratings, and must be repaid in full on the third anniversary of the funding date of the term loan. No amounts were outstanding under the Term Loan Credit Agreement at both January 31, 2021 and October 25, 2020.

Applied has a short-term commercial paper program under which Applied may issue unsecured commercial paper notes of up to a total amount of $1.5 billion. At January 31, 2021 and October 25, 2020, Applied did not have any commercial paper outstanding.

Senior Unsecured Notes

In May 2020, Applied issued $750 million aggregate principal amount of 1.750% senior unsecured notes due 2030 and $750 million aggregate principal amount of 2.750% senior unsecured notes due 2050, in a registered public offering. In June 2020, Applied used a portion of the net proceeds from the offering to redeem the outstanding $600 million in aggregate principal amount of its 2.625% senior unsecured notes due October 1, 2020 and $750 million in aggregate principal amount of its 4.300% senior unsecured notes due June 15, 2021, at a total aggregate redemption price of $1.4 billion. As a result, Applied recognized a $33 million loss on early extinguishment of these senior unsecured notes during the third quarter of fiscal 2020.

Debt outstanding as of January 31, 2021 and October 25, 2020 was as follows:

	Principal Amount			
	January 31, 2021	October 25, 2020	Effective Interest Rate	Interest Pay Dates
	(In millions)			
Long-term debt:				
3.900% Senior Notes Due 2025	$ 700	$ 700	3.944%	April 1, October 1
3.300% Senior Notes Due 2027	1,200	1,200	3.342%	April 1, October 1
1.750% Senior Notes Due 2030	750	750	1.792%	June 1, December 1
5.100% Senior Notes Due 2035	500	500	5.127%	April 1, October 1
5.850% Senior Notes Due 2041	600	600	5.879%	June 15, December 15
4.350% Senior Notes Due 2047	1,000	1,000	4.361%	April 1, October 1
2.750% Senior Notes Due 2050	750	750	2.773%	June 1, December 1
	5,500	5,500		
Total unamortized discount	(15)	(15)		
Total unamortized debt issuance costs	(36)	(37)		
Total long-term debt	$ 5,449	$ 5,448		

Note 12 Leases

A contract contains a lease when Applied has the right to control the use of an identified asset for a period of time in exchange for consideration. Applied leases certain facilities, vehicles and equipment under non-cancelable operating leases, many of which include options to renew. Options that are reasonably certain to be exercised are included in the calculation of the right-of-use asset and lease liability. Applied's leases do not contain residual value guarantees or significant restrictions that impact the accounting for leases. As implicit rates are not available for the leases, Applied uses the incremental borrowing rate as of the lease commencement date in order to measure the right-of-use asset and liability. Operating lease expense is generally recognized on a straight-line basis over the lease term.

Applied elected the practical expedient to account for lease and non-lease components as a single lease component for all leases. For leases with a term of one year or less, Applied elected not to record a right-of-use asset or lease liability and to account for the associated lease payments as they become due.

The components of lease expense and supplemental information were as follows:

	Three Months Ended	
	January 31, 2021	January 26, 2020
	(In millions, except percentages)	
Operating lease cost	$19	$13
Weighted-average remaining lease term (in years)	5.0	5.5
Weighted-average discount rate	1.8%	1.8%

Supplemental cash flow information related to leases are as follows:

	Three Months Ended	
	January 31, 2021	January 26, 2020
	(In millions)	
Operating cash flows paid for operating leases	$ 19	$ 13
Right-of-use assets obtained in exchange for operating lease liabilities	$ 4	$ 5

As of January 31, 2021, the maturities of lease liabilities are as follows:

Fiscal	Operating Leases
	(In millions)
2021 (remaining 9 months)	$ 51
2022	57
2023	50
2024	43
2025	34
Thereafter	25
Total lease payments	$ 260
Less imputed interest	(11)
Total	$ 249

Note 13 Severance and Related Charges

Fiscal 2021 Severance Plan

In the first quarter of fiscal 2021, Applied enacted a severance plan to realign its workforce. Under this plan, Applied implemented a one-time 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. The payments under this plan are paid at the time of termination and the related costs were not allocated to the segments. In addition, Applied implemented other workforce reduction actions globally across the Display and Adjacent Markets business. These costs were recorded under the Display and Adjacent Markets segment.

During the first quarter of fiscal 2021, Applied recognized $152 million of severance and related charges in connection with the Fiscal 2021 Severance Plan, of which $147 million remains outstanding as of January 31, 2021.

Severance and related charges by segment were as follows:

	Three Months Ended January 31, 2021 (In millions)
Display and Adjacent Markets	$ 8
Corporate and Other	144
Total	$ 152

Changes in severance and related charges reserves related to the Fiscal 2021 Severance Plan described above for the three months ended January 31, 2021 were as follows:

	Severance and Related Charges Reserves January 31, 2021 (In millions)
Balance as of October 25, 2020	$ —
Provision for severance	152
Consumption of reserves	(5)
Balance as of January 31, 2021	$ 147

Note 14 Stockholders' Equity, Comprehensive Income and Share-Based Compensation

Accumulated Other Comprehensive Income (Loss)

Changes in the components of accumulated other comprehensive income (AOCI), net of tax, were as follows:

	Unrealized Gain (Loss) on Investments, Net	Unrealized Gain (Loss) on Derivative Instruments Qualifying as Cash Flow Hedges	Defined and Postretirement Benefit Plans	Cumulative Translation Adjustments	Total
	(in millions)				
Balance as of October 25, 2020	$ 20	$ (133)	$ (199)	$ 13	$ (299)
Other comprehensive income (loss) before reclassifications	(1)	1	—	—	—
Amounts reclassified out of AOCI	(1)	3	—	—	2
Other comprehensive income (loss), net of tax	(2)	4	—	—	2
Balance as of January 31, 2021	$ 18	$ (129)	$ (199)	$ 13	$ (297)

	Unrealized Gain (Loss) on Investments, Net	Unrealized Gain (Loss) on Derivative Instruments Qualifying as Cash Flow Hedges	Defined and Postretirement Benefit Plans	Cumulative Translation Adjustments	Total
	(in millions)				
Balance as of October 27, 2019	$ 11	$ (16)	$ (188)	$ 13	$ (180)
Other comprehensive income (loss) before reclassifications	3	(9)	—	—	(6)
Amounts reclassified out of AOCI	(1)	(1)	—	—	(2)
Other comprehensive income (loss), net of tax	2	(10)	—	—	(8)
Balance as of January 26, 2020	$ 13	$ (26)	$ (188)	$ 13	$ (188)

The tax effects on net income of amounts reclassified from AOCI for the three months ended January 31, 2021 and January 26, 2020 were not material.

Stock Repurchase Program

In February 2018, the Board of Directors approved a common stock repurchase program authorizing up to an aggregate of $6.0 billion in repurchases. As of January 31, 2021, approximately $1.3 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 31, 2021 and January 26, 2020:

	Three Months Ended	
	January 31, 2021	January 26, 2020
	(in millions, except per share amount)	
Shares of common stock repurchased	none	3
Cost of stock repurchased	$ —	$ 200
Average price paid per share	$ —	$ 58.62

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 2020, Applied's Board of Directors declared a quarterly cash dividend, payable in March 2021, in the amount of $0.22 per share. Dividends paid during the three months ended January 31, 2021 and January 26, 2020 totaled $201 million and $192 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 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 31, 2021 and January 26, 2020, Applied recognized share-based compensation expense related equity awards and ESPP shares. The effect of share-based compensation on the results of operations was as follows:

	Three Months Ended	
	January 31, 2021	January 26, 2020
	(In millions)	
Cost of products sold	$ 36	$ 31
Research, development and engineering	40	35
Marketing and selling	13	11
General and administrative	18	16
Total share-based compensation	$ 107	$ 93

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. Share-based awards granted to certain executive officers allow partial accelerated vesting in the event of a qualifying retirement based on age and years of service. The cost associated with performance-based equity awards, which include both performance and market goals, is recognized for each tranche over the service period. The cost of equity awards related to performance goals is based on an assessment of the likelihood that the applicable performance goals will be achieved. For the equity awards based on market goals, the cost is recognized based upon the assumption of 100% achievement of the goal.

As of January 31, 2021, Applied had $627 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 3.0 years. As of January 31, 2021, there were 48 million shares available for grants of share-based awards under the Employee Stock Incentive Plan, and an additional 10 million shares available for issuance under the ESPP.

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

A summary of the changes in any restricted stock units, restricted stock, performance shares and performance units outstanding under Applied's equity compensation plans during the three months ended January 31, 2021 is presented below:

	Shares	**Weighted Average Grant Date Fair Value**
	(In millions, except per share amounts)	
Outstanding as of October 25, 2020	15	$ 45.36
Granted	4	$ 87.16
Vested	(5)	$ 42.52
Canceled	—	$ 51.86
Outstanding as of January 31, 2021	14	$ 59.50

As of January 31, 2021, 1.3 million additional performance-based awards could be earned based upon achievement of certain levels of specified performance goals.

During the first quarter of fiscal 2021, certain executive officers were granted awards that are subject to the achievement of targeted levels of adjusted operating margin and targeted levels of total shareholder return (TSR) relative to a peer group, comprised of companies in the Standard & Poor's 500 Index. Each metric will be weighted 50% and will be measured over a three-year period.

The awards become eligible to vest only if performance goals are achieved and will vest only if the grantee remains employed by Applied through each applicable vesting date, subject to a qualifying retirement described below. The number of shares that may vest in full after three years ranges from 0% to 200% of the target amount. The awards provide for a partial payout based on actual performance at the conclusion of the three-year performance period in the event of a qualifying retirement based on age and years of service.

During the first quarter of fiscal 2021, certain executive officers were also granted non-recurring long-term performance-based awards that are subject to the achievement of targeted levels of Applied's absolute TSR. The awards become eligible to vest only if targeted levels of TSR are achieved during the five-year performance period and will vest only if the grantee remains employed by Applied through the vesting date in October 2025, except in the event of involuntary termination of employment without cause, death or following a change of control. The number of shares that may vest in full after five years ranges from 0% to 200% of the target amount.

The fair value of the portion of the awards subject to targeted levels of adjusted operating margin is estimated on the date of grant. If the performance goals are not met as of the end of the performance period, no compensation expense is recognized, and any previously recognized compensation expense is reversed. The expected cost is based on the portion of the awards that is probable to vest and is reflected over the service period and reduced for estimated forfeitures.

The fair value of the portion of the awards subject to targeted levels of relative TSR or absolute TSR is estimated on the date of grant using a Monte Carlo simulation model. Compensation expense is recognized based upon the assumption of 100% achievement of the TSR goal and will not be reversed even if the threshold level of TSR is never achieved, and is reflected over the service period and reduced for estimated forfeitures.

Employee Stock Purchase Plans

Under the ESPP, substantially all employees may purchase Applied common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value of Applied common stock at the beginning or end of each 6-month purchase period, subject to certain limits. There was no purchase during both of the three months ended January 31, 2021 and January 26, 2020. Compensation expense is calculated using the fair value of the employees' purchase rights under the Black-Scholes model.

Note 15 Income Taxes

Applied's provision for income taxes and effective tax rate are affected by the geographical composition of pre-tax income which includes jurisdictions with differing tax rates, conditional reduced tax rates and other income tax incentives. It is also affected by events that are not consistent from period to period, such as changes in income tax laws and the resolution of prior years' income tax filings.

On December 27, 2020, the U.S. government enacted the Consolidated Appropriations Act. The enactment of this Act does not result in any material adjustments to Applied's provision for income taxes.

Applied's effective tax rates for the first quarter of fiscal 2021 and 2020 were 8.9 percent and 11.2 percent, respectively. The effective tax rate for the first quarter of fiscal 2021 was lower than the same period in the prior fiscal year primarily due to a tax benefit related to severance and related charges recorded in the first quarter of fiscal 2021 and higher income in Singapore, which is subject to a lower tax rate. These tax benefits were partially offset by the reduction in excess tax benefits from stock-based compensation in the first quarter of fiscal 2021 when compared to the first quarter of the prior fiscal year.

Note 16 Warranty, Guarantees, Commitments and Contingencies

Warranty

Changes in the warranty reserves are presented below:

	Three Months Ended	
	January 31, 2021	January 26, 2020
	(In millions)	
Beginning balance	$ 201	$ 196
Warranties issued	49	40
Change in reserves related to preexisting warranty	2	(3)
Consumption of reserves	(56)	(37)
Ending balance	$ 196	$ 196

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 31, 2021, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately $356 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 31, 2021, Applied has provided parent guarantees to banks for approximately $153 million to cover these arrangements.

Legal 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 17 Industry Segment Operations

Applied's three reportable segments are: Semiconductor Systems, Applied Global Services, and Display and Adjacent Markets. As defined under 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 31, 2021 and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to Applied's reportable segments.

The Semiconductor Systems reportable 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 provides integrated solutions to optimize equipment and fab performance and productivity, including spares, upgrades, services, certain remanufactured earlier generation equipment and factory automation software for semiconductor, display and other products.

The Display and Adjacent Markets segment includes products for manufacturing liquid crystal displays (LCDs), organic light-emitting diodes (OLEDs), equipment upgrades and flexible coating systems and other display technologies for TVs, monitors, laptops, personal computers, smart phones, and other consumer-oriented devices.

Each operating 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. The chief operating decision-maker does not evaluate operating segments using total asset information.

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.

The Corporate and Other category includes revenues from products, as well as costs of products sold, for fabricating solar photovoltaic cells and modules, and certain operating expenses that are not allocated to its reportable segments and are managed separately at the corporate level. These operating expenses 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, severance and asset impairment charges and any associated adjustments related to restructuring actions, unless these actions pertain to a specific reportable segment. Segment operating income also 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.

Net sales and operating income (loss) for each reportable segment were as follows:

	Three Months Ended	
	Net Sales	Operating Income (Loss)
	(In millions)	
January 31, 2021:		
Semiconductor Systems	$ 3,553	$ 1,261
Applied Global Services	1,155	332
Display and Adjacent Markets	411	65
Corporate and Other	43	(375)
Total	$ 5,162	$ 1,283
January 26, 2020:		
Semiconductor Systems	$ 2,814	$ 915
Applied Global Services	997	278
Display and Adjacent Markets	332	38
Corporate and Other	19	(189)
Total	$ 4,162	$ 1,042

Semiconductor Systems and Display and Adjacent Markets revenues are recognized at a point in time. Applied Global Services revenue is recognized at a point in time for tangible goods such as spare parts and equipment, and over time for service agreements. The majority of revenue recognized over time is recognized within 12 months of the contract inception.

Operating income (loss) for the three months ended January 31, 2021 included severance and related charges as discussed in Note 13, Severance and Related Charges.

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

	Three Months Ended				
	January 31, 2021		January 26, 2020		Change
	(In millions, except percentages)				
China	$ 1,383	27 %	$ 1,272	31 %	9 %
Korea	1,289	25 %	508	12 %	154 %
Taiwan	1,200	23 %	1,365	33 %	(12)%
Japan	458	9 %	351	8 %	30 %
Southeast Asia	190	4 %	72	2 %	164 %
Asia Pacific	4,520	88 %	3,568	86 %	27 %
United States	343	6 %	441	10 %	(22)%
Europe	299	6 %	153	4 %	95 %
Total	$ 5,162	100 %	$ 4,162	100 %	24 %

Net sales for Semiconductor Systems by end use application for the periods indicated were as follows:

	Three Months Ended	
	January 31, 2021	January 26, 2020
Foundry, logic and other	58 %	68 %
Dynamic random-access memory (DRAM)	17 %	15 %
Flash memory	25 %	17 %
	100 %	100 %

The reconciling items included in Corporate and Other were as follows:

	Three Months Ended	
	January 31, 2021	January 26, 2020
	(In millions)	
Unallocated net sales	$ 43	$ 19
Unallocated cost of products sold and expenses	(167)	(115)
Share-based compensation	(107)	(93)
Severance and related charges	(144)	—
Total	$ (375)	$ (189)

The following customers accounted for at least 10 percent of Applied’s net sales for the three months ended January 31, 2021, and sales to these customers included products and services from multiple reportable segments.

	Percentage of Net Sales
Taiwan Semiconductor Manufacturing Company Limited	18 %
Samsung Electronics Co., Ltd.	20 %

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, and for a full understanding of Applied's results of operations and financial condition should be read in conjunction with the consolidated condensed financial statements and notes included in this Form 10-Q and the financial statements and notes for the fiscal year ended October 25, 2020 contained in the Company's Form 10-K filed on December 11, 2020.

This report contains forward-looking statements that involve a number of risks and uncertainties. Examples of forward-looking statements include those regarding Applied's future financial or operating results, customer demand and spending, end-user demand, Applied's and market and industry trends and outlooks, the impact of the ongoing COVID-19 pandemic and responses thereto on Applied's operations and financial 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 investments, including the proposed acquisition of Kokusai Electric Corporation (Kokusai Electric), growth opportunities, restructuring and severance activities, backlog, working capital, liquidity, investment portfolio and policies, taxes, supply chain, manufacturing, properties, legal proceedings and claims, and other statements that are not historical facts, as well as their underlying assumptions. Forward-looking statements may contain words such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "intend," "potential" and "continue," the negative of these terms, or other comparable terminology. All 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. Forward-looking statements are based on management's estimates, projections and expectations as of the date hereof, and Applied undertakes no obligation to revise or update any such statements.

Applied's Pandemic Response

Applied Materials' business has been identified by the U.S. Department of Homeland Security as part of the Critical Infrastructure Sectors that the Federal government deems "essential to ensure the continuity of functions critical to public health and safety, as well as economic and national security" and that have "a special responsibility in these times to continue operations."

Applied responded quickly to put in place precautionary measures to keep its workplaces healthy and safe, while ensuring compliance with orders and restrictions imposed by government authorities, everywhere Applied operates in the world.

Applied's top priority during the ongoing COVID-19 pandemic remains protecting the health and safety of its employees and their families, customers and community. Applied continues to maintain workplace flexibility such as working remotely where possible to reduce the number of people who are on campus each day. Applied is keeping its critical labs and operations active and continuing to support customers. In the interest of public health, all onsite operations are utilizing the minimum number of people to safely execute tasks and following enhanced safety and health protocols—including screenings, social distancing, and use of personal protective equipment.

Applied has a multi-phase plan to return to working on-site, which takes into consideration factors such as Applied's business needs, local government regulations, community case trends, and recommendation from public health officials. The plan involves multiple phases that gradually allow additional workers to return onsite while practicing social distancing and other safety measures.

Applied Materials is committed to helping those most impacted by the ongoing COVID-19 pandemic. In regions around the world, Applied and its Foundation are addressing immediate humanitarian needs while investing resources to combat the long-term effect of the virus on the nonprofit organizations in its communities. Applied has shared masks and equipment with medical facilities, provided blood analysis systems to medical professionals and sent emergency support to food banks.

Applied will continue to monitor and evaluate the ongoing COVID-19 pandemic and will work to respond appropriately to the impact of COVID-19 on its business, its customers' and suppliers' businesses and its communities.

Overview

Applied provides manufacturing equipment, services and software to the semiconductor, display, and related industries. Applied's customers include manufacturers of semiconductor wafers and chips, liquid crystal and organic light-emitting diode (OLED) displays, 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. Each of Applied's businesses is subject to variable industry conditions, as demand for manufacturing equipment and services can change depending on supply and demand for chips, display technologies, 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.

Applied operates in three reportable segments: Semiconductor Systems, Applied Global Services, and Display and Adjacent Markets. A summary of financial information for each reportable segment is found in Note 17 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 customer spending on capital equipment and services to support key technology transitions or to increase production volume in response to worldwide demand for semiconductors and displays. While certain existing technologies may be adapted to new requirements, some applications create the need for an entirely different technological approach. The timing of customer investment in manufacturing equipment is also affected by the timing of next-generation process development, and the timing of capacity expansion to meet end-market demand. In light of these conditions, 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		
	January 31, 2021	January 26, 2020	Change
	(In millions, except per share amounts and percentages)		
Net sales	$ 5,162	$ 4,162	$ 1,000
Gross margin	45.5 %	44.6 %	0.9 points
Operating income	$ 1,283	$ 1,042	$ 241
Operating margin	24.9 %	25.0 %	(0.1) points
Net income	$ 1,130	$ 892	$ 238
Earnings per diluted share	$ 1.22	$ 0.96	$ 0.26

Fiscal 2021 and 2020 contain 53 weeks and 52 weeks, respectively, and the first three months of fiscal 2021 and 2020 contained 14 and 13 weeks, respectively.

COVID-19 was designated a pandemic during fiscal 2020 and the resulting restrictions put in place worldwide impacted Applied's supply chains and manufacturing operations. The semiconductor industry was deemed to be part of a U.S. Critical Infrastructure Sector, allowing Applied to continue operations, while ensuring compliance with orders and restrictions imposed by government authorities by putting additional precautionary measures in place to keep its workplaces healthy and safe, everywhere Applied operates in the world.

Even with the ongoing challenges faced during the pandemic, semiconductor equipment customers continued to make strategic investments in new technology transitions during the three months ended January 31, 2021. Foundry and logic spending increased in the three months ended January 31, 2021 compared to the same period in the prior year led by customer investment in advanced foundry-logic nodes. Spending by memory customers increased in the three months ended January 31, 2021 compared to the same period in the prior year, as the industry continues to recover from excess supply and inventory levels. Applied saw continued growth in its services business compared to the same period in the prior year driven by an increase in the installed base of equipment and in long-term service agreements. Applied's display and adjacent markets revenue increased in the three months ended January 31, 2021 compared to the same period in the prior year due to increased investment in display manufacturing equipment for mobile products.

In response to the ongoing COVID-19 pandemic and evolving conditions and worldwide response, Applied made adjustments to its global operations and continues to see recovery within its supply chain and strong demand from semiconductor customers. However, the situation remains fluid and uncertain. Applied is actively managing its responses in collaboration with its employees, customers and suppliers. For additional risks associated with the ongoing COVID-19 pandemic, see the risk factor entitled "*The ongoing COVID-19 pandemic and global measures taken in response thereto have adversely impacted, and may continue to adversely impact, Applied's operations and financial results*" in Part II, Item 1A, "Risk Factors."

Results of Operations

Net Sales

Net sales for the periods indicated were as follows:

	Three Months Ended				
	January 31, 2021		January 26, 2020		Change
	(In millions, except percentages)				
Semiconductor Systems	$ 3,553	69 %	$ 2,814	68 %	26 %
Applied Global Services	1,155	22 %	997	24 %	16 %
Display and Adjacent Markets	411	8 %	332	8 %	24 %
Corporate and Other	43	1 %	19	— %	126 %
Total	$ 5,162	100 %	$ 4,162	100 %	24 %

For the three months ended January 31, 2021 compared to the same period in the prior year, net sales increased primarily due to increased customer investments in semiconductor equipment. The Semiconductor Systems segment continued to represent the largest contributor of total net sales.

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

	Three Months Ended				
	January 31, 2021		January 26, 2020		Change
	(In millions, except percentages)				
China	$ 1,383	27 %	$ 1,272	31 %	9 %
Korea	1,289	25 %	508	12 %	154 %
Taiwan	1,200	23 %	1,365	33 %	(12)%
Japan	458	9 %	351	8 %	30 %
Southeast Asia	190	4 %	72	2 %	164 %
Asia Pacific	4,520	88 %	3,568	86 %	27 %
United States	343	6 %	441	10 %	(22)%
Europe	299	6 %	153	4 %	95 %
Total	$ 5,162	100 %	$ 4,162	100 %	24 %

The changes in net sales in all regions, other than China, in the three months ended January 31, 2021 compared to the same period in the prior year primarily reflected changes in semiconductor equipment spending. The increase in net sales to customers in China for the three months ended January 31, 2021 compared to the same period in the prior year was primarily due to increased investments in display manufacturing equipment and customer spending on comprehensive service agreements.

Gross margins for the periods indicated were as follows:

	Three Months Ended		
	January 31, 2021	January 26, 2020	Change
Gross margin	45.5 %	44.6 %	0.9 points

Gross margin in the three months ended January 31, 2021 increased compared to the same period in the prior year primarily due to the increase in net sales and favorable changes in customer and product mix, partially offset by higher freight costs and higher personnel costs due to increase in headcount to provide manufacturing capacity and flexibility. Gross margin during the three months ended January 31, 2021 and January 26, 2020 included $36 million and $31 million of share-based compensation expense, respectively.

Research, Development and Engineering

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

	Three Months Ended		
	January 31, 2021	January 26, 2020	Change
		(In millions)	
Research, development and engineering	$ 606	$ 552	$ 54

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. 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.

Management 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 has maintained and intends to continue its commitment to investing in RD&E in order to continue to offer new products and technologies.

The increases in RD&E expenses during the three months ended January 31, 2021 compared to the same period in the prior year were primarily due to additional headcount. These increases reflect Applied's ongoing investments in product development initiatives, consistent with the Company's strategy. Applied continued to prioritize existing RD&E investments in technical capabilities and critical research and development programs in current and new markets, with a focus on semiconductor technologies. RD&E expenses during the three months ended January 31, 2021 and January 26, 2020 included $40 million and $35 million of share-based compensation expense, respectively.

Marketing and Selling

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

	Three Months Ended		
	January 31, 2021	January 26, 2020	Change
		(In millions)	
Marketing and selling	$ 147	$ 135	$ 12

Marketing and selling expenses for the three months ended January 31, 2021 increased compared to the same period in fiscal 2020 primarily due to additional headcount. Marketing and selling expenses during the three months ended January 31, 2021 and January 26, 2020 included $13 million and $11 million of share-based compensation expense, respectively.

General and Administrative

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

	Three Months Ended		
	January 31, 2021	January 26, 2020	Change
	(In millions)		
General and administrative	$ 161	$ 129	$ 32

G&A expenses in the three months ended January 31, 2021 increased compared to the same period in the prior year primarily due to additional headcount and higher expense associated with business combination activities. G&A expenses during the three months ended January 31, 2021 and January 26, 2020 included $18 million and $16 million of share-based compensation expense, respectively.

Severance and Related Charges

Severance and related charges for the periods indicated were as follows:

	Three Months Ended		
	January 31, 2021	January 26, 2020	Change
	(In millions)		
Severance and related charges	$ 152	$ —	$ 152

In the first quarter of fiscal 2021, Applied enacted a severance plan (Fiscal 2021 Severance Plan) to realign its workforce. Under this plan, Applied implemented a one-time 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. In addition, Applied implemented other workforce reduction actions globally across the Display and Adjacent Markets business. During the first quarter of fiscal 2021, Applied recognized $152 million of severance and related charges in connection with the Fiscal 2021 Severance Plan.

Interest Expense and Interest and Other Income (Loss), net

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

	Three Months Ended		
	January 31, 2021	January 26, 2020	Change
	(In millions)		
Interest expense	$ 61	$ 59	$ 2
Interest and other income (loss), net	$ 18	$ 22	$ (4)

Interest expense incurred was primarily associated with issued senior unsecured notes. Interest expense in the three months ended January 31, 2021 remained relatively flat compared to the same period in the prior year.

Interest and other income, net in the three months ended January 31, 2021 decreased compared to the same period in the prior year, primarily driven by lower interest income, partially offset by higher net gain from investments during the three months ended January 31, 2021 compared to the same period in the prior year.

Income Taxes

Provision for income taxes and effective tax rates for the periods indicated were as follows:

	Three Months Ended		
	January 31, 2021	January 26, 2020	Change
	(In millions, except percentages)		
Provision for income taxes	$ 110	$ 113	$ (3)
Effective tax rate	8.9 %	11.2 %	(2.3) points

Applied's provision for income taxes and effective tax rate are affected by the geographical composition of pre-tax income which includes jurisdictions with differing tax rates, conditional reduced tax rates and other income tax incentives. It is also affected by events that are not consistent from period to period, such as changes in income tax laws and the resolution of prior years' income tax filings.

On December 27, 2020, the U.S. government enacted the Consolidated Appropriations Act. The enactment of this Act does not result in any material adjustments to Applied's provision for income taxes.

Applied's effective tax rates for the first quarter of fiscal 2021 and 2020 were 8.9 percent and 11.2 percent, respectively. The effective tax rate for the first quarter of fiscal 2021 was lower than the same period in the prior fiscal year primarily due to a tax benefit related to severance and related charges recorded in the first quarter of fiscal 2021 and higher income in Singapore, which is subject to a lower tax rate. These tax benefits were partially offset by the reduction in excess tax benefits from stock-based compensation in the first quarter of fiscal 2021 when compared to the first quarter of the prior fiscal year.

Segment Information

Applied reports financial results in three segments: Semiconductor Systems, Applied Global Services, and Display and Adjacent Markets. A description of the products and services, as well as financial data, for each reportable segment can be found in Note 17 of Notes to Consolidated Condensed Financial Statements.

The Corporate and Other category includes revenues from products, as well as costs of products sold, for fabricating solar photovoltaic cells and modules and certain operating expenses that are not allocated to its reportable segments and are managed separately at the corporate level. These operating expenses include costs for share-based compensation; certain management, finance, legal, human resource, 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, severance 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.

Semiconductor Systems Segment

The Semiconductor Systems segment is comprised primarily of capital equipment used to fabricate semiconductor chips. Semiconductor industry spending on capital equipment is driven by demand for advanced electronic products, including smartphones and other mobile devices, servers, personal computers, automotive electronics, storage, and other products, and the nature and timing of technological advances in fabrication processes, and as a result is subject to variable industry conditions. Development efforts are focused on solving customers' key technical challenges in transistor, interconnect, patterning and packaging performance as devices scale to advanced technology nodes.

Semiconductor equipment customers continued to make strategic investments in new technology transitions during the first three months of fiscal 2021. Foundry and logic spending increased, in absolute dollars, in the three months ended January 31, 2021 compared to the same period in the prior year led by customer investment in advanced foundry-logic nodes. Spending by memory customers also increased in the three months ended January 31, 2021 compared to the same period in the prior year.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended			
	January 31, 2021	January 26, 2020	Change	
	(In millions, except percentages and ratios)			
Net sales	$ 3,553	$ 2,814	$ 739	26 %
Operating income	$ 1,261	$ 915	$ 346	38 %
Operating margin	35.5 %	32.5 %	3.0 points	

Net sales for Semiconductor Systems by end use application for the periods indicated were as follows:

	Three Months Ended	
	January 31, 2021	January 26, 2020
Foundry, logic and other	58 %	68 %
Dynamic random-access memory (DRAM)	17 %	15 %
Flash memory	25 %	17 %
	100 %	100 %

Net sales for the three months ended January 31, 2021 increased, in absolute dollars, compared to the same period in the prior year primarily due to higher spending from memory customers. Operating margin for the three months ended January 31, 2021 increased compared to the same period in the prior year, primarily reflecting higher net sales and favorable changes in customer and product mix, partially offset by higher personnel costs due to the hiring of additional headcount to provide manufacturing capacity and flexibility and higher freight costs. In the three months ended January 31, 2021, three customers each accounted for at least 10 percent of this segment's net sales.

The following regions accounted for at least 30 percent of total net sales for the Semiconductor Systems segment for one or more of the periods presented.

	Three Months Ended						
	January 31, 2021			January 26, 2020			Change
	(In millions, except percentages)						
Korea	$	1,126	32%	$	365	13%	208 %
Taiwan	$	972	27%	$	1,179	42%	(18)%

Applied Global Services Segment

The Applied Global Services segment provides integrated solutions to optimize equipment and fab performance and productivity, including spares, upgrades, services, certain remanufactured earlier generation equipment and factory automation software for semiconductor, display and solar products.

Demand for Applied Global Services' service solutions are driven by Applied's large and growing installed base of manufacturing systems, and customers' needs to shorten ramp times, improve device performance and yield, and optimize factory output and operating costs. Industry conditions that affect Applied Global Services' sales of spares and services are primarily characterized by increases in semiconductor manufacturers' wafer starts and continued strong utilization rates, growth of the installed base of equipment, growing service intensity of newer tools, and the Company's ability to sell more comprehensive service agreements.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended						
	January 31, 2021		January 26, 2020		Change		
	(In millions, except percentages and ratios)						
Net sales	$	1,155	$	997	$	158	16 %
Operating income	$	332	$	278	$	54	19 %
Operating margin		28.7 %		27.9 %			0.8 points

Net sales for the three months ended January 31, 2021 increased compared to the same period in the prior year primarily due to higher customer spending on comprehensive service agreements and spares, including the impact of an additional one week during the first quarter of fiscal 2021, partially offset by lower customer spending on legacy systems. Operating margin for the three months ended January 31, 2021 compared to the same period in the prior year increased primarily due higher net sales, partially offset by higher expense related to an increase in headcount to support business growth and higher freight costs. In the three months ended January 31, 2021, one customer accounted for more than 10 percent of this segment's total 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 and Adjacent Markets Segment

The Display and Adjacent Markets segment encompasses products for manufacturing liquid crystal and OLED displays, and other display technologies for TVs, monitors, laptops, personal computers, electronic tablets, smart phones, and other consumer-oriented devices, equipment upgrades and flexible coating systems. The segment is focused on expanding its presence through technologically-differentiated equipment for manufacturing large-scale LCD TVs, OLEDs, low temperature polysilicon (LTPS), metal oxide, and touch panel sectors; and development of products that provide customers with improved performance and yields.

Display industry growth depends primarily on consumer demand for increasingly larger and more advanced TVs as well as larger and higher resolution displays for next generation mobile devices. Uneven spending patterns by customers in the Display and Adjacent Markets segment can cause significant fluctuations quarter-over-quarter, as well as year-over-year.

Certain significant measures for the periods presented were as follows:

	Three Months Ended			
	January 31, 2021	January 26, 2020	Change	
	(In millions, except percentages and ratios)			
Net sales	$ 411	$ 332	$ 79	24 %
Operating income	$ 65	$ 38	$ 27	71 %
Operating margin	15.8 %	11.4 %		4.4 points

Net sales for the three months ended January 31, 2021 increased compared to the same period in the prior year primarily due to higher customer investment in display manufacturing equipment for mobile products, partially offset by the decrease in customer investments in display manufacturing equipment for TVs. Operating margin for the three months ended January 31, 2021 increased compared to the same period in the prior year due to higher net sales and favorable changes in customer and product mix. In the three months ended January 31, 2021, three customers each accounted for at least 10 percent of this segment’s net sales, and together they accounted for approximately 77 percent of this segment’s total net sales, with two customers accounting for approximately 66 percent of net sales.

The following region accounted for at least 30 percent of total net sales for the Display and Adjacent Markets segment for one or more of the periods presented:

	Three Months Ended				
	January 31, 2021		January 26, 2020		Change
	(In millions, except percentages)				
China	$ 337	82%	$ 304	92%	11%

Financial Condition, Liquidity and Capital Resources

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

	January 31, 2021	October 25, 2020
	(In millions)	
Cash and cash equivalents	$ 6,213	$ 5,351
Short-term investments	410	387
Long-term investments	1,601	1,538
Total cash, cash-equivalents and investments	$ 8,224	$ 7,276

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 31, 2021	January 26, 2020
	(In millions)	
Cash provided by operating activities	$ 1,421	$ 987
Cash used in investing activities	$ (216)	$ (162)
Cash used in financing activities	$ (343)	$ (530)

Operating Activities

Cash from operating activities for the three months ended January 31, 2021 was $1.4 billion, which reflects net income adjusted for the effect of non-cash charges and changes in working capital components. Non-cash charges included depreciation, amortization, severance and related charges, share-based compensation and deferred income taxes. Cash provided by operating activities increased in the first three months of fiscal 2021 compared to the same period in the prior year primarily due to better cash collections and higher tax refunds, partially offset by higher payments to suppliers and variable compensation.

Applied has agreements with various financial institutions to sell accounts receivable and discount promissory notes from selected customers. Applied sells its accounts receivable generally 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 sold $369 million and $206 million of accounts receivable during the three months ended January 31, 2021 and January 26, 2020, respectively. Applied did not discount letters of credit issued by customers or discount promissory notes during the three months ended January 31, 2021 and January 26, 2020.

Applied's working capital was $9.8 billion as of January 31, 2021 and $8.9 billion as of October 25, 2020.

Days sales outstanding for the three months ended January 31, 2021 and January 26, 2020 were 58 days and 59 days, respectively. Days sales outstanding varies due to the timing of shipments and payment terms. The decrease in days sales outstanding was primarily due to higher revenue and accounts receivable factoring compared to the same period in the prior year.

Investing Activities

Applied used $216 million of cash in investing activities during the three months ended January 31, 2021. Capital expenditures totaled $121 million, net cash paid for an immaterial acquisition was $12 million and purchases of investments, net of proceeds from sales and maturities of investments were $83 million during the three months ended January 31, 2021.

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.

Financing Activities

Applied used $343 million of cash in financing activities during the three months ended January 31, 2021, consisting primarily of cash dividends to stockholders of $201 million and tax withholding payments for vested equity awards of $142 million.

In December 2020, Applied's Board of Directors declared a quarterly cash dividend, payable in March 2021, in the amount of $0.22, per share. 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 (Revolving Credit Agreement) with a group of banks. The Revolving Credit Agreement includes a provision under which Applied may request an increase in the amount of the facility of up to $500 million for a total commitment of no more than $2.0 billion, subject to the receipt of commitments from one or more lenders for any such increase and other customary conditions. The Revolving Credit Agreement is scheduled to expire in February 2025, unless extended as permitted under the Revolving Credit Agreement. The Revolving Credit Agreement provides for borrowings in United States dollars that bear interest for each advance at one of two rates selected by Applied, plus an applicable margin, which varies according to Applied's public debt credit ratings. The Revolving Credit Agreement includes financial and other covenants with which Applied was in compliance as of January 31, 2021.

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 31, 2021 and October 25, 2020.

In August 2019, Applied entered into a term loan credit agreement (Term Loan Credit Agreement) with a group of lenders (Term Loan Lenders). Under the agreement, the lenders have committed to make an unsecured term loan to Applied of up to $2.0 billion to finance in part Applied's planned acquisition of all outstanding shares of Kokusai Electric, to pay related transaction fees and expenses and for general corporate purposes. In December 2020, Applied entered into an amendment to the Term Loan Credit Agreement with the Term Loan Lenders which, among other things, (i) extends to April 30, 2021 the expiration date of the Lenders' commitments to fund the term loan and (ii) provides that the Lenders' commitments to fund the term loan shall terminate automatically if the SPA is terminated without the consummation of the transactions contemplated by the SPA. The term loan, if advanced, will bear interest at one of two rates selected by Applied, plus an applicable margin, which varies according to Applied's public debt credit ratings, and must be repaid in full on the third anniversary of the funding date of the term loan. No amounts were outstanding under the Term Loan Credit Agreement at both January 31, 2021 and October 25, 2020.

Applied has a short-term commercial paper program under which Applied may issue unsecured commercial paper notes of up to a total amount $1.5 billion. As of January 31, 2021, Applied did not have any commercial paper outstanding but may issue commercial paper notes under this program from time to time in the future. The commercial paper program is backstopped by the Revolving Credit Agreement and borrowings under the Revolving Credit Agreement reduce the amount of commercial paper notes Applied can issue.

In May 2020, Applied issued $750 million aggregate principal amount of 1.750% senior unsecured notes due 2030 and $750 million aggregate principal amount of 2.750% senior unsecured notes due 2050, in a registered public offering. In June 2020, Applied used a portion of the net proceeds from the offering to redeem the outstanding $600 million in aggregate principal amount of its 2.625% senior unsecured notes due October 1, 2020 and $750 million in aggregate principal amount of its 4.300% senior unsecured notes due June 15, 2021, at a total aggregate redemption price of $1.4 billion. As a result, Applied recognized a $33 million loss on early extinguishment of these senior unsecured notes during the third quarter of fiscal 2020.

Applied had senior unsecured notes in the aggregate principal amount of $5.5 billion outstanding as of January 31, 2021. See Note 11 of the Notes to the Consolidated Condensed Financial Statements for additional discussion of existing debt. Applied may seek to refinance its existing debt and may incur additional indebtedness depending on Applied's capital requirements and the availability of financing.

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 31, 2021, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately $356 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 31, 2021, Applied has provided parent guarantees to banks for approximately $153 million to cover these arrangements.

Others

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (Tax Act). The Tax Act requires a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries. The transition tax expense is payable in installments over eight years, with eight percent due in each of the first five years starting with fiscal 2018. As of January 31, 2021, Applied had $857 million of total payments remaining, payable in installments in the next six years. Before the Tax Act, U.S. income tax had not been provided for certain unrepatriated earnings that were considered indefinitely reinvested. Income tax is now provided for all unrepatriated earnings.

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 Applied's 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 promised goods or services (performance obligations) are transferred to a customer in an amount that reflects the consideration to which Applied expects to be entitled in exchange for those goods or services. Applied performs the following five steps to determine when to recognize revenue: (1) identification of the contract(s) with customers, (2) identification of the performance obligations in the contract, (3) determination of the transaction price, (4) allocation of the transaction price to the performance obligations in the contract, and (5) recognition of revenue when, or as, a performance obligation is satisfied. Management uses judgment to identify performance obligations within a contract and to determine whether multiple promised goods or services in a contract should be accounted for separately or as a group. Judgment is also used in interpreting commercial terms and determining when transfer of control occurs. Moreover, judgment is used to estimate the contract's transaction price and allocate it to each performance obligation. Any material changes in the identification of performance obligations, determination and allocation of the transaction price to performance obligations, and determination of when transfer of control occurs to the customer, could impact the timing and amount 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 Credit Losses

Applied maintains an allowance for credit losses 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 net realizable value, with cost determined on a first-in, first-out (FIFO) basis. The carrying value of inventory is reduced for estimated obsolescence by the difference between its cost and the estimated net realizable 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 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. When reviewing 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.

In performing a qualitative assessment, Applied considers business conditions and other factors including, but not limited to (i) adverse industry or economic trends, (ii) restructuring actions and lower projections that may impact future operating results, (iii) sustained decline in share price, and (iv) overall financial performance and other events affecting the reporting units. If Applied concludes that is more likely than not that the fair value of a reporting unit is less than its carrying amount, then a quantitative impairment test is performed by estimating the fair value of the reporting unit and comparing it to its carrying value. If the carrying value of a reporting unit exceeds its fair value, Applied would record an impairment charge equal to the excess of the carrying value of the reporting unit’s goodwill over its fair value.

Applied determines the fair value of each reporting unit based on a weighting of an income and a market approach. Applied bases the fair value estimates on assumptions that it believes to be reasonable but that are unpredictable and inherently uncertain. Under the income approach, Applied estimates the fair value based on discounted cash flow method.

The estimates used in the impairment testing are consistent with the discrete forecasts that Applied uses to manage its business, and considers any significant developments during the period. Under the discounted cash flow method, cash flows beyond the discrete forecasts are estimated using a terminal growth rate, which considers the long-term earnings growth rate specific to the reporting units. The estimated future cash flows are discounted to present value using each reporting unit’s weighted average cost of capital. The weighted average cost of capital measures a reporting unit’s cost of debt and equity financing weighted by the percentage of debt and equity in a reporting unit’s target capital structure. In addition, the weighted average cost of capital is derived using both known and estimated market metrics, and is adjusted to reflect both the timing and risks associated with the estimated cash flows. The tax rate used in the discounted cash flow method is the median tax rate of comparable companies and reflects Applied’s current international structure, which is consistent with the market participant perspective. Under the market approach, Applied uses the guideline company method which applies market multiples to forecasted revenues and earnings before interest, taxes, depreciation and amortization. Applied uses market multiples that are consistent with comparable publicly-traded companies and considers each reporting unit’s size, growth and profitability relative to its comparable companies.

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.

Income Taxes

Applied's provision for income taxes and effective tax rate are affected by the geographical composition of pre-tax income which includes jurisdictions with differing tax rates, conditional reduced tax rates and other income tax incentives. It is also affected by events that are not consistent from period to period, such as changes to income tax laws and the resolution of prior years' income tax filings. Applied recognizes a current tax liability for the estimated amount of income tax payable on tax returns for the current fiscal year. Deferred tax assets and liabilities are recognized for the estimated future tax effects of temporary differences between the book and tax bases of assets and liabilities. Deferred tax assets are also recognized for net operating loss and tax credit carryforwards. Deferred tax assets are offset by a valuation allowance to the extent it is more likely than not that they are not expected to be realized.

Applied recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized from such positions are estimated based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Any changes in judgment related to uncertain tax positions are recognized in Applied's provision for income taxes in the quarter in which such change occurs. Interest and penalties related to uncertain tax positions are recognized in Applied's provision for income taxes.

The calculation of Applied's provision for income taxes and effective tax rate 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 an adverse material impact on Applied's results of operations and financial condition.

Non-GAAP Adjusted Financial Results

Management uses non-GAAP adjusted financial measures to evaluate the Company's operating and financial performance and for planning purposes, and as performance measures in its executive compensation program. Applied believes these measures enhance an overall understanding of its performance and investors' ability to review the Company's business from the same perspective as the Company's management and facilitate comparisons of this period's results with prior periods on a consistent basis by excluding items that management does not believe are indicative of Applied's ongoing operating performance.

The non-GAAP adjusted financial measures presented below are adjusted to exclude the impact of certain costs, expenses, gains and losses, including certain items related to mergers and acquisitions; restructuring and severance charges and any associated adjustments; certain incremental expenses related to COVID-19; impairments of assets, or investments; gain or loss on sale of strategic investments; loss on early extinguishment of debt; certain income tax items and other discrete adjustments. On a non-GAAP basis, the tax effect related to share-based compensation is recognized ratably over the fiscal year. Additionally, non-GAAP results exclude estimated discrete income tax expense items associated with U.S. tax legislation. Reconciliations of these non-GAAP measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are provided in the financial tables presented below. There are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with generally accepted accounting principles, may be different from non-GAAP financial measures used by other companies, and may exclude certain items that may have a material impact upon our reported financial results. The presentation of this additional information is not meant to be considered in isolation or as a substitute for the directly comparable financial measures 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 31, 2021**	**January 26, 2020**
Non-GAAP Adjusted Gross Profit		
Reported gross profit - GAAP basis	$ 2,349	$ 1,858
Certain items associated with acquisitions[1]	8	9
Certain incremental expenses related to COVID-19[2]	12	—
Non-GAAP adjusted gross profit	$ 2,369	$ 1,867
Non-GAAP adjusted gross margin	45.9 %	44.9 %
Non-GAAP Adjusted Operating Income		
Reported operating income - GAAP basis	$ 1,283	$ 1,042
Certain items associated with acquisitions[1]	13	13
Acquisition integration and deal costs	24	13
Certain incremental expenses related to COVID-19[2]	24	—
Severance and related charges[3]	152	—
Non-GAAP adjusted operating income	$ 1,496	$ 1,068
Non-GAAP adjusted operating margin	29.0 %	25.7 %
Non-GAAP Adjusted Net Income		
Reported net income - GAAP basis	$ 1,130	$ 892
Certain items associated with acquisitions[1]	13	13
Acquisition integration and deal costs	24	13
Certain incremental expenses related to COVID-19[2]	24	—
Severance and related charges[3]	152	—
Realized loss (gain) on strategic investments, net	(2)	2
Unrealized loss (gain) on strategic investments, net	(6)	2
Income tax effect of share-based compensation[4]	(29)	(33)
Income tax effects related to intra-entity intangible asset transfers	20	21
Resolution of prior years’ income tax filings and other tax items	(3)	(1)
Income tax effect of non-GAAP adjustments[5]	(41)	(5)
Non-GAAP adjusted net income	$ 1,282	$ 904

1 These items are incremental charges attributable to completed acquisitions, consisting of amortization of purchased intangible assets.
2 Temporary incremental employee compensation during the COVID-19 pandemic.
3 The severance and related charges primarily related to a one-time voluntary retirement program offered to certain eligible employees.
4 GAAP basis tax benefit related to share-based compensation is recognized ratably over the fiscal year on a non-GAAP basis.
5 Adjustment to provision for income taxes related to non-GAAP adjustments reflected in income before income taxes.

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

(In millions, except per share amounts)	Three Months Ended January 31, 2021	Three Months Ended January 26, 2020
Non-GAAP Adjusted Earnings Per Diluted Share		
Reported earnings per diluted share - GAAP basis	$ 1.22	$ 0.96
Certain items associated with acquisitions	0.01	0.01
Acquisition integration and deal costs	0.02	0.01
Certain incremental expenses related to COVID-19	0.02	—
Severance and related charges	0.13	—
Income tax effect of share-based compensation	(0.03)	(0.03)
Income tax effects related to intra-entity intangible asset transfers	0.02	0.03
Non-GAAP adjusted earnings per diluted share	$ 1.39	$ 0.98
Weighted average number of diluted shares	925	927

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 31, 2021**	**January 26, 2020**
Semiconductor Systems Non-GAAP Adjusted Operating Income		
Reported operating income - GAAP basis	$ 1,261	$ 915
Certain items associated with acquisitions[1]	10	10
Acquisition integration costs	(2)	—
Certain incremental expenses related to COVID-19[2]	12	—
Non-GAAP adjusted operating income	$ 1,281	$ 925
Non-GAAP adjusted operating margin	36.1 %	32.9 %
AGS Non-GAAP Adjusted Operating Income		
Reported operating income - GAAP basis	$ 332	$ 278
Certain incremental expenses related to COVID-19[2]	8	—
Non-GAAP adjusted operating income	$ 340	$ 278
Non-GAAP adjusted operating margin	29.4 %	27.9 %
Display and Adjacent Markets Non-GAAP Adjusted Operating Income		
Reported operating income - GAAP basis	$ 65	$ 38
Certain items associated with acquisitions[1]	1	3
Certain incremental expenses related to COVID-19[2]	1	—
Severance and related charges[3]	8	—
Non-GAAP adjusted operating income	$ 75	$ 41
Non-GAAP adjusted operating margin	18.2 %	12.3 %

1 These items are incremental charges attributable to completed acquisitions, consisting of amortization of purchased intangible assets.

2 Temporary incremental employee compensation during the COVID-19 pandemic.

3 The severance and related charges related to workforce reduction actions globally across the Display and Adjacent Markets business.

Note: The reconciliation of GAAP and non-GAAP adjusted segment results above does not include certain revenues, costs of products sold and operating expenses that are reported within corporate and other 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 $1.8 billion as of January 31, 2021. These securities are subject to interest rate risk and will decline in value if interest rates increase. Based on Applied's investment portfolio as of January 31, 2021, an immediate 100 basis point increase in interest rates would result in a decrease in the fair value of the portfolio of approximately $26 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. As of January 31, 2021, the aggregate principal of long-term senior unsecured notes issued by Applied was $5.5 billion with an estimated fair value of $6.6 billion. A hypothetical decrease in interest rates of 100 basis points would result in an increase in the fair value of Applied's long-term senior notes issuances of approximately $793 million as of January 31, 2021.

Certain operations of Applied are conducted in foreign currencies, such as Japanese yen, Israeli shekel, euro and Taiwanese dollar. 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.

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

Due to the ongoing COVID-19 pandemic, Applied continues to maintain workplace flexibility such as working remotely where possible to reduce the number of people who are on campus each day. Business continuity plans are in effect in order to mitigate potential impact on Applied's control environment and its operating and disclosure controls and procedures. The design of business continuity plans, which include remote access to secure data when needed, allow for remote and reliable execution of Applied's operating and disclosure controls and procedures.

Applied evaluated the impact of the ongoing COVID-19 pandemic on its internal control over financial reporting. During the first quarter of fiscal 2021, 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 under “Legal Matters” in Note 16 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 2020 Form 10-K. These factors could materially and adversely affect Applied's business, financial condition or results of operations and cause reputational harm, and should be carefully considered in evaluating the Company and its business, in addition to other information presented elsewhere in this report. Many of the risk factors described below may be exacerbated by the ongoing COVID-19 pandemic and global measures taken in response thereto and any worsening of the global business and economic conditions as a result.

Risks Related to the COVID-19 Pandemic

The ongoing COVID-19 pandemic and global measures taken in response thereto have adversely impacted, and may continue to adversely impact, Applied's operations and financial results.

The ongoing COVID-19 pandemic and measures taken in response by governments and businesses worldwide to contain its spread, including quarantines, facility closures, travel and logistics restrictions, border controls, and shelter in place or stay at home and social distancing orders, have adversely impacted and are expected to continue to adversely impact Applied's supply chain, manufacturing, logistics, workforce and operations, as well as the operations of Applied's customers, suppliers and partners globally. There is considerable uncertainty regarding the duration, scope and severity of the pandemic and the impacts on our business and the global economy from the effects of the ongoing pandemic and response measures. While Applied continues to see progress in the recovery within its supply chain, travel and logistics restrictions, shelter-in-place orders and other measures, including working remotely, social distancing and other policies implemented in foreign and domestic sites to protect the health and safety of employees, have resulted in, and are expected to continue to result in, transportation disruptions (such as reduced availability of air transport, port closures, and increased border controls or closures), production delays and capacity limitations at Applied and some of its customers, suppliers and partners, as well as reduced workforce availability or productivity at Applied and customer sites, and additional data, information and cyber security risks associated with an extensive workforce now working remotely full-time. There can be no assurance that Applied or its suppliers will be able to maintain manufacturing operations at current levels. In addition, the pandemic and the impact of the foregoing measures in various forms and in varying degrees have had, and may continue to have a significant adverse impact on the global economic activity and could also result in a reduced demand for our products, delayed deliveries or installation, cancelled orders or increase in logistics and operating costs, and materially and adversely affect Applied's business, financial condition and results of operations.

The degree to which the pandemic ultimately impacts Applied's business, financial condition and results of operations and the global economy will depend on future developments beyond our control, which are highly uncertain and difficult to predict, including the severity and duration of the pandemic, the extent and effectiveness of containment actions, availability of effective vaccines against COVID-19 to the general population and how widely utilized the vaccines will be, effectiveness of government stimulus programs, resurgence of COVID-19, how quickly and to what extent normal economic and operating activity can resume, and the severity and duration of the global economic downturn that results from the ongoing pandemic.

Risks Associated with Operating a Global Business

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

Applied has product development, engineering, manufacturing, sales and other operations distributed throughout many countries, and some of its business activities are concentrated in certain geographic areas. Moreover, in three months ended January 31, 2021, approximately 94% of Applied's net sales were to customers in regions outside the United States. As a result of the global nature of its operations, Applied's business performance and results of operations may be adversely affected by a number of factors, including:

- uncertain global economic and political 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;
- direct and indirect global trade issues and changes in and uncertainties with respect to trade policies, trade sanctions, tariffs, and international trade disputes, including the recent rules and interpretations promulgated by the U.S. Department of Commerce expanding export license requirements for certain products sold to certain entities in China;
- 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 contract, intellectual property, cybersecurity, data privacy, labor, tax, and import/export laws, and the interpretation and application of such laws and regulations;
- ineffective or inadequate legal protection of intellectual property rights in certain countries;
- 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;
- delays or restrictions in shipping materials or finished products between and within countries;
- geographically diverse operations and projects, and our ability to maintain appropriate business processes, procedures and internal controls, and comply with environmental, health and safety, anti-corruption and other regulatory requirements;
- supply chain interruptions, and service interruptions from utilities, transportation, data hosting or telecommunications providers, or other events beyond our control;
- failure to effectively manage a diverse workforce with different experience levels, languages, cultures, customs, business practices and worker expectations, and differing employment practices and labor issues;
- 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, Israeli shekel, euro, Taiwanese dollar, Singapore dollar, Chinese yuan or Korean won;
- the need to provide sufficient levels of technical support in different locations around the world;
- performance of third-party providers of outsourced functions, including certain engineering, software development, manufacturing, information technology and other activities;
- political instability, natural disasters, regional or global health epidemics, 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;
- challenges in hiring and integration of an increasing number of workers in new countries;
- the increasing need for a mobile workforce to work in or travel to different regions; and
- uncertainties with respect to economic growth rates in various countries, including for the manufacture and sale of semiconductors and displays in the developing economies of certain countries.

As more fully discussed in the risk factor “The ongoing COVID-19 pandemic and global measures taken in response thereto have adversely impacted, and may continue to adversely impact, Applied’s operations and financial results” above, the ongoing COVID-19 pandemic and measures taken in response by governments and businesses worldwide to contain its spread, including quarantines, facility closures, travel and logistics restrictions, border controls, and shelter in place or stay at home and social distancing orders, have adversely impacted and are expected to continue to adversely impact Applied’s supply chain, manufacturing, logistics, workforce and operations, as well as the operations of Applied’s customers, suppliers and partners globally.

International trade disputes could result in increases in tariffs and other trade restrictions and protectionist measures that could adversely impact our operations and reduce the competitiveness of our products relative to local and global competitors.

We sell a significant majority of our products into countries outside of the United States including China, Taiwan, Japan and Korea. We also purchase a significant portion of equipment and supplies from suppliers outside of the United States. There is inherent risk, based on the complex relationships among China, Taiwan, Japan, Korea and the United States, that political, diplomatic and national security influences might lead to trade disputes, impacts and/or disruptions, in particular, with respect to those affecting the semiconductor industry. The United States and other countries have imposed and may continue to impose trade restrictions, and have also levied tariffs and taxes on certain goods. Increases in tariffs, additional taxes or other trade restrictions and retaliatory measures may increasingly impact end-user demand and customer investment in manufacturing equipment, increase our manufacturing costs, decrease margins, reduce the competitiveness of our products, or inhibit our ability to sell products or purchase necessary equipment and supplies, which could have a material adverse effect on our business, results of operations, or financial condition.

For example, certain international sales depend on our ability to obtain export licenses, and our inability to obtain such licenses have limited and could further limit our markets and impact our business. Recently the U.S. Department of Commerce has promulgated several rules and interpretations expanding export license requirements for U.S. companies that sell certain products to entities in China whose actions or functions are intended to support military end uses, eliminated certain export license exceptions that applied to exports of certain items to China, and added certain Chinese companies, including one of the Company’s customers, to its “entity list”. These rules and interpretations require us to obtain additional export licenses to supply certain of our products to such customer in China. Obtaining export licenses may be difficult, costly and time-consuming, and our inability to obtain such licenses could limit our markets in China and adversely affect our results of operations. The implementation and interpretation of these rules are ongoing and their impact on our business is uncertain, and these rules and other regulatory changes that have occurred and may occur in the future could materially and adversely affect our results of operations. Additionally, on August 17, 2020, the U.S. Department of Commerce published a final rule that does not impose additional license requirements for the export of Applied’s products but could require certain of Applied’s customers to obtain licenses for the export of wafers, chipsets and certain related items to Huawei or its affiliates that are the direct product of US-origin semiconductor manufacturing equipment and thus could potentially limit the demand for certain of Applied’s products from such customers. The U.S. and other governmental agencies may in the future promulgate new or additional export licensing or other requirements that have the effect of further limiting the Company’s ability to provide certain of its products to customers in China.

In addition, government authorities may impose conditions that require the use of local suppliers or partnerships with local companies, require the license or other transfer of intellectual property, or engage in other efforts to promote local businesses and local competitors, which could have a significant adverse impact on Applied’s business. Many of these challenges are present in China and Korea, markets that represent a significant portion of Applied’s current business as well as long-term growth opportunities.

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

Uncertain global economic and business conditions, along with uncertainties and volatility in the financial markets, national debt and fiscal concerns in various regions, pose challenges to the industries in which Applied operates. Markets for semiconductors and displays depend largely on business and consumer spending and demand for electronic products. 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 purchasing for equipment or services, which may have an adverse impact on Applied’s revenues, results of operations and financial condition. 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, additional inventory or bad debt expense for Applied. Economic and industry uncertainty may similarly affect suppliers, which could impair their ability to deliver parts and negatively affect Applied’s ability to manage operations and deliver its products. These conditions may also lead to consolidation or strategic alliances among other equipment manufacturers, which could adversely affect Applied’s ability to compete effectively.

In particular, impacts of the ongoing COVID-19 pandemic have resulted in increased volatility in global financial markets, increases in levels of unemployment, and economic uncertainty, and may lead to significant negative impacts on customer spending, demand for our products, the ability of our customers to pay, our financial condition and the financial condition of our suppliers.

Uncertain economic and industry conditions also make 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. If Applied does not appropriately manage its business operations in response to changing economic and industry conditions, it could have a significant negative impact on its business performance and financial condition. Applied may be required to implement additional cost reduction efforts, including restructuring activities, which may adversely affect Applied’s ability to capitalize on opportunities. Even during periods of economic uncertainty or lower revenues, Applied must continue to invest in research and development and maintain a global business infrastructure to compete effectively and support its customers, which can have a negative impact on its operating margins and earnings.

Applied maintains an investment portfolio that is subject to general credit, liquidity, market and interest rate risks. The risks to Applied’s investment portfolio may be exacerbated if financial market conditions deteriorate (including from impacts of the ongoing COVID-19 pandemic) 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, which could affect its ability to manage its operations.

Risks Associated with Applied’s Industry

The industries that Applied serves can be volatile and difficult to predict.

As a supplier to the global semiconductor and display and related industries, Applied is subject to variable industry conditions, since demand for manufacturing equipment and services can change depending on several factors, including the nature and timing of technology inflections and advances in fabrication processes, the timing and requirements of new and emerging technologies and market drivers, production capacity relative to demand for chips and display technologies, end-user demand, customers’ capacity utilization, production volumes, access to affordable capital, consumer buying patterns and general economic conditions. Applied’s industries historically have been cyclical, and are subject to volatility and sudden changes in customer requirements for new manufacturing capacity and advanced technology. These changes can affect the timing and amounts of customer investments in technology and manufacturing equipment and can have a significant impact on Applied’s net sales, operating expenses, gross margins and net income. The amount and mix of capital equipment spending between different products and technologies can have a significant impact on Applied’s results of operations.

To meet rapidly changing demand in the industries it serves, Applied must accurately forecast demand and effectively manage its resources and production capacity across its businesses, 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. If Applied does not effectively manage these challenges during periods of changing demand, including as a result of the ongoing COVID-19 pandemic and its effects, its business performance and results of operations may be adversely impacted. Even with effective allocation of resources and management of costs, during periods of decreasing demand, Applied’s gross margins and earnings may be adversely impacted.

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

Applied’s customer base is highly concentrated, and has become increasingly so as a result of continued consolidation. Applied’s customer base is also geographically concentrated, particularly in China, Taiwan and Korea. A relatively limited number of manufacturers account for a substantial portion of Applied’s business. As a result, the actions of even a single customer can expose Applied’s business and results of operations to greater volatility. The mix and type of customers, and sales to any single customer, including as a result of changes in government policy, have varied and may vary significantly from quarter to quarter and from year to year, and have a significant impact on Applied’s net sales, gross margins and net income. Applied’s products are configured to customer specifications, and 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 (including as a result of the ongoing COVID-19 pandemic), Applied may not be able to replace the business, which may have a significant adverse impact on its results of operations and financial condition. The concentration of Applied’s customer base increases its risks related to the financial condition of its customers, and the deterioration in financial condition of a single customer or the failure of a single customer to perform its obligations could have a material adverse effect on Applied’s results of operations and cash flow. To the extent its customers experience liquidity constraints, Applied may incur additional bad debt expense, which may have a significant impact on its results of operations. Major customers may also seek pricing, payment, intellectual property-related, or other commercial terms that are less favorable to Applied, which may have a negative impact on Applied’s business, cash flow, revenue and gross margins.

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

The global semiconductor, display and related industries in which Applied operates are characterized by ongoing changes affecting some or all of these industries that impact demand for and the profitability of Applied's products and its consolidated results of operations, 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 customers' businesses and on demand for Applied's products;
- increasing capital requirements for building and operating new fabrication plants and customers' ability to raise the necessary capital;
- trade, regulatory or tax policies impacting the timing of customers' investment in new or expanded fabrication plants;
- differences in growth rates among the semiconductor, display and other industries in which Applied operates;
- 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 for customers to continually reduce the total cost of manufacturing system ownership;
- 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 which can reduce demand for new equipment;
- 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 and displays, 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 is derived from sales of manufacturing equipment in the Semiconductor Systems segment to the global semiconductor industry. In addition, a majority of the revenues of Applied Global Services is from sales to semiconductor manufacturers. The semiconductor industry is characterized by ongoing changes particular to this industry that impact demand for and the profitability of Applied's semiconductor manufacturing equipment and service products, including:

- the increasing frequency and complexity of technology transitions and inflections, and Applied's ability to timely and effectively anticipate and adapt to these changes;
- the increasing cost of research and development due to many factors, including shrinking geometries, 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 geometries 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 segments with growing demand;
- semiconductor manufacturer's ability to reconfigure and re-use equipment, and the resulting effect on their need to purchase new equipment and services;
- shorter cycle times between order placements by customers and product shipment require greater reliance on forecasting of customer investment, 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;
- consolidation in the semiconductor industry, including among semiconductor manufacturers and among manufacturing equipment suppliers;
- shifts in sourcing strategies by computer and electronics companies, and manufacturing processes for advanced circuit technologies, 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;
- investment in semiconductor manufacturing capabilities in China, which may be affected by changes in economic conditions and governmental policies in China and the United States;
- 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; and
- the growing importance of specialty markets (such as Internet of Things, communications, automotive, power and sensors) that use mature process technologies and have a low barrier to entry.

If Applied does not accurately forecast and allocate appropriate resources and investment towards addressing, key technology changes and inflections, successfully develop and commercialize products to meet demand for new technologies, and effectively address industry trends, its business and results of operations may be adversely impacted.

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

The global 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, production capacity relative to end-use demand, and panel manufacturer profitability. Industry growth depends primarily on consumer demand for increasingly larger and more advanced TVs, and on demand for advanced smartphones and mobile device displays, 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 the profitability of Applied's display products and services, including:

- the importance of new types of display technologies, such as organic light-emitting diode (OLED), low temperature polysilicon (LTPS) and metal oxide transistor backplanes, flexible displays, and new touch panel films;
- the increasing cost of research and development, and complexity of technology transitions and inflections, and Applied's ability to timely and effectively anticipate and adapt to these changes;
- the timing and extent of an expansion of manufacturing facilities in China, which may be affected by changes in local economic conditions and governmental policies in China, Korea, Japan and the United States;
- the importance of increasing market positions in products and technologies with growing demand;
- the rate of transition to larger substrate sizes for TVs and to new display technologies for TVs and mobile applications, and the resulting effect on capital intensity in the industry and on Applied's product differentiation, gross margin and return on investment; and
- fluctuations in customer spending quarter over quarter and year over year for display manufacturing equipment, concentration of display manufacturer customers and their ability to successfully commercialize new products and technologies, and uncertainty with respect to future display technology end-use applications and growth drivers.

If Applied does not successfully develop and commercialize products to meet demand for new and emerging display technologies, or if industry demand for display manufacturing equipment and technologies slows, Applied's business and its results of operations may be adversely impacted.

The industries in which Applied operates are highly competitive and subject to rapid technological and market changes.

Applied operates in a highly competitive environment in which innovation is critical, and its future success depends on many factors, including the development of new technologies and effective commercialization and customer acceptance of its equipment, services and related products, and its ability to increase its position in its current markets, expand into adjacent and new markets, and optimize operational performance. The development, introduction and support of a broadening set of products in a geographically diverse and competitive environment, and that may require greater collaboration with customers and other industry participants, have grown more complex and expensive over time. Furthermore, new or improved products may entail higher costs, longer development cycles, lower profits and may have unforeseen product design or manufacturing defects. To compete successfully, Applied must:

- identify and address technology inflections, market changes, competitor innovations, new applications, customer requirements and end-use demand in a timely and effective manner;
- develop new products and disruptive technologies, improve and develop new applications for existing products, and adapt products for use by customers in different applications and markets with varying technical requirements;
- differentiate its products from those of competitors, meet customers' performance specifications, appropriately price products, and achieve market acceptance;
- maintain operating flexibility to enable responses to changing markets, applications, customers and customer requirements;
- enhance its worldwide operations across its businesses 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 strengthen customer relationships;
- effectively allocate resources between its existing products and markets, the development of new products, and expanding into new and adjacent markets;
- 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 volume manufacturing with its customers; and
- implement changes in its design engineering methodology to reduce material costs and cycle time, increase commonality of platforms and types of parts used in different systems, and improve product life cycle management.

If Applied does not successfully anticipate technology inflections, develop and commercialize new products and technologies, and respond to changes in customer requirements and market trends, its business performance and results of operations may be adversely impacted.

Risks Related to Applied's Business, Finance and Operations

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

Applied engages in acquisitions of or investments in companies, technologies or products in existing, related or new markets for Applied. Business combinations, acquisitions and investments, such as the proposed acquisition of Kokusai Electric, involve numerous risks to Applied's business, financial condition and operating results, including but not limited to:

- inability to complete proposed transactions timely or at all due to the failure to obtain regulatory or other approvals, litigation or other disputes, and any ensuing obligation to pay a termination fee (which, in the case of the stock purchase agreement related to the proposed acquisition of Kokusai Electric, Applied will be obligated to pay in the amount of $154 million if such agreement is terminated under certain circumstances involving the failure to obtain required regulatory approvals);
- diversion of management's attention and disruption of ongoing businesses;

- the failure to realize expected revenues, gross and operating margins, net income and other returns from acquired businesses;
- requirements imposed by government regulators in connection with their review of a transaction, which may include, among other things, divestitures and restrictions on the conduct of Applied's existing business or the acquired business;
- following completion of acquisitions, ineffective integration of businesses, operations, systems, digital and physical security, technologies, products, employees, compliance programs, changes in laws or regulations, including tax laws, or other factors, may impact the ability to realize anticipated synergies or other benefits;
- failure to commercialize technologies from acquired businesses or developed through strategic investments;
- 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 retain and motivate key employees of acquired businesses;
- 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 or increases in debt obligations to finance activities associated with a transaction, which increase interest expense, and reductions in cash balances, which reduce the availability of cash flow for general corporate or other purposes, including share repurchases and dividends;
- 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, cybersecurity, privacy policies and compliance programs, 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, undisclosed or undetected commitments or liabilities or non-compliance with laws, regulations or policies; 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 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. In addition, new legislation, additional regulations or global economic or political conditions may affect or impair our ability to invest in certain countries or require us to obtain regulatory approvals to do so. 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.

Applied continually assesses the strategic fit of its businesses and may from time to time seek to divest portions of its business that are not deemed to fit with its strategic plan. Divestitures involve significant risks and uncertainties, such as ability to sell such businesses on satisfactory price and terms and in a timely manner (including long and costly sales processes and the possibility of lengthy and potentially unsuccessful attempts by a buyer to receive required regulatory approvals), or at all, disruption to other parts of the businesses and distraction of management, allocation of internal resources that would otherwise be devoted to completing strategic acquisitions, loss of key employees or customers, exposure to unanticipated liabilities (including, among other things, those arising from representations and warranties made to a buyer regarding the businesses) or ongoing obligations to support the businesses following such divestitures, and other adverse financial impacts.

Applied's indebtedness and debt covenants could adversely affect its financial condition and business.

Applied has $5.5 billion in aggregate principal amount of senior unsecured notes outstanding. Under the indenture governing the senior unsecured notes, it may be required to offer to repurchase the notes at a price equal to 101% of the principal amount, plus accrued and unpaid interest, upon a change of control of Applied and a contemporaneous downgrade of the notes below investment grade. Applied also has in place a $1.5 billion revolving credit facility, and a $2.0 billion term loan facility to finance in part its planned acquisition of Kokusai Electric. While no amounts were outstanding under either credit agreement as of January 31, 2021, Applied may borrow amounts in the future under either or both of these agreements. Applied may also enter into new financing arrangements. Applied's ability to satisfy its debt obligations is dependent upon the results of its business operations and subject to other risks discussed in this section. Significant changes in Applied's credit rating, disruptions in the global financial markets or changes in the interest rate environment could have a material adverse consequence on Applied's access to and cost of capital for future financings, and financial condition. If Applied fails to satisfy its debt obligations, or comply with financial and other debt covenants, it may be in default and any borrowings may become immediately due and payable, and such default may also constitute a default under other of Applied's obligations. There can be no assurance that Applied would have sufficient financial resources or be able to arrange financing to repay any borrowings at such time.

Applied is exposed to risks associated with expanding into new and related markets and industries.

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 those developed in collaboration with third parties, or obtained through acquisitions. Applied's ability to successfully expand its business into new and related markets and industries may be adversely affected by a number of factors, including:

- 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;
- the complexity of entering into and effectively managing strategic alliances or partnering opportunities;
- 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 or limited funding, evolving business models 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 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 is often subject to certain record-keeping, audit, intellectual property rights-sharing and/or other obligations.

Supply chain disruptions, manufacturing interruptions or delays, or the failure to accurately forecast customer demand, could affect Applied's ability to meet customer demand, lead to higher costs, or 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, including components and subassemblies, from suppliers, including contract manufacturers. The inability to timely obtain sufficient quantities of parts can have an adverse impact on Applied's manufacturing operations and ability to meet customer demand for equipment, spares and services. Some key parts are subject to long lead-times 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. Variable 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. 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 or install products or services, increased costs or customer order cancellations as a result of:

- the failure or inability to accurately forecast demand and obtain sufficient quantities of quality parts on a cost-effective basis;
- volatility in the availability and cost of materials;
- difficulties or delays in obtaining required import or export approvals;
- shipment delays due to transportation interruptions or capacity constraints;
- information technology or infrastructure failures, including those of a third party supplier or service provider; and
- natural disasters or other events beyond Applied's control (such as earthquakes, utility interruptions, tsunamis, hurricanes, typhoons, floods, storms or extreme weather conditions, fires, regional economic downturns, regional or global health epidemics, including the ongoing COVID-19 pandemic, geopolitical turmoil, increased trade restrictions between the U.S. and China and other countries, social unrest, political instability, terrorism, or acts of war) in locations where it or its customers or suppliers have manufacturing, research, engineering or other operations.

As more fully discussed in the risk factor "The ongoing COVID-19 pandemic and global measures taken in response thereto have adversely impacted, and may continue to adversely impact, Applied's operations and financial results" above, the ongoing COVID-19 pandemic and measures taken in response by governments and businesses worldwide to contain its spread, including quarantines, facility closures, travel and logistics restrictions, border controls, and shelter in place or stay at home and social distancing orders, have adversely impacted and are expected to continue to adversely impact Applied's supply chain, manufacturing, logistics, workforce and operations, as well as the operations of Applied's customers, suppliers and partners globally.

If a supplier fails to meet Applied's requirements concerning quality, cost, protection of intellectual property, 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, and may also result in a loss of Applied's ability to protect, enforce and extract the full value of its or its customers' and other third parties' intellectual property rights, which could have an adverse impact on its business and competitive position and subject Applied to legal proceedings and claims. If Applied is unable to meet its customers' demand for a prolonged period due to its inability to obtain certain parts or components, it could affect its ability to manage its operations, and have an adverse impact on Applied's business, results of operations and customer relationships. 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 rendered obsolete by the rapid pace of technological change, or if customers reduce or delay orders, Applied may incur excess or obsolete 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 qualified employees and leaders with expertise and capabilities, representing diverse backgrounds and experiences. Achieving this objective may be difficult due to many factors, including fluctuations in global economic and industry conditions, management changes, Applied's organizational structure, increasing global competition for talent, the availability of qualified employees in the local and global markets, 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 attractiveness of Applied's compensation and benefit programs, including its share-based programs. If we are unable to attract, retain and motivate qualified employees and leaders, we may be unable to fully capitalize on current and new market opportunities, which could adversely impact Applied's business and results of operations. The loss or retirement of employees presents 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.

The failure to successfully implement enterprise resource planning and other information systems changes could adversely impact Applied's business and results of operations.

Applied periodically implements new or enhanced enterprise resource planning and related information systems in order to better manage its business operations, align its global organizations and enable future growth. Implementation of new business processes and information systems requires the commitment of significant personnel, training and financial resources, and entails risks to Applied's business operations. If Applied does not successfully implement enterprise resource planning and related information systems improvements, or if there are delays or difficulties in implementing these systems, Applied may not realize anticipated productivity improvements or cost efficiencies, and may experience interruptions in service and operational difficulties, such as its ability to track orders, timely manufacture and ship products, project inventory requirements, effectively manage its supply chain and allocate human resources, aggregate financial data and report operating results, and otherwise effectively manage its business, all of which could result in quality issues, reputational harm, lost market and revenue opportunities, and otherwise adversely affect Applied's business, financial condition and results of operations.

Applied may incur impairment charges related 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.

Risks Related to Intellectual Property and Cybersecurity

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 patents, trade secrets, copyrights and other intellectual property 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 ability to enforce its intellectual property rights is subject to litigation risks, as well as uncertainty as to the protection and enforceability of those rights in some countries. If Applied seeks to enforce its intellectual property rights, it may be subject to claims that those rights are invalid or unenforceable, and others may seek counterclaims against Applied, which could have a negative impact on its business. If Applied is unable to enforce and protect intellectual property rights, or if they are circumvented, invalidated, rendered obsolete by the rapid pace of technological change, it could have an adverse impact on its competitive position and business. In addition, changes in intellectual property laws or their interpretation 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.

Third parties may also assert claims against Applied and its products. Claims that Applied's products infringe the rights of others, whether or not meritorious, can be expensive and time-consuming to defend and resolve, and may divert the efforts and attention of management and personnel. The inability to obtain rights to use third party intellectual property on commercially reasonable terms could have an adverse impact on Applied's business. In addition, Applied may face claims based on the theft or unauthorized use or disclosure of third-party trade secrets and other confidential business information. Any such incidents and claims could severely harm Applied's business and reputation, result in significant expenses, harm its competitive position, and prevent Applied from selling certain products, all of which could have a significant adverse impact on Applied's business and results of operations.

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, including systems owned and maintained by Applied or third party providers. These data include confidential information and intellectual property belonging to Applied or its customers or other business partners, as well as personally-identifiable information of individuals. All information systems are subject to disruption, breach or failure. 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 these 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 of intellectual property, and 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. Compliance with, and changes to, laws and regulations concerning privacy and information security could result in significant expense, and any failure to comply could result in proceedings against Applied by regulatory authorities or other third parties.

Risks Related to Legal and Compliance

Applied is exposed to risks associated with operating in jurisdictions with complex and changing tax laws.

Applied is subject to income taxes in the United States and foreign jurisdictions. Significant judgment is required to determine and estimate worldwide tax liabilities. Applied's provision for income taxes and effective tax rates could be affected by numerous factors, including changes in applicable tax laws, interpretations of applicable tax laws, amount and composition of pre-tax income in jurisdictions with differing tax rates, and valuation of deferred tax assets. An increase in Applied's provision for income taxes and effective tax rate could have a material adverse impact on Applied's results of operations and financial condition.

Consistent 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. In certain foreign jurisdictions, conditional reduced income tax rates have been granted to Applied. To obtain the benefit of these tax incentives, Applied must meet requirements relating to various activities. Applied's ability to realize benefits from these incentives could be materially affected if, among other things, applicable requirements are not met or Applied incurs net losses in these jurisdictions.

In addition, Applied is subject to examination by the U.S. Internal Revenue Service and other tax authorities, and from time to time amends 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 effective tax rates.

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, product warranty or has 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 be time-consuming and expensive to prosecute, defend or conduct; divert management's attention and other Applied resources; inhibit Applied's ability to sell its products; result in adverse judgments for damages, injunctive relief, penalties and fines; and negatively affect Applied's business. There can be no assurance regarding the outcome of current or future legal proceedings, claims or investigations.

Applied is subject to risks associated with environmental, health and safety regulations.

Applied is subject to environmental, health and safety regulations in connection with its global business operations, including but not limited to: regulations related to the development, manufacture, shipping and use of its products; handling, discharge, recycling and disposal of hazardous 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 could result in: significant remediation or other legal liabilities; the imposition of penalties and fines; restrictions on the development, manufacture, sale, shipping or use of certain of its products; limitations on the operation of its facilities or ability to use its real property; and a decrease in the value of its real property. Applied could be required to alter its manufacturing and operations and incur substantial expense in order to comply with environmental, health and safety regulations. Any failure to comply with these regulations could subject Applied to significant costs and liabilities that could adversely affect Applied's business, financial condition and results of operations.

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

As a public company with global operations, Applied is subject to the laws of the United States and multiple foreign jurisdictions and the rules and regulations of various governing bodies, which may differ among jurisdictions, including those related to financial and other disclosures, accounting standards, corporate governance, intellectual property, tax, trade, antitrust, employment, immigration and travel regulations, privacy, and anti-corruption. Changing, inconsistent or conflicting laws, rules and regulations, and ambiguities in their interpretation and application create uncertainty and challenges, and compliance with laws, rules and regulations may be onerous and expensive, divert management time and attention from revenue-generating activities, and otherwise adversely impact Applied's business operations. Violations of law, rules and regulations, including, among others, those related to financial and other disclosures, trade, antitrust, privacy and anti-corruption, could result in fines, criminal sanctions, restrictions on Applied's business, and damage to its reputation, and could have an adverse impact on its business operations, financial condition and results of operations.

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

Issuer Purchases of Equity Securities

In February 2018, the Board of Directors approved a common stock repurchase program authorizing up to an aggregate of $6.0 billion in repurchases. As of January 31, 2021, approximately $1.3 billion remained available for future stock repurchases under this repurchase program. There were no shares of common stock repurchased by Applied during the first quarter of fiscal 2021.

Item 3. ***Defaults Upon Senior Securities***

None

Item 4. ***Mine Safety Disclosures***

Not applicable.

Item 5. ***Other Information***

None.

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**
2.1	Amendment to Share Purchase Agreement, dated as of January 1, 2021, by and among Applied Materials, Inc., Kokusai Electric Corporation and KKR HKE Investment L.P.	8-K	000-06920	2.1	01/04/2021
10.1	Amendment No. 1 to Term Loan Credit Agreement, dated as of December 30, 2020, by and among Applied Materials, Inc., as borrower, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders named therein	8-K	000-06920	10.1	01/04/2021
10.2	Applied Materials, Inc. 2016 Deferred Compensation Plan, as amended and restated on January 1, 2021†				
10.3	Form of Performance Shares Agreement for certain executive officers for use under the Applied Materials, Inc. Employee Stock Incentive Plan†				
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.SCH	Inline XBRL Taxonomy Extension Schema Document‡				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document‡				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document‡				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document‡				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document‡				
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				

† 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/ DANIEL J. DURN

Daniel J. Durn
Senior Vice President,
Chief Financial Officer
(Principal Financial Officer)

February 25, 2021

By: /s/ CHARLES W. READ

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

February 25, 2021

APPLIED MATERIALS, INC.
2016 DEFERRED COMPENSATION PLAN

(Amended and restated as of January 1, 2021)

APPLIED MATERIALS, INC.
2016 DEFERRED COMPENSATION PLAN

(Amended and restated as of January 1, 2021)

Applied Materials, Inc., a Delaware corporation (the "Company") on behalf of itself and its Participating Affiliates, having previously adopted the Applied Materials, Inc. 2005 Executive Deferred Compensation Plan, originally effective January 1, 2005, as amended, which was previously amended, restated and renamed as the Applied Materials, Inc. 2016 Deferred Compensation Plan (the "Plan"), originally effective October 12, 2015, now hereby amends and restates the Plan, effective January 1, 2021 ("Restatement Date"), for the purposes of attracting highly qualified managers and other employees and promoting increased efficiency and an interest in the successful operation of the Company. All account balances under the Plan as of the Restatement Date shall be retained in separate accounts ("Rollover Accounts"), which shall be payable at the same time or times specified under the prior terms of the Plan as required to comply with Internal Revenue Code Section 409A. The Plan is intended to, and shall be interpreted to, comply in all respects with Internal Revenue Code Section 409A and those provisions of the Employee Retirement Income Security Act of 1974, as amended, applicable to an unfunded plan maintained primarily to provide deferred compensation benefits for a select group of "management or highly compensated employees."

ARTICLE 1.
Definitions

a. **"401(k) Plan"** shall mean a Section 401(k) plan qualified under Section 401(a) of the Code, which is sponsored by the Employer (or in which the Employer participates) in the relevant Plan Year.

b. **"Account(s)"** shall mean the Company Contribution Accounts, Scheduled Distribution Accounts, Termination Accounts, Future Date Accounts, and/or Rollover Accounts established for a particular Participant pursuant to Article 4 of the Plan. Notwithstanding the foregoing, no Scheduled Distribution Accounts shall be established after December 31, 2020.

c. **"Administrative Committee"** shall mean the person or persons appointed to administer the Plan pursuant to Article 7 of the Plan.

d. "**Affiliate**" means each corporation, trade or business that is, together with the Company, a member of a controlled group of corporations or under common control (as determined under Section 414(b) or (c) of the Code), but only for the period during which such other entity is so affiliated with the Company. Notwithstanding the foregoing, in applying Sections 1563(a)(1), (2) and (3) of the Code for purposes of determining a controlled group of corporations under Section 414(b) of the Code and in applying Treasury Regulation Section 1.414(c)-2 for purposes of determining trades or businesses that are under common control for purposes of Section 414(c) of the Code, the phrase "at least 50 percent" will be used instead of "at least 80 percent" at each place it appears in such sections.

e. **"Base Salary"** shall mean the Participant's base annual salary excluding incentive and discretionary bonuses, severance, commissions and other non-regular forms of compensation, before reductions for contributions to or deferrals under any pension, deferred compensation or benefit plans of the Employer, other than any cafeteria plan maintained pursuant to Section 125 of the Code ("Cafeteria Plan").

f. **"Beneficiary"** shall mean the person(s) or entity designated as such in accordance with Article 6 of the Plan.

g. **"Bonus"** shall mean any amount paid to the Participant by the Employer in the form of discretionary or incentive compensation (excluding Long-Term Incentive Compensation), or any other bonus paid to the Participant by the Employer, which is designated by the Administrative Committee as a Bonus eligible for deferral under the Plan, before reductions for contributions to or deferrals under any pension, deferred compensation or benefit plans of the Employer, other than any Cafeteria Plan.

h. **"Change in Control"** shall mean, with respect to the Company, any of the following events:

(a) A change in the ownership of the Company that occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than fifty percent (50%) of the total voting power of the stock of the Company. For purposes of this subsection (a), the acquisition of additional stock by any one Person, who is considered to own more than fifty percent (50%) of the total voting power of the stock of the Company will not be considered an additional Change in Control. Further, if the stockholders of the Company immediately before the change in ownership continue to retain, immediately after the change in ownership, in substantially the same proportions as their ownership of shares of the Company's voting stock immediately prior to the change in ownership, the direct or indirect beneficial ownership of fifty percent (50%) or more of the total voting power of the stock of the Company or of the ultimate parent entity of the Company, such event will not be considered a Change in Control under this subsection (a). For this purpose, indirect beneficial ownership will include, without limitation, an interest resulting from ownership of the voting securities of one or more corporations or other business entities that own the Company, as the case may be, either directly or through one or more subsidiary corporations or other business entities; or

(b) A change in the effective control of the Company that occurs on the date that a majority of members of the Board of Directors of the Company is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the Board of Directors prior to the date of the appointment or election. For purposes of this subsection (b), once any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered an additional Change in Control; or

(c) A change in the ownership of a "substantial portion of the Company's assets", as defined herein. For this purpose, a "substantial portion of the Company's assets" shall mean assets of the Company having a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such change in ownership. For purposes of this subsection (c), a change in ownership of a substantial portion of the Company's assets occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that constitute a "substantial portion of the Company's assets." Further, for purposes of this subsection (c), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to an entity that is controlled by the Company's stockholders immediately after the transfer, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the Company, (3) a Person that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity, at least fifty percent (50%) of the total value or voting power of which is owned, directly or indirectly, by a Person described in this subsection (c). For purposes of this subsection (c), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of determining the occurrence of a Change in Control, Persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if its primary purpose is to: (1) change the state of the Company's incorporation, or (2) create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a "change in control event" within the meaning of Code Section 409A.

i. **"Code"** shall mean the Internal Revenue Code of 1986, as subsequently amended, as interpreted by regulations, rulings, and applicable authorities.

j. **“Commissions”** shall mean commissions payable to the Participant for the applicable Plan Year (as determined by the Administrative Committee in compliance with Code Section 409A) before reductions for contributions to or deferrals under any pension, deferred compensation or benefit plans of the Employer, other than any Cafeteria Plan.

k. **“Company”** shall mean Applied Materials, Inc., a Delaware corporation.

l. **“Company Contribution”** shall mean the contribution by the Employer to the Participant’s Company Contribution Account pursuant to Section 3.2 of the Plan.

m. **“Company Contribution Account”** shall mean an Account established for Company Contributions pursuant to Article 4 of the Plan.

n. “**Compensation**” shall mean all amounts eligible for deferral for a particular Plan Year (or other applicable performance period) under Section 3.1.1 of the Plan.

o. **“Disability”** shall be interpreted consistent with the requirements of Code Section 409A and shall mean that the Participant (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Participant’s Employer. The Administrative Committee will determine whether or not a Participant has incurred a Disability based on such evidence as it deems necessary or appropriate. Notwithstanding the foregoing, a Participant will be deemed to qualify for Disability hereunder if he or she has been determined to be totally disabled by the Social Security Administration.

p. **“Distributable Amount**” shall mean the vested balance in the applicable Account.

q. **“Eligible Employee”** shall mean a management level or highly compensated employee of the Company or a Participating Affiliate selected by the Administrative Committee to be eligible to participate in the Plan.

r. **“Employer”** shall mean the Company or Participating Affiliate for which the relevant Participant performs services and from which such Participant is entitled to the payment of Compensation .

s. **“ERISA”** shall mean the Employee Retirement Income Security Act of 1974, as amended, as interpreted by regulations, rulings and applicable authorities.\

t. **“Fiscal Year Bonus Compensation”** shall have the meaning given to such term in Section 3.1.3.

1.21 **"Future Date Account"** shall mean an Account established for Future Date Contributions pursuant to Article 4 of the Plan.

1.22 **"Future Date Distribution"** shall mean the distribution elected by the Participant pursuant to Section 5.4 of the Plan.

a. **"Hardship Distribution"** shall mean a distribution by reason of an Unforeseeable Emergency pursuant to Section 5.8 of the Plan.

b. **"HRCC"** shall mean the Human Resources and Compensation Committee of the Board of Directors of the Company.

c. **"Investment Subaccount"** shall have the meaning given to such term in Section 4.1 of the Plan.

d. "**Long-Term Incentive Compensation"** shall mean any amount payable to the Participant by the Employer in the form of long-term discretionary or incentive compensation designated by the Administrative Committee as eligible for deferral under the Plan, before reductions for contributions to or deferrals under any pension, deferred compensation or benefit plans of the Employer, other than any Cafeteria Plan.

e. **"Participant"** shall mean an Eligible Employee who has elected to participate and has made a Participant Election pursuant to Article 2 of the Plan, or has received a Company Contribution.

f. **"Participant Election"** shall mean an election regarding deferrals and/or distributions submitted by the Participant to the Administrative Committee on a timely basis pursuant to Article 3 of the Plan, which may include contributions, benefits, terms and conditions unique to such Participant. The Participant Election may take the form of an electronic communication according to specifications established by the Administrative Committee.

g. **"Participating Affiliate"** shall mean an Affiliate of the Company that has been designated and approved by the HRCC (or its authorized delegate) as a Participating Affiliate and has adopted the Plan. By adopting the Plan, an Participating Affiliate shall be deemed to agree to all of its terms, including (but not limited to) the provisions granting exclusive authority to the HRCC (or its authorized delegate) to amend the Plan and the provisions granting exclusive authority to the Administrative Committee to administer and interpret the Plan. A Participating Affiliate may independently terminate participation in the Plan under the same terms and conditions provided for termination by the Company at the direction of the HRCC (or its authorized delegate) under Section 9.1 of the Plan. The liabilities incurred under the Plan to the Participants employed by each Employer shall be solely the liabilities of that Employer, and no other Employer will be liable for any benefits accrued by a Participant during any period when he or she was not employed by such Employer.

h. **“Payment Date”** shall mean the date by which a lump sum payment under the Plan shall be made or the date by which installment payments under the Plan shall commence and shall, in all events, include only a qualifying distribution date, event or schedule under Code Section 409A. The Payment Date for payments commencing upon Separation from Service shall be within the ninety (90) day period following Separation from Service. Subsequent installments shall be made in the first ninety (90) days of each succeeding Plan Year commencing after the Plan Year in which the first installment payment is made. Notwithstanding the foregoing, for payments commencing upon Separation from Service from amounts deferred after December 31, 2020, subsequent installments shall be made on the anniversary date of the first payment thereof. In the case of death, the Administrative Committee shall be provided with documentation reasonably necessary to establish the fact of the Participant’s death. The Payment Date of a Scheduled Distribution shall be the earlier of the first ninety (90) days of the Plan Year specified by the Participant for such distribution or the Participant’s Separation from Service other than by reason of death or Disability. Notwithstanding the foregoing, the Payment Date shall not be before the earliest date on which benefits may be distributed under Code Section 409A without the imposition of additional Code Section 409A taxes, as determined by the Administrative Committee and the Administrative Committee shall have discretion regarding the timing of payments to the extent permitted under Code Section 409A. In the event that the Participant is a “key employee” (as defined in Code Section 416(i) without regard to paragraph (5) thereof) of the Company, to the extent required by Code Section 409A, the Payment Date for payments commencing on account of Separation from Service shall be no earlier than the earlier of (i) the first day of the seventh (7th) calendar month commencing after the Participant’s Separation from Service, or (ii) the Participant’s death. Any payments delayed by reason of the preceding sentence shall be caught up and paid in a single lump sum on the first day such payments are permissible consistent with the application of Code Section 409A.

i. **“Plan”** shall mean this Applied Materials, Inc. 2016 Deferred Compensation Plan which amends, restates and renames the Applied Materials, Inc. 2005 Executive Deferred Compensation Plan.

j. **“Plan Year”** shall mean the calendar year.

k. “**Performance-Based Compensation**” means Compensation where the amount of, or entitlement to, the Compensation is contingent upon the satisfaction of pre-established organizational or individual performance criteria relating to a performance period of at least twelve (12) consecutive months. Organizational or individual performance criteria are considered pre-established if established in writing within ninety (90) days after the commencement of the period of service to which the criteria relate, provided that the attainment of performance objectives is substantially uncertain at the time the criteria are established. The determination of whether Compensation qualifies as “Performance-Based Compensation” will be made in the complete and sole discretion of the Administrative Committee in accordance with Treasury Regulation Section 1.409A-1(e) and applicable authorities.

l. **“Restatement Date”** shall have the meaning given to such term in the introductory paragraph.

m. **“Restricted Stock Units”** shall mean restricted stock unit awards of a right to receive common stock of the Company at a specified date in the future made by an Employer to an Eligible Employee under an equity compensation plan sponsored by the Company, or such other similar amounts, as are specified as eligible for deferral under the Plan from time to time by the Administrative Committee, in its discretion and in compliance with all applicable laws.

n. “**Rollover Account**” shall have the meaning given to such term in the introductory paragraph of the Plan.

o. **“Scheduled Distribution”** shall mean the distribution elected by the Participant pursuant to Section 5.3 of the Plan.

p. **“Scheduled Distribution Account”** shall mean an Account established prior to January 1, 2021 for amounts payable in the form of a Scheduled Distribution pursuant to Article 4 of the Plan.

q. **“Separation from Service”** shall be interpreted consistently with the meaning of such term under Code Section 409A and shall mean, with respect to a given Participant, the date when, for any reason, including by reason of retirement, death or Disability, (but excluding approved leaves of absence of six (6) months or less, or a longer period if the right to return to employment after such period is protected by law or contract), the level of services provided by such Participant to the Employer (or any Affiliate under common ownership aggregated with the Company for purposes of Code Section 409A) in any capacity has permanently decreased to a level equal to no more than twenty percent (20%) of the average level of services performed by such Participant for the Employer during the immediately preceding thirty-six (36) month period (or the Participant’s full period of services to the Employer, if a lesser period).

r. **“Stock Unit Account”** shall mean the Account established for Restricted Stock Unit deferrals as provided under Article 4 of the Plan.

s. “**Termination Account**” shall mean an Account established for distribution of Participant deferrals elected to commence upon the Payment Date following Separation from Service pursuant to Article 4 of the Plan.

t. **“Unforeseeable Emergency”** shall mean a severe financial hardship to the Participant resulting from an illness or accident involving the Participant or the Participant’s spouse, Beneficiary or dependent (as defined in Code Section 152, but without regard to subsections (b)(1), (b)(2) and (d)(1)(B) thereof), the loss of the Participant’s property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant (but shall in all events correspond to the meaning of the term “unforeseeable emergency” in Code Section 409A and applicable authorities).

ARTICLE 2.
Participation

a. Commencement of Participation. An Eligible Employee shall commence participation in the Plan as of the date specified in the enrollment materials provided by the Administrative Committee which designate him or her as an Eligible Employee if, and only if, the Eligible Employee has completed all applicable Participant Elections and other documentation the Administrative Committee may reasonably request, during the enrollment period established by the Administrative Committee for such purpose.

b. Duration of Participation. A Participant shall continue to be eligible to make deferrals and/or to receive Company Contributions under Article 3 until the earlier of the Participant's Separation from Service or such time as the Administrative Committee shall determine that the Participant is no longer an Eligible Employee. Notwithstanding the foregoing, the Participant's deferral elections shall continue in place with respect to any Compensation for services performed during the Plan Year (or other applicable performance period) in which Separation from Service or termination of eligibility shall occur and a terminated Participant's Accounts shall continue to be credited with notional earnings or losses as provided in Article 4 until such time as the total balance of all of the Participant's Accounts shall have been fully distributed.

ARTICLE 3.
Deferrals, Contributions, and Elections

a. Elections to Defer Compensation.

i. Form of Elections. A Participant may only elect to defer Compensation attributable to services provided after the time an election is made. Participant Elections shall be subject to such specifications and limitations as may be prescribed by the Administrative Committee in the enrollment materials for a particular Plan Year (or applicable performance period) and shall take the form of a whole percentage not to exceed:

- 60% of Base Salary,
- 100% of specified Bonuses (separate deferral elections shall be made available for each type of Bonus and applicable limitations specified by the Administrative Committee for the applicable Plan Year (or other performance period) and Performance-Based Compensation with applicable limitations must be separately specified by the Administrative Committee, in its sole discretion, as eligible for deferral),
- 100% of Long-Term Incentive Compensation, or
- 100% of Commissions,

as permitted in the complete and sole discretion of the Administrative Committee.

A Participant may also elect to defer annual Compensation in an amount equal to specified refunded compensation from the 401(k) Plan and/or, Restricted Stock Units awarded to the Participant for services performed in the applicable Plan Year (or performance period), as determined in the complete and sole discretion of the Administrative Committee.

The Administrative Committee shall establish appropriate procedures for such deferral elections in compliance with Code Section 409A and, notwithstanding any contrary Plan provision, may further limit the classes of deferred Compensation and/or the minimum or maximum amount deferred by any Participant or group of Participants, or waive the foregoing limits for any Participant or group of Participants, for any reason, to the extent permitted under Code Section 409A. In particular, but not by way of limitation, the Administrative Committee may apply further limitations to the eligibility, amount and form of Compensation that may be deferred by certain Participants to avoid the application of Code Section 457A to the Plan. Any such limitations that will be applicable with respect to a Plan Year (or other applicable performance period) shall be established by the Administrative Committee before any deferral elections with respect to Compensation for services performed during such Plan Year (or other applicable performance period) otherwise become irrevocable under the terms of the Plan.

Deferrals shall be calculated with respect to the gross cash Compensation payable to the Participant prior to any deductions or withholdings (other than for Cafeteria Plan contributions), but shall be reduced by the Administrative Committee as necessary to not exceed 100% of the cash Compensation of the Participant remaining after deduction of applicable employment taxes and income taxes thereon and other deductions required by law. Changes to payroll withholdings that affect the amount of Compensation being deferred to the Plan shall be allowed only to the extent permissible under Code Section 409A.

ii. Initial Deferral Election. An Eligible Employee shall make an initial election to defer Compensation during the enrollment period established by the Administrative Committee prior to the effective date of the Participant's commencement of participation in the Plan and such election shall apply only to Compensation for services performed after such date. The enrollment period shall generally occur prior to the beginning of the applicable Plan Year, but the Administrative Committee may establish a special enrollment period ending no later than thirty (30) days after an Eligible Employee first becomes eligible to participate in the Plan to allow deferrals by such Eligible Employee of eligible amounts earned during the balance of such Plan Year (as long as such Eligible Employee is not already a participant in another plan or arrangement which is aggregated with this Plan for purposes of Code Section 409A). Eligibility for mid-year enrollment of rehired or newly Eligible Employees who have previously participated in the Plan shall be permitted only in compliance with all requirements of Code Section 409A, and as determined in the complete and sole discretion of the Administrative Committee.

iii. Deferral Elections for Subsequent Plan Years. A Participant may increase, decrease, terminate or recommence a deferral election with respect to Compensation for any subsequent Plan Year in which the Participant is eligible to participate in the Plan by making a Participant Election during the enrollment period established by the Administrative Committee prior to the beginning of the Plan Year in which the applicable services are performed, which election shall be effective on the first day of the following Plan Year. Notwithstanding the foregoing, the Administrative Committee may allow separate deferral elections with respect to any Bonuses which are determined on the basis of the Employer's fiscal year or years and payable after the end of the applicable fiscal year or years ("Fiscal Year Bonus Compensation"). The enrollment period established for deferral of Fiscal Year Bonus Compensation shall be made prior to the beginning of the fiscal year in which the applicable services are performed, in compliance with all requirements of Code Section 409A. The Administrative Committee may allow separate deferral elections with respect to Sales Incentive ("SIP") Bonuses, which deferral may be limited by the Administrative Committee to apply to SIP Bonuses payable for the 2nd, 3th, and 4th fiscal quarters following the effective date of the Participant's election, plus the 1st fiscal quarter in the immediately succeeding fiscal year ("SIP Bonus Compensation").

iv. Performance-Based Compensation. Notwithstanding the foregoing, the Administrative Committee may allow deferral elections or changes in deferral elections to be made no later than six (6) months before the end of the applicable performance period solely with respect to the deferral of any Compensation which qualifies as Performance-Based Compensation, if such deferral or change is in compliance with Code Section 409A and applicable authorities. In order for an Eligible Employee to be eligible to defer Performance-Based Compensation in accordance with the deadline established in this Section, the Eligible Employee must have performed services continuously from the later of the beginning of the performance period for such Compensation or the date on which the performance criteria for such Compensation was established through the date on which such election is made; provided, however, that no such election may be made after such Compensation has become readily ascertainable, consistent with the requirements of Code Section 409A.

v. Irrevocability of Deferral Election. After the beginning of the Plan Year (or the effective date of a mid-year commencement of participation, Fiscal Year Bonus Compensation deferral election or Performance-Based Compensation deferral election), or such earlier time as may be specified by the Administrative Committee in its discretion, deferral elections with respect to Compensation for services performed during such Plan Year (or other applicable performance period) shall be irrevocable except that the Administrative Committee may cancel a Participant's deferral election(s) to the extent permitted under Code Section 409A: (i) in the event of an Unforeseeable Emergency, (ii) by reason of the Participant's Qualifying Disability (as defined below), or (iii) as necessary for the Participant to receive a hardship distribution under the 401(k) Plan that is made prior to January 1, 2019. For purposes of this Section, "Qualifying Disability" shall be interpreted consistent with the requirements of Code Section 409A and shall mean any medically determinable physical or mental impairment resulting in the Participant's inability to perform the duties of his or her position or any substantially similar position, where such impairment can be expected to result in death or can be expected to last for a continuous period of not less than six (6) months. The Administrative Committee will determine whether or not a Participant has incurred a Qualifying Disability based on such evidence as it deems necessary or advisable. A Participant whose deferral election(s) have been cancelled pursuant to this Section may later resume making deferrals under the Plan only in accordance with the foregoing provisions of Section 3.1 and the requirements of Code Section 409A.

b. Company Contributions.

i. Discretionary Company Contributions. Except as provided in Section 3.2.2 below, the Employer shall have the discretion to make Company Contributions to the Plan at any time on behalf of any Participant. Such Company Contributions shall be made in the complete and sole discretion of the Employer and no Participant shall have the right to receive any Company Contribution, regardless of whether Company Contributions are made on behalf of other Participants.

ii. Company Matching Contributions. The Employer may make a matching Company Contribution on behalf of each Participant for each Plan Year (or other applicable performance period) in which the Participant makes a deferral under this Plan based on such matching formula as may be specified by the Administrative Committee, in its discretion, in the election materials prior to commencement of the applicable Plan Year (or applicable performance period).

c. Distribution Elections.

i. Initial Election. At the time of making a deferral election under the Plan, the Participant shall designate the time and form of distribution of deferrals made pursuant to such election (together with notional earnings or losses credited thereon) from among the alternatives specified in Article 5, if eligible. Notwithstanding the foregoing, all amounts credited to a Rollover Account shall be distributed at the same time and in the same form as the Participant elected under the prior terms of the Plan as in effect prior to the Restatement Date, subject to modifications permissible under Section 3.3.2 and Code Section 409A.

ii. Modification of Election. A distribution election with respect to previously deferred amounts may be changed under the terms and conditions specified in Code Section 409A and the Plan. Except as expressly provided in Article 5 (or otherwise permitted under Code Section 409A and applicable authorities), no acceleration of a distribution is permitted. A subsequent election that delays payment or changes the form of payment shall be permitted if, and only if, all of the following requirements are met:

- the new election does not take effect until at least twelve (12) months after the date on which the new election is made;

- in the case of a new election related to a payment not described in Treasury Regulation Sections 1.409A-3(a)(2), 1.409A-3(a)(3) or 1.409A-3(a)(6), the election delays such payment for at least five (5) years from the date that payment would otherwise have been made (or, in the case of installment payments, the first installment payment would otherwise have been made), absent the new election; and

- in the case of a new election related to a payment described in Treasury Regulation Section 1.409A-3(a)(4), the election is made not less than twelve (12) months before the date on which payment would otherwise have been made (or, in the case of installment payments, the first installment payment would otherwise have been made) absent the new election.

For purposes of applying the above change limitations, substantially level installment payments shall be treated as a single payment. Election changes made pursuant to this Section shall be made at the discretion of, and in accordance with rules established by, the Administrative Committee, and shall comply with all requirements of Code Section 409A and applicable authorities.

Notwithstanding the foregoing, with respect to modifications of the date or form of payment of Future Date Accounts established in the 2020 Plan Year, such modifications are permitted only in the case of changes up to a maximum age plus number of installments in the aggregate not to exceed the number 95 (i.e., not to exceed age 75 plus 20-year installments, or age 85 plus 10-year installments, etc.). With respect to modifications of the date or form of payment of Future Date Accounts established after the 2020 Plan Year, the maximum number of installments shall not exceed the number 20, regardless of a Participant's age.

ARTICLE 4.
Accounts, Crediting and Vesting

a. Accounts. Solely for recordkeeping purposes, effective January 1, 2021, a maximum of two Accounts, consisting of Termination Accounts and/or Future Date Accounts, or such greater number of each as may be permitted from time to time by the Administrative Committee, attributable to a Plan Year shall be maintained for each Participant and credited with the Participant's deferrals as directed in the applicable Participant Election for such deferral. A Participant who elects to have two (2) Accounts in any given Plan Year must allocate his Base Salary and Eligible Bonus into separate Accounts. One or more separate Company Contribution Accounts shall be maintained for the Participant and shall be credited with any Company Contributions at the time specified by the Administrative Committee. One or more separate Stock Unit Accounts may be maintained for the Participant and shall be credited with any deferred Restricted Stock Units and shall be credited at the time specified by the Administrative Committee. One or more Rollover Accounts shall be established for Participants having vested or unvested Account balances as of the Restatement Date. Each Account may be further divided into separate subaccounts for notional investment purposes ("Investment Subaccounts") to accommodate the direction of investments as provided in Section 4.2.

b. Investment Direction and Crediting Rate. Amounts, other than Restricted Stock Units, credited to a Participant's Accounts shall be credited with notional earnings or losses in a manner determined in the discretion of the Administrative Committee. Until such time as the Administrative Committee determines otherwise:

i. Rollover Accounts. Rollover Accounts shall be credited with notional earnings at a fixed crediting rate established by the Administrative Committee.

Notwithstanding the foregoing, the Administrative Committee may establish a procedure at a future date to allow Rollover Accounts to be credited with notional earnings or losses based on the Participant's investment direction according to the specifications of the following paragraph.

ii. New Accounts. Accounts established after the Restatement Date, other than Stock Unit Accounts, shall be credited with notional earnings or losses based on the Participant's choice among the investment alternatives or "funds" made available from time to time by the Administrative Committee. The Administrative Committee may establish a procedure by which a Participant may choose among investment funds specified by the Administrative Committee and may change investment elections daily on each business day, subject to administrative feasibility. At the discretion of the Administrative Committee, the Participant's applicable Account balance shall reflect the notional earnings or losses on the investment funds selected by the Participant. If an investment fund selected by a Participant sustains a loss, the Participant's applicable Account shall be reduced to reflect such loss. If the Participant fails to elect an investment alternative for a particular Account or Investment Subaccount, the notional crediting rate with respect to that Account or Investment Subaccount shall be based on the default investment alternative selected for this purpose by the Administrative Committee. The Participant's choice among investment funds shall be solely for purposes of the calculation of a notional crediting rate on the Participant's applicable Accounts. Notwithstanding any contrary provision of the Plan, the Company (and other Employers) shall have no obligation to set aside or invest funds as directed by the Participant and, whether or not the Company (or Employer) elects to invest funds as directed by the Participant, the Participant shall have no right to payment under the Plan other than as an unsecured general creditor of the Company (or Employer).

iii. Crediting During Payout Period. During payout, the Participant's Accounts, other than Stock Unit Accounts, shall continue to be credited at the notional crediting rate specified by the Administrative Committee or as selected by the Participant from among the investment alternatives or rates made available by the Administrative Committee. Installment payments shall be recalculated annually by dividing the applicable Account balance by the number of payments remaining without regard to anticipated notional earnings or losses, or in any other reasonable manner as may be determined from time to time by the Administrative Committee.

c. Crediting of Stock Unit Accounts. Stock Unit Accounts may be established under the Plan in the complete and sole discretion of the Administrative Committee and shall be subject to such additional terms and conditions as may be specified by the Administrative Committee from time to time. Amounts credited to a Stock Unit Account shall be distributed in the form of common stock of the Company or, in cash equal to the fair market value of the common stock of the Company as of the date of distribution, in the complete and sole discretion of the Administrative Committee, subject to the terms and limitations of the applicable Restricted Stock Unit plan and/or award agreement. Notwithstanding any other provisions of the Plan, no common stock shall be issued to a Participant in connection with a distribution under the Plan unless, and until, such Participant has executed such documentation as may be required by the Administrative Committee and agreed to comply with all applicable securities laws. The Administrative Committee shall administer any Stock Unit Account consistent with the terms of the applicable Restricted Stock Unit plan and agreement. The Administrative Committee shall have the discretion to make adjustments in the number of shares, or convert or allow a Participant to elect to convert shares, if any, payable with respect to Restricted Stock Units credited to a Stock Unit Account to an alternative form of security or cash as appropriate to accomplish the intent of the Plan to treat notional Restricted Stock Unit credits similarly to actual shares of Company common stock, all as may be directed by the Administrative Committee, in its complete and sole discretion, subject to the terms and limitations of the applicable Restricted Stock Unit plan and/or award agreement. Prior to any distribution of common stock, Participants shall have no rights as shareholders with respect to amounts or units credited to a Stock Unit Account except that Participants shall be entitled to receive additional credits to such Account in the amount of any cash or stock dividends payable on shares of Company common stock equal in number to the vested Restricted Stock Units credited to such Stock Unit Account. Any dividends payable on vested Restricted Stock Units credited to a Stock Unit Account shall be denominated in Restricted Stock Units and result in a credit of additional notional Restricted Stock Units to the applicable Stock Unit Account. Pursuant to Code Section 409A, such dividend equivalents shall be considered current earnings on the Stock Unit Account and shall be credited to the appropriate Account as of the date dividends are paid to shareholders of the Company and distributed at the same time and in the same form elected for the applicable Stock Unit Account.

d. Crediting of Accounts. A Participant's Accounts shall be credited as follows:

i. Participant Deferrals. On or before the third (3rd) business day after amounts would otherwise have been paid to the Participant, the Administrative Committee shall credit the Participant's applicable Account with an amount equal to Compensation deferred by the Participant and shall allocate such amount to Investment Subaccounts in accordance with the Participant's election under Section 4.2.2 or, in the case of a deferral of Restricted Stock Units, to the applicable Stock Unit Accounts.

ii. Company Contributions. On the date specified by the Administrative Committee for the crediting of a Company Contribution to the Plan on behalf of a Participant, the Administrative Committee shall credit the Participant's Company Contribution Account with an amount equal to the Company Contribution and shall allocate such amount to Investment Subaccounts in accordance with the Participant's election under Section 4.2.2.

iii. Distributions. Distributions shall be deducted by the Administrative Committee from the applicable Account as of the end of the day on which such distributions are made.

iv. Notional Earnings or Losses. Each business day, a Participant's Accounts (other than Stock Unit Accounts) shall be credited with notional earnings or losses in an amount equal to that determined by multiplying the balance credited to such Accounts or applicable Investment Subaccounts as of the prior day, less any distributions valued as of the end of the prior day, by the notional crediting rate for the corresponding fund as determined by the Administrative Committee.

e. Vesting of Accounts. The Participant shall be vested at all times in amounts credited to the Participant's Accounts, other than the Participant's Company Contribution Accounts. Amounts credited to the Participant's Company Contribution Accounts shall vest in accordance with the schedule determined and provided to the Participant at the time of contribution by the Administrative Committee. Unless otherwise specified by the Administrative Committee, amounts credited to the Participant's Company Contribution Account for a particular Plan Year shall vest at the end of the second Plan Year commencing after the Plan Year in which the services are performed in connection with such Company Contribution, provided that the Participant has not incurred a Separation from Service as of the scheduled vesting date. Notwithstanding the foregoing, in the event of a Change in Control or termination of the Plan pursuant to Section 9.1, all Company Contribution Accounts shall be fully vested as of such date.

f. Statement of Accounts. The Administrative Committee shall make available to each Participant electronic statements at least annually setting forth the Participant's Account balances as of the end of each Plan Year.

ARTICLE 5.
Distributions and Benefits

a. Distribution of Rollover Accounts. Rollover Accounts shall be distributed under the terms and conditions of the Plan as in effect prior to the Restatement Date, subject to modifications permissible under Section 3.3.2 and Code Section 409A.

b. Termination Distributions. Except as otherwise provided herein, in the event of a Participant's Separation from Service other than by reason of death or Disability, the Distributable Amount credited to the Participant's Termination Accounts, Company Contribution Accounts and Stock Unit Accounts shall be paid to the Participant in a single lump sum on the Payment Date following the Participant's Separation from Service unless, with respect to any individual Account where the Distributable Amount is at least fifty thousand dollars ($50,000) in value as of the commencement of distributions from such Account, the Participant has made an alternative benefit election on a timely basis pursuant to Section 3.3 to receive the benefits in substantially equal annual installments over up to twenty (20) years commencing on the Payment Date following the Participant's Separation from Service. Notwithstanding the foregoing, the Distributable Amount credited to a Termination Account established after the 2020 Plan Year shall be paid to the Participant in a single lump sum on the Payment Date following the Participant's Separation from Service unless the aggregate balance of all of the Participant's Accounts established after the 2020 Plan Year is at least fifty thousand dollars ($50,000) in value as of the commencement of distributions from the Participant's Termination Account, regardless of whether the Participant elected to receive such benefits in substantially equal annual installments. For Accounts established after 2020, the amount of any distributions of Accounts established after 2020 that are made in Plan Years prior to a Participant's Separation from Service will not be included when determining whether the aggregate balances in the Participant's Accounts exceeded $50,000 as of the commencement of distributions.

c. Scheduled Distributions. Each Participant shall be entitled to elect in accordance with Section 3.3 to allocate Participant deferrals (and, in the discretion of the Administrative Committee, Company Contributions) among up to three (3) Scheduled Distribution Accounts, or such greater number as may be permitted from time to time by the Administrative Committee. Distributions from a Scheduled Distribution Account shall commence on the earlier of the Payment Date in the Plan Year specified by the Participant for such Account (the "Specified Distribution Date"), or the Participant's Separation from Service other than by reason of death or Disability. Notwithstanding the foregoing, no deferrals shall be allocated to a Scheduled Distribution Account having a Specified Distribution Date which is earlier than the first day of the second Plan Year commencing after the Plan Year in which the deferrals would be credited to the Account. Payment from a Scheduled Distribution Account shall be paid in the form of a single lump sum unless the Participant has made a timely election under Section 3.3 that, if the Distributable Amount from a Scheduled Distribution Account is at least fifty thousand dollars ($50,000) as of commencement of distribution, such amount shall be paid in substantially equal annual installments over a period of up to five (5) years. In the event that amounts are mistakenly credited to a Scheduled Distribution Account having no Specified Distribution Date or a noncompliant commencement date, payments from such Account shall commence on Separation from Service and shall be distributed in the form of a single lump sum. A Participant may only delay and/or change the form of a Scheduled Distribution, provided such change complies with Section 3.3.2. Notwithstanding the foregoing, effective January 1, 2021, no further deferrals shall be allocated to a Scheduled Distribution Account.

5.4. Future Date Distributions. Each Participant shall be entitled to elect in accordance with Section 3.3 to allocate Participant deferrals (and, in the discretion of the Administrative Committee, Company Contributions) among up to two (2) Future Date Accounts attributable to a Plan Year, or such greater number as may be permitted from time to time by the Administrative Committee. A Participant may not allocate Participant deferrals or Company Contributions (if any) into an Account that is attributable to a different Plan Year than that in which the Participant makes an election pursuant to Section 3.3. Distributions from a Future Date Account shall commence on the Payment Date in the Plan Year specified by the Participant for such Account (the "Future Date Distribution Date"). Notwithstanding the foregoing, no deferrals shall be allocated to a Future Date Account having a Future Date Distribution Date which is earlier than the first day of the second Plan Year commencing after the Plan Year in which the deferrals would be credited to the Account. Payment from a Future Date Account shall be paid in the form of a single lump sum unless the Participant has made a timely election under Section 3.3 that, if the Distributable Amount from a Future Date Account is at least fifty thousand dollars ($50,000) as of commencement of distribution, such amount shall be paid in substantially equal annual installments over a period of up to twenty (20) years. Notwithstanding the foregoing, the Distributable Amount credited to a Future Date Account established after the 2020 Plan Year shall be paid to the Participant in a single lump sum on the Payment Date following the Participant's Separation from Service unless the aggregate balance of all of the Participant's Accounts established after the 2020 Plan Year is at least fifty thousand dollars ($50,000) in value as of the commencement of distributions from the Participant's Future Date Account, regardless of whether the Participant elected to receive such benefits in substantially equal annual installments. For Accounts established after 2020, the amount of any distributions of Accounts established after 2020 that are made in Plan Years prior to the date elected by the Participant for the commencement of payment from the Future Date Account will not be included when determining whether the aggregate balances in the Participant's Accounts exceeded $50,000 as of the commencement of distributions. Notwithstanding the foregoing, in the event that amounts are mistakenly credited to a Future Date Account having no Future Date or a noncompliant commencement date, payments from such Account shall commence on Separation from Service and shall be distributed in the form of a single lump sum. A Participant may only delay and/or change the form of a Future Date Distribution, provided such change complies with Section 3.3.2.

a. Death and Disability Benefits. In the event of the Participant's death or Disability prior to the commencement of, or the complete payment of, all benefits payable under the Plan, the Employer shall pay to the Participant or the Participant's Beneficiary, as applicable, a benefit equal to the Distributable Amount of all of the Participant's Accounts (other than a Rollover Account) in the form of a single lump sum payable at the end of the fifteenth (15th) month commencing after the month in which such event occurs, unless the Participant or Beneficiary, as applicable, makes a timely election during the first three (3) months following the event in compliance with Section 3.3.2 to receive the benefits over a period of up to fifteen (15) years in substantially equal annual installments.

b. Small Benefit Distribution. Notwithstanding the foregoing, in the event the sum of all benefits payable to the Participant from all of the Participant's Accounts at the time of the Participant's Separation from Service (and all other amounts payable to the Participant under other arrangements which are aggregated with this Plan under Section Code 409A) is less than the applicable dollar amount under Code Section 402(g)(1)(B) for the calendar year of payment, the Administrative Committee may, in its complete and sole discretion, pay all benefits to the Participant under the Plan in a single lump sum on the Payment Date following Separation from Service, subject to compliance with all requirements of Code Section 409A.

c. Distribution on Change in Control. If a Change in Control occurs before the applicable Account (other than a Rollover Account) has been fully distributed, the remaining balance of such Account shall be distributed in the form of a single lump sum payable at the end of the fifteenth (15th) month following the month in which such Change in Control occurs, unless the Participant makes a timely election during the first three (3) months following the Change in Control in compliance with Section 3.3.2 to delay commencement of benefits from such Account by a minimum of five (5) years and to receive the benefits in the form of a single lump sum or over a period of up to fifteen (15) years in substantially equal annual installments.

d. Hardship Distribution. Upon a finding that the Participant has suffered an Unforeseeable Emergency, subject to compliance with Code Section 409A, the Administrative Committee may, at the request of the Participant, approve a complete cessation of current deferrals under the Plan or accelerate distribution of benefits in the amount reasonably necessary to alleviate such financial hardship. The request to take a Hardship Distribution shall be made in the form and manner specified by the Administrative Committee. The amount distributed pursuant to this Section with respect to an Unforeseeable Emergency shall not exceed the amount necessary to satisfy such financial emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not itself cause severe financial hardship), or by taking into account the additional compensation that is available to the Participant as the result of cancellation of deferrals to the Plan. The amount determined by the Administrative Committee as a Hardship Distribution shall be paid in a single cash lump sum as soon as practicable after the end of the calendar month in which the Hardship Distribution election is made and approved by the Administrative Committee.

e. Designated Payment Date. Notwithstanding any contrary Plan provision, in accordance with Treasury Regulation Section 1.409A-3(d), a payment will be treated as made upon the date specified under the Plan (the "Designated Payment Date") if the payment is made (a) at such date or a later date within the same taxable year of the applicable Participant or, if later, by the fifteenth (15th) day of the third calendar month following the Designated Payment Date, or no earlier than thirty (30) days before the Designated Payment Date, and (b) the Participant is not permitted, directly or indirectly, to designate the taxable year of any payment.

ARTICLE 6.
Payee Designations and Limitations

a. Beneficiaries. Each Participant may, pursuant to such procedures as the Administrative Committee may specify, designate one or more Beneficiaries to whom payment under the Plan shall be made in the event of the Participant's death.

i. Spousal Consent. If a Participant designates a person or entity other than or in addition to his or her legal spouse as a primary Beneficiary, the designation will be ineffective unless the Participant's spouse consents to the designation. Any spousal consent required under this Section 6.1.1 will be ineffective unless it (a) is set forth in the form and manner specified in the discretion of the Administrative Committee, (b) acknowledges the effect of the Participant's designation of another person or entity as his or her primary Beneficiary under the Plan, and (c) is signed by the spouse and witnessed by an authorized agent of the Administrative Committee or a notary public. Notwithstanding this consent requirement, if the Participant establishes to the satisfaction of the Administrative Committee that spousal consent may not be obtained because the spouse cannot be located, his or her designation will be effective without spousal consent. Any spousal consent required under this Section 6.1.1 will be valid only with respect to the spouse who signs the consent. A Participant may revoke his or her Beneficiary designation at any time, provided such revocation is made pursuant to such procedures as the Administrative Committee may specify, and regardless of his or her spouse's previous consent to the Beneficiary designation being revoked, any such revoked designation shall be ineffective.

ii. Changes and Failed Designations. A Participant may designate different Beneficiaries (or may revoke a prior Beneficiary designation) at any time by delivering a new designation (or revocation of a prior designation) in accordance with Section 6.1.1. Any designation will be effective only upon its receipt by the Administrative Committee or its designee in good form but shall cease to be effective when a revocation of that designation is received by the Administrative Committee or its designee. The last effective designation received by the Administrative Committee will supersede all prior designations. However, if a Participant fails to designate a Beneficiary as provided above, or if every person designated as Beneficiary predeceases the Participant or dies prior to complete distribution of the Participant's benefits, then the Administrative Committee shall direct the distribution of such benefits to the Participant's surviving legal spouse, or, if the Participant is not survived by a legal spouse, to the Participant's estate.

b. Payments to Minors. In the event any amount is payable under the Plan to a minor, payment shall not be made to the minor, but instead shall be paid (i) to that person's living parent(s) to act as custodian, (ii) if that person's parents are then divorced, and one parent is the sole custodial parent, to such custodial parent, to act as custodian, or (iii) if no parent of that person is then living and the Administrative Committee so determines, to a custodian selected by the Administrative Committee to hold the funds for the minor under the Uniform Transfers or Gifts to Minors Act in effect in the jurisdiction in which the minor resides. If no parent is living and the Administrative Committee decides not to select a custodian to hold the funds for the minor, then payment shall be made to the duly appointed and currently acting guardian of the estate for the minor or, if no guardian of the estate for the minor is duly appointed and currently acting within sixty (60) days after the date the amount becomes payable, payment shall be deposited with the court having jurisdiction over the estate of the minor.

c. Payments on Behalf of Persons Under Incapacity. In the event that any amount becomes payable under the Plan to a person who, in the sole judgment of the Administrative Committee, is considered by reason of physical or mental condition to be unable to give a valid receipt therefore, the Administrative Committee may direct that such payment be made to any person found by the Administrative Committee, in its sole judgment, to have assumed the care and guardianship of such person. Any payment made pursuant to such determination shall constitute a full release and discharge of any and all liability of the Administrative Committee and the Company and each Participating Affiliate under the Plan.

d. Inability to Locate Payee. In the event that the Administrative Committee is unable to locate a Participant or Beneficiary within two (2) years following the scheduled Payment Date, the amount allocated to the Participant's Account shall be forfeited. If, after such forfeiture, the Participant or Beneficiary later claims such benefit, such benefit shall be reinstated without interest or earnings.

ARTICLE 7.
Administration/Claims Procedures

a. Administration. The Plan shall be administered by the Administrative Committee consisting of (a) the Corporate Vice President, Global Rewards, of the Company (the "CVP Global Rewards"); (b) the Corporate Controller of the Company (or an employee of the Company or an Affiliate appointed by the Corporate Controller; and (c) the Corporate Treasurer of the Company (or an employee of the Company or an Affiliate appointed by the Corporate

Treasurer). The CVP Global Rewards also may appoint to Administrative Committee membership up to two additional employees of the Company or an Affiliate. The CVP Global Rewards shall chair the Administrative Committee. Any appointed member of the Committee may be removed by the applicable appointing authority at any time. The Administrative Committee shall have the exclusive right and full discretion (i) to appoint agents or other delegates to act on its behalf and to appoint the Global Rewards Department of the Company to act on its behalf in the day to day administration of the Plan, (ii) to interpret the Plan, (iii) to decide any and all matters arising hereunder (including the right to remedy possible ambiguities, inconsistencies, or omissions), (iv) to make, amend and rescind such rules as it deems necessary for the proper administration of the Plan and (v) to make all other determinations and resolve all questions of fact necessary or advisable for the administration of the Plan, including determinations regarding eligibility for benefits payable under the Plan. All interpretations by the Administrative Committee and its agents or other delegates with respect to any matter hereunder shall be final, conclusive and binding on all persons affected thereby and shall be given the maximum possible deference permitted by law. No member of the Administrative Committee or agent or other delegate thereof shall be liable for any determination, decision, or action made in good faith with respect to the Plan. Each of the Employers shall indemnify and hold harmless the members of the Administrative Committee from and against any and all liabilities, costs, and expenses incurred by such persons as a result of any act or omission, in connection with the performance of such persons' duties, responsibilities, and obligations under the Plan, other than such liabilities, costs, and expenses as may result from the bad faith, willful misconduct, or criminal acts of such persons. Each decision of a majority of the members of the Administrative Committee then in office shall constitute the final and binding act of the Administrative Committee. The Administrative Committee may act with or without a meeting being called or held and shall keep minutes of all meetings held and a record of all actions taken. Except as otherwise specifically or generally directed by the Administrative Committee, any action of the Administrative Committee may be evidenced by a writing signed by any member thereof.

b. Claims Procedure. Any Participant, former Participant or Beneficiary who has a claim of any kind relating to the Plan must file such claim in writing with the Administrative Committee setting forth the nature of the benefit claimed, the amount thereof, and the basis for claiming entitlement to such benefit. The Administrative Committee shall determine the validity of the claim and communicate a decision to the claimant promptly and, in any event, not later than ninety (90) days after receipt of the claim. If additional information is necessary to make a determination on a claim, the claimant shall be advised of the need for such additional information within forty-five (45) days after receipt of the claim. The claimant shall have up to one hundred and eighty (180) days to supplement the claim information, and the claimant shall be advised of the decision on the claim within forty-five (45) days after the earlier of the date the supplemental information is supplied or the end of the one hundred and eighty (180) day period. Notwithstanding the foregoing, if the claim relates to a disability determination ("Disability Claim"), the decision shall be rendered within forty-five (45) days after receipt of the claim, which may be extended twice by an additional thirty (30) days per extension for matters beyond the control of the Administrative Committee. The claimant will be notified in writing of any such extension(s) before the end of the applicable decision period, as well as the circumstances requiring the extension, the date by which a decision on the claim is expected to be rendered and such other information required by ERISA. Every claim for benefits which is denied shall be denied by written notice setting forth in a manner calculated to be understood by the claimant (i) the specific reason or reasons for the denial, (ii) specific reference to any provisions of the Plan (including any internal rules, guidelines, protocols, criteria, etc.) on which the denial is based, (iii) description of any additional material or information that is necessary to process the claim and an explanation of why such material or information is necessary, (iv) an explanation of the procedure for further reviewing the denial of the claim and shall include an explanation of the claimant's right to submit the claim for binding arbitration in the event of an adverse determination on review (or legal action in the case of a Disability Claim), and (v) such other information required by ERISA (including, in the case of a denial of a Disability Claim based on a lack of medical necessity or because of an experimental, investigational, or unproven treatment or similar exclusion, an explanation of the scientific or clinical judgment for the claim determination, applying the terms of the Plan to the claimant's circumstances (or a statement that an explanation shall be provided free of charge upon request). For Disability Claims filed after April 1, 2018 ("New Disability Claims"), such notice shall also include: (a) a statement that, upon request and free of charge, the claimant shall be provided reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim; (b) either the specific internal rules, guidelines, protocols, standards, or other similar criteria relied upon in making the claim determination, or a statement that such rules, guidelines, protocols, standards, or similar criteria do not exist; and (c) if applicable, a discussion of the decision, including the basis for disagreeing with or not following (1) the views of health care professionals treating the claimant and vocational professionals who evaluated the claimant that were provided by the claimant, (2) the views of medical or vocational experts whose advice was obtained on behalf of the Plan in connection with the claim denial, without regard to whether the advice was relied upon in making the denial, and (3) a disability determination regarding the claimant made by the Social Security Administration if provided by the claimant.

c. Review Procedures. A claimant or his/her authorized representative may appeal a denied claim under the Plan by filing a written request for review of such denial with the Administrative Committee within sixty (60) days after the receipt of the denial (one hundred and eighty (180) days in the case of a Disability Claim). Such review shall be undertaken by the Administrative Committee and shall be a full and fair review. The claimant or his/her authorized representative shall have the right to review all pertinent documents and to submit written comments, documents and other information relating to the claim. In addition, for Disability Claims, the following rules shall apply: (i) the claim review shall be made by a person different from the person who made the initial determination, and such person will not be the original decision-maker's subordinate or afford deference to the initial claim denial; (ii) in the case of a claim denied on the grounds of a medical judgment, the Administrative Committee will consult with a health care professional with appropriate training and experience; (iii) the health care professional who is consulted on appeal shall not be the individual who was consulted during the initial determination or a subordinate of such person; and (iv) if the advice of a medical or vocational expert was obtained by the Plan in connection with the denial of a claim, the Administrative Committee shall provide the claimant with the names of each such expert, regardless of whether the advice was relied upon. Effective for New Disability Claims, before the Administrative Committee may issue a denial on appeal, the Administrative Committee will provide the claimant, free of charge, with any new or additional evidence that was considered, relied upon, or generated in connection with the claim. In addition, before the Administrative Committee may issue a denial on appeal based on new or additional rationale, the Administrative Committee will provide the claimant, free of charge, with such rationale. The Administrative Committee will provide such evidence or rationale, as applicable, as soon as possible and sufficiently in advance of the date by which a response to the claimant's appeal must be provided (as described above) in order to provide the claimant with a reasonable opportunity to respond prior to that date.

The Administrative Committee shall issue a decision not later than sixty (60) days after receipt of such request for review (forty-five (45) days in the case of a Disability Claim), unless special circumstances, such as the need to hold a hearing, require a longer period of time, in which case a decision shall be rendered as soon as possible but not later than one hundred and twenty (120) days after receipt of the claimant's request for review (ninety (90) days in the case of a Disability Claim). The claimant or his/her authorized representative will be notified in writing of any such extension before the end of the original 60-day review period (or 45-day review period in the case of a Disability Claim), as well as the circumstances requiring the extension, the date by which a decision is expected to be rendered and such other information required by ERISA. The decision on review shall be in writing and shall include specific reasons for the decision written in a manner calculated to be understood by the claimant with specific reference to the provisions of the Plan on which the decision is based and other information required by ERISA (including, in the case of a denial of a Disability Claim based on a lack of medical necessity or because of an experimental, investigational, or unproven treatment or similar exclusion, an explanation of the scientific or clinical judgment for the claim determination, applying the terms of the Plan to the claimant's circumstances (or a statement that an explanation shall be provided free of charge upon request)), as well as an explanation of the claimant's right to submit the claim for binding arbitration in the event of an adverse determination on review (or legal action in the case of a Disability claim) including, for New Disability Claims, the applicable time limits for doing so and the calendar date on which the time limit expires). For New Disability Claims, such written decision on review shall also include: (a) either the specific internal rules, guidelines, protocols, standards, or other similar criteria relied upon in making the adverse determination, or a statement that such rules, guidelines, protocols, standards, or similar criteria do not exist; and (b) if applicable, a discussion of the decision, including the basis for disagreeing with or not following (1) the views of health care professionals treating the claimant and vocational professionals who evaluated the claimant that were provided by the claimant, (2) the views of medical or vocational experts whose advice was obtained on behalf of the Plan in connection with the denial, without regard to whether the advice was relied upon in making the denial, and (3) a disability determination regarding the Participant made by the Social Security Administration if provided by the Claimant.

d. <u>Exhaustion of Plan's Claims and Review Procedures Required; Limitations on Any Legal Actions</u>. The Plan's claims and appeal procedures described above must be exhausted with respect to any claim of any kind relating to the Plan (unless a court determines, pursuant to Department of Labor Regulation Section 2560.503-1(l)(2), that the Plan's claims and appeal procedures were not followed with respect to New Disability Claims and should be deemed exhausted). If any legal action is permitted to be filed with respect to a Disability Claim under the Plan, such action must be brought by the claimant no later than one (1) year after the Administrative Committee's denial of the claim on review, regardless of any state or federal statutes establishing provisions relating to limitations on actions.

ARTICLE 8.
Conditions Related to Benefits

a. Nonassignability. The benefits provided under the Plan may not be alienated, assigned, transferred, pledged or hypothecated by any person, at any time, or to any person whatsoever. Those benefits shall be exempt from the claims of creditors or other claimants of the Participant or Beneficiary and from all orders, decrees, levies, garnishments or executions to the fullest extent allowed by law. Notwithstanding the foregoing, the Administrative Committee may establish procedures whereby some or all of one or more of a Participant's Account balances may be accelerated and/or paid to an alternative payee pursuant to a domestic relations order which complies with the requirements of Treasury Regulation Section 1.409A-3(j)(4)(ii).

b. No Right to Company or Employer Assets. The benefits paid under the Plan shall be paid from the general funds of the Employer or the Company, and the Participant and any Beneficiary shall be no more than unsecured general creditors of the Employer or the Company with no special or prior right to any assets of the Employer or the Company for payment of any obligations hereunder.

c. Protective Provisions. The Participant shall cooperate with the Administrative Committee by furnishing any and all information requested by the Administrative Committee, in order to facilitate the payment of benefits hereunder, taking such physical examinations as the Administrative Committee may deem necessary, consenting to insurance coverage and taking such other actions as may be requested by the Administrative Committee. If the Participant refuses to so cooperate, the Employer and the Company shall have no further obligation to the Participant under the Plan.

d. Compliance with Securities Laws. All payments scheduled to be made under the Plan shall comply with all applicable securities laws and may be delayed if the Administrative Committee reasonably believes that making the payment will violate any federal or state securities laws, subject to compliance with all applicable laws. Any such delayed payment will be made at the earliest date at which the Administrative Committee reasonably anticipates that the making of the payment will not cause such violation. For this purpose, the making of a payment under the Plan that would cause inclusion in gross income or the application of any penalty provision or other provision of the Code will not be treated as a violation of applicable law.

e. Withholding. The Participant shall make appropriate arrangements with the Administrative Committee for satisfaction of any federal, state or local income tax withholding requirements, Social Security and other employee tax or other requirements applicable to the deferral, crediting, vesting or payment of benefits under the Plan. The Company intends to deduct from each payment made under the Plan or any other compensation (including Company Contributions) payable to the Participant (or Beneficiary) all applicable taxes required to be withheld in respect of such payment or this Plan. The Employer shall have the right to reduce any payment (or other compensation) by the amount of cash sufficient to provide the amount of said taxes.

f. Receipt or Release. Any payment made in good faith to a Participant or the Participant's Beneficiary shall, to the extent thereof, be in full satisfaction of all claims against the HRCC, the Administrative Committee, their members and the Company and each Participating Affiliate. The Administrative Committee may require such Participant or Beneficiary, as a condition precedent to such payment, to execute a receipt and release to such effect.

g. Trust. The Company ultimately shall be responsible for the payment of all benefits under the Plan. At its discretion, the Company may establish one or more grantor trusts for the purpose of providing for the payment of benefits under the Plan. Such trust or trusts may be irrevocable, but the assets thereof shall be subject to the claims of the creditors of the Company (or Employer). Neither such trust or trusts, nor the assets thereof, however, shall be located outside of the United States. Benefits paid to the Participant (or his or her Beneficiary) from any such trust or trusts shall be considered paid by the Company (or Employer) for purposes of meeting the obligations of the Company (or Employer) under the Plan.

h. No Guarantee of Tax Consequences. Notwithstanding any contrary Plan provision, Participants (or their Beneficiaries) solely shall be responsible for all taxes and any other costs owed by them with respect to any deferrals or payments made under the Plan. The HRCC, the Administrative Committee, the Company and the other Employers make no guarantees regarding the tax treatment to any person of any deferrals or payments made under the Plan. Moreover, in no event will any Employer reimburse or pay any Participant or Beneficiary for any taxes or other costs incurred as a result of participation in the Plan.

ARTICLE 9.
Miscellaneous

a. Amendment or Termination of Plan. The HRCC (or its authorized delegate) may, at any time amend or terminate the Plan, except that no such amendment or termination may reduce a Participant's Account balances, reduce or delay the vesting of a Participant's Accounts or change the timing of payments except to the extent specifically permitted under Code Section 409A. If the Plan is terminated, no further amounts shall be deferred hereunder, and amounts previously deferred or contributed to the Plan shall be fully vested and shall be paid in accordance with the provisions of the Plan as scheduled prior to the Plan termination. Notwithstanding the foregoing, the HRCC may, in its complete and sole discretion, accelerate distributions under the Plan, whether upon termination of the Plan or otherwise, under any circumstances specifically authorized under Code Section 409A and applicable authorities not resulting in the imposition of additional Code Section 409A taxes or penalties.

b. Errors in Account Statements, Deferrals or Distributions. In the event an error is made in an Account statement, such error shall be corrected on the next statement following the date such error is discovered. In the event of an error in deferral amount, the error shall be corrected as soon as administratively practicable after discovery; (i) in the case of an excess deferral, by distribution of the excess amount to the Participant, or, (ii) in the case of an under deferral, by reduction of other compensation payable to the Participant in compliance with all requirements of Code Section 409A. In the event of an error in a distribution, the over or under payment shall be corrected by payment to or collection from the Participant consistent with the requirements of, or correction procedures established under, Code Section 409A, as soon as administratively practicable after the discovery of such error. In the event of an overpayment, the Administrative Committee may, at its discretion, offset other amounts payable to the Participant from the Employer (including but not limited to salary, bonuses, expense reimbursements, severance benefits or other employee compensation benefit arrangements, as allowed by law and subject to compliance with Code Section 409A) to recoup the amount of such overpayment(s).

c. Employment Not Guaranteed. Nothing contained in the Plan nor any action taken hereunder shall be construed as a contract of employment or for services, or as giving any Participant any right to continue the provision of services in any capacity whatsoever to the Company or any Participating Affiliate.

d. Successors of the Employer. The rights and obligations of each Employer under the Plan shall inure to the benefit of, and shall be binding upon, the successors and assigns of the applicable Employer.

e. Notice. Any notice or filing required or permitted to be given to the Company or the Participant under the Plan shall be sufficient if in writing and hand-delivered, or sent by registered or certified mail to, in the case of the Company, the principal office of the Company, directed to the attention of the Administrative Committee, and in the case of the Participant, to the last known address of the Participant indicated on the employment records of the Company. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification. Notices to the Company may be permitted by electronic communication according to specifications established by the Administrative Committee.

f. Headings. Headings and subheadings in this Plan are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

g. Gender, Singular and Plural. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, or neuter, as the identity of the person or persons may require. As the context may require, the singular may be read as the plural and the plural as the singular.

h. Validity. In the event any provision of the Plan is held invalid, void or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provisions of the Plan.

i. Waiver of Breach. The waiver by the Company or Employer of any breach of any provision of the Plan shall not operate or be construed as a waiver of any subsequent breach by that Participant or any other Participant.

j. Governing Law. The Plan is intended to be an unfunded plan maintained primarily to provide deferred compensation benefits for a select group of "management or highly compensated employees" within the meaning of Sections 201, 301 and 401 of ERISA and therefore to be exempt from Parts 2, 3 and 4 of Title I of ERISA. In the event any provision of, or legal issue relating to, this Plan is not fully preempted by federal law, such issue or provision shall be governed by the laws of the State of California (other than its conflict of laws provisions).

k. Binding Arbitration. Any claim, dispute or other matter in question of any kind relating to this Plan (other than a Disability Claim to the extent binding arbitration is prohibited by ERISA) that is not resolved by the claims and review procedures under this Plan shall be settled by arbitration in accordance with the applicable employment dispute resolution rules of the American Arbitration Association. Notice of demand for arbitration shall be made in writing to the opposing party and to the American Arbitration Association within a reasonable time after the claim, dispute or other matter in question has arisen. In no event shall a demand for arbitration be made after the date when the applicable statute of limitations would bar the institution of a legal or equitable proceeding based on such claim, dispute or other matter in question. The decision of the arbitrators shall be final and may be enforced in any court of competent jurisdiction. The arbitrators may award reasonable fees and expenses to the prevailing party in any dispute hereunder and shall award reasonable fees and expenses in the event that the arbitrators find that the losing party acted in bad faith or with intent to harass, hinder or delay the prevailing party in the exercise of its rights in connection with the matter under dispute.

l. Code Section 457A. Notwithstanding any contrary Plan provision, if the Administrative Committee determines that any deferred amount under the Plan is includible in a Participant's income under Code Section 457A and applicable guidance thereunder, such amount shall be paid to the Participant in a lump sum in the Participant's taxable year of such inclusion to the extent permitted under Code Section 409A and applicable guidance thereunder, including, but not limited to, Q&A 26 of IRS Notice 2009-8.

APPLIED MATERIALS, INC.

Date: December 18, 2020 /s/ Brit Wittman

Name: Brit Wittman

Title: Corporate Vice President, Global Rewards

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

APPLIED MATERIALS, INC.

PERFORMANCE SHARES AGREEMENT

NOTICE OF GRANT

Applied Materials, Inc. (the "**Company**") hereby grants you, **[EMPL_NAME]** (the "**Employee**"), an award of Performance Shares under the Company's Employee Stock Incentive Plan (the "**Plan**"). The date of this Performance Shares Agreement (the "**Agreement**") is December [_], 2020 (the "**Grant Date**"). Subject to the Terms and Conditions of Performance Shares Award (the "**Terms and Conditions**"), Appendix A attached hereto and the Plan, the principal features of this Award are as follows:

Target Number of Performance Shares:	**[TARGET_SHARES]** (which number is the **"Target Award**")
Vesting of Performance Shares:	A number of Performance Shares (which number could be zero) shall vest on October 26, 2025 (the "**Scheduled Vesting Date**"), subject to the terms of this Agreement, including but not limited to Appendix A, and the terms of the Plan.

IMPORTANT*:*

Your signature below indicates your agreement and understanding that this Award is subject to all of the Terms and Conditions (including Appendix A) and the Plan. For example, important additional information on vesting and forfeiture of this Award is contained in paragraphs 3 through 5 and 11 of the Terms and Conditions, as well as in Appendix A, and in Sections 4.5 and 13.10 of the Plan. **PLEASE BE SURE TO READ ALL OF THE TERMS AND CONDITIONS AND APPENDIX A.**

EMPLOYEE

____
[EMPL_NAME]

Date: _______________

Be sure to retain a copy of your signed Agreement. You may obtain a copy at any time and at the Company's expense by requesting one from Stock Programs (see paragraph 12 of the Terms and Conditions).

TERMS AND CONDITIONS OF PERFORMANCE SHARES AWARD

1. Grant. Applied Materials, Inc. (the "**Company**") hereby grants to the Employee the number of Performance Shares equal to, less than or greater than the Target Award set forth on the first page of the Notice of Grant of this Agreement, subject to all the terms and conditions in this Agreement (including the Notice of Grant, Terms and Conditions, and Appendix A) and the Plan. When Shares are delivered to the Employee as payment for vested Performance Shares, the par value of each Share will be deemed paid by the Employee by past services rendered by him or her to the Company. Payment of Shares shall be subject to the applicable tax withholdings. 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 Share has a value equal to the Fair Market Value of a Share on the Grant Date. Unless and until the Performance Shares have vested in the manner set forth in paragraphs 3 through 5, or paragraph 11, or Sections 4.5 or 13.10 of the Plan, the Employee will have no right to payment of such Performance Shares. Prior to actual payment of any vested Performance Shares, such Performance Shares will represent an unsecured obligation of the Company. Payment of any vested Performance Shares will be made in whole Shares only, provided, however, that if the Company determines that it is necessary or advisable, the Shares subject to the Performance Shares shall be sold immediately upon settlement of the Performance Shares, and the Employee shall receive the proceeds from the sale, less any applicable fees and taxes or other required withholding.

3. Vesting Schedule. 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 Shares awarded by this Agreement will vest in accordance with the vesting provisions set forth in Appendix A. Subject to paragraphs 4(b) and (d) below, the Performance Shares 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 Shares (or such later date as required pursuant to Appendix A).

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 Shares that are not then vested 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 Appendix A 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 Shares 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 Shares that are not then vested will immediately terminate.

(iv) Example 1. Employee's Performance Shares are scheduled to vest on January 1 of the next calendar year. On May 1 of the current calendar year, Employee begins a six-month PLOA. The vesting schedule of Employee's Performance Shares remains unchanged and will still be scheduled to vest on January 1 of the next calendar year.

(v) Example 2. Employee's Performance Shares are scheduled to vest on January 1 of the next calendar year. On May 1 of the current calendar year, Employee begins a nine-month PLOA. Employee's Performance Shares that are scheduled to vest after November 2 of the current calendar year will be modified (this is the date on which the Employee's PLOA exceeds six (6) months). Employee's Performance Shares now will be scheduled to vest on April 1 of the next calendar year (three (3) months after the originally scheduled date).

(vi) Example 3. Employee's Performance Shares are scheduled to vest on January 1 of the next calendar year. On May 1 of the current calendar year, Employee begins a 13-month PLOA. Employee's Performance Shares will terminate on May 2 of the next calendar year.

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 Shares that are scheduled to vest during the first six (6) months of the Employee's PLOA will continue to vest as scheduled. However, Performance Shares 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, to the extent permissible under Section 409A of the Code. The vesting schedule for the Performance Shares will be modified, if at all, 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 Employee's Target Award 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 the Performance Shares, this paragraph 4(b) will be limited to the extent required to comply with Applicable Law.

(c) *Change of Control*. In the event of a Change of Control, the Performance Shares 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 Shares shall be accelerated to the extent provided under Section 13.10 of the Plan.

(d) *Termination without Cause*. In the event that the Employee incurs a Termination of Service by reason of involuntary termination by the Company without Cause, the Employee will vest in the number of Performance Shares awarded under this Agreement earned as determined and certified by the Committee on the date of such termination in accordance with Appendix A except that the Performance Period will be deemed to end on the date of such termination.

5. Committee Discretion. The Committee, in its discretion, may at any time accelerate the vesting of all or a portion of any unvested Performance Shares, subject to the terms of the Plan. If so accelerated, such Performance Shares 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 Shares, the payment of such accelerated Performance Shares 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 Shares.

Notwithstanding anything in the Plan or this Agreement to the contrary, if the vesting of all or a portion of any unvested Performance Shares 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 Shares 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 Shares 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 Shares will be paid in Shares 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 Shares provided under this Agreement or Shares 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 Shares that vest in accordance with paragraph 3 or 4 of this Agreement or Section 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 Shares. Any Performance Shares that vest in accordance with paragraph 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 Share that vests, the Employee will receive one Share, subject to withholding under paragraph 8.

7. Forfeiture. Notwithstanding any contrary provision of this Agreement and except in the event of Employee's death or termination without Cause (see paragraph 4(b) and 4(d)), any Performance Shares 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 Shares subject to this Award in accordance with paragraph 16 of the Agreement.

8. Withholding of Taxes. When Shares are issued as payment for vested Performance Shares 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 Shares that has an aggregate market value sufficient to pay all taxes and social insurance liability and other requirements in connection with the Shares, 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 sale of the Performance Shares and the Shares issued 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**"). The number of Shares withheld pursuant to the prior sentence will be rounded up to the nearest whole Share, with no refund provided in the U.S. for any value of the Shares withheld in excess of the Tax Obligations as a result of such rounding. Notwithstanding the foregoing, the Company (or, in respect of an Employee subject to Section 16 of the 1934 Act, the HRCC), in its sole discretion, may require the Employee to make alternate arrangements satisfactory to it for such Tax Obligations in advance of the arising of any Tax Obligations.

Notwithstanding any contrary provision of this Agreement, no Shares will be issued 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 Shares. 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 deliverable Shares or that are due prior to the issuance of Shares under the Performance Shares. All Tax Obligations related to the Performance Shares and any Shares 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 Appendix A of this Agreement.

9. Rights as Stockholder. 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 Shares deliverable hereunder unless and until certificates representing such Shares (which may be in book entry form) will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Employee (including through electronic delivery to a brokerage account). Notwithstanding any contrary provision of this Agreement, any quarterly or other regular, periodic dividends or distributions (as determined by the Company) paid on Shares will affect neither unvested Performance Shares nor Performance Shares that are vested but unpaid, and no such dividends or other distributions will be paid on unvested Performance Shares or Performance Shares that are vested but unpaid. After such issuance, recordation and delivery, the Employee will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

10. No Effect on Employment. 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 Appendix A 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. Changes in Performance Shares. If as a result of a 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, the Performance Shares will be increased, reduced or otherwise affected, and by virtue of any such event, the Employee will, as the owner of unvested Performance Shares (the "**Prior Performance Shares**"), be entitled to new or additional or different shares of stock, cash or other securities or property (other than rights or warrants to purchase securities); such new or additional or different shares, cash or securities or property will thereupon be considered to be unvested Performance Shares and will be subject to all of the conditions and restrictions that were applicable to the Prior Performance Shares pursuant to this Agreement and the Plan. If the Employee receives rights or warrants with respect to any Prior Performance Shares, such rights or warrants may be held or exercised by the Employee, provided that until such exercise, any such rights or warrants, and after such exercise, any shares or other securities acquired by the exercise of such rights or warrants, will be considered to be unvested Performance Shares and will be subject to all of the conditions and restrictions that were applicable to the Prior Performance Shares pursuant to the Plan and this Agreement. The Committee, in its sole discretion, at any time may (subject to paragraph 5) accelerate the vesting of all or a portion of such new or additional shares of stock, cash or securities, rights or warrants to purchase securities or shares or other securities acquired by the exercise of such rights or warrants; provided, however, that the payment of such accelerated new or additional awards will be made in accordance with the provisions of paragraph 5.

12. Address for Notices. 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., 3050 Bowers Avenue, M/S 1213, P.O. Box 58039, Santa Clara, CA 95052-8039, 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 Shares 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 Shares in payment of the Performance Shares. 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. Restrictions on Sale of Securities. The Employee's sale of the Shares issued as payment for vested Performance Shares will be subject to any market blackout period that may be imposed by the Company and must comply with the Company's insider trading policies, and all applicable securities and other laws.

15. Binding Agreement. Subject to the limitation on the transferability of the Performance Shares 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.

16. 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 Shares 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 Shares, 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 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 Shares 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 Shares 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 Shares 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 aftertax portion of the Clawback Amount, unless otherwise required by Applicable Laws.

17. Additional Conditions to Issuance of Certificates for Shares. The Company will not be required to issue any certificate or certificates (which may be in book entry form) for Shares payable under this Agreement prior to fulfillment of all of the following conditions: (a) the admission of such Shares to listing on all stock exchanges on which such class of stock is then listed; (b) the completion of any registration or other qualification of such Shares under any U.S. state or federal law or under the rulings or regulations of the Securities and Exchange Commission or any other U.S. or nonU.S. governmental regulatory body, which the Committee, in its sole discretion, will have determined to be necessary or advisable; (c) the obtaining of any approval or other clearance from any U.S. state or federal governmental agency or non-U.S. governmental agency, which the Committee, in its sole discretion, will have determined to be necessary or advisable; and (d) the lapse of such reasonable period of time following the vesting date of the Performance Shares, as the Committee may establish from time to time, for reasons of administrative convenience.

18. 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.

19. 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 Shares 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.

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

21. 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.

22. 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 Shares pursuant to this Agreement.

23. Amendment, Suspension or Termination of the Plan. By accepting this Performance Shares award, the Employee expressly warrants that he or she has received a right to receive stock 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.

24. Labor Law. By accepting this Performance Shares award, the Employee acknowledges that: (a) the grant of these Performance Shares is a one-time benefit which does not create any contractual or other right of the Employee to receive future grants of Performance Shares, or benefits in lieu of Performance Shares; (b) all determinations with respect to any future grants, including, but not limited to, when the Performance Shares will be granted, the number of Performance Shares subject to each award and when the Performance Shares 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 Shares is an extraordinary item of compensation that is outside the scope of the Employee's employment contract, if any; (e) these Performance Shares 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 Shares shall cease upon Termination of Service for any reason, except as may otherwise be explicitly provided in the Plan or this Agreement; (g) the future value of the underlying Shares is unknown and cannot be predicted with certainty; (h) these Performance Shares have been granted to the Employee in the Employee's status as an employee of the Company or its Affiliates; and (i) there shall be no additional obligations for any Affiliate employing the Employee as a result of these Performance Shares.

25. Information on the Collection, Processing and Use of Employee Data. In administering this Performance Shares award, the Company will collect, use and transfer the Employee 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 Shares or any other entitlement to shares of stock 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 aforementioned Data will be collected, processed and used during and after the employment relationship. Data is not retained for longer than necessary to meet its intended purpose or for longer than required by applicable law.

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 Shares of stock acquired from this award of Performance Shares, as may be required for the administration of the Plan and/or the subsequent holding of Shares of stock on his or her behalf. Subject to limitations set out in applicable law, the Employee has certain rights in respect of his or her Data, such as a right to access, correction, restriction, erasure, opposition and portability. Requests to exercise those rights can be made to 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 opposing the collection and use of the Data may affect the Employee's ability to participate in the Plan. For more information on the consequences of the Employee's opposition to the collection or use of the Data, the Employee understands that he or she may contact the Employee's local Human Resources representative.

26. Notice of Governing Law. This award of Performance Shares 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.

* * *

Appendix A

PERFORMANCE GOALS AND VESTING SCHEDULE

A. Performance Goals. The number of Performance Shares that may be earned under the Award will be determined based on the Company's highest average closing stock price as reported by the Nasdaq Global Select Market for any twenty (20) consecutive trading days during a performance period beginning on October 26, 2020 and ending on October 26, 2025 (the "**Performance Period**") plus dividends paid during the Performance Period ("**Total Shareholder Return**") measured against the levels of Total Shareholder Return ("**TSR Hurdles**") as set forth below.

Percentage of Target Award Earned	TSR Hurdles
0%	Less than $104.40
50%	$104.40
100%	$119.40
150%	$129.40
200%	$144.40 and above

Should the Company's Total Shareholder Return fall between $104.40 and $119.40, $119.40 and $129.40 or $129.40 and $144.40, the percentage of the Target Award earned will be based upon straight-line interpolation.

B. Measurement and Certification of Performance Goals. As soon as practicable after October 26, 2025, the Human Resources and Compensation Committee of the Company's Board of Directors (the "**Committee**") shall determine and certify achievement of the Company's Total Shareholder Return against the TSR Hurdles and approve the percentage of Target Award earned.

Notwithstanding anything to the contrary in paragraph 4(a) of the Terms and Conditions, if the Employee takes a PLOA, the Performance Period and the determination of the number of Performance Shares that may be earned will not be affected by the Employee's PLOA. However, if the Employee takes a PLOA and the Employee holds earned Performance Shares, the time-based vesting schedule of such earned Performance Shares will be subject to the provisions of paragraph 4(a) of the Terms and Conditions.

The Committee, in its sole discretion, shall make all determinations regarding the Total Shareholder Return, TSR Hurdles and percentage of Target Award earned and any adjustments, as necessary or appropriate. Determinations made by the Committee will be final and binding on all parties and will be given the maximum discretion permitted by law.

C. Time-Based Vesting. Subject to paragraph B above, any earned Performance Shares shall vest in full on the Scheduled Vesting Date, provided that the Employee remains an employee of the Company or one of its Affiliates through such date (subject to the provisions of paragraph of 4 of the Terms and Conditions).

D. Forfeiture of Performance Shares. Any Performance Shares that have not vested will be forfeited on the earliest to occur of: (i) the Scheduled Vesting Date (or such later date, as applicable, if the vesting of the Performance Shares has been deferred due to a PLOA in accordance with the provisions of paragraph 4 of the Terms and Conditions), (ii) the date on which the duration of the Employee's PLOA exceeds twelve (12) months and one (1) day, in accordance with paragraph 4(a) of the Terms and Conditions of this Agreement, as applicable, or (iii) the date the Employee's employment with the Company or one of its Affiliates is terminated (subject to paragraph 4 of the Terms and Conditions). All unearned Performance Shares shall be automatically forfeited on the Scheduled Vesting Date.

* * *

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 25, 2021

/s/ GARY E. DICKERSON

Gary E. Dickerson
President, Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Daniel J. Durn, 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 25, 2021

/s/ DANIEL J. DURN

Daniel J. Durn

Senior Vice President, Chief Financial Officer

EXHIBIT 32.1

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 31, 2021, 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 31, 2021 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 31, 2021 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: February 25, 2021

/s/ GARY E. DICKERSON

Gary E. Dickerson
President, Chief Executive Officer

EXHIBIT 32.2

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 31, 2021, I, Daniel J. Durn, 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 31, 2021 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 31, 2021 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: February 25, 2021

/s/ DANIEL J. DURN

Daniel J. Durn
Senior Vice President, Chief Financial Officer