

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended October 29, 2006

or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 000-06920

Applied Materials, Inc.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

3050 Bowers Avenue, P.O. Box 58039

Santa Clara, California

(Address of principal executive offices)

94-1655526

*(I.R.S. Employer
Identification No.)*

95052-8039

(Zip Code)

Registrant's telephone number, including area code:

(408) 727-5555

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

Title of Each Class
Common Stock, par value \$.01 per share
Rights to Purchase Series A Junior Participating Preferred Stock

Name of Each Exchange on Which Registered
The NASDAQ Stock Market LLC
The NASDAQ Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer
Large accelerated filer Accelerated filer Non-accelerated

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

Aggregate market value of the voting stock held by non-affiliates of the registrant as of April 30, 2006, based upon the closing sale price reported by the Nasdaq National Market on that date: \$27,977,029,109.

Number of shares outstanding of the registrant's Common Stock, \$.01 par value, as of November 26, 2006: 1,392,743,007

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the definitive Proxy Statement for Applied Materials, Inc.'s Annual Meeting of Stockholders to be held on March 14, 2007 are incorporated by reference into Part III of this Form 10-K.

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Caution Regarding Forward-Looking Statements

This Annual Report on Form 10-K of Applied Materials, Inc. and its subsidiaries (Applied or the Company) contains forward-looking statements. All statements in this Annual Report, including those made by the management of Applied, other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding Applied's future financial results, operating results, cash flows and cash deployment strategies, business strategies, projected costs, products, competitive positions, management's plans and objectives for future operations, acquisitions and joint ventures, growth opportunities, and legal proceedings, as well as semiconductor and semiconductor-related industry trends. These forward-looking statements are based on management's estimates, projections and assumptions as of the date hereof and include the assumptions that underlie such statements. Forward-looking statements may contain words such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "predict," "potential" and "continue," the negative of these terms, or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed below and in Item 1A, "Risk Factors." Other risks and uncertainties are disclosed in Applied's prior Securities and Exchange Commission (SEC) filings. These and many other factors could affect Applied's future financial condition and operating results and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by Applied or on its behalf. Applied undertakes no obligation to revise or update any forward-looking statements.

The following information should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in this Annual Report. All references to fiscal year apply to Applied's fiscal year which ends on the last Sunday in October of each year.

PART I

Item 1: Business

Organized in 1967, Applied, a Delaware corporation, develops, manufactures, markets and services fabrication equipment for the worldwide semiconductor and semiconductor-related industries. Customers for these products include manufacturers of semiconductor chips and wafers, flat panel displays, and other electronic devices such as solar photovoltaic (PV) cells. These customers use what they manufacture in their own products or sell them to other companies for use in advanced electronic components.

During fiscal 2006, Applied made certain changes to its internal financial reporting structure and, as a result, is reporting four segments: Silicon, Fab Solutions, Display, and Adjacent Technologies. A summary of net sales, operating income, depreciation/amortization, capital expenditures and assets for reportable segments is found in Note 10 to the Consolidated Financial Statements. A discussion of factors potentially affecting Applied's operations is set forth under "Risk Factors" in Item 1A, which is incorporated herein by reference.

Silicon Segment

Applied's Silicon segment comprises a wide range of manufacturing equipment used to fabricate semiconductor chips. Applied currently offers systems that perform most of the primary steps in the chip fabrication process, including: atomic layer deposition (ALD), chemical vapor deposition (CVD), physical vapor deposition (PVD), electrochemical plating (ECP), etch, ion implantation, rapid thermal processing (RTP), chemical mechanical planarization (CMP), wafer wet cleaning, wafer metrology and inspection, and systems that etch, measure and inspect circuit patterns on masks used in the photolithography process.

Most chips are built on a silicon wafer base and include a variety of circuit components, such as transistors and other devices, that are connected by multiple layers of wiring (interconnects). To build a chip, the transistors, capacitors and other circuit components are first created on the surface of the wafer by performing a series of processes to deposit and selectively remove successive film layers. Similar processes are then used to build the layers of wiring structures on the wafer. As the density of the circuit components increases to enable greater computing power in the same or smaller area, the complexity of building the chip also increases, necessitating more process steps to form smaller structures and more intricate wiring schemes. A typical, simplified process sequence for building the wiring portion of chips involves initially depositing a dielectric film layer onto the base layer of circuit components using a CVD system. An etch system is then used to create openings and patterns in the dielectric layer. To form the metal wiring, these openings and patterns are subsequently filled with conducting material using PVD and/or ECP technologies. A CMP step then polishes the wafer to achieve a flat surface. Additional deposition, etch and CMP steps are then performed to build up the layers of wiring needed to complete the interconnection of the circuit elements to form the chip. Advanced chip designs require about 500 steps involving these and other processes to complete the manufacturing cycle.

Over time, the semiconductor industry has migrated to increasingly larger wafers to build chips. The predominant wafer size used for volume production today is 200 millimeter (mm), or eight-inch, wafers, but a substantial number of advanced fabs now use 300mm, or 12-inch, wafers to gain the economic advantages of a larger surface area. The majority of new fab capacity is 300mm. Applied offers a comprehensive range of systems and, through its Fab Solutions segment, products and services to support 200mm and 300mm wafer processing.

A majority of process steps used in chipmaking are performed to build the interconnect, a complex matrix of microscopic wires that carry electrical signals to connect the transistor and capacitor components of a chip. While some customers are still using aluminum as the main conducting material for the interconnect, many have transitioned to copper. Copper has lower resistance than aluminum and can carry more current in a smaller area. Applied is the leading supplier of systems for manufacturing copper-based chips, and supplies systems for depositing, etching and planarizing the copper interconnect layers.

Complementing the transition to copper to improve chip speed is the use of low dielectric constant (low k) films to replace silicon dioxide material as the insulator between the copper wiring structures. Applied leads the industry in providing low k dielectric systems to chip manufacturers and many of these customers use the Company's

Applied Producer Black Diamond® system in volume production. Applied's second-generation system for low k dielectric film, the Applied Producer Black Diamond II, further reduces the dielectric constant to enhance the speed of customers' most advanced chip designs.

The transistor portion of the chip is another area in which semiconductor manufacturers are improving their device designs to enhance speed. Applied has the industry's largest portfolio of technically advanced products for building smaller and faster transistors. One such area is strain engineering, a technique that stretches or compresses the space between atoms, allowing current to flow more quickly, thus greatly enhancing chip performance. Applied leads the equipment industry in providing solutions to enable these applications with products such as its Applied Producer Stress Nitride, Applied Producer HARP (high aspect ratio process) and Applied Centura Epi systems.

Most of Applied's products are single-wafer systems with multiple process chambers attached to a base platform. Each wafer is processed separately in its own environment, allowing precise process control, while the system's multiple chambers enable simultaneous, high productivity manufacturing. Applied sells most of its single-wafer, multi-chamber systems on four basic platforms: the Centura®, the Endura®, the Producer® and the Vantage®. These platforms currently support ALD, CVD, PVD, etch and RTP technologies.

The following summarizes Applied's portfolio of products and their associated process technology areas reported under its Silicon segment.

Deposition

Deposition is a fundamental step in fabricating a chip. During deposition, layers of dielectric (an insulator), barrier, or electrically conductive (typically metal) films are deposited or grown on a wafer. Applied currently provides equipment to perform the four main types of deposition: ALD, CVD, PVD and ECP. In addition, Applied's RTP systems can be used to perform certain types of dielectric deposition.

Atomic Layer Deposition

ALD is an emerging technology in which atoms are deposited one layer at a time to build chip structures. This technology enables customers to fabricate thin films of either conducting or insulating material with uniform coverage in sub-nanometer sized structures. Applied offers ALD chambers for depositing tungsten and tantalum nitride films. The Applied Endura iCuBS™ product is the industry's first system to integrate ALD and PVD chambers on a single platform for depositing critical barrier and seed layers in copper interconnects. The Applied Centura iSprint™ Tungsten system (iSprint) combines an ALD chamber, which deposits a tungsten nucleation film, with a CVD tungsten bulk fill process in one system. The iSprint is used to form contact structures that connect the transistors to the wiring areas of the chip.

Chemical Vapor Deposition

CVD is used by customers to deposit dielectric and metal films on a wafer. During the CVD process, gases that contain atoms of the material to be deposited react on the wafer surface, forming a thin film of solid material. Films deposited by CVD may be silicon oxide, single-crystal epitaxial silicon, amorphous silicon, silicon nitride, dielectric anti-reflective coatings, low k dielectric (for highly efficient insulating materials), aluminum, titanium, titanium nitride, polysilicon, tungsten, refractory metals or silicides. Applied offers the following CVD products and technologies:

The Applied Producer CVD system — This high-throughput platform features Twin-Chamber™ modules that have two single-wafer process chambers per unit. Up to three Twin-Chamber modules can be mounted on each Producer platform, giving it a simultaneous processing capacity of six wafers. Many dielectric CVD processes can be performed on this platform. Key processes that help chipmakers extend their current lithography tools are the Applied Producer APF-e™ (advanced patterning film) and the Applied Producer DARC® (dielectric anti-reflective coating) films. Together, they provide a film stack with the precise dimensional control and compatibility needed to cost-effectively pattern nano-scale features without additional integration complexity.

The Applied Centura Ultima HDP-CVD® system — High-density plasma CVD (HDP-CVD) is used to fill very small, deep spaces (gap-fill) with dielectric film. This product is used by a number of major integrated circuit manufacturers for gap-fill applications, including the deposition of silicon oxides in substrate isolation structures, contacts and interconnects.

Low k Dielectric Films — Many integrated circuit manufacturers are now incorporating new low k dielectric materials in their copper-based chip designs to further improve interconnect speed. The Applied Producer Black Diamond CVD low k system is being used by several customers in volume production to produce some of the industry's most advanced devices. Using conventional CVD equipment, the Black Diamond product provides customers with a proven, cost-effective way to transition to this new material. The Applied Producer Black Diamond II is a second-generation dielectric that provides a lower k-value film for building faster 65 nanometer (nm) generation and below chip designs. A complementary low k dielectric, called the Applied Producer BLOk™ (Barrier low k), enables the complete, multi-layer dielectric structure to benefit from low k technology.

Epitaxial Deposition — Epitaxial silicon (epitaxy or epi) is a layer of pure silicon grown in a uniform crystalline structure on the wafer to form a high quality base for the device circuitry. Epi technology is used in an increasing number of integrated circuit devices in both the wafer substrate and transistor areas of a chip to enhance speed. The Applied Centura Epi system integrates pre- and post-epi processes on the same system to improve film quality and reduce production costs. This system is also being used for silicon-germanium epi technology, which can reduce power usage and increase speed in certain types of advanced chips. For emerging transistor designs, the Applied Centura RP Epi system offers selective epi processes to enable faster transistor switching without the need to shrink the scale of the device.

Polysilicon Deposition — Polysilicon is a type of silicon used to form portions of the transistor structure within the integrated circuit device. The Applied Centura Polygen™ LPCVD (low pressure chemical vapor deposition) system is a single-wafer, multi-chamber product that deposits thin, polysilicon films at high temperatures to create transistor gate structures. To address the challenging requirements of shrinking transistor gate structures, the Applied Centura DPN Gate Stack system integrates chambers for decoupled plasma nitridation (DPN), RTP anneal and polysilicon deposition on one platform to enable superior film quality and material properties.

Silicon Nitride Deposition — The Applied Centura SiNgen® Plus LPCVD system is a single-wafer, high-temperature system that deposits silicon nitride films for transistor applications. This system minimizes the amount of time the wafer is exposed to high temperatures and reduces particles while improving operating cost and productivity in critical transistor nitride layers.

Aluminum Deposition — In fiscal 2006, the Company introduced its Applied CVD Al (aluminum) process technology for building high-density interconnects in Flash and DRAM memory chips. Aluminum continues to be the material used by many memory manufacturers for interconnects. This advanced process, for sub-90nm generations, enables customers to replace tungsten structures with aluminum to achieve faster chips with fewer steps and less cost.

Tungsten Deposition — Tungsten is used in the contact area of a chip that connects the transistors to the wiring circuitry. In aluminum-based devices, tungsten is also used in the structures that connect the multiple layers of aluminum wiring. The Company has two products for depositing tungsten: the Applied Centura Sprint® Tungsten CVD system for 90nm and below devices and the Applied Centura iSprint ALD/CVD system for more advanced applications. The latter product combines ALD technology and CVD chambers on the same platform.

Physical Vapor Deposition

PVD, also called sputtering, is a physical process in which atoms of a gas, such as argon, are accelerated toward a metal target. The metal atoms chip off, or sputter away, and are then deposited on the wafer. Applied leads the industry in PVD technology with its Applied Endura PVD system. This system offers a broad range of advanced

deposition processes, including aluminum, aluminum alloys, cobalt, titanium/titanium nitride, tantalum/tantalum nitride, tungsten/tungsten nitride, nickel, vanadium and copper (Cu).

The Applied Endura CuBS (copper barrier/seed) PVD system is widely used by customers for fabricating copper-based chips. Using PVD technology, the system deposits critical layers that prevent copper material from entering other areas of the device and primes the structure for the subsequent deposition of bulk copper by electrochemical plating. In fiscal 2006, Applied enhanced this system with new pre-clean chamber technology, extending the system's capabilities to 45nm-generation and below copper-low k interconnects.

The Applied Endura system's highly flexible, multi-chamber architecture allows the integration of multiple PVD processes or combinations of metal CVD and PVD technologies on the same system. In addition to the integrated Applied Endura iCuBS ALD/PVD system (discussed in the Atomic Layer Deposition section), the Applied Endura iLB™ (integrated liner barrier) system combines a PVD chamber for depositing titanium with a CVD chamber for titanium nitride deposition to form critical lining layers of interconnect structures. These structures are subsequently filled with tungsten, aluminum or other materials. In fiscal 2006, Applied announced significant advances to its Endura iLB system to meet the requirements of customers' leading-edge device designs.

Electrochemical Plating

Electrochemical plating is a process by which metal atoms from a chemical fluid (an electrolyte) are deposited on the surface of an immersed object. Its main application in the semiconductor industry is to deposit copper in interconnect wiring structures. This process step follows the deposition of barrier and seed layers that prevent the copper from contaminating other areas of the device and improve the adhesion of the copper film.

The Applied SlimCell™ ECP (electrochemical plating) system offers a small-volume cell design that enables a reduction in defect levels compared to conventional systems while reducing chemical consumption.

Etch

Etching is used many times throughout the integrated circuit manufacturing process to selectively remove material from the surface of a wafer. Before etching begins, the wafer is coated with a light-sensitive film, called photoresist. A photolithography process then projects the circuit pattern onto the wafer. Etching removes material only from areas dictated by the photoresist pattern. Applied offers a full range of systems for etching dielectric, metal and silicon films to meet the requirements of sub-100nm processing.

For dielectric applications, the Applied Centura eMax® system etches a broad range of dielectric films in the contact and interconnect regions of the chip. Applied's Producer Etch system utilizes the Company's Twin-Chamber Producer platform concept to target cost-sensitive dielectric etch applications in 90nm and below design geometries. To address advanced low k etch applications, the Applied Centura Enabler® Etch system performs etch, strip and clean steps in a single chamber. The Enabler's all-in-one capability streamlines the process flow for 65nm and below chip designs and significantly reduces operating costs.

The Applied Centura AdvantEdge™ Silicon Etch system offers chipmakers high precision gate etching for 65nm and 45nm-generation devices. For etching metals, Applied launched the Applied Centura AdvantEdge Metal Etch system in fiscal 2006. This system enables customers to extend aluminum interconnect technology to sub-70nm dimensions for Flash and DRAM memory applications.

Ion Implantation

During ion implantation, silicon wafers are bombarded by a beam of ions, called dopants, that penetrate (or implant) the film surface to a desired depth. The implantation step is used during transistor fabrication to change electrical properties of a material and achieve a particular electrical performance. Low-energy, high current implant technology is important to enabling the fabrication of smaller structures, which contributes to faster transistor performance. The Applied Quantum® X Plus Implant system provides chipmakers with a production-worthy, single-wafer, high-current implanter that enables transistor scaling beyond the 45nm node. The Quantum X Plus system's fixed beam and precision mechanical scanning system provide precise energy control and low defect levels to deliver the process technology needed to achieve the most difficult and critical implants.

Rapid Thermal Processing

RTP is a process in which a wafer is subjected to rapid bursts of intense heat that can take the wafer from room temperature to more than 1,000 degrees Celsius in less than 10 seconds. A rapid thermal process is used mainly for modifying the properties of deposited films. The Applied Centura Radiance®*Plus* and Applied Vantage Radiance*Plus* RTP systems feature the same advanced RTP technology with differing platform designs. While the multi-chamber Centura platform offers exceptional process flexibility, the streamlined two-chamber Vantage platform is designed for dedicated high-volume manufacturing. These single-wafer RTP systems are also used for growing high quality oxide and oxynitride films, deposition steps that traditional large batch furnaces can no longer achieve with the necessary precision and control. For flash memory applications, the Applied Vantage RadOx™ system deposits high-performance transistor gate oxides with high productivity and low operating cost.

Chemical Mechanical Planarization

The CMP process removes material from a wafer to create a flat (planarized) surface. This process allows subsequent photolithography patterning steps to occur with greater accuracy and enables film layers to build with minimal height variations. The Company's 200mm Applied Mirra Mesa® systems and 300mm Applied Reflexion® systems led the industry in CMP technology with important features such as integrated cleaning, film measurement and process control capabilities. The Company's 300mm Applied Reflexion LK Ecmp™ system features proprietary electrochemical mechanical planarization technology to provide a high-performance, cost-effective and extendible solution for copper/low k interconnects at the 65nm node and below. The Ecmp system removes bulk copper at a high rate by electric charge, making it ideal for fragile ultra-low k films.

Metrology and Wafer Inspection

Applied offers several types of products that are used to measure and inspect the wafer during various stages of the fabrication process:

Critical Dimension and Defect Review Scanning Electron Microscopes (CD-SEMs and DR-SEMs)

Scanning electron microscopes (SEMs) use an electron beam to form images of microscopic features, or critical dimensions (CDs), of a patterned wafer at extremely high magnification. Applied's SEM products or systems provide customers with full automation, along with the high accuracy and sensitivity needed for measuring very small CDs. The Applied VeritySEM™ Metrology system uses proprietary SEM imaging technology to enable precise control of the lithography and etching processes. The VeritySEM measures CDs with less than 5 angstrom precision — a requirement for 45nm device production — and incorporates automation and software advancements for significantly higher throughput in production. The Company's OPC Check™ software for the VeritySEM system performs automated qualification of OPC-based (optical proximity correction) chip designs, significantly reducing mask (see Mask Making section below) verification time over conventional manual methods.

DR-SEMs review defects on the wafer (such as particles, scratches or residues) that are first located by a defect detection system and then classify the defects to identify their source. The high-throughput, fully automatic Applied SEMVision™ G3 Defect Analysis products enable customers to use this technology as an integral part of their production lines to analyze defects as small as 30nm with industry-leading throughput. The Applied SEMVision G3 FIB integrates advanced defect review SEM capability with automated focused ion beam (FIB) technology in one system. The FIB provides a cross-sectional view of the defects reviewed by the SEM, enabling chipmakers to analyze the defects in minutes as part of their in-line review process.

Wafer Inspection

Using laser-based technology, defects can be detected on patterned wafers (wafers with printed circuit images) as they move between processing steps. Defects include particles, open circuit lines, and shorts between lines. Incorporating key advances in imaging technology, the Applied ComPlus 3T™ Inspection system, for darkfield applications, detects defects in devices with design rules of 65nm and below with the high speed required for customers' volume production lines. The Applied UVision™ Inspection system is the industry's first laser-based 3D brightfield tool. Utilizing multi-beam, deep ultraviolet (DUV) laser illumination and high efficiency detectors, the

UVision system uncovers critical defects on the wafer that have not been detected before by other inspection systems, enabling customers to rapidly resolve performance-limiting defect issues and achieve greater chip yields.

Mask Making

Masks are used by photolithography systems to transfer microscopic circuit designs onto wafers. Since an imperfection in a mask may be replicated on the wafer, the mask must be virtually defect-free. Applied provides systems for etching, measuring and inspecting masks. The Applied Tetra II Mask etch system is based on the Company's production-proven decoupled plasma source (DPS) wafer etch technology and is the semiconductor industry's most advanced etch tool for fabricating masks. The Applied RETicle SEM system, built on Applied's proven CD-SEM platform, measures virtually all mask types with sub-1nm precision, meeting the requirements of the industry's most advanced masks.

Fab Solutions Segment

Through its Fab Solutions segment, Applied provides products and services designed to improve the performance and productivity of semiconductor manufacturers' fab operations. These products embody the in-depth expertise and best known methods of Applied's extensive global support infrastructure.

Fab Solutions serves a critical role in Applied's ability to continuously support customers' production requirements. Approximately 3,100 trained customer engineers and process support engineers are deployed in more than a dozen countries. These engineers are usually located at or near customers' fab sites and service over 20,000 installed Applied systems and non-Applied systems.

Applied offers a broad range of products to maintain, service and optimize the operations of customers' fabs. Applied Materials Genuine Parts™ include spare parts manufactured to Applied's strict technical specifications and quality standards. Applied Certified Service Products™ provide customers with optimized tool performance for improved total cost of ownership and a higher return on investment. Applied also offers remanufactured equipment, product enhancements and technical training for customers.

As part of its eService Solutions, Applied offers FAB300™, a manufacturing execution system (MES), to monitor and control fab manufacturing activities. This system is used in semiconductor fabs, test, assembly and packaging facilities, and flat panel display (FPD) manufacturing facilities. Applied also offers a suite of diagnostic software that links hardware, process and service data from different processing systems throughout the fab. The Applied NeXus™ SPC product is a new diagnostic tool that performs split-second analysis of process conditions in Applied's processing systems.

Metron Technology, Inc. (Metron), a wholly-owned subsidiary of Applied Materials, offers a range of products and services for fab operations support. Metron's products include fab and sub-fab systems, wafer management services, chamber performance services, gas and fluid handling components, and other services that are critical to semiconductor manufacturing. With Metron's acquisition of ChemTrace in fiscal 2006, Metron now offers chipmakers a wide range of services to analyze and identify the sources of surface or airborne contamination. Metron also offers EcoSys® treatment systems to address a broad spectrum of semiconductor abatement applications. These energy-saving solutions enable chipmakers to meet their most stringent environmental goals.

Display Segment

Applied also manufactures and services equipment to fabricate flat panel displays (FPDs). These systems are used by FPD manufacturers to build and test thin-film transistor liquid crystal display (TFT-LCD) panels for televisions, computer displays and other consumer-oriented electronic applications. While similarities exist between the technologies utilized in chipmaking and display fabrication, there are significant differences, such as in the size and composition of the substrate (wafer vs. panel). FPD panels can be more than 70 times larger in area than today's largest wafers (300mm diameter), and wafers are made of silicon, while FPD panels are made of glass.

Applied supplies a wide range of systems that process and test many different panel sizes. To meet consumers' growing demand for larger, more cost-efficient LCD TVs, FPD manufacturers have continually increased the size of panels that can be processed. Leading-edge substrates, sized at 2.2 x 2.5 meters (m), now processed by Generation

(Gen) 8.5 systems, are designed to enable the production of up to six 55-inch LCD TV screens. Applied announced three new systems for manufacturing Gen-8.5 panels in October 2006.

The AKT-55K PECVD (plasma-enhanced CVD) system, used for fabricating the transistor layer of Gen-8.5 panels, features Applied's multi-chamber platform architecture. For fabricating the color filter layer of these panels, Applied offers a fully automated vertical sputtering system, the AKT-NEW ARISTO™ 2200. Applied acquired the NEW ARISTO™ technology during fiscal 2006 as part of its acquisition of Applied Films Corporation (Applied Films).

Complementing these systems, Applied also offers electron beam systems for testing substrates during production for defective pixels and other imperfections. The AKT-55K EBT is a Gen-8.5 tester that features one of the industry's fastest and most accurate pixel test technology with the lowest operating cost. The electron beam system's non-contact test technology enables safe testing of high-value LCD TV panels without damaging or scratching the display.

Adjacent Technologies Segment

The acquisition of Applied Films, a supplier of thin film deposition equipment, accelerated Applied's entry into growing new markets, such as solar PV cells, flexible electronics and energy-efficient glass.

In the solar PV area, Applied offers a suite of manufacturing systems to enable customers to increase the conversion efficiency and yields of their PV devices, thus helping to lower the overall cost per watt for solar electricity. These include equipment as well as processes, material-handling technologies and services to support the manufacture of both crystalline-silicon and thin-film silicon solar cells. Applied's ATON™ in-line sputtering system provides quality deposition, high throughput and low cost of ownership for both thin-film and multi-or mono-crystalline silicon.

Applied also provides high-performance, roll-to-roll vacuum web coating systems for depositing a wide range of films on flexible substrates for functional, aesthetic or optical properties. The TOPMET™ system is capable of handling substrates in roll widths from 1.25-4.5m with high throughput and low cost of ownership.

Applied offers large-area sputter coating equipment for the production of low-emissivity and solar control architectural glass. The AXL 870™ coating system is a highly flexible and cost-effective tool that customers can easily reconfigure to produce a variety of products to meet the challenges of a changing market.

Backlog

Applied's backlog increased from \$2.6 billion at October 30, 2005 to \$3.4 billion at October 29, 2006. Applied manufactures its systems based on order backlog and customer commitments. Backlog includes only orders for which written authorizations have been accepted and shipment dates within 12 months have been assigned, or shipment has occurred but revenue has not been recognized, and also includes contractual service revenue and maintenance fees to be earned within the next 12 months. Backlog increased \$285 million as a result of the acquisition of Applied Films during fiscal 2006. Backlog adjustments for fiscal 2006 totaled \$194 million, which consisted primarily of cancellations and currency adjustments. Customers may delay delivery of products or cancel orders prior to shipment, subject to possible cancellation penalties. Due to possible changes in delivery schedules and cancellations of orders, Applied's backlog on any particular date is not necessarily indicative of actual sales for any succeeding period. Delays in delivery schedules and/or a reduction of backlog during any particular period could have a material adverse effect on Applied's business and results of operations.

Manufacturing, Raw Materials and Supplies

Applied's manufacturing activities consist primarily of assembling various commercial and proprietary components into finished systems. Products in the Silicon segment are manufactured in Austin, Texas; Horsham, England; and Rehovot, Israel. Remanufactured products in the Fab Solutions segment are produced primarily in Austin, Texas. Products in the Display segment are manufactured in Santa Clara, California; Alzenau, Germany; and Tainan, Taiwan. Products in the Adjacent Technologies segment are primarily manufactured in Alzenau, Germany. Manufacturing requires raw materials, including a wide variety of mechanical and electrical components,

to be manufactured to Applied's specifications. Applied uses numerous companies to supply parts, components and subassemblies (parts) for the manufacture and support of its products. Although Applied makes reasonable efforts to assure that parts are available from multiple qualified suppliers, this is not always possible. Accordingly, some key parts may be obtained from only a single supplier or a limited group of suppliers. Applied will continue to seek to reduce costs and to lower the risks of production and service interruptions, as well as shortages of key parts, by: (1) qualifying and selecting alternate suppliers for key parts; (2) monitoring the financial condition of key suppliers; (3) maintaining appropriate inventories of key parts; and (4) qualifying new parts on a timely basis.

Research, Development and Engineering

Applied's long-term growth strategy requires continued development of new products. Applied's significant investment in research, development and engineering (RD&E) has generally enabled it to deliver new products and technologies before the emergence of strong demand, thus allowing customers to incorporate these products into their manufacturing plans at an early stage in the technology selection cycle. Applied works closely with its global customers to design systems and processes that meet their planned technical and production requirements. Product development and engineering organizations are located primarily in the United States, as well as in Europe and Israel. In addition, Applied outsources certain RD&E activities, some of which are performed outside the United States. Process support and customer demonstration laboratories are located in the United States, Europe and Israel.

Applied invested \$992 million (12 percent of net sales) for fiscal 2004, \$941 million (13 percent of net sales) for fiscal 2005 and \$1.2 billion (13 percent of net sales) for fiscal 2006 in RD&E for product development and engineering programs to create new products and to improve existing technologies and products. Applied has spent an average of 15 percent of net sales on RD&E over the last five years. In addition to RD&E for specific product technologies, Applied maintains ongoing programs for automation control systems, materials research and environmental control that have applications to its products. In fiscal 2006, Applied focused on developing systems for customers' new chip designs with 65nm and below geometries, including systems to enable faster and denser transistor and interconnect structures.

Marketing and Sales

Applied manages its business and reports financial results based on the segments described above. Because of the highly technical nature of the products, Applied markets and sells products worldwide through a direct sales force. For fiscal 2006, net sales to customers in each region as a percentage of Applied's total net sales were: Taiwan 23 percent, North America (primarily the United States) 19 percent, Korea 18 percent, Japan 16 percent, Asia-Pacific (including China) 13 percent, and Europe 11 percent.

General economic conditions impact Applied's business and financial results. From time to time, the markets in which products are sold experience weak economic conditions that may negatively impact sales. Applied's business is usually not seasonal in nature, but it is cyclical, based on capital equipment investment by major semiconductor, flat panel display and other manufacturers. These expenditures depend on many factors, including anticipated market demand and pricing for semiconductors, flat panel displays, solar cells, architectural glass and other substrates; the development of new technologies; factory utilization; and global and regional economic conditions.

During fiscal 2006, more than 80 percent of Applied's net sales were to regions outside of the United States. Managing Applied's global operations presents challenges and involves uncertainties that may affect Applied's business, financial condition and results of operations.

Information on net sales to unaffiliated customers and long-lived assets attributable to Applied's geographic regions is included in Note 10 of Notes to Consolidated Financial Statements. During fiscal 2004, no individual customer accounted for more than 10 percent of Applied's net sales. Samsung Electronics Co., Ltd. accounted for 10 percent of Applied's net sales in 2005 and 11 percent of Applied's net sales in 2006. These net sales were for products in multiple reportable segments.

Competition

The global semiconductor equipment and related industries are highly competitive and characterized by rapid technological change. Applied's ability to compete depends primarily on its ability to commercialize its technology, continually improve its products and develop new products that meet constantly evolving customer requirements. Significant competitive factors include technical capability and differentiation, productivity and cost-effectiveness. The importance of these factors varies according to customers' needs, including product requirements, applications and the timing and circumstances of purchasing decisions. Substantial competition exists in all areas of Applied's business. Competitors range from small companies that compete with a single product and/or in a single region, to global companies with a range of products. Applied's ability to compete requires a high level of investment in RD&E and in marketing, sales and customer support activities. Management believes that Applied's products have strong competitive positions. Applied is a global leader in the semiconductor equipment and related markets. In addition, Applied is expanding into adjacent markets where customers may benefit from the Company's expertise in nanomanufacturing technologies.

The competitive environment for each segment is described below:

Products within the Silicon segment are subject to rapid change, with customers frequently moving to smaller dimensions, larger wafer sizes and new materials for fabricating chips. While certain existing technologies may be adapted to new requirements, some applications create the need for an entirely different technical approach. The rapid pace of technological change creates opportunities for many existing and new competitors, and can quickly diminish the value of current technologies. To compete effectively, Applied must offer a broad portfolio of technically differentiated products. Applied must allocate resources across these products and may not fund or invest in individual products to the same degree as competitors who specialize in fewer products.

Products and services within the Fab Solutions segment are subject to a highly competitive environment characterized by demanding worldwide service requirements and a diverse group of competitors. To compete effectively, Applied must offer products and services to help reduce costs and improve the productivity of customers' fab operations. Significant competitive factors include productivity, cost-effectiveness, and the level of technical service and support. The importance of these factors varies according to customers' needs and the type of products or services offered.

Products and services within the Display segment are highly specialized, with a limited number of major competitors located primarily in Asia. Applied is the leader in PECVD and color filter (CF) sputtering equipment markets and is a leader in the array test equipment market. Applied has recently entered the PVD market.

Products and services within the Adjacent Technologies segment compete in diverse markets, including solar, flexible electronics and energy-efficient glass. Applied has recently entered these markets, which have established competitors. In solar, Applied offers products utilizing two distinct technologies, wafer-based and thin film, and is focused on the emerging thin film area. Flexible electronics equipment competes in a relatively fragmented market. Applied's glass coating equipment has one major competitor.

Patents and Licenses

Management believes that Applied's competitive position is significantly dependent upon its skills in research, development, engineering, manufacturing and marketing, and not just on its patent position. However, protection of Applied's technological assets by obtaining and enforcing intellectual property rights, including patents, is important. Therefore, Applied's practice is to file patent applications in the United States and other countries for inventions that Applied considers significant. Applied has a substantial number of patents in the United States and other countries, and additional applications are pending for new developments. Although Applied does not consider its business materially dependent upon any one patent, the rights of Applied and the products made and sold under its patents, taken as a whole, are a significant element of Applied's business. In addition to patents, Applied also possesses other intellectual property, including trademarks, knowhow, trade secrets and copyrights.

Applied enters into patent and technology licensing agreements with other companies when management determines that it is in its best interest to do so. Applied pays royalties under existing patent license agreements for the use, in several of its products, of certain patented technologies that are licensed to Applied for the life of the

patents. Applied also receives royalties from licenses granted to third parties. Royalties received from and paid to third parties have not been and are not expected to be material in relation to Applied's consolidated results of operations.

In the normal course of business, Applied periodically receives and makes inquiries regarding possible patent infringement. In dealing with such inquiries, it may become necessary or useful for Applied to obtain or grant licenses or other rights. However, there can be no assurance that such licenses or rights will be available to Applied on commercially reasonable terms. If Applied is not able to resolve or settle claims, obtain necessary licenses on commercially reasonable terms and/or successfully prosecute or defend its position, Applied's business, financial condition and results of operations could be materially and adversely affected.

Environmental Matters

Two of Applied's locations have been designated as environmental cleanup sites. In 1987, the United States Environmental Protection Agency designated one of the locations, in Santa Clara, California, as a Superfund site and named Applied as a "Responsible Party." Cleanup activities at this site began in 1984 and were substantially completed in February 2002. The California Regional Water Quality Control Board designated Applied as a "Discharger" with respect to another site in Sunnyvale, California. Applied was named a Discharger upon its acquisition of the property in 1997 solely due to its status as property owner. The prior owners of the site and/or operators who caused the contamination are responsible for performing cleanup and monitoring activities. In addition, Applied has become aware of soil and groundwater contamination at levels exceeding regulatory requirements at its facility in Narita, Japan, which it believes was caused by a former owner or operator of the property. Applied is continuing its investigation of the contamination and is working with local authorities to determine what further action may be required.

Applied maintains a number of environmental, health and safety programs that are primarily preventive in nature. As part of these programs, Applied regularly monitors ongoing compliance and periodically conducts investigations of possible contamination.

Compliance with federal, state and local provisions regulating discharge of materials into the environment, remedial agreements and other actions relating to the environment have not had, and are not expected to have, a material effect on Applied's capital expenditures, competitive position, financial condition or results of operations.

The most recent report on Applied's environmental, health and safety activities can be found on the Company's website at <http://www.appliedmaterials.com/about/environment.html>. This report is updated periodically. This website address is intended to be an inactive textual reference only. None of the information contained on Applied's website is part of this report or is incorporated by reference herein.

Employees

At October 29, 2006, Applied employed 14,072 regular employees and 1,033 temporary employees. In the high-technology industry, competition for highly-skilled employees is intense. Applied believes that its future success is highly dependent upon its continued ability to attract, retain and motivate qualified employees. There can be no assurance that Applied will be able to attract, hire, assimilate and retain a sufficient number of qualified employees.

Executive Officers of the Registrant

The following table and notes set forth information about Applied's executive officers:

<u>Name of Individual</u>	<u>Position</u>
James C. Morgan(1)	Chairman of the Board of Directors
Michael R. Splinter(2)	President, Chief Executive Officer and Director
Franz Janker(3)	Executive Vice President, Sales and Marketing
George S. Davis(4)	Senior Vice President, Chief Financial Officer
Manfred Kerschbaum(5)	Senior Vice President, General Manager Applied Global Services
Farhad Moghadam(6)	Senior Vice President, General Manager Thin Films Product Business Group and Foundation Engineering
Mark R. Pinto(7)	Senior Vice President, Chief Technology Officer and General Manager New Business and New Products Group
Thomas St. Dennis(8)	Senior Vice President, General Manager Etch, Cleans, Front End and Implant Product Business Groups
Joseph J. Sweeney(9)	Senior Vice President, General Counsel and Corporate Secretary
Nancy H. Handel(10)	Senior Vice President, Finance
Gilad Almogy(11)	Group Vice President, General Manager Process Diagnostics and Control Product Business Group
Ron Kifer(12)	Group Vice President, Chief Information Officer, Global Information Services
Yvonne Weatherford(13)	Corporate Vice President, Corporate Controller

- (1) Mr. Morgan, age 68, has been Chairman of the Board of Directors of Applied since 1987. Mr. Morgan served as Applied's Chief Executive Officer from February 1977 to April 2003, and as Applied's President from 1976 to 1987.
- (2) Mr. Splinter, age 56, serves as President, Chief Executive Officer and a member of the Board of Directors of Applied. Prior to joining Applied in April 2003, Mr. Splinter worked for nearly 20 years at Intel Corporation (Intel). Most recently he was Executive Vice President and Director of the Sales and Marketing Group at Intel, responsible for sales and operations worldwide. Mr. Splinter previously held various executive positions at Intel, including Executive Vice President and General Manager of the Technology and Manufacturing Group.
- (3) Mr. Janker, age 57, has been the head of Sales and Marketing since May 2003. Beginning in May 2003, he was Senior Vice President, Sales and Marketing, and in December 2004 he was promoted to Executive Vice President, Sales and Marketing. He served as Senior Vice President, Global Operations and Corporate Marketing beginning in December of 2002. From December 1998 to 2002, he served as Group Vice President, Corporate Marketing and Business Management. From 1982 to 1998, Mr. Janker served in a variety of sales and marketing management positions with Applied in the United States and Europe.
- (4) Mr. Davis, age 49, was promoted to Senior Vice President, Chief Financial Officer in December 2006. Mr. Davis was appointed Group Vice President, Chief Financial Officer effective November 1, 2006. Previously, he had been Group Vice President, General Manager Corporate Business Development since February 2005. From November 1999 to February 2005, Mr. Davis served as Vice President and Corporate Treasurer, where he managed Applied's worldwide treasury operations and was responsible for investments, tax, financial risk management, and trade and export matters. Mr. Davis joined Applied in 1999.
- (5) Mr. Kerschbaum, age 52, has been Senior Vice President, General Manager Applied Global Services since January 2005. He was Group Vice President, Global Operations from July 2004 to January 2005 and from October 2002 to May 2003. From May 2003 to July 2004, he was Group Vice President, Foundation

- Engineering and Operations. From March 1997 to October 2002, he held various positions in Applied Materials North America, most recently as Group Vice President, General Manager Applied Materials North America. Mr. Kerschbaum has served in various other operations, customer service and engineering positions since joining Applied in 1983.
- (6) Dr. Moghadam, age 52, has been Senior Vice President, General Manager Thin Films Product Business Group and Foundation Engineering since September 2004. He became Group Vice President, General Manager Dielectric Systems and Modules Product Business Group and Foundation Engineering and Operations in April 2004, after serving as Group Vice President, General Manager Dielectric Systems and Modules Product Business Group since December 2002. He was named Corporate Vice President of the Chemical Vapor Deposition Product Business Group in December 1999. Dr. Moghadam earned his Ph.D in Materials Science and Engineering from Stanford University.
 - (7) Dr. Pinto, age 47, has served as Senior Vice President, Chief Technology Officer and General Manager New Business and New Products Group since joining Applied in January 2004. Prior to his appointment, Dr. Pinto spent 19 years with Bell Laboratories and the Lucent Microelectronics Group, which later became Agere Systems Inc., most recently as Vice President of the Analog Products Division. Dr. Pinto holds a Ph.D in Electrical Engineering from Stanford University.
 - (8) Mr. St. Dennis, age 53, returned to Applied in September 2005 as Senior Vice President, General Manager Etch, Cleans, Front End and Implant Product Business Groups. He previously was with Applied from 1992 to 1999, most recently as Group Vice President, Planarization and Dielectric Deposition Product Business Group and before that as Corporate Vice President, Physical Vapor Deposition Product Business Group. From 2003 to 2005, Mr. St. Dennis was an Executive Vice President and member of the Office of the CEO of Novellus Systems, Inc. He served as President and Chief Executive Officer of Wind River Systems, Inc. from 1999 to 2003.
 - (9) Mr. Sweeney, age 58, has held the position of Senior Vice President, General Counsel and Corporate Secretary of Applied since July 2005, with responsibility for global legal affairs, intellectual property and security. From April 2002 to July 2005, Mr. Sweeney was Group Vice President, Legal Affairs and Intellectual Property, and Corporate Secretary. Mr. Sweeney joined Applied in 1993.
 - (10) Ms. Handel, age 55, Senior Vice President, Finance, was Chief Financial Officer from October 2004 to November 2006. She was Group Vice President, Deputy Chief Financial Officer and Corporate Controller from 2000 to 2004. From 1994 to 2000, Ms. Handel had responsibility for Global Finance Operations in addition to serving as Treasurer. From 1986 to 1994, Ms. Handel served as Treasurer. Ms. Handel joined Applied in 1985. Ms. Handel has announced her intention to retire.
 - (11) Dr. Almog, age 41, was appointed Group Vice President, General Manager Process Diagnostics and Control Product Business Group in July 2005. He was Corporate Vice President, General Manager of the group from April 2002 to July 2005 and Vice President and Co-General Manager of the group from December 2000 to April 2002. He has held various other positions in the group since joining Applied in 1997 when Applied acquired Orbot Instruments, Ltd. Dr. Almog holds a Ph.D in Applied Physics from the California Institute of Technology.
 - (12) Mr. Kifer, age 55, joined Applied in May 2006 as Group Vice President and Chief Information Officer, Global Information Services. Prior to his appointment, Mr. Kifer spent 5 years with DHL Express in various executive management roles, most recently as the Senior Vice President and Chief Information Officer for North America, Asia Pacific and Emerging Markets.
 - (13) Ms. Weatherford, age 55, has served as Corporate Vice President, Corporate Controller since December 2004. Ms. Weatherford was Appointed Vice President, Business Operations Controller from December 2001 to December 2004 and Appointed Vice President, Financial Operations Controller from October 2000 to December 2001. She has held various other finance roles since joining Applied in 1990.

Available Information

Applied's website is <http://www.appliedmaterials.com>. Applied makes available free of charge, on or through its website, its annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with, or furnishing them to, the SEC. This website address is

intended to be an inactive textual reference only and none of the information contained on Applied's website is part of this report or is incorporated by reference herein.

Item 1A: Risk Factors

The industries that Applied serves is volatile and unpredictable.

As a supplier to the global semiconductor and semiconductor-related industries, Applied is subject to business cycles, the timing, length and volatility of which can be difficult to predict. The industries have historically been cyclical due to sudden changes in demand and manufacturing capacity, including capacity using the latest technology. The effect on Applied of these changes in demand, including end-customer demand, is occurring more rapidly, exacerbating the volatility of these cycles. These changes have affected the timing and amounts of customers' purchases and investments in technology, and continue to affect Applied's orders, net sales, gross margin, contributed profit and results of operations.

Applied must effectively manage its resources and production capacity to meet changing demand. During periods of increasing demand for semiconductor and semiconductor-related manufacturing equipment, Applied must have sufficient manufacturing capacity and inventory to meet customer demand and must be able to attract, retain and motivate a sufficient number of qualified individuals and effectively manage its supply chain. During periods of decreasing demand, Applied must be able to appropriately align its cost structure with prevailing market conditions, effectively motivate and retain key employees, and effectively manage its supply chain. If Applied is not able to timely and appropriately align its cost structure with business conditions and/or effectively manage its resources and production capacity, including its supply chain, during changes in demand, Applied's business, financial condition or results of operations may be materially and adversely affected.

Applied is exposed to risks as a result of ongoing changes in the semiconductor and semiconductor-related industries.

The global industries in which Applied operates are characterized by ongoing changes, including: (1) changes in customers' capacity requirements, capacity utilization and capital spending, which depend in part on the demand for customers' products and their inventory levels relative to demand; (2) the importance of reducing the cost of system ownership, due in part to the increasing significance of consumer electronics as a driver for semiconductor and display demand and the related focus on lower prices; (3) varying levels of business information technology spending; (4) increasingly complex technology requirements, including a significant rise in the number and importance of new materials and importance of expertise in chemical processes and device structure; (5) the growing types and varieties of semiconductors and expanding number of applications across multiple substrate sizes, resulting in customers' divergent technical demands and different rates of spending on capital equipment; (6) customers' varying adoption rates of new technology; (7) a rising percentage of business from customers in Asia and the emergence of customers, competitors and suppliers in new geographical regions; (8) demand for shorter cycle times for the development, manufacture and installation of manufacturing equipment; (9) the heightened importance to customers of system reliability and productivity, and the effect on demand for systems as a result of their increasing productivity, device yield and reliability; (10) differing rates of market growth for, and capital investments by, various semiconductor device makers, such as memory (including NAND flash and DRAM), logic, foundry, display and solar; (11) customers' increasing use of partnerships, alliances, joint ventures and industry consortia, which has increased the influence of key integrated circuit manufacturers in technology decisions made by their global partners; (12) higher capital requirements for building and operating new semiconductor fabrication plants; (13) the increasing difficulty for customers to move from product design to volume manufacturing; (14) the challenge to semiconductor manufacturers of moving volume manufacturing from one technology node to the next smaller technology node and the resulting impact on the technology transition rate; (15) the increasing cost and reduced affordability of research and development due to many factors, including decreasing linewidths and the increasing number of materials, applications and process steps; (16) the industry growth rate; (17) the increasing importance of the availability of spare parts to assure maximum system uptime; (18) concern among United States governmental agencies regarding possible national commercial and/or security issues posed by the growing manufacturing business in Asia; and (19) the increasing importance of operating flexibility to enable different responses to different markets, customers and applications. The solar market, which Applied recently entered, is

also characterized by ongoing changes in demand for PV products arising from, among other things, fluctuations in the cost of fossil fuels and electric power, availability of government subsidies, the performance and reliability of PV technology, and the success of other renewable energy sources. If Applied does not successfully manage the risks resulting from the ongoing changes occurring in the semiconductor and semiconductor-related industries, its business, financial condition and results of operations could be materially and adversely affected.

Applied must adapt its business and product offerings to respond to competition and rapid technological changes.

As Applied operates in a highly competitive environment, its future success depends on many factors, including the effective development, commercialization and customer acceptance of its nanomanufacturing technology equipment, service and related products. In addition, Applied must successfully execute its growth strategy, including enhancing market share in existing markets, expanding into related markets, and cultivating new markets and new business models, while constantly improving its operational performance. The development, introduction and support of a broadening set of products in more varied competitive environments have grown increasingly complex and expensive over time. Applied's success is subject to many risks, including but not limited to its ability to timely, cost-effectively and successfully: (1) improve and develop new applications for existing products and increase market share in its existing markets; (2) develop, appropriately price, and achieve market acceptance of new products; (3) expand into or develop related and new markets for its nanomanufacturing technology; (4) anticipate and capitalize on opportunities in new markets, such as solar, and with new technologies; (5) supply a range of Applied and non-Applied products as part of its solar offerings; (6) appropriately allocate resources, including RD&E funding, among Applied's products and between the development of new products and the improvement of existing products; (7) accurately forecast demand and meet production schedules for its products; (8) achieve cost efficiencies across product offerings; (9) adapt to technology changes in related markets, such as lithography; (10) develop, market and price similar products for use by customers in different applications and/or markets that may have varying technical requirements; (11) adapt to changes in value offered by companies in different parts of the supply chain; (12) qualify products for volume manufacturing with its customers; (13) implement changes in its design engineering methodology, including those that enable significant decreases in material costs and cycle time, greater commonality of platforms and types of parts used in different systems, and effective product life cycle management; (14) improve its manufacturing processes; and (15) deploy initiatives to transform Applied's information technology systems and enhance business processes, including transitioning to a single-vendor enterprise resource planning (ERP) software system. Furthermore, new or improved products may involve higher costs and reduced efficiencies compared to Applied's more established products and could adversely affect Applied's gross margins. Also, entry into new markets entails additional challenges, including those arising from changes in Applied's customer and/or supplier base. In addition, Applied must regularly reassess the size, capability and location of its global infrastructure and timely make appropriate changes in its real estate and facilities portfolio. If Applied does not successfully manage these challenges, its business, financial condition and results of operations could be materially and adversely affected.

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

In fiscal 2006, more than 80 percent of Applied's net sales were to customers in regions outside the United States. Certain of Applied's RD&E and manufacturing facilities, as well as suppliers to Applied, are also located outside the United States. Managing Applied's global operations presents challenges, including but not limited to, those arising from: (1) varying regional and geopolitical business conditions and demands; (2) global trade issues; (3) variations in protection of intellectual property and other legal rights in different countries; (4) fluctuating raw material and energy costs; (5) variations in the ability to develop relationships with suppliers and other local businesses; (6) changes in laws and regulations of the United States (including export restrictions) and other countries, as well as their interpretation and application; (7) fluctuations in interest rates and currency exchange rates; (8) the need to provide sufficient levels of technical support in different locations; (9) political instability, natural disasters (such as earthquakes, floods or storms), pandemics, terrorism or acts of war where Applied has operations, suppliers or sales; (10) cultural differences; (11) special customer- or government-supported efforts to promote the development and growth of local competitors; and (12) shipping costs and/or delays. Many of these challenges are present in China, which is experiencing significant growth of both suppliers and prospective

competitors to Applied, and which Applied believes presents a large potential market for its products and opportunity for growth over the long term. These challenges, as well as global uncertainties with respect to: (1) economic growth rates in various countries; (2) consumer confidence; (3) the sustainability, timing, rate and amount of demand for electronics products and integrated circuits; (4) capital and operational spending by semiconductor and display manufacturers; and (5) price trends for certain integrated circuit devices, may materially and adversely affect Applied's business, financial condition and results of operations.

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

Applied's customer base is and has historically been highly concentrated. Orders from a relatively limited number of manufacturers have accounted for, and are expected to continue to account for, a substantial portion of Applied's net sales. In addition, the mix and type of customers, and sales to any single customer, may vary significantly from quarter to quarter and from year to year. Moreover, certain customers, particularly in emerging areas such as solar, may have capital resource constraints and/or a limited operating history. If customers do not place orders, or they delay or cancel orders, Applied may not be able to replace the business. As Applied's products are configured to customer specifications, changing, rescheduling or canceling orders may result in significant non-recoverable costs. Major customers may also seek, and on occasion receive, pricing, payment, intellectual property-related or other commercial terms that are less favorable to Applied. In addition, certain customers have undergone significant ownership changes and/or formed strategic alliances or collaborative efforts, which may result in additional complexities in managing customer relationships and transactions. These factors could have a material adverse effect on Applied's business, financial condition and results of operations.

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

Applied's business depends on its ability to supply equipment, services and related products that meet the rapidly changing requirements of its customers, which depends in part on the timely delivery of parts, components and subassemblies (collectively, parts) from suppliers. Some key parts may be subject to long lead-times and/or obtainable only from a single supplier or limited group of suppliers, and some sourcing or subassembly is provided by suppliers in developing regions, including China. In addition, Applied has implemented several key operational initiatives intended to improve manufacturing efficiency, including integrate-to-order, module-final-test and merge-in-transit programs. Applied has also begun a multi-year, company-wide program to transform certain business processes that includes transitioning to a single-vendor enterprise resource planning (ERP) software system to perform various functions, such as order management and manufacturing control. Significant interruptions of manufacturing operations or the delivery of services as a result of (1) the failure or inability of suppliers to timely deliver quality parts; (2) volatility in the availability and cost of materials; (3) difficulties or delays in obtaining required export approvals; (4) information technology or infrastructure failures; (5) difficulties and costs related to planning or effecting business process changes and implementing a new ERP system; (6) natural disasters (such as earthquakes, floods or storms); or (7) other causes (such as regional economic downturns, pandemics, political instability, terrorism or acts of war), could result in delayed deliveries, manufacturing inefficiencies, increased costs or order cancellations. Moreover, if actual demand for Applied's products is different than expected, Applied may purchase more/fewer parts than necessary or incur costs for canceling, postponing or expediting delivery of parts. Any or all of these factors could materially and adversely affect Applied's business, financial condition and results of operations.

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

To better align costs with market conditions, increase its presence in growing markets, and enhance productivity and operational efficiency, Applied conducts engineering, software development and other operations in regions outside the United States, particularly India and China, and outsources certain functions to third parties, including companies in the United States, India, China and other countries. Outsourced functions include engineering, manufacturing, customer support, software development and administrative activities. The expanding role of third party providers has required changes to Applied's existing operations and the adoption of new

procedures and processes for retaining and managing these providers in order to protect its intellectual property. If Applied does not effectively develop and implement its offshoring and outsourcing strategies, if required export and other governmental approvals are not timely obtained, or if Applied's third party providers do not perform as anticipated, Applied may not realize productivity improvements or cost efficiencies and may experience operational difficulties, increased costs, manufacturing interruptions or delays, loss of its intellectual property rights, quality issues, increased product time-to-market and/or inefficient allocation of human resources, any or all of which could materially and adversely affect Applied's business, financial condition and results of operations.

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

Applied has made, and in the future intends to make, acquisitions of, or investments in, companies, technologies or products in existing, related or new markets for Applied. Acquisitions involve numerous risks, including but not limited to: (1) diversion of management's attention from other operational matters; (2) inability to complete acquisitions as anticipated or at all; (3) inability to realize anticipated benefits; (4) failure to commercialize purchased technologies; (5) inability to capitalize on characteristics of new markets that may be significantly different from Applied's existing markets; (6) inability to obtain and protect intellectual property rights in key technologies; (7) ineffectiveness of an acquired company's internal controls; (8) impairment of acquired intangible assets as a result of technological advancements or worse-than-expected performance of the acquired company or its product offerings; (9) unknown, underestimated and/or undisclosed commitments or liabilities; (10) excess or underutilized facilities; and (11) ineffective integration of operations, technologies, products or employees of the acquired companies. Applied also makes strategic investments in other companies, including companies formed as joint ventures, which may decline in value and/or not meet desired objectives. The success of these investments depends on various factors over which Applied may have limited or no control and, particularly with respect to joint ventures, requires ongoing and effective cooperation with strategic partners. Mergers and acquisitions and strategic investments are inherently subject to significant risks, and the inability to effectively manage these risks could materially and adversely affect Applied's business, financial condition and results of operations.

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

Applied's success and competitiveness depend in large part on its ability to attract, retain and motivate key employees. Achieving this objective may be difficult due to many factors, including fluctuations in global economic and industry conditions, changes in Applied's management or leadership, competitors' hiring practices, and the effectiveness of Applied's compensation programs, including its equity-based programs. Applied regularly evaluates its overall compensation program and makes adjustments, as appropriate, to enhance its competitiveness, such as instituting broad-based grants of restricted stock units in fiscal 2006. If Applied does not successfully attract, retain and motivate key employees, Applied's ability to capitalize on its opportunities and its operating results may be materially and adversely affected.

Changes in tax rates or tax liabilities could affect results.

As a global company, Applied is subject to taxation in the United States and various other countries. Significant judgment is required to determine and estimate worldwide tax liabilities. Applied's future annual and quarterly tax rates could be affected by numerous factors, including changes in the (1) applicable tax laws; (2) composition of earnings in countries with differing tax rates; or (3) valuation of Applied's deferred tax assets and liabilities. In addition, Applied is subject to regular examination of its income tax returns by the Internal Revenue Service and other tax authorities. Applied regularly assesses the likelihood of favorable or unfavorable outcomes resulting from these examinations to determine the adequacy of its provision for income taxes. Although Applied believes its tax estimates are reasonable, there can be no assurance that any final determination will not be materially different from the treatment reflected in Applied's historical income tax provisions and accruals, which could materially and adversely affect Applied's results of operations.

Applied is exposed to various risks related to legal proceedings or claims and protection of intellectual property rights.

Applied from time to time is, and in the future may be, involved in legal proceedings or claims regarding patent infringement, intellectual property rights, antitrust, environmental regulations, securities, contracts, product performance, product liability, unfair competition, employment and other matters. In addition, Applied on occasion receives notification from customers who believe that Applied owes them indemnification or other obligations related to claims made against customers by third parties. These legal proceedings and claims, whether with or without merit, may be time-consuming and expensive to prosecute or defend and also divert management's attention and resources. There can be no assurance regarding the outcome of current or future legal proceedings or claims. Applied previously entered into a mutual covenant-not-to-sue arrangement with one of its competitors to decrease the risk of patent infringement lawsuits in the future. There can be no assurance that the intended results of this arrangement will be achieved or that Applied will be able to adequately protect its intellectual property rights with the restrictions associated with such a covenant. In addition, Applied's success depends in significant part on the protection of its intellectual property and other rights. Infringement of Applied's rights by a third party, such as the unauthorized manufacture or sale of equipment or spare parts, could result in uncompensated lost market and revenue opportunities for Applied. Applied's intellectual property rights may not provide significant competitive advantages if they are circumvented, invalidated, rendered obsolete by the rapid pace of technological change, or if Applied does not adequately assert these rights. Furthermore, the laws and practices of other countries, including China, Taiwan and Korea, permit the protection and enforcement of Applied's rights to varying extents, which may not be sufficient to protect Applied's rights. If Applied is not able to obtain or enforce intellectual property rights, resolve or settle claims, obtain necessary licenses on commercially reasonable terms, and/or successfully prosecute or defend its position, Applied's business, financial condition and results of operations could be materially and adversely affected.

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

Applied is subject to environmental and safety regulations in connection with its global business operations, including but not limited to regulations related to the development, manufacture and use of its products; recycling and disposal of materials used in its products; the operation of its facilities; and the use of its real property. Failure or inability to comply with existing or future environmental and safety regulations could result in significant remediation liabilities, the imposition of fines and/or the suspension or termination of development, manufacture, sale or use of certain of its products, and/or may affect the operation of its facilities, use or value of its real property, each of which could have a material adverse effect on Applied's business, financial condition and results of operations.

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

Applied is subject to various risks related to: (1) new, different, inconsistent or even conflicting laws, rules and regulations that may be enacted by legislative bodies and/or regulatory agencies in the countries in which Applied operates; (2) disagreements or disputes between national or regional regulatory agencies related to international trade; and (3) the interpretation and application of laws, rules and regulations. If Applied is found by a court or regulatory agency not to be in compliance with applicable laws, rules or regulations, Applied's business, financial condition and results of operations could be materially and adversely affected.

Applied is subject to internal control evaluations and attestation requirements of Section 404 of the Sarbanes-Oxley Act.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, Applied must include in its annual report on Form 10-K a report of management on the effectiveness of Applied's internal control over financial reporting and an attestation by Applied's independent registered public accounting firm to the adequacy of management's assessment of Applied's internal control. Ongoing compliance with these requirements is complex, costly and time-consuming. If (1) Applied fails to maintain effective internal control over financial reporting; (2) Applied's management does not timely assess the adequacy of such internal control; or (3) Applied's independent registered

public accounting firm does not timely attest to the evaluation, Applied could be subject to regulatory sanctions and the public's perception of Applied may decline.

Item 1B: Unresolved Staff Comments

None.

Item 2: Properties

As indicated above, Applied has four reportable segments: Silicon, Fab Solutions, Display and Adjacent Technologies. Because of the interrelation of Applied's operations, properties within a country may be shared by all segments operating within that country. Products in the Silicon segment are manufactured in Austin, Texas; Horsham, England; and Rehovot, Israel. Remanufactured products in the Fab Solutions segment are produced primarily in Austin, Texas. Products in the Display segment are manufactured in Santa Clara, California; Alzenau, Germany; and Tainan, Taiwan. Products in the Adjacent Technologies segment are manufactured primarily in Alzenau, Germany.

Information concerning Applied's principal properties at October 29, 2006 is set forth below:

Location	Type	Principal Use	Square Footage(1)(2)	Ownership
Santa Clara, CA	Office, Plant & Warehouse	Headquarters, Marketing, Manufacturing, Distribution, Research, Development and Engineering	1,465,000 705,000	Owned Leased
Austin, TX	Office, Plant & Warehouse	Manufacturing	1,719,000 394,000	Owned Leased
Rehovot, Israel	Office, Plant & Warehouse	Manufacturing, Research, Development and Engineering	442,000	Owned
Alzenau, Germany	Office, Plant & Warehouse	Manufacturing, Research, Development and Engineering	381,000	Leased
Hsinchu, Taiwan	Office & Warehouse	Customer Support	90,000 104,000	Owned Leased
Singapore	Office	Customer Support	200,000	Owned
Tainan, Taiwan	Office & Warehouse	Customer Support	148,000	Owned
Horsham, England	Office, Plant & Warehouse	Manufacturing, Research, Development and Engineering	138,000	Leased
Pudong, China	Office & Warehouse	Customer Support	102,000	Leased

(1) Approximately 120,000 square feet were available for lease or sublease.

(2) Includes approximately 260,000 square feet that were subleased.

In addition to the above properties, Applied leases office space for marketing, sales, engineering and customer support offices in 92 locations throughout the world: 25 in North America (principally the United States), 23 in Europe, 23 in Japan, 11 in Asia-Pacific (including China and India), 7 in Korea and 3 in Taiwan.

In addition, Applied owns 94 acres of buildable land in Texas that could accommodate approximately 1,433,000 square feet of additional building space and 43 acres in California that could accommodate approximately 1,247,000 square feet of additional building space. Applied also leases: 13 acres in Taiwan that could accommodate approximately 270,000 square feet of additional building space; 10 acres in Israel that could accommodate approximately 110,000 square feet of additional building space; and 25 acres in China, where Applied is building a 118,000 square foot facility.

During the first quarter of fiscal 2006, Applied's Board of Directors approved a plan to disinvest a portion of Applied's real estate and facilities portfolio (the Plan). Properties were reported as assets held-for-sale and reclassified from property, plant and equipment on the Consolidated Balance Sheet. Applied recorded an asset

impairment charge to write down the following properties to estimated fair value: (1) facilities in Narita, Japan; Hillsboro, Oregon; Chunan, Korea; and Danvers, Massachusetts; and (2) 26 acres of unimproved land in Hillsboro, Oregon. As part of the Plan, Applied also recorded a charge for future obligations under a lease in Hayward, California, which was subsequently terminated. At October 29, 2006, Applied had properties held for sale in Hillsboro, Oregon; Narita, Japan; and Chunan, Korea. For additional discussion of the Plan, refer to Note 6 to the Consolidated Financial Statements.

Applied considers these properties adequate to meet its current and future requirements. Applied regularly assesses the size, capability and location of its global infrastructure and periodically makes adjustments based on these assessments.

Item 3: Legal Proceedings

David Scharf

On July 31, 2001, David Scharf, an individual, filed a lawsuit against Applied in the United States District Court for the Central District of California, captioned David Scharf v. Applied Materials, Inc. (case no. 01-06580 AHM). The lawsuit alleges that Applied has infringed, has induced others to infringe, and has contributed to others' infringement of, a patent concerning color synthesizing scanning electron microscope technology. Mr. Scharf seeks a preliminary and permanent injunction, a finding of willful infringement, damages (including treble damages), and costs. Applied has answered the complaint and counterclaimed for declaratory judgment of non-infringement and invalidity. On May 10, 2002, Mr. Scharf filed a request for re-examination of his patent with the Patent and Trademark Office (PTO). On June 26, 2002, the case was removed from the Court's active docket after the parties stipulated to stay the case pending the results of that re-examination. On July 11, 2002, Applied filed its own request for re-examination of Mr. Scharf's patent with the PTO. Applied's request for re-examination was granted on September 19, 2002. On April 23, 2004, the PTO notified Applied that it intended to issue a re-examination certificate. On June 14, 2004, Applied filed a second request for re-examination of Mr. Scharf's patent with the PTO. The second request was denied on September 1, 2004. On October 1, 2004, Applied filed a petition for reconsideration of that denial, which subsequently was denied. The lawsuit was returned to the active docket of the District Court for the Central District of California in January 2006, and is scheduled to commence trial on April 3, 2007. The parties are engaged in discovery and on November 6, 2006, the Court heard opposing motions for summary judgment on the issues of infringement and claim construction. The Court has not yet ruled on these motions. Applied believes it has meritorious defenses and counterclaims and intends to pursue them vigorously.

Linear Technology

On March 12, 2002, Linear Technology Corp. (LTC) filed a complaint against Applied in the Superior Court for the County of Santa Clara, captioned Linear Technology Corp. v. Applied Materials, Inc., Novellus Systems, Inc. and Tokyo Electron Ltd. (case no. CV806004), alleging claims for breach of contract, fraud and deceit, negligent misrepresentation, suppression of fact, unfair competition, breach of warranty, express contractual indemnity, implied equitable indemnity and declaratory relief. The complaint alleged, among other things, that Applied is obligated to indemnify and defend LTC for certain claims in an underlying patent infringement lawsuit brought by Texas Instruments, Inc. (TI) against LTC. On November 12, 2002, LTC filed an amended complaint asserting essentially the same claims as in the original complaint, but adding an additional assertion that LTC and TI have settled their litigation. Applied's motion to dismiss the amended complaint was granted in part. LTC filed Second and Third Amended Complaints, each of which was dismissed upon Applied's motion. On February 13, 2004, LTC filed a Fourth Amended Complaint, which Applied moved to dismiss. LTC then filed a motion to amend its Fourth Amended Complaint, which the Court granted. On July 7, 2004, LTC filed a Fifth Amended Complaint. On October 5, 2004, Applied's motion to dismiss LTC's Fifth Amended Complaint was granted with prejudice. On January 11, 2005, LTC filed a notice of appeal of the dismissal of its complaint. Applied believes it has meritorious defenses and intends to pursue them vigorously.

Jusung

On December 24, 2003, Applied filed a lawsuit against Jusung Engineering Co., Ltd. (Jusung Engineering) and Jusung Pacific Co., Ltd. (Jusung Pacific, referred to together with Jusung Engineering as Jusung) in Tao-Yuan District Court in Taiwan, captioned Applied Materials, Inc. v. Jusung Engineering Co., Ltd. (case no. 92 Tsai-chuan Tzi No. 6388). The lawsuit alleges that Jusung is infringing a patent related to chemical vapor deposition owned by Applied. In the lawsuit, Applied seeks a provisional injunction prohibiting Jusung from importing, using, manufacturing, servicing or selling in Taiwan certain flat panel display manufacturing equipment. On December 25, 2003, the Tao-Yuan District Court ruled in favor of Applied's request for a provisional injunction and, on January 14, 2004, the Court issued a provisional injunction order against Jusung Pacific. Jusung Pacific appealed those decisions, and the decisions were affirmed on appeal. On January 30, 2004, Jusung Pacific requested permission to post a counterbond to have the Jusung Pacific injunction lifted. Jusung Pacific's counterbond request was granted and, on March 30, 2004, the provisional injunction order was lifted. At Applied's request, on December 11, 2004, the District Court issued a provisional injunction order against Jusung Engineering. Jusung Engineering appealed that order, and the order was affirmed on appeal. Jusung Engineering also requested permission to post a counterbond to have the Jusung Engineering injunction lifted. Jusung Engineering's counterbond request was granted and on April 25, 2005, the provisional injunction order against Jusung Engineering was lifted. Applied has appealed both counterbond decisions. On June 30, 2004, Applied filed a "main action" patent infringement complaint against Jusung in the Hsinchu District Court in Taiwan, captioned Applied Materials, Inc. v. Jusung Engineering Co., Ltd. (case no. 93 Zhong Zhi No. 3). In the lawsuit, Applied seeks damages and a permanent injunction for infringement of the same patent. The decisions regarding the provisional injunction and counterbond have no effect on the separate patent infringement lawsuit filed by Applied against Jusung in the Hsinchu Court. In August 2006, the Court set the litigation fee and the litigation security payment, and the main action is now proceeding on its merits. The Court held a second hearing in the main action on October 30, 2006. This same patent is the subject of an invalidity proceeding filed in the Taiwanese Patent and Trademark Office by Jusung Pacific in June 2004. Applied believes it has meritorious claims and intends to pursue them vigorously.

On June 13, 2006, Applied filed an action in the Taiwanese Patent and Trademark Office challenging the validity of a patent owned by Jusung Engineering (Taiwanese Patent No. 249186) related to the severability of the transfer chamber. On June 20, 2006, Jusung Engineering filed a lawsuit against Applied and Applied's subsidiary, AKT, in Hsinchu District Court in Taiwan, captioned Jusung Engineering, Co. Ltd. v. AKT America, Inc. and Applied Materials, Inc., alleging infringement of this patent. Jusung Engineering's lawsuit seeks damages, costs and attorneys' fees, but does not seek injunctive relief. The Court has scheduled the first hearing in this matter for December 28, 2006. Applied believes that it has meritorious defenses that it intends to pursue vigorously.

Taiwan Fair Trade Commission

On April 10, 2004, the Taiwan Fair Trade Commission (TFTC) notified Applied's subsidiary, AKT, in Taiwan that, pursuant to a complaint filed by Jusung, the TFTC had begun an investigation into whether AKT had violated the Taiwan Fair Trade Act. The investigation focused on whether AKT violated the Taiwan Guidelines for the Review of Cases Involving Enterprises Issuing Warning Letters for Infringement on Copyright, Trademark and Patent Rights by allegedly notifying customers about AKT's patent rights and the infringement of those rights by Jusung. On June 15, 2004, the TFTC notified Applied that Applied also was the subject of the investigation. By letter dated April 15, 2005, the TFTC notified Applied and AKT that there was insufficient evidence to support a claim against either company. Jusung appealed the TFTC's decision, and the appeals court affirmed the decision of the TFTC in favor of Applied on February 7, 2006. Jusung has appealed the appeals court's affirmation of the decision of the TFTC.

Silicon Services Consortium

On January 19, 2006, five companies that sell refurbished Applied tools (Silicon Services Consortium Inc., Semiconductor Support Services Co., OEM Surplus, Inc., Precision Technician Inc., and Semiconductor Equipment Specialist, Inc.) filed a lawsuit against Applied in the United States District Court for the Western District of Texas, captioned Silicon Services Consortium, Inc., et al. v. Applied Materials, Inc. (case no. A06CA051 LY). The plaintiffs claim that a policy that Applied announced in January 2005 limiting the sale of certain parts to them

constituted an unlawful attempt to monopolize the refurbishment business, an interference with existing contracts, and an interference with prospective business relationships. The suit seeks injunctive relief, damages, costs and attorneys' fees. After Applied filed a motion to dismiss the original complaint, the plaintiffs filed an amended complaint alleging similar conduct. Applied filed a motion to dismiss the amended complaint on April 7, 2006, and a hearing before the Court was conducted on August 22, 2006. The Court has not yet ruled on these motions. Applied believes it has meritorious defenses and counterclaims and intends to pursue them vigorously.

Applied does not believe that the outcome of any of the above matters will have a material adverse effect on its financial position or results of operations.

Other 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 by third parties. In addition, from time to time, Applied receives notification from third parties claiming that Applied may be or is infringing their intellectual property or other rights. Applied also is subject to various other legal proceedings and claims, both asserted and unasserted, that arise in the ordinary course of business. Although the outcome of these claims and proceedings cannot be predicted with certainty, Applied does not believe that any of these other existing proceedings or claims will have a material adverse effect on its consolidated financial condition or results of operations.

Item 4: *Submission of Matters to a Vote of Security Holders*

None.

PART II

Item 5: **Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The following table sets forth the high and low closing sale prices as reported on the Nasdaq Global Select Market (formerly the Nasdaq National Market).

Fiscal Year	2005		2006	
	High	Low	High	Low
First quarter	\$ 17.89	\$ 15.17	\$ 20.82	\$ 16.03
Second quarter	\$ 17.92	\$ 14.50	\$ 20.46	\$ 17.41
Third quarter	\$ 18.48	\$ 15.08	\$ 19.05	\$ 14.76
Fourth quarter	\$ 18.58	\$ 16.36	\$ 19.02	\$ 15.12

Applied's common stock is traded on the Nasdaq Global Select Market under the symbol AMAT. As of November 26, 2006, there were 5,786 directly registered holders of stock.

Applied's Board of Directors declared three quarterly cash dividends in the amount of \$0.03 per share each in fiscal 2005. During fiscal 2006, Applied's Board of Directors declared one quarterly cash dividend in the amount of \$0.03 per share and three quarterly cash dividends in the amount of \$0.05 per share each. The fourth quarterly cash dividend declared in fiscal 2006 was paid on December 7, 2006, to stockholders of record as of November 16, 2006. Dividends paid during fiscal 2005 and fiscal 2006 totaled \$98 million and \$251 million, respectively. Applied currently anticipates that cash dividends will continue to be paid on a quarterly basis in the future, although the declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on Applied's financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination that cash dividends are in the best interest of stockholders.

The following table provides information as of October 29, 2006 with respect to the shares of common stock repurchased by Applied during the fourth quarter of fiscal 2006:

Period	Total Number of Shares Purchased (Shares in thousands)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program* (Shares in thousands)	Maximum Dollar Value of Shares that May Yet be Purchased Under the Program* (Dollars in millions)
Month #1 (July 31, 2006 to August 27, 2006)	3,975	\$ 15.87	3,975	\$ 4,437
Month #2 (August 28, 2006 to September 24, 2006)	149,700	\$ 17.18	149,700	\$ 5,000
Month #3 (September 25, 2006 to October 29, 2006)	—	\$ —	—	\$ 5,000
Total	153,675	\$ 17.15	153,675	

* On September 15, 2006, the Board of Directors approved the repurchase of 145 million shares of Applied common stock for an initial purchase price of \$2.5 billion in cash under an accelerated stock buyback program. The repurchase was executed by Goldman, Sachs & Co. pursuant to agreements that include a two-way market purchase price adjustment based on the volume weighted average market trading price of Applied common stock over the subsequent four-month period. On that date, the Board of Directors also approved a new stock repurchase program for up to \$5.0 billion in repurchases over the next three years, ending September 2009.

Item 6: Selected Financial Data

The following selected financial information has been derived from Applied's historical consolidated financial statements and should be read in conjunction with the consolidated financial statements and the accompanying notes for the corresponding fiscal years:

Fiscal Year Ended(1)	2002	2003	2004	2005	2006
	(In thousands, except percentages, ratios, per share amounts and number of employees)				
Net sales	\$ 5,062,312	\$ 4,477,291	\$ 8,013,053	\$ 6,991,823	\$ 9,167,014
Gross margin	\$ 2,056,661	\$ 1,604,455	\$ 3,701,245	\$ 3,085,874	\$ 4,291,802
(% of net sales)	40.6	35.8	46.2	44.1	46.8
Research, development and engineering	\$ 1,052,269	\$ 920,618	\$ 991,873	\$ 940,507	\$ 1,152,326
(% of net sales)	20.8	20.6	12.4	13.5	12.6
Marketing, selling, general and administrative	\$ 708,955	\$ 625,865	\$ 751,621	\$ 697,402	\$ 906,742
(% of net sales)	14.0	14.0	9.4	10.0	9.9
Income/(loss) before income taxes	\$ 340,511	\$ (211,556)	\$ 1,829,250	\$ 1,581,569	\$ 2,166,971
Effective tax rate (%)	21.0	29.5	26.1	23.5	30.0
Net income/(loss)	\$ 269,004	\$ (149,147)	\$ 1,351,303	\$ 1,209,900	\$ 1,516,663
(% of net sales)	5.3	(3.3)	16.9	17.3	16.5
Earnings/(loss) per share	\$ 0.16	\$ (0.09)	\$ 0.78	\$ 0.73	\$ 0.97
Weighted average common shares and equivalents	1,701,557	1,659,557	1,721,645	1,657,493	1,565,072
Order backlog	\$ 3,190,459	\$ 2,495,115	\$ 3,368,382	\$ 2,570,808	\$ 3,398,280
Working capital(2)	\$ 4,493,447	\$ 4,789,480	\$ 6,020,747	\$ 5,069,663	\$ 3,644,974
Current ratio(2)	4.0	3.9	3.6	3.9	2.5
Long-term debt	\$ 573,853	\$ 456,422	\$ 410,436	\$ 407,380	\$ 204,708
Cash dividends declared per common share	\$ —	\$ —	\$ —	\$ 0.09	\$ 0.18
Stockholders' equity	\$ 8,019,649	\$ 8,068,034	\$ 9,262,027	\$ 8,928,549	\$ 6,651,400
Book value per share	\$ 4.87	\$ 4.81	\$ 5.51	\$ 5.56	\$ 4.78
Total assets	\$ 10,224,765	\$ 10,311,622	\$ 12,093,445	\$ 11,269,157	\$ 9,480,837
Capital expenditures, net of loss on fixed asset retirements	\$ 417,080	\$ 211,959	\$ 171,538	\$ 177,097	\$ 151,117
Regular employees	16,077	12,050	12,191	12,576	14,072

(1) Each fiscal year ended on the last Sunday in October.

(2) In fiscal 2006, Applied reclassified certain fixed-income securities from short-term investments to long-term investments; prior period balances have been restated to conform to the current period presentation.

Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations

Introduction

Management’s Discussion and Analysis (MD&A) is intended to facilitate an understanding of Applied’s business and results of operations. This MD&A should be read in conjunction with Applied’s Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included elsewhere in this report. The following discussion contains forward — looking statements and should also be read in conjunction with the cautionary statement set forth at the beginning of this Annual Report on Form 10-K. MD&A consists of the following sections:

- *Overview*: a summary of Applied’s business, measurements and opportunities.
- *Results of Operations*: a discussion of operating results.
- *Segment Information*: a discussion of segment operating results.
- *Financial Condition, Liquidity and Capital Resources*: an analysis of cash flows, sources and uses of cash, contractual obligations and financial position.
- *Critical Accounting Policies*: a discussion of critical accounting policies that require the exercise of judgments and estimates.

Overview

Applied develops, manufactures, markets and services semiconductor and semiconductor-related fabrication equipment, providing nanomanufacturing technology™ solutions to the global semiconductor, flat panel display, solar and other industries. Product development and manufacturing activities occur in North America, Europe and Israel. Applied’s broad range of equipment and service products are highly technical and are sold through a direct sales force. Customer demand for spare parts and services is fulfilled through a global spare parts distribution system and trained service engineers located around the world in close proximity to customer sites.

As a supplier to these industries, Applied’s results are primarily driven by worldwide demand for chips and flat panel displays, which in turn depends on end-user demand for electronic products. The industries in which Applied operates are volatile and its results in fiscal 2004 through 2006 reflect this volatility.

The following table presents certain significant measurements of the past three fiscal years:

<u>Fiscal Year</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
	<small>(In millions, except per share amounts and percentages)</small>		
New orders	\$ 8,982	\$ 6,389	\$ 9,888
Net sales	\$ 8,013	\$ 6,992	\$ 9,167
Gross margin	\$ 3,701	\$ 3,086	\$ 4,292
Gross margin percent	46.2%	44.1%	46.8%
Net income	\$ 1,351	\$ 1,210	\$ 1,517
Earnings per share	\$ 0.78	\$ 0.73	\$ 0.97

Operating results for fiscal 2004 reflected a recovery from a downturn in the semiconductor industry and the global economy, as well as realized savings from Applied’s fiscal 2003 realignment activities. In addition, Applied gained market share in critical areas, including 300mm equipment and copper interconnect, and improved its operational efficiencies.

Fiscal 2005 results reflected a challenging environment as Applied’s customers decreased fab utilization globally and reduced or delayed capital expenditures as a result of excess inventories and slowing demand for chips. In this period, Applied focused on lowering costs, improving efficiencies, reducing cycle time and bringing new products to market. During the fourth quarter of fiscal 2005, customer demand for Applied products began to increase.

Customer demand further improved in fiscal 2006, resulting in higher orders and revenue. Fiscal 2006 results reflected a recovery in the semiconductor and semiconductor-related industries and the global economy as end-user demand for electronic products and flat panel displays drove increased customer requirements for advanced silicon and display products. During this period, Applied's semiconductor customers increased both high-volume production and leading-edge 65nm and 45nm chip development. Results for this period also reflected Applied's continued focus on cost controls. Improvements in operating performance were offset in part by restructuring and asset impairment charges associated with real estate and facilities disinvestment that commenced during the first fiscal quarter, equity-based compensation expenses and an in-process research and development expense associated with the acquisition of Applied Films Corporation (Applied Films).

During the second half of fiscal 2006, Applied completed certain transactions in support of its long-term growth strategy. Management believes that these transactions will enhance Applied's ability to extend its nanomanufacturing capabilities into adjacent and new markets, including color filters for flat panel displays, solar cells, flexible electronics, energy-efficient glass and track solutions for semiconductor manufacturing. These transactions included the acquisition of Applied Films, the formation of a joint venture with Dainippon Screen Mfg. Co., Ltd. (Screen), and the purchase of certain parts cleaning and recycling assets in Singapore from UMS Solutions Pte. Ltd. (UMS Solutions), a wholly-owned subsidiary of Norelco UMS Holdings Limited.

Applied's long-term opportunities depend in part on successful execution of its growth strategy, including increasing market share in existing markets, expanding into related markets, and cultivating new markets and new business models. These opportunities are also subject to many factors, including: (1) global economic conditions; (2) advanced technology and/or capacity requirements of semiconductor manufacturers and their capital investment trends; (3) the profitability of chip and display manufacturers; (4) supply and demand for chips, flat panel displays, solar panels, and related products and services; (5) realization of the anticipated benefits of business combinations; (6) continued investment in research, development and engineering (RD&E); and (7) the relative competitiveness of Applied's equipment and service products. For these and other reasons set forth in Part 1, Item 1A, "Risk Factors," Applied's prior results of operations are not necessarily indicative of future operating results.

Results of Operations

Net Sales

Applied's business was subject to cyclical industry conditions in fiscal 2004, 2005 and 2006. As a result of these conditions, there were significant fluctuations in Applied's quarterly new orders and net sales, both within and across the fiscal years. Demand for manufacturing equipment has historically been volatile as a result of sudden changes in chip and flat panel supply and demand and other factors, including rapid technological advances in fabrication processes.

Quarterly and full fiscal year financial information was as follows:

	Fiscal Quarter				Fiscal Year
	First	Second	Third	Fourth	
(In millions, except per share amounts)					
2004:					
New orders	\$ 1,683	\$ 2,214	\$ 2,462	\$ 2,623	\$ 8,982
Net sales	\$ 1,556	\$ 2,018	\$ 2,236	\$ 2,203	\$ 8,013
Gross margin	\$ 676	\$ 939	\$ 1,059	\$ 1,027	\$ 3,701
Net income	\$ 82	\$ 373	\$ 441	\$ 455	\$ 1,351
Earnings per share	\$ 0.05	\$ 0.22	\$ 0.26	\$ 0.27	\$ 0.78
2005:					
New orders	\$ 1,675	\$ 1,553	\$ 1,468	\$ 1,693	\$ 6,389
Net sales	\$ 1,781	\$ 1,861	\$ 1,632	\$ 1,718	\$ 6,992
Gross margin	\$ 790	\$ 818	\$ 717	\$ 761	\$ 3,086
Net income	\$ 289	\$ 305	\$ 370	\$ 246	\$ 1,210
Earnings per share	\$ 0.17	\$ 0.18	\$ 0.23	\$ 0.15	\$ 0.73
2006:					
New orders	\$ 2,041	\$ 2,488	\$ 2,670	\$ 2,688	\$ 9,888
Net sales	\$ 1,858	\$ 2,248	\$ 2,543	\$ 2,518	\$ 9,167
Gross margin	\$ 838	\$ 1,045	\$ 1,223	\$ 1,186	\$ 4,292
Net income	\$ 143	\$ 413	\$ 512	\$ 449	\$ 1,517
Earnings per share	\$ 0.09	\$ 0.26	\$ 0.33	\$ 0.30	\$ 0.97

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

Fiscal Year	2004	2005 (In millions)	2006
Taiwan	\$ 2,006	\$ 1,608	\$ 2,079
North America(1)	1,337	1,472	1,708
Korea	879	1,021	1,699
Japan	1,417	1,396	1,518
Asia-Pacific(2)	1,580	612	1,157
Europe	794	883	1,006
	<u>\$ 8,013</u>	<u>\$ 6,992</u>	<u>\$ 9,167</u>

(1) Primarily the United States.

(2) Includes China.

New orders increased to \$9.0 billion for fiscal 2004, reflecting a broad-based increase in capital investment in 300mm technology to meet rising demand for chips and flat panel displays. Following the new order trends, net sales increased to \$8.0 billion in fiscal 2004, reflecting the fulfillment of higher levels of orders for capital equipment received in prior quarters to support customers' manufacturing capacity expansion and new technology requirements.

New orders for fiscal 2005 decreased 29 percent, from \$9.0 billion in the prior year to \$6.4 billion, as semiconductor manufacturers reduced their capital investments to align inventories with demand. Following the trend of decreasing orders during fiscal 2005, net sales decreased by 13 percent from \$8.0 billion for fiscal 2004 to \$7.0 billion for fiscal 2005, reflecting lower demand for semiconductor products.

New orders for fiscal 2006 increased 55 percent, from \$6.4 billion in the prior year to \$9.9 billion, as customer demand increased. Following the trend of increasing orders during fiscal 2006, net sales increased by 31 percent, from \$7.0 billion for fiscal 2005 to \$9.2 billion for fiscal 2006.

Gross Margin

Gross margin as a percentage of net sales decreased from 46.2 percent for fiscal 2004 to 44.1 percent for fiscal 2005, and increased to 46.8 percent for fiscal 2006. The higher gross margin percentage for fiscal 2004 was principally attributable to improved revenue levels, changes in product mix, decreased product costs, and increased manufacturing volume, resulting in higher absorption of manufacturing and field service costs and the completion of refocused product efforts. The higher gross margin in fiscal 2004 was partially offset by increased variable compensation costs as a result of improved operating performance. The decrease in gross margin from fiscal 2004 to fiscal 2005 was due to lower revenue levels, lower manufacturing absorption and changes in product mix, which were partially offset by initiatives for cost reduction and efficiency improvement, such as common platform architecture and parts, lower cost sourcing and cycle time reduction. The increase in the gross margin percentage from fiscal 2005 to fiscal 2006 was principally attributable to the combination of higher revenue levels, decreased product costs and increased manufacturing volume and absorption, partially offset by increased variable and equity-based compensation costs. Applied began recognizing expenses associated with stock options and the ESPP in fiscal 2006. Gross margin during fiscal 2006 included \$37 million of equity-based compensation expense.

Research, Development and Engineering

Applied's future operating results depend to a considerable extent on its ability to maintain a competitive advantage in the products and services it provides. Applied believes that it is critical to continue to make substantial investments in RD&E to assure the availability of innovative technology that meets the current and projected requirements of its customers' most advanced designs. Applied has historically maintained its commitment to investing in RD&E in order to continue to offer new products and technologies. As a result, RD&E expenses were \$992 million (12 percent of net sales) for fiscal 2004, \$941 million (13 percent of net sales) for fiscal 2005, and \$1.2 billion (13 percent of net sales) for fiscal 2006. Equity-based compensation expenses during fiscal 2006 associated with research, development and engineering functions totaled \$76 million. Development cycles range from 12 to 36 months depending on whether the product is an enhancement of an existing product or a new product. 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.

In fiscal 2004, Applied continued its investment in developing technologies for future generation manufacturing. Advances were made in several key areas, including technology for enhancing transistor and interconnect performance.

In fiscal 2005, Applied focused on developing systems for customers' advanced chip designs, including systems to enable smaller and faster interconnect and transistor structures with 65nm, 45nm and below geometries and flat panel display systems to process larger glass substrates.

In fiscal 2006, Applied continued its development of systems to increase chip performance, especially for Flash and DRAM devices. Applied also focused on developing systems for 32nm and 22nm copper/low k interconnect processing technologies to address critical manufacturing challenges that chipmakers face as they transition to future device generations, helping them to bring new products to market more rapidly while minimizing risk. Applied also continued to focus on developing flat panel display systems to process even larger glass substrates.

During fiscal 2006, Applied recorded an in-process research and development (IPR&D) expense in the amount of \$14 million related to the acquisition of Applied Films. Applied's methodology for allocating the purchase price relating to purchased acquisitions to IPR&D was determined through established valuation techniques. The IPR&D was expensed upon acquisition because technological feasibility had not been established and no future alternative uses existed. No IPR&D charges were recorded in fiscal 2005. During fiscal 2004, Applied recorded an IPR&D expense in the amount of \$6 million related to the acquisition of Torrex Equipment Corporation.

Marketing, Selling, General and Administrative

Marketing, selling, general and administrative expenses were \$752 million (9 percent of net sales) for fiscal 2004, decreased to \$697 million (10 percent of net sales) for fiscal 2005, and increased to \$907 million (10 percent of net sales) for fiscal 2006. The decrease in operating expenses from fiscal 2004 to 2005 was due to lower business volume. Operating expenses were affected by reductions in variable compensation due to lower operating performance and focus on cost controls. The increase from fiscal 2005 to 2006 correlated to the increase in business volume, as well as increases in variable compensation as a result of improved operating performance, equity-based compensation expense, and spending on the Company's business transformation initiative, partially offset by savings resulting from Applied's continued focus on controlling its overall cost structure. Equity-based compensation expenses during fiscal 2006 associated with marketing, sales and general and administrative functions totaled \$104 million. During fiscal 2006, Applied launched the planning stage of its multi-year business transformation initiative, which is expected to include the design of certain new company-wide business processes and the transition to a single-vendor software system to perform various functions, such as order management and manufacturing control.

Restructuring and Asset Impairments

Restructuring actions taken in fiscal 2004 were intended to better align Applied's cost structure with prevailing market conditions due to the industry downturn at the time. These actions, which were necessary as a result of reduced business volume, reduced Applied's global workforce and consolidated global facilities. Restructuring, asset impairments and other charges for fiscal 2004 totaled \$167 million, consisting of \$65 million for facility consolidations, \$6 million for severance and benefits, and \$96 million for other costs, primarily fixed asset writeoffs due to facility consolidations.

As of October 29, 2006, the fiscal 2004 restructuring actions were completed, and restructuring reserve balances consisted principally of remaining lease commitments associated with facilities.

During the first quarter of fiscal 2006, Applied's Board of Directors approved a plan to divest a portion of Applied's real estate and facilities portfolio (the Plan). Properties with an estimated fair value of \$56 million were reported as assets held-for-sale and reclassified from property, plant and equipment on the Consolidated Balance Sheet. Applied recorded an asset impairment charge of \$124 million during the first quarter of fiscal 2006 to write down the following properties to estimated fair value: (1) facilities in Narita, Japan; Chunan, Korea; Hillsboro, Oregon; Danvers, Massachusetts; and (2) 26 acres of unimproved land in Hillsboro, Oregon. As part of the Plan, Applied also recorded a charge in the amount of \$91 million for future lease obligations that were scheduled to continue through fiscal 2014 related to the closure of its leased Hayward, California facility. During the third quarter of fiscal 2006, Applied sold the Danvers, Massachusetts facility for net proceeds of \$16 million and recognized a gain of \$4 million. During the fourth quarter of fiscal 2006, Applied recorded additional impairment charges on the Narita and Chunan facilities of \$6 million and recorded a restructuring charge of \$4 million related to environmental contamination of the Narita site. During the second, third and fourth quarters of fiscal 2006, Applied consumed \$9 million in restructuring reserves related to the Hayward campus in rental and operating costs. In the fourth quarter of fiscal 2006, the Hayward lease obligation was terminated for \$81 million. Applied continues to actively market the remaining properties.

For further details, see Note 6 of Notes to Consolidated Financial Statements.

Litigation Settlements, Net

Litigation settlements, net were \$27 million for fiscal 2004 and consisted of costs of \$28 million related to two separate patent litigation settlements, net of a gain of \$1 million related to a legal settlement in favor of Applied. During fiscal 2005 and 2006, there were no material litigation settlements.

Net Interest Income

Net interest income was \$66 million for fiscal 2004, \$134 million for fiscal 2005 and \$149 million for fiscal 2006. The increases in net interest income from fiscal 2004 to 2005 and from 2005 to 2006 were due primarily to a

substantial increase in interest rates combined with a decrease in interest expense associated with scheduled debt maturities in September 2004 and September 2005.

During the fourth quarter of fiscal 2006, Applied repurchased 145 million shares of outstanding common stock for an aggregate purchase price of \$2.5 billion under an accelerated buyback program. The repurchase was funded with Applied's existing cash and investments. A portion of the investment portfolio was sold to fund the accelerated stock buyback, resulting in lower interest income due to the realization of losses associated with certain investments and a reduced investment portfolio.

Income Taxes

Applied's effective income tax provision rate was 26.1 percent for fiscal 2004, 23.5 percent for fiscal 2005 and 30.0 percent for fiscal 2006. Applied's effective rate of 23.5 percent for fiscal 2005 reflected the favorable resolution of audits of prior years' income tax filings of \$118 million and a change in estimate with respect to export tax benefits of \$14 million, partially offset by a charge of \$32 million relating to the distribution of foreign earnings under the American Jobs Creation Act of 2004 (the Jobs Creation Act). Applied's effective tax rate of 30.0 percent for fiscal 2006 reflected benefits of \$61 million principally related to the favorable resolution of audits of prior years' income tax filings, partially offset by a \$17 million charge from the expensing of equity-based compensation.

The Jobs Creation Act, enacted in fiscal 2004, provides for a three year phase-out of current extraterritorial income tax (ETI) benefits and replaces ETI with a phased-in nine percent domestic production activity deduction that will not be fully effective until 2010. The Jobs Creation Act will not fully replace Applied's current ETI tax benefits.

Applied's future effective income tax rate depends on various factors, such as tax legislation, the geographic composition of Applied's pre-tax income, and non-tax deductible expenses incurred in connection with acquisitions. Management carefully monitors these factors and timely adjusts the effective income tax rate accordingly.

Segment Information

After the acquisition of Applied Films, Applied made certain changes to its internal financial reporting structure during the fourth quarter of fiscal 2006 and, as a result, is reporting four segments: Silicon, Fab Solutions, Display, and Adjacent Technologies. A description of the products and services, as well as financial data, for each reportable segment can be found in Note 10 of Notes to Consolidated Financial Statements. Future changes to Applied's internal financial reporting structure may result in changes to the reportable segments disclosed. Applied does not allocate to its reportable segments certain operating expenses which are reported separately at the corporate level. These unallocated costs include equity-based compensation, regional marketing and sales, corporate functions (certain management, finance, legal, human resources and RD&E costs) and unabsorbed information technology and occupancy costs. Prior to the fourth quarter of fiscal 2006, Applied operated in one reportable segment. Fiscal 2004 and 2005 amounts are presented on a basis comparable to fiscal 2006 amounts. Discussions below include the results of each reportable segment.

Silicon Segment

Fiscal Year	2004	2005	2006
		(In millions)	
New orders	\$ 6,363	\$ 3,918	\$ 6,555
Net sales	\$ 5,767	\$ 4,468	\$ 5,971
Operating income	\$ 1,832	\$ 1,105	\$ 2,000

Fiscal 2004 Silicon orders of \$6.4 billion reflected investment in advanced 300mm manufacturing capacity by chip manufacturers due to robust consumer spending, increased corporate information technology spending and growth in the personal computer and cell phone markets. During fiscal 2004, net sales of \$5.8 billion reflected increased demand for Applied's low k CVD Black products, and PECVD, CMP and PVD products continued to be industry benchmarks for performance and capability in advanced technologies. During fiscal 2004, operating income of \$1.8 billion reflected higher net sales and cost savings related to completion of the realignment plan,

offset in part by higher variable compensation expenses. In fiscal 2004, RD&E advances were made in several key areas, including technology for enhancing transistor and interconnect performance. Ten major products were introduced, including the Applied Endura2, Applied Reflexion LK Ecmp, Applied Producer HARP, Applied Quantum X and Applied SEMVision G2 FIB systems, all targeted for 65nm and below chip manufacturing.

Silicon orders of \$3.9 billion decreased 38 percent in fiscal 2005 compared to fiscal 2004. Net sales of \$4.5 billion decreased 23 percent in fiscal 2005 compared to fiscal 2004. Fiscal 2005 was a year of lower semiconductor capital equipment investment, as customers aligned inventories with demand. During fiscal 2005, customers decreased manufacturing utilization to address rising chip inventory and softening end-user demand. Operating income of \$1.1 billion decreased 40 percent in fiscal 2005 compared to fiscal 2004. During fiscal 2005, Applied reduced variable expenses and the cost of products sold in order to align its cost structure with market conditions. In fiscal 2005, RD&E focused on developing systems for customers' advanced chip designs, including systems to enable smaller and faster interconnect and transistor structures with 65nm, 45nm and below geometries. For copper interconnect applications, the Company introduced the Applied Endura CuB/S II system with advanced copper barrier/seed technology and the Applied Producer Black Diamond II system for next-generation low k dielectric film layers. For leading-edge transistor gate applications, the Company launched the Applied Centura AdvantEdge Etch system, Applied Siconi™ preclean technology and the Applied Vantage RadOx RTP. New applications in strain engineering, which involves creating localized areas of stress in the transistor structure, were also developed for existing systems to meet customers' requirements for faster transistors. In the area of inspection and metrology, the Company launched the Applied UVision™ system, the industry's first laser 3D brightfield inspection tool, and Applied OPC Check software, designed to automate critical OPC mask verification.

Silicon orders of \$6.6 billion increased 67 percent in 2006 compared to 2005. During fiscal 2006, leading semiconductor manufacturers reported increased sales as the electronics market continued to grow. The demand for consumer electronics, including broadband, personal computers and cell phones with increasing digital content and complex chips, resulted in increased chip demand and the need for new capacity. In addition to expanding consumer electronics demand, corporate information technology investment increased, with an emphasis on security, server consolidation and more robust internet infrastructures. Net sales of \$6.0 billion increased 34 percent in 2006 compared to 2005. During fiscal 2006, demand increased in many areas, including etch, inspection and thin films products. Operating income of \$2.0 billion increased 81 percent in 2006 compared to 2005. Improved operating results in fiscal 2006 reflected an increase in business volume, offset in part by increases in variable compensation expenses. In fiscal 2006, Applied continued its development of systems to increase chip performance, especially for Flash and DRAM devices. To extend aluminum (the material used by many memory manufacturers for interconnects) to the sub-70nm node, the Company introduced two products, the Applied Endura CVD Al technology and Applied Centura AdvantEdge Metal Etch system. For faster copper interconnects, Applied launched its enhanced Endura CuBS system with Aktiv Preclean, extending the system's capability to the 45nm node and below, especially for use with ultra-low k dielectric films. The Company introduced the Applied Endura iLB II (integrated liner-barrier) system, offering advances in PVD titanium and preclean technologies, to provide significantly reduced resistance for contact structures. The Company also focused on providing solutions to extend customers' lithography technology, introducing the Applied Producer APF-e (advanced patterning film enhancement) system. The new APF-e film enables chipmakers to cost-effectively pattern nano-scale features without additional integration complexity while reducing their reliance on next-generation lithography systems.

Fab Solutions Segment

Fiscal Year	2004	2005 (In millions)	2006
New orders	\$ 1,779	\$ 1,713	\$ 2,259
Net sales	\$ 1,675	\$ 1,768	\$ 2,210
Operating income	\$ 394	\$ 400	\$ 623

Fiscal 2004 orders and net sales reflected increased demand for spare parts due to higher wafer starts, a growing installed base, and increased demand for remanufactured equipment. During fiscal 2004, operating income of \$394 million reflected higher net sales and savings related to cost control initiatives.

Fiscal 2005 orders of \$1.7 billion decreased 4 percent compared to fiscal 2004, reflecting customers' cost reduction initiatives and lower remanufactured systems orders, offset in part by a modest increase in wafer starts. Fiscal 2005 net sales and operating income included Metron, which Applied acquired in December 2004, expanding the product and service portfolio with a wide range of outsourcing solutions. Net sales of \$1.8 billion increased 6 percent in fiscal 2005 compared to fiscal 2004. Operating income of \$400 million increased 1 percent in fiscal 2005 compared to fiscal 2004, and included Metron integration costs. Applied also expanded its product portfolio with the addition of abatement systems, FAB300 manufacturing execution systems, products for assembly and test, kitting and cleaning, and other technology-focused fab offerings.

Orders of \$2.3 billion increased 32 percent in 2006 compared to 2005. Net sales of \$2.2 billion increased 25 percent in 2006 compared to 2005. Net sales reflected increases in spare parts shipments and service contracts as a result of higher wafer starts and an increase in 200mm remanufactured equipment investment. Operating income of \$623 million increased 56 percent in 2006 compared to 2005. During fiscal 2006, operating results reflected improved operational efficiencies and savings from cost control initiatives. Applied also expanded its product offerings with the introduction of abatement systems for reducing perfluorocompound (PFC) emissions and additional chamber performance services capabilities.

Display Segment

<u>Fiscal Year</u>	<u>2004</u>	<u>2005</u> <u>(In millions)</u>	<u>2006</u>
New orders	\$ 840	\$ 758	\$ 1,037
Net sales	\$ 571	\$ 756	\$ 966
Operating income	\$ 177	\$ 254	\$ 319

Fiscal 2004 orders, net sales and operating income reflected increased end-user demand for LCD TVs and laptop displays. Demand also increased for small panels, driven by mobile phones with enhanced capabilities, such as color displays, cameras, larger screen sizes and higher resolutions. Operating income included RD&E expenses related to the development of the Gen-7 system. Seventh generation TFT-LCD substrates measure 1.8m x 2.2m and produce up to six 46-inch large screen displays.

Orders of \$758 million decreased 10 percent in fiscal 2005 compared to fiscal 2004. Fiscal 2005 orders reflected a lower demand for smaller panel equipment, offset in part by orders for Gen-7.5 systems as manufacturers migrated to larger-sized TFT-LCD display production. Net sales of \$756 million increased 32 percent in fiscal 2005 compared to fiscal 2004. Operating income of \$254 million increased 43 percent in fiscal 2005 compared to fiscal 2004. Fiscal 2005 results included higher RD&E expenses. Applied introduced the Gen-8 AKT-50K PECVD system for manufacturing flat panel displays. This system processes 2.2m x 2.4m glass substrates for producing up to six 52-inch LCD screens.

Orders of \$1.0 billion increased 37 percent in fiscal 2006 compared to fiscal 2005. During fiscal 2006, price reductions in consumer electronics accelerated the growth of the TFT-LCD display market. As a result, display manufacturers aggressively invested in Gen-7, Gen-7.5, and Gen-8 systems. In addition, laptop demand continued to be strong, resulting in additional Gen-5 and Gen-5.5 fab investment. With the acquisition of Applied Films in fiscal 2006, Applied entered the PVD color filter market. Net sales of \$1.0 billion increased 28 percent in 2006 compared to 2005. During the last quarter of fiscal 2006, flat panel equipment demand began to slow as customers aligned their capacity plans and inventory levels. Operating income of \$319 million increased 25 percent in 2006 compared to 2005. Fiscal 2006 results included a \$5 million IPR&D expense related to the acquisition of Applied Films. Applied launched three FPD systems, the AKT-55K EBT, the AKT-55K PECVD and the AKT-NEW ARISTO 2200, for manufacturing Gen-8.5 panels, sized at 2.2m x 2.5m, which produce up to six 55-inch LCD screens.

Adjacent Technologies

<u>Fiscal Year</u>	<u>2004</u>	<u>2005</u> <u>(In millions)</u>	<u>2006</u>
New orders	\$ —	\$ —	\$ 37
Net sales	\$ —	\$ —	\$ 20
Operating loss	\$ —	\$ —	\$ 8

Orders and net sales in fiscal 2006 reflected the results of Applied Films' solar, flexible electronics and energy-efficient glass products that Applied acquired in the third quarter. Fiscal 2006 results included a \$9 million IPR&D expense related to the acquisition of Applied Films.

Business Combinations and Equity-Method Investment

On August 14, 2006, Applied's wholly-owned subsidiary, Metron Technology, Inc., purchased certain parts cleaning and recycling assets in Singapore from UMS Solutions for \$10 million. The acquisition enhances Metron's capabilities in Southeast Asia to provide advanced, high-quality parts cleaning services to support its customers' semiconductor manufacturing requirements.

On July 20, 2006, Applied and Dainippon Screen Mfg. Co., Ltd. (Screen) completed the formation of Sokudo Co., Ltd. (Sokudo), a Japanese joint venture company, to deliver advanced track solutions for customers' critical semiconductor manufacturing requirements. Track systems are a key part of semiconductor manufacturing and are used before and after photolithography to deposit, bake and develop the photoresist layer that defines circuit patterns. Screen owns 52 percent and holds the controlling interest in Sokudo, and Applied owns 48 percent of Sokudo. Screen transferred into Sokudo its existing track business and related intellectual property, including employees, products and its installed base of systems. Applied paid \$147 million for its investment in Sokudo. Additionally, Applied contributed to Sokudo certain technology and related intellectual property and will provide key development employees. Screen performs manufacturing for Sokudo under an outsourcing agreement.

On July 7, 2006, Applied completed its acquisition of Applied Films, a leading supplier of thin film deposition equipment used in manufacturing flat panel displays (FPDs), solar cells, flexible electronics and energy-efficient glass. Applied paid \$28.50 per share in cash for each outstanding share of Applied Films for a total purchase price of approximately \$484 million, or \$328 million net of Applied Films' existing cash and marketable securities. As part of the acquisition, Applied assumed Applied Films' outstanding stock options and restricted stock awards that, at the acquisition date, had a total fair value of \$26 million, of which \$18 million was allocated to the purchase price and the remainder to unearned compensation. Upon the acquisition and subject to vesting, Applied Films stock options became exercisable for shares of Applied common stock and Applied Films restricted stock awards became payable in shares of Applied common stock totaling, in the aggregate, three million shares of Applied common stock.

On December 23, 2005, Applied acquired all of the outstanding shares of ChemTrace Corporation and ChemTrace Precision Cleaning, Inc. (collectively, ChemTrace) for approximately \$22 million in cash, net of cash acquired, of which \$18 million was paid upon closing. ChemTrace provides customers with precision parts cleaning and materials testing solutions.

On June 28, 2005, Applied purchased certain assets of SCP Global Technology, Inc. (SCP), consisting of single-wafer HF-last immersion technology and Marangoni clean/dry intellectual property, for approximately \$24 million in cash.

On December 16, 2004, Applied acquired the assets of ATMI, Inc.'s Treatment Systems business (EcoSys), which supports the gas abatement requirements of process equipment for semiconductor manufacturing and other industrial applications, for approximately \$16 million in cash.

On December 14, 2004, Applied acquired substantially all of the operating subsidiaries and businesses of Metron Technology N.V., a provider of a range of products and services for fab-wide operations, for approximately \$85 million in cash.

On June 14, 2004, Applied acquired Torrex Equipment Corporation, a developer of a multi-wafer system that utilizes chemical vapor deposition and atomic layer deposition processes to address front-end semiconductor manufacturing applications, for \$7 million in cash.

For further details, see Note 13 of Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132R" (SFAS 158). SFAS 158 requires an entity to recognize in its statement of financial condition the funded status of its defined benefit post-retirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. SFAS 158 also requires an entity to recognize changes in the funded status of a defined benefit post-retirement plan directly to accumulated other comprehensive income, net of tax, to the extent such changes are not recognized in earnings as components of periodic net benefit cost. SFAS 158 is effective for Applied in fiscal 2007. Applied does not expect the implementation of this standard to have a material effect on Applied's financial position or results of operations.

In September 2006, the FASB issued Statement No. 157, "Fair Value" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 becomes effective for Applied in fiscal 2009. Applied is evaluating the potential impact of the implementation of SFAS 157 on its financial position and results of operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" (SAB 108), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for Applied in fiscal 2007. Applied does not expect the implementation of this staff accounting bulletin to have a material effect on Applied's financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation 48, "Accounting for Income Tax Uncertainties" (FIN 48). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 will become effective for Applied beginning in fiscal 2008. Any differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. Applied is evaluating the potential impact of the implementation of FIN 48 on its financial position and results of operations.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements No. 133 and 140" (SFAS 155). SFAS 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS 155 also resolves issues addressed in SFAS 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets". SFAS 155 (a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133, (c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (e) amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of Applied's 2007 fiscal year. Applied is currently assessing the

impact of SFAS 155, however, it does not anticipate that SFAS 155 will have a material impact on its financial position and results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections — a Replacement of APB Opinion No. 20 and FASB Statement No. 3" (SFAS 154), which requires retrospective application to prior periods' financial statements of voluntary changes in accounting principle unless it is impracticable to do so. SFAS 154 is effective for accounting changes and corrections of errors beginning in fiscal 2007. Applied does not expect the implementation of this standard to have a material effect on Applied's financial position or results of operations.

Financial Condition, Liquidity and Capital Resources

Applied's cash, cash equivalents and investments decreased from \$6.0 billion at October 30, 2005 to \$3.2 billion at October 29, 2006 due primarily to share repurchases and cash dividend distributions. Applied has not undertaken any significant external financing activities for several years.

Cash, cash-equivalents and investments consist of the following:

	October 30, 2005	October 29, 2006
	(In millions)	
Cash and cash equivalents	\$ 990	\$ 861
Short-term investments	2,343	1,036
Long-term investments	2,652	1,315
Total cash, cash-equivalents and investments	<u>\$ 5,985</u>	<u>\$ 3,212</u>

During fiscal 2006, Applied changed its accounting method for certain fixed-income investments, which resulted in the reclassification of these investments from short-term investments to long-term investments. As a result, prior period balances have been reclassified to conform to the current period's presentation. This accounting method is based on the contractual maturity dates of fixed-income securities as current or long-term, while the prior classification was based on the nature of the securities and the availability for use in current operations. Applied believes this presentation method is preferable as it is more reflective of Applied's assessment of the timing of when such securities will be converted to cash. Accordingly, certain fixed-income investments of \$2.6 billion have been reclassified from short-term investments to long-term investments in the October 30, 2005 Consolidated Balance Sheet to conform to the fiscal 2006 financial statement presentation. In connection with this reclassification, short-term deferred taxes have been reclassified to long-term deferred taxes. There have been no changes in Applied's investment policies or practices associated with this change in accounting method. In addition, \$50 million of long-term equity securities previously reported in other long-term assets have been reclassified to long-term investments in the October 30, 2005 Consolidated Balance Sheet to conform to the fiscal 2006 financial statement presentation. Applied continues to classify auction rate securities and variable rate demand notes as current assets, notwithstanding the underlying contractual term of such investments, since the highly liquid nature of these investments enables them to be readily convertible to cash.

Applied generated cash from operating activities of \$1.6 billion for fiscal 2004, \$1.2 billion for fiscal 2005 and \$1.9 billion for fiscal 2006. The primary sources of cash from operating activities have been net income, as adjusted to exclude the effect of non-cash charges including depreciation, amortization, equity-based compensation, asset impairments and restructuring and IPR&D expenses, and changes in working capital levels, including accounts receivable and inventories. Applied utilized programs to sell accounts receivable of \$859 million for fiscal 2004, \$158 million for fiscal 2005 and \$245 million for fiscal 2006. The sales of these accounts receivable increased cash and reduced accounts receivable and days sales outstanding. Days sales outstanding were 69 days at the end of fiscal 2004, compared to 85 days at the end of fiscal 2005 and 80 days at the end of fiscal 2006. A portion of these sold accounts receivable is subject to certain limited recourse provisions. However, Applied has not experienced any losses under these programs. Availability and usage of these accounts receivable sale agreements depend on many factors, including the willingness of financial institutions to purchase receivables and the cost of such arrangements. The decrease in days sales outstanding in fiscal 2006 is primarily related to the change in the regional sales mix and

the resulting relative increase in the amount of sold accounts receivable. For further details regarding accounts receivable sales, see Note 11 of Notes to Consolidated Financial Statements. Inventories increased by \$373 million in fiscal 2006, which related to the increase in business volume and sales activity from fiscal 2005 to fiscal 2006.

Applied used \$534 million of cash for investing activities for fiscal 2004, \$179 million for fiscal 2005, and generated \$2.0 billion during fiscal 2006. Applied's investing activities included purchases of investments, net of sales and maturities, of \$336 million for fiscal 2004. Proceeds from sales and maturities of investments, net of purchases of investments, totaled \$122 million for fiscal 2005 and \$2.6 billion for fiscal 2006. Proceeds from the sale of investments in fiscal 2006 were used principally to fund Applied's accelerated stock buyback.

Capital expenditures were \$191 million for fiscal 2004, \$200 million for fiscal 2005, and \$179 million for fiscal 2006, totaling \$570 million for the past three years. The majority of capital spending was for application laboratories, equipment and related facilities. Fiscal 2004 capital expenditures consisted principally of laboratory and demonstration equipment. Fiscal 2005 capital expenditures included investment in laboratory equipment and upgrades to Applied's enterprise resource planning software and network architecture. Fiscal 2006 capital expenditures included purchases of lab equipment, network infrastructure and \$18 million to purchase three buildings in Santa Clara, California that Applied had previously leased.

Investing activities also included investments in technology and acquisitions of companies to allow Applied to access new market opportunities or emerging technologies. During fiscal 2005, Applied paid \$102 million, net of cash acquired, for the Metron and EcoSys acquisitions. During fiscal 2006, Applied paid cash for acquisitions and the investment in a joint venture totaling \$486 million. During fiscal 2006, Applied acquired the outstanding stock of Applied Films for \$310 million in cash, net of cash and marketable securities acquired and assumed equity awards with a fair value of \$26 million, of which \$18 million was included in the purchase price; formed a joint venture, Sokudo, with Dainippon Screen Mfg. Ltd. for which Applied paid \$147 million in cash and contributed other assets; acquired certain assets of UMS Solutions for \$10 million; and acquired ChemTrace for approximately \$22 million in cash, net of cash acquired, of which \$18 million was paid upon closing. See Note 13 of Notes to Consolidated Financial Statements for additional details.

Applied used cash of \$359 million for financing activities for fiscal 2004, \$1.6 billion for fiscal 2005 and \$4.1 billion for 2006. Financing activities included issuances and repurchases of common stock and payment of dividends. Since March 1996, Applied has systematically repurchased shares of its common stock in the open market to partially fund its equity-based employee benefit and incentive plans. Cash used to repurchase shares totaled \$650 million for fiscal 2004, \$1.7 billion for fiscal 2005 and \$4.2 billion for fiscal 2006. Beginning in the second fiscal quarter of 2005, Applied's Board of Directors declared four consecutive quarterly cash dividends, in the amount of \$0.03 per share each. The first two declared cash dividends totaling \$98 million were paid during fiscal 2005. Beginning in the second fiscal quarter of 2006, Applied's Board declared three consecutive quarterly cash dividends, in the amount of \$0.05 per share each. Cash dividends declared, totaling \$251 million, were paid during fiscal 2006. The declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements, business conditions and other factors. Financing activities also included borrowings and repayments of debt. Applied did not borrow any cash in fiscal years 2004, 2005 or 2006. During fiscal 2006, Applied entered into a \$100 million 364-day unsecured credit agreement, which replaced a \$250 million credit facility that expired during the year. Cash used for debt repayments totaled \$105 million for fiscal 2004, \$62 million for fiscal 2005 and \$8 million for fiscal 2006. Cash generated from issuances of common stock pursuant to Applied's equity compensation programs totaled \$397 million for fiscal 2004, \$266 million for fiscal 2005 and \$361 million for fiscal 2006.

On September 18, 2006, Applied entered into accelerated stock buyback agreements with Goldman, Sachs & Co. (Goldman Sachs) under which Applied agreed to repurchase from Goldman Sachs shares of Applied's outstanding common stock for an initial purchase price of \$2.5 billion. Under the agreements, Applied purchased from Goldman Sachs 145 million shares of Applied's common stock on September 18, 2006 at a price per share of \$17.20 and Goldman Sachs agreed to purchase an equivalent number of shares in the open market over the following four months. At the end of the four month period, Applied is entitled or subject to a price adjustment with Goldman Sachs based upon the volume weighted average price of Applied common stock during the purchase period. The price adjustment, if any, may be settled, at Applied's option, in cash or shares of its common stock. The

repurchase was funded with Applied's existing cash and investments. The repurchased shares were reported as treasury stock.

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 for each of the three years in the period ended October 29, 2006, see the Consolidated Statements of Cash Flows in this report.

Off-Balance Sheet Arrangements

During the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to third parties as required for certain transactions initiated either by Applied or its subsidiaries. As of October 29, 2006, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately \$114 million. Applied has not recorded any liability in connection with these guarantee arrangements beyond that required to appropriately account for the underlying transaction being guaranteed. Applied does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee arrangements.

Applied also has operating leases for various facilities. Total rental expense for operating leases was \$88 million for fiscal 2004, \$87 million for fiscal 2005 and \$70 million for fiscal 2006.

Contractual Obligations

The following table summarizes Applied's contractual obligations as of October 29, 2006:

Contractual Obligations	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years (In millions)	3-5 Years	More Than 5 Years
Long-term debt obligations	\$ 407	\$ 203	\$ 3	\$ 1	\$ 200
Interest expense associated with long-term debt obligations	172	28	29	29	86
Operating lease obligations	173	60	72	25	16
Purchase obligations*	1,237	1,186	51	—	—
Other long-term liabilities	189	118	16	10	45
	<u>\$ 2,178</u>	<u>\$ 1,595</u>	<u>\$ 171</u>	<u>\$ 65</u>	<u>\$ 347</u>

* Represents Applied's agreements to purchase goods and services consisting of Applied's (a) outstanding purchase orders for goods and services; (b) contractual requirements to make specified minimum payments even if Applied does not take delivery of the contracted goods; and (c) contractual requirements to pay a penalty if a contract is cancelled. While the amount above represents Applied's purchase agreements as of October 29, 2006, the actual amounts to be paid by Applied may be less in the event that any agreements are renegotiated, cancelled or terminated.

Other Commitments

On July 20, 2006, Applied and Screen completed the formation of Sokudo, a Japanese joint venture company, to deliver advanced track solutions for customers' critical semiconductor manufacturing requirements. Screen owns 52 percent and holds the controlling interest in Sokudo, and Applied owns 48 percent. Screen transferred into Sokudo its existing track business and related intellectual property, including employees, products and its installed base of systems. Applied paid \$147 million for its investment in Sokudo. Additionally, Applied contributed to Sokudo certain technology and related intellectual property and will provide key development employees. Screen performs manufacturing for Sokudo under an outsourcing agreement. Applied accounts for its interest in Sokudo under the equity method of accounting. Under this accounting method, Applied's exposure to loss from ongoing

operations is limited to \$144 million as of October 29, 2006, which represents Applied's carrying value of its investment in Sokudo. Applied's investment in Sokudo is classified as an equity-method investment on the Consolidated Balance Sheet.

Critical Accounting Policies

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 describes 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 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 are discussed in the section above entitled "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:

Warranty Costs

Applied provides for the estimated cost of warranty when revenue is recognized. Estimated warranty costs are determined by analyzing specific product 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.

Inventory Valuation

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

Goodwill and Intangible Assets

Applied reviews goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable, and also reviews goodwill and intangibles with indefinite lives annually for impairment. Intangible assets, such as purchased technology, are generally recorded in connection with a business acquisition. The value assigned to intangible assets is usually based on estimates and judgments regarding expectations for the success and life cycle of products and technology acquired. If actual product acceptance differs significantly from the estimates, Applied may be required to record an impairment charge to write down the asset to its realizable value. The fair value of a reporting unit is estimated using the market multiples approach, and is dependent on market values for companies in a similar industry. A severe decline in market value could result in an unexpected impairment charge for impaired goodwill, which could have a material adverse effect on Applied's business, financial condition and results of operations.

Income Taxes

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

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

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

Equity-Based Compensation — Employee Stock Option Plans and Employee Stock Purchase Plans

Beginning on October 31, 2005, Applied began accounting for stock options and Employee Stock Purchase Plan (ESPP) shares under the provisions of SFAS 123(R), which requires recognition of the fair value of equity-based compensation. The fair value of stock options and ESPP shares was estimated using a Black-Scholes option valuation model. This methodology requires the use of subjective assumptions in implementing SFAS 123(R), including expected stock price volatility and the estimated life of each award. The fair value of equity-based compensation awards less the estimated forfeitures is amortized over the service period of the award, and Applied has elected to use the straight-line method. Applied makes quarterly assessments of the adequacy of the tax credit pool to determine if there are any deficiencies that require recognition in the consolidated condensed statements of operations. Prior to the implementation of SFAS 123(R), Applied accounted for stock options and ESPP shares under the provisions of APB 25 and made pro forma footnote disclosures as required by SFAS No. 148, "Accounting For Stock-Based Compensation — Transition and Disclosure — an Amendment of FASB Statement No. 123," which amended SFAS No. 123, "Accounting For Stock-Based Compensation." Pro forma net income and pro forma net income per share disclosed in the footnotes to the Consolidated Financial Statements were estimated using a Black-Scholes option valuation model. The fair value of restricted stock units was calculated based upon the fair market value of Applied's common stock at the date of grant (see Note 1 of Notes to Consolidated Financial Statements).

Legal Matters

Applied is subject to various legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. Applied evaluates, among other factors, the degree of probability of an unfavorable outcome and reasonably estimates the amount of the loss. Significant judgment is required in both the probability

determination and as to whether an exposure can be reasonably estimated. When Applied determines that it is probable that a loss has been incurred and the amount is reasonably estimable, the effect is recorded in the consolidated financial statements. Although the outcome of these claims cannot be predicted with certainty, Applied does not believe that any of the existing legal matters will have a material adverse effect on its financial condition or results of operations. However, significant changes in legal proceedings and claims, or the factors considered in the evaluation of those matters, could have a material adverse effect on Applied's business, financial condition and results of operations.

Item 7A: *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Risk

At October 29, 2006, Applied's investment portfolio included fixed-income securities with a fair value of approximately \$2.4 billion. Applied's primary objective for investing in fixed-income securities is to preserve principal while maximizing returns and minimizing risk. These securities are subject to interest rate risk and will decline in value if interest rates increase. Based on Applied's investment portfolio at October 29, 2006 and October 30, 2005, an immediate 100 basis point increase in interest rates would result in a decrease in the fair value of the portfolio of approximately \$28 million and \$65 million, respectively. 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-temporarily impaired.

Applied's long-term debt bears interest at fixed rates. As such, Applied's interest expense would increase only to the extent that Applied significantly increased the amount of variable rate obligations outstanding. Due to the short-term nature and relatively low amount of Applied's variable rate obligations, an immediate 100 basis point increase in interest rates would not be expected to have a material effect on Applied's near-term financial condition or results of operations.

Foreign Currency Exchange Rate Risk

Certain operations of Applied are conducted in foreign currencies, such as Japanese yen, British pound, euro and Israeli shekel. Applied enters into forward exchange and currency option contracts to hedge a portion of, but not all, existing and anticipated foreign currency denominated transactions expected to occur within 12 months. Gains and losses on these contracts are generally recognized in the Consolidated Statements of Operations at the time that the related transactions being hedged are recognized. Because the effect of movements in currency exchange rates on forward exchange and currency option contracts generally offsets the related effect on the underlying items being hedged, these financial instruments are not expected to subject Applied to risks that would otherwise result from changes in currency exchange rates. Applied does not use derivative financial instruments for trading or speculative purposes. Net foreign currency gains and losses did not have a material effect on Applied's results of operations for fiscal 2004, 2005 or 2006.

Forward exchange contracts are denominated in the same currency as the underlying transactions (primarily Japanese yen, British pound, euro and Israeli shekel), and the terms of the forward exchange contracts generally match the terms of the underlying transactions. Applied's outstanding forward exchange contracts are marked-to-market (see Note 2 of Notes to Consolidated Financial Statements), as are the majority of the related underlying transactions being hedged; therefore, the effect of exchange rate changes on forward exchange contracts is expected to be substantially offset by the effect of these changes on the underlying transactions. The effect of an immediate 10 percent change in exchange rates on forward exchange contracts and the underlying hedged transactions is not expected to be material to Applied's near-term financial condition or results of operations. Applied's risk with respect to currency option contracts is limited to the premium paid for the right to exercise the option. Premiums paid for options outstanding at October 29, 2006 were not material.

Item 8: *Financial Statements and Supplementary Data*

The consolidated financial statements required by this Item are set forth on the pages indicated at Item 15(a).

Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A: 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 the design and operation 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.

Management's Report on Internal Control over Financial Reporting. Applied's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of Applied's Chief Executive Officer and Chief Financial Officer, management of Applied conducted an evaluation of the effectiveness of Applied's internal control over financial reporting based upon the framework in "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, Applied's management concluded that Applied's internal control over financial reporting was effective as of October 29, 2006.

KPMG LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of the audit, has issued a report, included herein, on (1) Applied's management's assessment of the effectiveness of Applied's internal control over financial reporting and (2) the effectiveness of Applied's internal control over financial reporting as of October 29, 2006.

Changes in Internal Control over Financial Reporting. During the fourth quarter of fiscal 2006, there were no changes in the internal control over financial reporting that materially affected, or are reasonably likely to materially affect, Applied's internal control over financial reporting.

Inherent Limitations of Disclosure Controls and Procedures and 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.

Item 9B: Other Information

None.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Stockholders and Board of Directors
Applied Materials, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting in Item 9A: Controls and Procedures, that Applied Materials, Inc. maintained effective internal control over financial reporting as of October 29, 2006, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Applied Materials, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Applied Materials, Inc. maintained effective internal control over financial reporting as of October 29, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control — Integrated Framework* issued by COSO. Also, in our opinion, Applied Materials, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 29, 2006, based on the criteria established in *Internal Control — Integrated Framework* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Applied Materials, Inc. as of October 29, 2006 and October 30, 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended October 29, 2006. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as of and for each of the years in the three-year period ended October 29, 2006. Our report dated December 14, 2006 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

/s/ KPMG LLP
KPMG LLP

Mountain View, California
December 14, 2006

PART III

Pursuant to Paragraph G(3) of the General Instructions to Form 10-K, portions of the information required by Part III of Form 10-K are incorporated by reference from Applied's Proxy Statement to be filed with the SEC in connection with the 2007 Annual Meeting of Stockholders (the Proxy Statement).

Item 10: Directors and Executive Officers of the Registrant

(1) Information concerning directors, including Applied's audit committee financial expert, appears in the Proxy Statement under "Election of Directors," and is incorporated herein by reference.

(2) For information with respect to Executive Officers, see Part I, Item 1 of this Annual Report on Form 10-K, under "Executive Officers of the Registrant."

(3) Information concerning Section 16(a) beneficial ownership reporting compliance appears in the Proxy Statement, under "Section 16(a) Beneficial Ownership Reporting Compliance," and is incorporated herein by reference.

Applied has adopted the Standards of Business Conduct, a code of ethics with which every person who works for Applied and every member of the Board of Directors is expected to comply. If any substantive amendments are made to the Standards of Business Conduct or any waiver is granted, including any implicit waiver, from a provision of the code to Applied's Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer, Applied will disclose the nature of such amendment or waiver on its website or in a report on Form 8-K. The above information, including the Standards of Business Conduct, is available on Applied's website under the Investors section at <http://www.appliedmaterials.com/investors/index.html>. This website address is intended to be an inactive, textual reference only. None of the material on this website is part of this report.

Item 11: Executive Compensation

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

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information concerning the security ownership of certain beneficial owners and management appears in the Proxy Statement, under "Principal Stockholders," and is incorporated herein by reference.

The following table summarizes information with respect to options and other equity awards under Applied's equity compensation plans as of October 29, 2006:

Equity Compensation Plan Information

Plan Category	(a)	(b)	(c)
	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights(1)		Weighted Average Exercise Price of Outstanding Options, Warrants and Rights(2) (In thousands, except prices)
Equity compensation plans approved by security holders	57,687	\$ 14.88	132,278(3)
Equity compensation plans not approved by security holders	119,644(4)	\$ 18.51	22,973(5)
Total	177,331	\$ 17.33	155,251

- (1) Includes only options and restricted stock units (referred to as “performance shares” under the Applied Materials, Inc. Employee Stock Incentive Plan) outstanding under Applied’s equity compensation plans, as no stock warrants or other rights were outstanding as of October 29, 2006.
- (2) The weighted average exercise price of outstanding options, warrants and rights does not take restricted stock units into account as restricted stock units have a de minimis purchase price.
- (3) Includes 6,894 shares of Applied common stock reserved for future issuance under the Applied Materials, Inc. Employees’ Stock Purchase Plan.
- (4) Includes options to purchase 3,310 shares of Applied common stock assumed through various mergers and acquisitions, after giving effect to the applicable exchange ratios. These assumed options had a weighted average exercise price of \$13.16 per share. No further shares are available for issuance under these plans under which these options were granted.
- (5) Includes 3,775 shares of Applied common stock reserved for future issuance under the Applied Materials, Inc. Stock Purchase Plan for Offshore Employees.

Applied has the following equity compensation plans that have not been approved by stockholders (share numbers shown in thousands):

2000 Global Equity Incentive Plan The 2000 Global Equity Incentive Plan (the 2000 Plan) was adopted effective as of June 21, 2000. The 2000 Plan provides for the grant of non-qualified stock options to employees other than officers and directors. The administrator of the 2000 Plan (either the Board or a committee appointed by the Board) determines the terms and conditions of all stock options granted; provided, however, that (1) the exercise price generally may not be less than 100 percent of the fair market value (on the date of grant) of the stock covered by the option, and (2) the term of options can be no longer than 10 years (extended to up to 13 years in the event of death). A total of 147,000 shares has been authorized for issuance under the 2000 Plan, and 19,198 shares remain available for issuance as of October 29, 2006.

Stock Purchase Plan for Offshore Employees The Stock Purchase Plan for Offshore Employees (the Offshore ESPP) was adopted effective as of October 16, 1995. The Offshore ESPP provides for the grant of stock options to employees (other than United States citizens or residents) through one or more offerings. The administrator of the Offshore ESPP (the Board or a committee appointed by the Board) determines the terms and conditions of all options prior to the start of an offering, including the option exercise price, number of shares covered and when an option may be exercised. All options granted as part of an offering must be granted on the same date. A total of 12,800 shares has been authorized for issuance under the Offshore Plan, and 3,775 shares remain available for issuance as of October 29, 2006.

Item 13: *Certain Relationships and Related Transactions*

The information appearing in the Proxy Statement under the heading “Certain Relationships and Related Transactions” is incorporated herein by reference.

Item 14: *Principal Accounting Fees and Services*

Information concerning principal accounting fees and services and the audit committee’s preapproval policies and procedures appears in the Proxy Statement under the heading “Fees Paid to KPMG LLP” and is incorporated herein by reference.

PART IV

Item 15: Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this Annual Report on Form 10-K:

	<u>Page Number</u>
(1) Financial Statements:	
Consolidated Statements of Operations for each of the three years in the period ended October 29, 2006	45
Consolidated Balance Sheets at October 30, 2005 and October 29, 2006	46
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended October 29, 2006	47
Consolidated Statements of Cash Flows for each of the three years in the period ended October 29, 2006	48
Notes to Consolidated Financial Statements	49
Report of KPMG LLP, Independent Registered Public Accounting Firm	80
(2) Financial Statement Schedule:	
Schedule II — Valuation and Qualifying Accounts for each of the three years in the period ended October 29, 2006	86
(3) Exhibits:	
The exhibits listed in the accompanying Index to Exhibits are filed or incorporated by reference as part of this Annual Report on Form 10-K	
All other schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto.	

APPLIED MATERIALS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal Year	October 31, 2004	October 30, 2005	October 29, 2006
	(In thousands, except per share amounts)		
Net sales	\$ 8,013,053	\$ 6,991,823	\$ 9,167,014
Cost of products sold	4,311,808	3,905,949	4,875,212
Gross margin	3,701,245	3,085,874	4,291,802
Operating expenses:			
Research, development and engineering	991,873	940,507	1,152,326
Marketing and selling	394,376	358,524	438,654
General and administrative	357,245	338,878	468,088
Restructuring and asset impairments	167,459	—	212,113
Litigation settlements, net	26,627	—	—
Income from operations	1,763,665	1,447,965	2,020,621
Pretax loss of equity-method investment	—	—	2,849
Interest expense	52,877	37,819	36,096
Interest income	118,462	171,423	185,295
Income before income taxes	1,829,250	1,581,569	2,166,971
Provision for income taxes	477,947	371,669	650,308
Net income	<u>\$ 1,351,303</u>	<u>\$ 1,209,900</u>	<u>\$ 1,516,663</u>
Earnings per share:			
Basic	\$ 0.80	\$ 0.74	\$ 0.98
Diluted	\$ 0.78	\$ 0.73	\$ 0.97
Weighted average number of shares:			
Basic	1,688,121	1,645,531	1,551,339
Diluted	1,721,645	1,657,493	1,565,072

See accompanying Notes to Consolidated Financial Statements.

APPLIED MATERIALS, INC.
CONSOLIDATED BALANCE SHEETS

	October 30, 2005	October 29, 2006
(In thousands, except per share amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 990,342	\$ 861,463
Short-term investments	2,342,952	1,035,875
Accounts receivable, less allowance for doubtful accounts of \$3,649 and \$3,342 at 2005 and 2006, respectively	1,615,504	2,026,199
Inventories	1,034,093	1,406,777
Deferred income taxes	581,183	455,473
Assets held for sale	—	37,211
Other current assets	271,003	258,021
Total current assets	6,835,077	6,081,019
Long-term investments	2,651,927	1,314,861
Property, plant and equipment	3,011,110	2,753,883
Less: accumulated depreciation and amortization	(1,736,086)	(1,729,589)
Net property, plant and equipment	1,275,024	1,024,294
Goodwill, net	338,982	572,558
Purchased technology and other intangible assets, net	81,093	201,066
Equity-method investment	—	144,431
Deferred income taxes and other assets	87,054	142,608
Total assets	<u>\$ 11,269,157</u>	<u>\$ 9,480,837</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 7,574	\$ 202,535
Accounts payable and accrued expenses	1,618,042	2,023,651
Income taxes payable	139,798	209,859
Total current liabilities	1,765,414	2,436,045
Long-term debt	407,380	204,708
Other liabilities	167,814	188,684
Total liabilities	2,340,608	2,829,437
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock: \$.01 par value per share; 1,000 shares authorized; no shares issued	—	—
Common stock: \$.01 par value per share; 2,500,000 shares authorized; 1,606,694 and 1,391,730 shares outstanding at 2005 and 2006, respectively	16,067	13,917
Additional paid-in capital	3,161,053	3,678,202
Retained earnings	8,227,793	9,472,303
Treasury stock: 144,104 and 378,435 shares at 2005 and 2006, respectively, net	(2,439,116)	(6,494,012)
Accumulated other comprehensive loss	(37,248)	(19,010)
Total stockholders' equity	8,928,549	6,651,400
Total liabilities and stockholders' equity	<u>\$ 11,269,157</u>	<u>\$ 9,480,837</u>

See accompanying Notes to Consolidated Financial Statements.

APPLIED MATERIALS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In Capital	Deferred Stock Compensation	Retained Earnings (In thousands)	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Total
	Shares	Amount						
Balance at October 26, 2003	1,677,440	\$ 16,774	\$ 2,462,129	\$ (1,543)	\$ 5,812,867	\$ (238,576)	\$ 16,383	\$ 8,068,034
Components of comprehensive income:								
Net income	—	—	—	—	1,351,303	—	—	1,351,303
Change in unrealized net gain on investments	—	—	—	—	—	—	(12,657)	(12,657)
Change in unrealized net gain on derivative instruments	—	—	—	—	—	—	(1,283)	(1,283)
Translation adjustments	—	—	—	—	—	—	7,974	7,974
Comprehensive income	—	—	—	—	—	—	—	1,345,337
Net issuance under stock plans, including tax benefits of \$100,599	40,608	407	420,646	—	—	—	—	421,053
Amortization of deferred stock compensation	—	—	—	1,447	—	—	—	1,447
Treasury Stock repurchases, net	(37,784)	(378)	—	—	—	(573,466)	—	(573,844)
Balance at October 31, 2004	1,680,264	\$ 16,803	\$ 2,882,775	\$ (96)	\$ 7,164,170	\$ (812,042)	\$ 10,417	\$ 9,262,027
Components of comprehensive income:								
Net income	—	—	—	—	1,209,900	—	—	1,209,900
Change in unrealized net loss on investments	—	—	—	—	—	—	(33,053)	(33,053)
Change in unrealized net gain on derivative instruments	—	—	—	—	—	—	8,561	8,561
Change in minimum pension liability	—	—	—	—	—	—	(17,868)	(17,868)
Translation adjustments	—	—	—	—	—	—	(5,305)	(5,305)
Comprehensive income	—	—	—	—	—	—	—	1,162,235
Dividends	—	—	—	—	(146,277)	—	—	(146,277)
Equity-based compensation	—	—	55	—	—	—	—	55
Net issuance under stock plans, including tax benefits of \$84,294	27,638	276	278,223	—	—	—	—	278,499
Amortization of deferred stock compensation	—	—	—	96	—	—	—	96
Treasury Stock repurchases, net	(101,208)	(1,012)	—	—	—	(1,627,074)	—	(1,628,086)
Balance at October 30, 2005	1,606,694	\$ 16,067	\$ 3,161,053	\$ —	\$ 8,227,793	\$ (2,439,116)	\$ (37,248)	\$ 8,928,549
Components of comprehensive income:								
Net income	—	—	—	—	1,516,663	—	—	1,516,663
Change in unrealized net loss on investments	—	—	—	—	—	—	16,486	16,486
Change in unrealized net gain on derivative instruments	—	—	—	—	—	—	(4,888)	(4,888)
Change in minimum pension liability	—	—	—	—	—	—	(117)	(117)
Translation adjustments	—	—	—	—	—	—	6,757	6,757
Comprehensive income	—	—	—	—	—	—	—	1,534,901
Dividends	—	—	—	—	(272,153)	—	—	(272,153)
Equity-based compensation	—	—	216,269	—	—	—	—	216,269
Net issuance under stock plans, including tax benefits of \$23,664	23,433	234	282,587	—	—	—	—	282,821
Assumption of Applied Films equity plans	—	—	18,293	—	—	—	—	18,293
Treasury Stock repurchases, net	(238,397)	(2,384)	—	—	—	(4,054,896)	—	(4,057,280)
Balance at October 29, 2006	1,391,730	\$ 13,917	\$ 3,678,202	\$ —	\$ 9,472,303	\$ (6,494,012)	\$ (19,010)	\$ 6,651,400

See accompanying Notes to Consolidated Financial Statements.

APPLIED MATERIALS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Year	October 31, 2004	October 30, 2005 (In thousands)	October 29, 2006
Cash flows from operating activities:			
Net income	\$ 1,351,303	\$ 1,209,900	\$ 1,516,663
Adjustments required to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	355,538	300,433	270,413
Loss on fixed asset retirements	19,039	22,553	26,365
Non-cash portion of restructuring and asset impairments	81,300	—	212,113
Acquired in-process research and development expense	5,800	—	14,000
Pretax loss of equity-method investment	—	—	2,849
Deferred income taxes	78,927	20,310	25,323
Excess tax benefit from equity-based compensation plans	—	—	(23,664)
Tax benefit from equity-based compensation plans	100,599	84,294	—
Amortization of deferred compensation	1,447	96	—
Equity-based compensation	—	55	216,269
Changes in operating assets and liabilities, net of amounts acquired:			
Accounts receivable, net	(756,193)	86,959	(393,022)
Inventories	(187,925)	130,924	(222,335)
Other current assets	(53,315)	48,315	25,224
Other assets	(82,228)	(10,415)	17,088
Accounts payable and accrued expenses	580,443	(444,858)	237,952
Income taxes payable	130,554	(217,851)	100,020
Other liabilities	1,982	16,425	(91,531)
Cash provided by operating activities	<u>1,627,271</u>	<u>1,247,140</u>	<u>1,935,727</u>
Cash flows from investing activities:			
Capital expenditures	(190,577)	(199,650)	(179,482)
Cash paid for acquisitions, net of cash acquired	(7,400)	(101,793)	(339,093)
Investment in equity-method investment	—	—	(147,280)
Proceeds from disposition of assets	—	—	1,863
Proceeds from disposition of assets held for sale	—	—	16,206
Proceeds from sales and maturities of investments	2,852,439	3,245,686	3,312,388
Purchases of investments	(3,188,319)	(3,123,366)	(674,225)
Cash (used for)/provided by investing activities	<u>(533,857)</u>	<u>(179,123)</u>	<u>1,990,377</u>
Cash flows used for financing activities:			
Short-term debt repayments	(861)	(13,290)	(7,710)
Long-term debt repayments	(104,553)	(48,425)	—
Proceeds from common stock issuances	396,610	266,115	337,106
Common stock repurchases	(650,000)	(1,677,511)	(4,157,725)
Excess tax benefit from equity-based compensation plans	—	—	23,664
Payments of dividends to stockholders	—	(98,040)	(250,782)
Cash used for financing activities	<u>(358,804)</u>	<u>(1,571,151)</u>	<u>(4,055,447)</u>
Effect of exchange rate changes on cash and cash equivalents	1,282	184	464
Increase/(decrease) in cash and cash equivalents	735,892	(502,950)	(128,879)
Cash and cash equivalents — beginning of year	757,400	1,493,292	990,342
Cash and cash equivalents — end of year	<u>\$ 1,493,292</u>	<u>\$ 990,342</u>	<u>\$ 861,463</u>
Supplemental cash flow information:			
Cash payments/(refunds) for income taxes, net	\$ 179,489	\$ 374,302	\$ 549,531
Cash payments for interest	\$ 40,255	\$ 32,171	\$ 28,195

See accompanying Notes to Consolidated Financial Statements.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation The consolidated financial statements include the accounts of Applied Materials, Inc. and its subsidiaries (Applied or the Company) after elimination of intercompany balances and transactions. All references to a fiscal year apply to Applied's fiscal year which ends on the last Sunday in October. Fiscal 2005 and 2006 contained 52 weeks, whereas fiscal 2004 contained 53 weeks. The first fiscal quarter of 2005 and 2006 each contained 13 weeks, whereas the first fiscal quarter of 2004 contained 14 weeks.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Reclassifications The accompanying consolidated financial statements for fiscal 2004 and fiscal 2005 contain certain reclassifications to conform to the fiscal 2006 presentation. These consist of reclassification to long-term investments of \$2.6 billion for fiscal 2005 of certain fixed-income securities, excluding auction rate securities and variable rate demand notes, previously reported in short-term investments in fiscal 2005 and related deferred taxes. The reclassifications resulted from a change in accounting for fixed-income investments based on contractual maturity dates. In connection with this reclassification, short-term deferred taxes were reclassified to long-term deferred taxes. In addition, certain long-term equity securities, previously reported in other long-term assets, are also now included in long-term investments. There were no changes in Applied's investment policies or practices associated with this change in accounting method.

During fiscal 2006, Applied began disclosing treasury stock on the Consolidated Balance Sheets and in the Consolidated Statements of Changes in Stockholders Equity. Prior amounts have been restated to conform to the fiscal 2006 presentation. Repurchases of common stock are accounted for under the par value method. The cost of reissued shares was determined on a first-in, first-out (FIFO) basis.

Cash Equivalents and Investments All highly-liquid investments with a remaining maturity of three months or less at the time of purchase are considered to be cash equivalents. All of Applied's investments are classified as available-for-sale at the respective balance sheet dates. Investments classified as available-for-sale are recorded at fair value based upon quoted market prices, and any temporary difference between the cost and fair value of an investment is presented as a separate component of accumulated other comprehensive income/(loss). The specific identification method is used to determine the gains and losses on investments.

Inventories Inventories are generally stated at the lower of cost or market, with cost determined on a FIFO basis.

Property, Plant and Equipment Property, plant and equipment is stated at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Estimated useful lives for financial reporting purposes are as follows: buildings and improvements, 3 to 30 years; demonstration and manufacturing equipment, 3 to 5 years; software, 3 to 5 years; and furniture, fixtures and other equipment, 3 to 15 years. Land improvements are amortized over the shorter of 15 years or the estimated useful life. Leasehold improvements are amortized over the shorter of five years or the lease term.

Intangible Assets Goodwill and indefinite-lived assets are not amortized, but are reviewed for impairment annually during the fourth quarter of each fiscal year. Purchased technology and other intangible assets are presented at cost, net of accumulated amortization, and are amortized over their estimated useful lives of 2 to 15 years using the straight-line method.

Long-Lived Assets Applied reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Applied assesses these assets for impairment based on estimated future cash flows from these assets.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Research, Development and Engineering Costs Research, development and engineering costs are expensed as incurred.

Advertising Costs Advertising costs are expensed as incurred. Advertising costs were not material for all periods presented.

Income Taxes Income tax expense is based on pretax earnings. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the book and tax bases of recorded assets and liabilities, net operating losses and tax credit carryforwards.

Revenue Recognition Applied recognizes revenue when all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; seller's price to buyer is fixed or determinable; and collectibility is reasonably assured. Applied's shipping terms are customarily FOB Applied shipping point or equivalent terms. Applied's revenue recognition policy generally results in revenue recognition at the following points: (1) for all transactions where legal title passes to the customer upon shipment, Applied recognizes revenue upon shipment for all products that have been demonstrated to meet product specifications prior to shipment; the portion of revenue associated with certain installation-related tasks is deferred based on the estimated fair value, and that revenue is recognized upon completion of the installation-related tasks; (2) for products that have not been demonstrated to meet product specifications prior to shipment, revenue is recognized at customer technical acceptance; (3) for transactions where legal title does not pass at shipment, revenue is recognized when legal title passes to the customer, which is typically at customer technical acceptance, and (4) for arrangements containing multiple elements, the revenue relating to the undelivered elements is deferred at estimated fair value until delivery of the deferred elements. In cases where Applied has sold products that have been demonstrated to meet product specifications prior to shipment, Applied believes that at the time of delivery, it has an enforceable claim to amounts recognized as revenue. Spare parts revenue is generally recognized upon shipment, and services revenue is generally recognized over the period that the services are provided.

Derivative Financial Instruments Applied uses financial instruments, such as forward exchange and currency option contracts, to hedge a portion of, but not all, existing and anticipated foreign currency denominated transactions expected to occur within 12 months. The terms of currency instruments used for hedging purposes are generally consistent with the timing of the transactions being hedged. 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. All of Applied's derivative financial instruments are recorded at fair value based upon quoted market prices for comparable instruments. For derivative instruments designated and qualifying as cash flow hedges of anticipated foreign currency denominated transactions, the effective portion of the gain or loss on these hedges is reported as a component of accumulated other comprehensive income/(loss) in stockholders' equity, and is reclassified into earnings when the hedged transaction affects earnings. If the transaction being hedged fails to occur, or if a portion of any derivative is ineffective, the gain or loss on the associated financial instrument is recorded promptly in earnings. For derivative instruments used to hedge existing foreign currency denominated assets or liabilities, the gain or loss on these hedges is recorded promptly in earnings to offset the changes in the fair value of the assets or liabilities being hedged. Applied does not use derivative financial instruments for trading or speculative purposes.

Foreign Currency Translation Applied's subsidiaries, with the exception primarily of the subsidiary located in the United Kingdom, use the United States dollar as their functional currency. Accordingly, assets and liabilities of these subsidiaries are translated using exchange rates in effect at the end of the period, except for non-monetary assets, such as inventories and property, plant and equipment, that are translated using historical exchange rates. Revenues and costs are translated using average exchange rates for the period, except for costs related to those balance sheet items that are translated using historical exchange rates. The resulting translation gains and losses are included in the Consolidated Statements of Operations as incurred. Applied's subsidiary located in the United Kingdom operates primarily using the British pound, and therefore, the British pound has been determined to be the functional currency for the United Kingdom subsidiary. Accordingly, all assets and liabilities of this

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

subsidiary are translated using exchange rates in effect at the end of the period, and revenues and costs are translated using average exchange rates for the period. The resulting translation adjustments are presented as a separate component of accumulated other comprehensive income/(loss) in stockholders' equity.

Equity-Based Compensation

Applied has adopted equity-based compensation plans that provide for the grant to employees of equity-based awards, including stock options and, beginning in fiscal 2005, restricted stock units (referred to as performance shares under the Applied Materials, Inc. Employee Stock Incentive Plan). In addition, certain of these plans provide for the automatic grant of stock options to non-employee directors and permit the grant of equity-based awards to consultants. Applied also has two Employee Stock Purchase Plans (ESPP) for United States and international employees, respectively, which enable substantially all employees to purchase Applied common stock.

On October 31, 2005, Applied implemented the provisions of Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" (SFAS 123(R)), using the modified prospective transition method.

SFAS 123(R) requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant-date fair value of those awards. Using the modified prospective transition method of adopting SFAS 123(R), Applied began recognizing compensation expense for stock options and ESPP shares granted after October 30, 2005, plus equity-based awards granted prior to, and unvested as of October 31, 2005. As provided under this method of implementation, prior periods have not been restated. The estimated fair value of Applied's equity-based awards, less expected forfeitures, is amortized over the awards' service period on a straight-line basis.

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff position No. FAS 123(R)-3 "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." Applied has elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of equity-based compensation pursuant to SFAS 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool (APIC pool) related to the tax effects of employee equity-based compensation, and to determine the subsequent impact on the APIC pool and Consolidated Statement of Cash Flows of the tax effects of employee equity-based compensation awards that are outstanding upon the implementation of SFAS 123(R).

The equity-based compensation expense for fiscal 2006 included \$30 million related to restricted stock units. The expense related to restricted stock units would have been included in Applied's Consolidated Statements of Operations under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and is therefore excluded from the impact of the implementation of SFAS 123(R) for fiscal 2006. As a result of adopting SFAS 123(R), Applied's income before taxes and net income for fiscal 2006 was reduced by \$186 million and \$146 million, respectively. The implementation of SFAS 123(R), which resulted in the expensing of stock options and the ESPP over the vesting or purchase period, as applicable, reduced basic and fully diluted earnings per share by \$0.09 for fiscal 2006.

Total equity-based compensation expense recognized in the Consolidated Statements of Operations consists of charges associated with stock options, restricted stock units and the ESPP. Equity-based compensation expense and the related income tax benefit for fiscal 2006 were \$216 million (or \$0.11 per diluted share) which resulted in a \$46 million income tax benefit.

Prior to October 31, 2005, Applied measured compensation expense for its employee equity-based compensation plans using the intrinsic value method under APB 25 and related interpretations. As the exercise price of all options granted under these plans was not below the fair market price of the underlying common stock on the grant date, no equity-based compensation cost for stock options was recognized in the Consolidated Statements of Operations under the intrinsic value method.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Stock Options

The exercise price of each stock option equals the market price of Applied's stock on the date of grant. Most options are scheduled to vest over four years and expire no later than seven years after the grant date. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. This model was developed for use in estimating the value of publicly traded options that have no vesting restrictions and are fully transferable. Applied's employee stock options have characteristics significantly different from those of publicly traded options. The weighted average assumptions used in the model are outlined in the following table:

	<u>Fiscal 2006</u>
<i>Stock Options:</i>	
Dividend yield	0.73%
Expected volatility	36.7%
Risk-free interest rate	4.48%
Expected life (in years)	3.8

The computation of the expected volatility assumption used in the Black-Scholes calculations for new grants is based on a combination of historical and implied volatilities. When establishing the expected life assumption, Applied annually reviews historical employee exercise behavior of option grants with similar vesting periods.

Options outstanding had an aggregate intrinsic value of \$317 million and \$165 million at October 30, 2005 and October 29, 2006, respectively. The weighted average grant date fair value of options granted during fiscal 2006 was \$54 million. The total intrinsic value of options exercised during fiscal 2006 was \$57 million. The total fair value of options that vested during fiscal 2006 was \$256 million. At October 29, 2006, Applied had \$121 million of total unrecognized compensation expense, net of estimated forfeitures, related to stock option plans that will be recognized over the weighted average period of 1.1 years. Cash received from stock option exercises was \$284 million during fiscal 2006. During fiscal 2006, as part of the acquisition of Applied Films Corporation (Applied Films), Applied assumed outstanding options to purchase Applied Films common stock that, at the acquisition date, had a fair value of \$26 million, including \$6 million of total unrecognized compensation expense, net of \$2 million of estimated forfeitures (see Note 13). The total stock options assumed by Applied were converted into options to purchase 3 million shares of Applied common stock.

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 at the beginning of the offering period or at the end of each applicable purchase period. The number of shares issued under the ESPP during the year ended October 29, 2006 was 4,065,000. Based on the Black-Scholes option pricing model, the weighted average estimated fair value of purchase rights under the ESPP was \$5.21 for the year ended October 29, 2006. Compensation expense is calculated using the fair value of the employee's purchase rights per the Black-Scholes model. Underlying assumptions used in the model are outlined in the following table:

	<u>Year Ended October 29, 2006</u>
<i>ESPP:</i>	
Dividend yield	0.32%
Expected volatility	31.1%
Risk-free interest rate	2.81%
Expected life (in years)	1.25

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Restricted Stock Units

Restricted stock units (also referred to as performance shares) are converted into shares of Applied common stock upon vesting on a one-for-one basis. Typically, vesting of restricted stock units is subject to the employee's continuing service to Applied. The compensation expense related to these awards was determined using the fair value of Applied's common stock on the date of the grant, and compensation is recognized over the service period. Restricted stock units generally vest over four years.

At October 29, 2006, Applied had \$204 million total unrecognized compensation expense, net of estimated forfeitures, related to restricted stock unit grants, which will be recognized over the weighted average period of 1.7 years (see Note 8). During fiscal 2006, as part of the acquisition of Applied Films, Applied assumed Applied Films' outstanding restricted stock awards that, at the acquisition date, had a fair value of \$298,000, including \$130,000 of total unrecognized equity-based compensation expense, net of estimated forfeitures. The Applied Films restricted stock awards assumed are expected to convert into 19,000 shares of Applied common stock upon vesting.

Pro Forma Information under SFAS 123 for Periods Prior to Fiscal 2006

Prior to fiscal 2006, Applied followed the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), as amended. The following table illustrates the effect on net income and earnings per share for fiscal 2004 and fiscal 2005 if the fair value recognition provisions of SFAS 123, as amended, had been applied to options granted under Applied's equity-based compensation plans. For purposes of this pro forma disclosure, the estimated value of the options is recognized over the options' vesting periods. If Applied had recognized the expense of equity-based compensation programs in the Consolidated Statements of Operations, additional paid-in capital would have increased by a corresponding amount, net of applicable taxes.

Fiscal Year	2004	2005
Reported net income	\$ 1,351,303	\$ 1,209,900
Equity-based compensation expense, net of tax	(345,897)	(312,116)
Pro forma net income	\$ 1,005,406	\$ 897,784
Earnings per share as reported:		
Basic	\$ 0.80	\$ 0.74
Diluted	\$ 0.78	\$ 0.73
Pro forma earnings per share:		
Basic	\$ 0.60	\$ 0.55
Diluted	\$ 0.58	\$ 0.54

For purposes of the weighted average estimated fair value calculations, the fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model and the following assumptions:

Fiscal Year	Stock Options		ESPP	
	2004	2005	2004	2005
Dividend yield	None	0.11%	None	0.01%
Expected volatility	63%	44%	67%	48%
Risk-free interest rate	2.49%	3.45%	1.82%	2.51%
Expected life (in years)	3.6	4.0	1.25	1.25

Based on the Black-Scholes option pricing model, the weighted average estimated fair value of employee stock option grants was \$10.06 for fiscal 2004 and \$6.46 for fiscal 2005. The weighted average estimated fair value of

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

purchase rights granted under the ESPP was \$5.91 for fiscal 2004 and \$5.65 for fiscal 2005. Beginning in the first quarter of fiscal 2005, the computation of the expected volatility assumption used in the Black-Scholes calculations for new grants changed from being based solely on historical volatility to being based on a combination of historical and implied volatilities.

On August 4, 2005, the Human Resources and Compensation Committee of the Board of Directors of Applied approved the vesting acceleration of certain unvested, out-of-the-money stock options outstanding under Applied's employee stock option plans, effective August 5, 2005. Stock options held by Applied's five most senior executive officers, non-employee directors and consultants were not included in the vesting acceleration. Vesting was accelerated for stock options that had exercise prices greater than \$17.85 per share, which was the closing price of Applied common stock on August 5, 2005. In connection with the modification of the terms of these options to accelerate their vesting, approximately \$138 million was recorded as a non-cash compensation expense on a pro forma basis in accordance with SFAS 123, and this amount is included in the pro forma table above for the year ended October 30, 2005. This action was taken to reduce the impact of future compensation expense that Applied would otherwise be required to recognize in future consolidated statements of operations pursuant to SFAS 123(R), which was adopted by Applied beginning in the first quarter of fiscal 2006.

For additional information on Applied's employee benefit plans, see Note 8 of Notes to Consolidated Financial Statements.

Concentrations of Credit Risk Financial instruments that potentially subject Applied to significant concentrations of credit risk consist principally of cash equivalents, investments, trade accounts receivable and derivative financial instruments used in hedging activities. Applied invests in a variety of financial instruments, such as, but not limited to, certificates of deposit, corporate and municipal bonds, and United States Treasury and agency securities, mortgage-backed securities, and, by policy, limits the amount of credit exposure with any one financial institution or commercial issuer. Applied's customers consist principally of semiconductor and display manufacturers located throughout the world. Applied performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral to secure accounts receivable. Applied maintains an allowance reserve for potentially uncollectible accounts receivable based on its assessment of the collectibility of accounts receivable. Applied regularly reviews the allowance by considering factors such as historical experience, credit quality, age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay. In addition, Applied utilizes letters of credit to mitigate credit risk when considered appropriate. Applied is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments, but does not expect any counterparties to fail to meet their obligations.

Earnings Per Share Basic earnings per share is determined using the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined using the weighted average number of common shares and potential common shares (representing the dilutive effect of stock options, restricted stock units, ESPP shares and amounts due under the agreements associated with the accelerated buyback program) outstanding during the period. Applied's net income has not been adjusted for any period presented for purposes of computing basic or diluted earnings per share.

For purposes of computing diluted earnings per share, weighted average potential common shares do not include stock options with an exercise price that exceeded the average fair market value of Applied's common stock for the period, as the effect would be anti-dilutive. Options to purchase shares of common stock that were excluded from the computation were as follows:

Fiscal Year	2004	2005 (In thousands, except prices)	2006
Number of shares excluded	80,889	124,306	123,317
Average exercise price	\$ 23.15	\$ 21.04	\$ 19.10

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Dividends Applied's Board of Directors declared three quarterly cash dividends in the amount of \$0.03 per share each in fiscal 2005. During fiscal 2006, Applied's Board of Directors declared one quarterly cash dividend in the amount of \$0.03 per share and three quarterly cash dividends in the amount of \$0.05 per share each. The fourth quarterly cash dividend declared in fiscal 2006 was payable on December 7, 2006, to stockholders of record as of November 16, 2006. Dividends paid during fiscal 2005 and fiscal 2006 totaled \$98 million and \$251 million, respectively. 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.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132R" (SFAS 158). SFAS 158 requires an entity to recognize in its statement of financial condition the funded status of its defined benefit postretirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. SFAS 158 also requires an entity to recognize changes in the funded status of a defined benefit postretirement plan within accumulated other comprehensive income, net of tax, to the extent such changes are not recognized in earnings as components of periodic net benefit cost. SFAS 158 is effective for Applied in fiscal 2007. Applied does not expect the implementation of this standard to have a material effect on Applied's financial position or results of operations.

In September 2006, the FASB issued Statement No. 157, "Fair Value" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for Applied in fiscal 2009. Applied is evaluating the potential impact of the implementation of SFAS 157 on its financial position and results of operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" (SAB 108), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for Applied in fiscal 2007. Applied does not expect the implementation of this staff accounting bulletin to have a material effect on Applied's financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation 48, "Accounting for Income Tax Uncertainties" (FIN 48). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 will become effective for Applied beginning in fiscal 2008. Any differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. Applied is evaluating the potential impact of the implementation of FIN 48 on its financial position and results of operations.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements No. 133 and 140" (SFAS 155). SFAS 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", and No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". SFAS 155 also resolves issues addressed in SFAS 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitization Financial Assets". SFAS 155 (a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (b) clarifies which interest-only strips and principal-

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

only strips are not subject to the requirements of SFAS 133, (c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (e) amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of Applied's 2007 fiscal year. Applied is currently assessing the impact of SFAS 155, however, it does not anticipate that SFAS 155 will have a material impact on its financial position and results of operations.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections — a Replacement of APB Opinion No. 20 and FASB Statement No. 3" (SFAS 154), which requires retrospective application to prior periods' financial statements of voluntary changes in accounting principle unless it is impracticable to do so. SFAS 154 is effective for accounting changes and corrections of errors beginning in fiscal 2007. Applied does not expect the implementation of this standard to have a material effect on Applied's financial position or results of operations.

Note 2 Financial Instruments

Investments

Investments by security type at October 29, 2006 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Obligations of states and political subdivisions	\$ 1,153,750	\$ 367	\$ 2,913	\$ 1,151,204
U.S. commercial paper, corporate bonds and medium-term notes	447,151	320	3,176	444,295
U.S. Treasury and agency securities	406,525	475	3,839	403,161
Other debt securities	299,003	557	4,139	295,421
Total fixed income securities	2,306,429	1,719	14,067	2,294,081
Publicly traded equity securities	15,710	3,259	951	18,018
Equity securities carried at cost	38,637	—	—	38,637
Total	\$ 2,360,776	\$ 4,978	\$ 15,018	\$ 2,350,736

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Investments by security type at October 30, 2005 were as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Obligations of states and political subdivisions	\$ 1,362,456	\$ 194	\$ 4,720	\$ 1,357,930
U.S. commercial paper, corporate bonds and medium-term notes	1,069,556	1,429	7,806	1,063,179
Bank certificates of deposit	63,847	—	—	63,847
U.S. Treasury and agency securities	1,671,396	134	16,339	1,655,191
Other debt securities	816,424	763	12,335	804,852
Total fixed income securities	4,983,679	2,520	41,200	4,944,999
Publicly traded equity securities	23,991	—	5,818	18,173
Equity securities carried at cost	31,707	—	—	31,707
Total	\$ 5,039,377	\$ 2,520	\$ 47,018	\$ 4,994,879

Cash and cash equivalents included investments in debt and other securities of \$608 million at October 30, 2005 and \$75 million at October 29, 2006.

Contractual maturities of investments at October 29, 2006 were as follows:

	Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	\$ 421,713	\$ 420,069
Due after one through three years	687,025	682,182
Due after three years	898,688	896,408
No single maturity date*	353,350	352,077
	\$ 2,360,776	\$ 2,350,736

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

Applied regularly reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether a loss is temporary include: the length of time and extent to which fair market value has been lower than the cost basis, the financial condition and near-term prospects of the investee, credit quality, and Applied's ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair market value. Generally, the contractual terms of the investments do not permit settlement at prices less than the amortized cost of the investments. Applied has determined that the gross unrealized losses on its investments at October 29, 2006 are temporary in nature. The gross unrealized losses related to investments are primarily due to a decrease in the fair market value of fixed-rate debt securities as a result of increases in interest rates. Accordingly, Applied does not consider the investments to be other-than-temporarily impaired at October 29, 2006, as it has the ability and intent to hold the investments for a period of time that may be sufficient for anticipated recovery in fair market value.

The following table provides the gross unrealized losses and the fair market value of Applied's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

category and length of time that individual securities have been in a continuous unrealized loss position as of October 29, 2006.

	In Loss Position for Less Than 12 Months		In Loss Position for 12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(In thousands)					
Obligations of states and political subdivisions	\$ 378,372	\$ 2,910	\$ 10,006	\$ 3	\$ 388,378	\$ 2,913
U.S. commercial paper, corporate bonds and medium-term notes	63,319	244	177,906	2,932	241,225	3,176
U.S. Treasury and agency securities	103,191	748	166,047	3,091	269,238	3,839
Other debt securities	22,887	101	215,815	4,038	238,702	4,139
Publicly traded equity securities	—	—	1,008	951	1,008	951
	<u>\$ 567,769</u>	<u>\$ 4,003</u>	<u>\$ 570,782</u>	<u>\$ 11,015</u>	<u>\$ 1,138,551</u>	<u>\$ 15,018</u>

Applied manages its cash equivalents and investments as a single portfolio of highly marketable securities that is intended to be available to meet Applied's current cash requirements. For fiscal 2005, gross realized gains on sales of investments were \$3 million, and gross realized losses were \$8 million. For fiscal 2006, gross realized gains on sales of investments were \$5 million, and gross realized losses were \$28 million, principally attributable to the sale of investments to fund the accelerated stock buyback program discussed in Note 7.

During fiscal 2006, Applied changed its accounting method for certain fixed-income investments, which resulted in the reclassification of these investments from short-term investments to long-term investments. As a result, prior period balances have been reclassified to conform to the current period's presentation. This accounting method is based on the contractual maturity dates of fixed-income securities as current or long-term, while the prior classification was based on the nature of the securities and the availability for use in current operations. Applied believes this presentation method is preferable as it is more reflective of Applied's assessment of the timing of when such securities are expected to be converted to cash. Accordingly, certain fixed-income investments of \$2.6 billion have been reclassified from short-term investments to long-term investments in the October 30, 2005 Consolidated Balance Sheet to conform to the fiscal 2006 financial statement presentation. In connection with this reclassification, short-term deferred taxes have been reclassified to long-term deferred taxes. There have been no changes in Applied's investment policies or practices associated with this change in accounting method.

In addition, \$50 million of long-term equity securities previously reported in other long-term assets have been reclassified to long-term investments in the October 30, 2005 Consolidated Balance Sheet to conform to the fiscal 2006 financial statement presentation. Applied continues to classify auction rate securities and variable rate demand notes as current assets, notwithstanding the underlying contractual term of such investments, since the highly liquid nature of these investments enables them to be readily convertible to cash.

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

Applied conducts business in a number of foreign countries, with certain transactions denominated in local currencies, such as Japanese yen, British pound, euro and Israeli shekel. The purpose of Applied's foreign currency

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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 uses derivative financial instruments, such as forward exchange contracts and currency option contracts, to hedge certain forecasted foreign currency denominated transactions expected to occur within the next 12 months. Hedges related to anticipated transactions are designated and documented at the inception of the hedge as cash flow hedges and are evaluated for effectiveness quarterly. The effective portion of the gain or loss on these hedges is reported as a component of accumulated other comprehensive income/(loss) in stockholders' equity and is reclassified into earnings when the hedged transaction affects earnings. Amounts included in accumulated other comprehensive income/(loss) at October 29, 2006 will generally be reclassified into earnings within 12 months. Changes in the fair value of currency forward exchange and option contracts due to changes in time value are excluded from the assessment of effectiveness and are recognized in cost of products sold. The change in option and forward time value was not material for fiscal 2004, 2005 or 2006. If the transaction being hedged fails to occur, or if a portion of any derivative is ineffective, Applied promptly recognizes the gain or loss on the associated financial instrument in general and administrative expenses. The amounts recognized due to anticipated transactions failing to occur were not material for all periods presented.

Forward exchange contracts are generally used to hedge certain foreign currency denominated assets or liabilities. These derivatives are not designated for hedge accounting treatment. Accordingly, changes in the fair value of these hedges are recorded promptly in earnings to offset the changes in the fair value of the assets or liabilities being hedged.

Derivative-related activity in accumulated other comprehensive income/(loss) was as follows:

	2005	2006
	(In thousands)	
Unrealized gain, net, on derivative instruments at beginning of period	\$ 646	\$ 9,207
Increase/(decrease) in fair value of derivative instruments	10,105	(5,095)
(Gains)/losses reclassified into earnings, net	(1,544)	206
Unrealized gain, net, on derivative instruments at end of period	<u>\$ 9,207</u>	<u>\$ 4,318</u>

Fair Value of Financial Instruments The carrying amounts of Applied's financial instruments, including cash and cash equivalents, accounts receivable, notes payable, and accounts payable and accrued expenses, approximate fair value due to the short maturities of these financial instruments. At October 30, 2005, the carrying amount of long-term debt was \$415 million and the estimated fair value was \$432 million. At October 29, 2006, the carrying amount of long-term debt was \$407 million and the estimated fair value was \$428 million. The estimated fair value of long-term debt is based primarily on quoted market prices for the same or similar issues.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 3 Balance Sheet Detail

	2005	2006
	(In thousands)	
Inventories		
Customer service spares	\$ 383,003	\$ 466,414
Raw materials	136,371	236,913
Work-in-process	129,778	272,654
Finished goods*	384,941	430,796
	<u>\$ 1,034,093</u>	<u>\$ 1,406,777</u>
Property, Plant and Equipment, Net		
Land and improvements	\$ 280,391	\$ 222,381
Buildings and improvements	1,424,922	1,241,195
Demonstration and manufacturing equipment	684,268	659,551
Furniture, fixtures and other equipment	535,609	553,185
Construction in progress	85,920	77,571
Gross property, plant and equipment	3,011,110	2,753,883
Accumulated depreciation	(1,736,086)	(1,729,589)
	<u>\$ 1,275,024</u>	<u>\$ 1,024,294</u>
Accounts Payable and Accrued Expenses		
Accounts payable	\$ 347,559	\$ 475,479
Compensation and employee benefits	291,721	439,333
Deferred revenue	318,106	369,875
Installation and warranty	171,419	215,578
Customer deposits	50,291	97,495
Other accrued taxes	159,368	84,957
Dividends payable	48,237	69,600
Restructuring reserve	69,482	24,731
Other	161,859	246,603
	<u>\$ 1,618,042</u>	<u>\$ 2,023,651</u>

* Included in finished goods inventory is \$117 million at October 30, 2005 and \$174 million at October 29, 2006 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Goodwill, Purchased Technology and Other Intangible Assets

Details of unamortized intangible assets were as follows:

	2005			2006		
	Goodwill	Other Intangible Assets	Total	Goodwill	Other Intangible Assets	Total
	(In thousands)					
Gross carrying amount	\$ 384,852	\$ 17,860	\$ 402,712	\$ 618,428	\$ 17,860	\$ 636,288
Accumulated amortization	(45,870)	—	(45,870)	(45,870)	—	(45,870)
	<u>\$ 338,982</u>	<u>\$ 17,860</u>	<u>\$ 356,842</u>	<u>\$ 572,558</u>	<u>\$ 17,860</u>	<u>\$ 590,418</u>

Goodwill is not amortized but reviewed for impairment annually during the fourth quarter of each fiscal year. Applied conducted goodwill impairment tests in fiscal 2005 and fiscal 2006, and the results of these tests indicated that Applied's goodwill assets were not impaired. From October 30, 2005 to October 29, 2006, the change in goodwill was \$234 million, due primarily to the acquisitions of Applied Films Corporation, a Colorado corporation (Applied Films), certain assets of UMS Solutions Pte. Ltd. (UMS Solutions), a wholly-owned subsidiary of Norelco UMS Holdings Limited, and ChemTrace Corporation and ChemTrace Precision Cleaning, Inc. (collectively, ChemTrace) and offset in part by other adjustments associated with previous acquisitions. Other assets that are not subject to amortization consist primarily of a trade name associated with the Metron Technology N.V. acquisition and is reported in the Fab Solutions segment. As of October 29, 2006 goodwill by reportable segment was: Silicon, \$230 million; Display, \$116 million; Fab Solutions, \$89 million and Adjacent Technologies, \$138 million. For additional details, see Note 13.

Details of amortized intangible assets were as follows:

	2005			2006		
	Purchased Technology	Other Intangible Assets	Total	Purchased Technology	Other Intangible Assets	Total
	(In thousands)					
Gross carrying amount	\$ 356,933	\$ 37,270	\$ 394,203	\$ 469,226	\$ 75,617	\$ 544,843
Accumulated amortization	(308,816)	(22,154)	(330,970)	(327,335)	(34,302)	(361,637)
	<u>\$ 48,117</u>	<u>\$ 15,116</u>	<u>\$ 63,233</u>	<u>\$ 141,891</u>	<u>\$ 41,315</u>	<u>\$ 183,206</u>

Purchased technology and other intangible assets are amortized over their estimated useful lives of 2 to 15 years using the straight-line method. From October 30, 2005 to October 29, 2006, the change in amortized intangible assets was approximately \$120 million, primarily due to the acquisitions of Applied Films, certain assets of UMS Solutions, and ChemTrace. Aggregate amortization expense was \$26 million and \$31 million for fiscal 2005 and 2006, respectively. As of October 29, 2006, future estimated amortization expense is expected to be \$32 million for fiscal 2007, \$27 million for fiscal 2008, \$26 million for fiscal 2009, \$22 million for fiscal 2010, \$19 million for fiscal 2011, and \$57 million thereafter. As of October 29, 2006 amortized intangible assets by reportable segment were: Silicon, \$25 million; Display, \$57 million; Fab Solutions, \$19 million and Adjacent Technologies, \$82 million.

Note 4 Borrowing Facilities

At October 29, 2006, Applied had credit facilities for unsecured borrowings in various currencies of up to approximately \$260 million. On September 14, 2006, Applied entered into a \$100 million 364-Day Credit Agreement (Credit Agreement) with a bank. The Credit Agreement became effective on September 17, 2006 and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

replaced a \$250 million credit facility which expired on September 17, 2006. The Credit Agreement provides for borrowings (advances) not to exceed \$100 million at interest rates keyed to one of various rates selected by Applied for each advance, plus, in certain cases, an applicable margin and/or a utilization fee. The Credit Agreement also requires payment of certain customary fees and expenses. Any advances under the Credit Agreement will be unsecured. The Credit Agreement includes financial and other covenants with which Applied was in compliance at October 29, 2006. No amount was outstanding under the Credit Agreement at October 29, 2006. The remaining credit facilities of approximately \$160 million are with Japanese banks at rates indexed to their prime reference rate and are denominated in Japanese yen. No amounts were outstanding under these Japanese credit facilities at October 29, 2006.

Note 5 Long-Term Debt

Long-term debt outstanding at the end of the fiscal year was as follows:

Fiscal Year	2005	2006
	(In thousands)	
1.61% installment note payable to Tokyo Electron Ltd., face amount \$3,600, maturing 2008, interest payable March 17, June 17, September 17 and December 17	\$ 4,971	\$ 3,310
Japanese debt, 3.00%, maturing 2007 - 2011	9,983	3,933
6.75% unsecured senior notes due 2007, interest payable April 15 and October 15	200,000	200,000
7.125% unsecured senior notes due 2017, interest payable April 15 and October 15	200,000	200,000
	414,954	407,243
Current portion	(7,574)	(202,535)
	<u>\$ 407,380</u>	<u>\$ 204,708</u>

Applied has debt agreements that contain financial and other covenants. These covenants require Applied to maintain certain minimum financial ratios. At October 29, 2006, Applied was in compliance with all covenants.

Aggregate debt maturities at October 29, 2006 were: \$203 million in fiscal 2007, \$3 million in fiscal 2008, \$1 million in fiscal 2009, and \$200 million thereafter.

Note 6 Restructuring and Asset Impairments

During fiscal 2006, Applied recognized restructuring and asset impairment charges of \$212 million, including \$128 million in asset impairments and \$92 million in restructuring charges primarily associated with the closure of its Hayward, California facility, offset by \$8 million in adjustments associated with realignment programs of prior years.

During the first quarter of fiscal 2006, Applied's Board of Directors approved a plan to disinvest a portion of Applied's real estate and facilities portfolio (the Plan). Properties with an estimated fair value of \$56 million were reported as assets held-for-sale and reclassified from property, plant and equipment on the Consolidated Balance Sheet. Applied recorded an asset impairment charge of \$124 million during the first quarter of fiscal 2006 to write down the following properties to estimated fair value: facilities in Narita, Japan; Chunan, Korea; Hillsboro, Oregon; and Danvers, Massachusetts; and 26 acres of unimproved land in Hillsboro, Oregon. During the third quarter of fiscal 2006, Applied sold the Danvers, Massachusetts facility for net proceeds of \$16 million and recognized a gain of \$4 million. During the fourth quarter of fiscal 2006, Applied recorded additional impairment charges on the Narita and Chunan facilities of \$6 million and recorded a restructuring charge of \$4 million related to environmental contamination of the Narita site. As part of the Plan, Applied also recorded a charge in the amount of \$91 million for

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

future lease obligations that continue through fiscal 2014 related to the closure of its leased Hayward, California facility. During the second, third and fourth quarter of fiscal 2006, Applied consumed \$9 million in restructuring reserves related to the Hayward campus in rental and operating costs. In the fourth quarter of fiscal 2006, the Hayward lease obligation was terminated for \$81 million. Applied continues to actively market the remaining properties.

Applied took restructuring actions in fiscal 2004 to align its cost structure with prevailing market conditions due to an industry downturn. These actions, which were necessary as a result of reduced business volume, decreased Applied's global workforce and consolidated Applied's global facilities. Restructuring, asset impairments and other charges for fiscal 2004 totaled \$167 million, consisting of \$65 million for facility consolidations, \$6 million for severance and benefits, and \$96 million for other costs, primarily related to fixed asset writeoffs due to facility consolidations. As of October 29, 2006, the majority of the fiscal 2004 restructuring actions have been completed, and restructuring reserve balances consisted principally of remaining lease commitments associated with facilities.

There were no restructuring, asset impairments or other charges for fiscal 2005.

Changes in restructuring reserves for fiscal 2004, 2005 and 2006 were as follows:

	Severance and Benefits	Facilities (In thousands)	Other	Total
Balance, October 26, 2003	\$ 11,937	\$ 89,895	\$ 4,988	\$ 106,820
Provision for fiscal 2004	6,200	65,400	95,859	167,459
Consumption of reserves	(18,137)	(57,290)	(98,741)	(174,168)
Balance, October 31, 2004	—	98,005	2,106	100,111
Consumption of reserves	—	(28,523)	(2,106)	(30,629)
Balance, October 30, 2005	—	69,482	—	69,482
Provision for fiscal 2006	—	95,829	—	95,829
Consumption of reserves	—	(128,490)	—	(128,490)
Adjustment of restructuring reserves	—	(12,090)	—	(12,090)
Balance, October 29, 2006	\$ —	\$ 24,731	\$ —	\$ 24,731

Note 7 Stockholders' Equity

Accumulated Other Comprehensive Income/(Loss) See the Consolidated Statements of Stockholders' Equity for the components of comprehensive income. Accumulated other comprehensive income/(loss) consisted of the following components:

Fiscal Year	2005	2006
	(In thousands)	
Unrealized loss on investments	\$ (21,618)	\$ (5,132)
Unrealized gain on derivative instruments qualifying as cash flow hedges	9,207	4,319
Minimum pension liability	(17,868)	(17,985)
Cumulative translation adjustments	(6,969)	(212)
	\$ (37,248)	\$ (19,010)

Stock Repurchase Program Since March 1996, Applied has systematically repurchased shares of its common stock in the open market to partially fund its equity-based employee benefit and incentive plans. On September 15, 2006, the Board of Directors approved a new stock repurchase program of up to \$5.0 billion in repurchases over the next three years, ending in September 2009. In fiscal 2005, there were 101,208,000 shares

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

repurchased at an average price of \$16.80 per share. In fiscal 2006, there were 238,397,000 shares repurchased at an average price of \$17.35 per share.

On September 18, 2006, Applied entered into accelerated stock buyback agreements with Goldman, Sachs & Co. (Goldman Sachs) under which Applied agreed to purchase from Goldman Sachs shares of Applied outstanding common stock for an initial purchase price of \$2.5 billion. Under the agreements, Applied purchased from Goldman Sachs 145 million shares of Applied's common stock on September 18, 2006 at a price per share of \$17.20, and Goldman Sachs agreed to purchase an equivalent number of shares in the open market over the following four months. At the end of the four month period, Applied is entitled or subject to a price adjustment with Goldman Sachs based upon the volume weighted average price of Applied common stock during the purchase period. The price adjustment, if any, may be settled, at Applied's option, in cash or shares of its common stock. The repurchase was funded with Applied's existing cash and investments. The repurchased shares were reported as treasury stock.

Dividends Applied's Board of Directors declared three quarterly cash dividends in the amount of \$0.03 per share each in fiscal 2005. During fiscal 2006, Applied's Board of Directors declared one quarterly cash dividend in the amount of \$0.03 per share and three quarterly cash dividends in the amount of \$0.05 per share each. The fourth quarterly cash dividend declared in fiscal 2006 was paid on December 7, 2006 to stockholders of record as of November 16, 2006. Dividends paid during fiscal 2005 and fiscal 2006 amounted to \$98 million and \$251 million, respectively. The declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on Applied's financial condition, results of operations, capital requirements, business conditions and other factors as well as a determination that cash dividends are in the best interest of stockholders.

Note 8 Employee Benefit Plans

Stock Options Applied grants options to employees and non-employee directors to purchase shares of its common stock, at future dates, at the fair market value on the date of grant. Most options are scheduled to vest over four years, and expire no later than seven years from the grant date. There were 133,878,000 shares available for grant at October 31, 2004; 138,377,000 shares available for grant at October 30, 2005, and 144,582,000 shares available for grant at October 29, 2006. Stock option activity was as follows:

	2004		2005		2006	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	(In thousands, except per share amounts)					
Outstanding, beginning of year	252,035	\$ 16.56	227,588	\$ 17.93	200,007	\$ 18.67
Granted and assumed	37,089	\$ 21.21	24,186	\$ 16.97	12,174	\$ 16.92
Exercised	(35,298)	\$ 9.85	(22,759)	\$ 8.49	(18,498)	\$ 15.34
Canceled	(26,238)	\$ 20.30	(29,008)	\$ 19.48	(30,469)	\$ 19.14
Outstanding, end of year	227,588	\$ 17.93	200,007	\$ 18.67	163,214	\$ 18.83
Exercisable, end of year	105,252	\$ 18.45	135,714	\$ 20.21	130,065	\$ 19.59

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes information with respect to options outstanding and exercisable at October 29, 2006:

Range of Exercise Prices	Options Outstanding				Options Exercisable		
	Number of Shares (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In thousands)	Number of Shares (In thousands)	Weighted Average Exercise Price	Aggregate Intrinsic Value (In thousands)
\$ 0.01 - \$ 4.99	96	\$ 2.77	1.78	\$ 1,395	96	\$ 2.77	\$ 1,395
\$ 5.00 - \$ 9.99	205	\$ 6.26	3.30	2,254	205	\$ 6.26	2,254
\$10.00 - \$19.99	100,572	\$ 16.14	3.58	162,476	69,110	\$ 16.45	97,133
\$20.00 - \$29.99	56,289	\$ 21.72	2.26	—	54,602	\$ 21.69	—
\$30.00 - \$59.99	6,052	\$ 37.25	0.60	—	6,052	\$ 37.25	—
	<u>163,214</u>	\$ 18.83	3.01	\$ 166,125	<u>130,065</u>	\$ 19.59	\$ 100,782
Options exercisable and expected to become exercisable	161,248	\$ 19.00	3.00	\$ 165,363			

Restricted Stock Units Applied grants restricted stock units (referred to as performance shares under the Applied Materials, Inc. Employee Stock Incentive Plan). Restricted stock units generally vest over one to four years, subject to continued service to Applied on each vesting date.

A summary of the changes in restricted stock units outstanding under Applied's equity compensation plans during fiscal 2006 is presented below:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
	(In thousands, except per share amounts)			
Non-vested restricted stock units at October 30, 2005	75	\$ 17.47	3.9 Years	\$ 1,384
Granted	15,671	17.70		
Vested	(1,225)	17.97		
Canceled	(404)	17.98		
Non-vested restricted stock units at October 29, 2006	<u>14,117</u>	\$ 17.67	3.7	\$ 243,653
Non-vested restricted stock units expected to vest	11,913	\$ 17.67	3.7	\$ 205,625

Employees Stock Purchase Plan Applied sponsors two Employee Stock Purchase Plans (collectively, ESPP) for the benefit of United States (U.S.) and international employees, respectively. The U.S. plan is qualified under Section 423 of the Internal Revenue Code. 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 at the beginning of the offering period or at the end of each applicable purchase period. Beginning in December 2002, Applied amended the ESPP to extend the offering period from 6 months to 24 months, composed of four six-month purchase periods. ESPP contributions are limited to a maximum of 10 percent of an employee's eligible compensation, up to a maximum of \$6,500 per six-month purchase period. ESPP participants are also limited to purchasing a maximum of 1,000 shares per purchase period. Shares issued under the ESPP were 5,308,000 for fiscal 2004, 4,879,000 for fiscal 2005, and 4,065,000 for fiscal 2006. At October 29, 2006, there were 10,669,000 shares reserved for future issuance under the ESPP.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Equity-Based Compensation See Note 1.

Employee Bonus Plans Applied has various employee bonus plans. A profit-sharing plan provides for the distribution of a percentage of pre-tax profits to substantially all Applied employees not eligible for other performance-based incentive plans, up to a maximum percentage of compensation. Other plans award annual bonuses to Applied's executives and key contributors based on the achievement of profitability and other specific performance criteria. Applied also has agreements with key technical employees that provide for additional compensation related to the success of new product development and achievement of specified profitability criteria. Charges to expense under these plans were \$309 million for fiscal 2004, \$138 million for fiscal 2005 and \$262 million for fiscal 2006.

Employee Savings and Retirement Plan Applied's Employee Savings and Retirement Plan is qualified under Sections 401(a) and (k) of the Internal Revenue Code. Applied contributes a percentage of each participating employee's salary deferral contributions. These matching contributions generally become 20 percent vested at the end of an employee's second year of service with Applied, and vest 20 percent per year of service thereafter and become fully vested at the end of six years of service. Each participant may elect to have the Company matching contributions invested in any of the diversified investment funds available under the plan or in Applied common stock. Applied's matching contributions under this plan were approximately \$17 million, net of \$8 million in forfeitures, for fiscal 2004 \$25 million, net of \$1 million in forfeitures, for fiscal 2005 and \$27 million, net of \$2 million in forfeitures, for fiscal 2006.

Defined Benefit Pension Plans of Foreign Subsidiaries Several of Applied's foreign subsidiaries have defined benefit pension plans covering substantially all of their eligible employees. Benefits under these plans are typically based on years of service and final average compensation levels. Applied uses August 31 as a measurement date. The plans are managed in accordance with applicable local statutes and practices. Applied deposits funds for certain of these plans with insurance companies, pension trustees, government-managed accounts, and/or accrues the expense for the unfunded portion of the benefit obligation on its consolidated financial statements. Where appropriate, the pension plans retain professional investment managers that invest plan assets in equity securities, fixed income securities, cash and other institutional investments. Applied's practice is to fund the various pension plans in amounts sufficient to meet the minimum requirements as established by applicable local governmental oversight and taxing authorities. Depending on the design of the plan, local custom and market circumstances, the liabilities of a plan may exceed qualified plan assets. The differences between the aggregate accumulated benefit obligations and aggregate plan assets of these plans have been recorded as liabilities by Applied and are included in accrued expenses and other liabilities in the Consolidated Balance Sheets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of the changes in benefit obligations and plan assets for fiscal 2005 and 2006 is presented below.

	2005	2006
	(In thousands, except percentages)	
Change in projected benefit obligation		
Beginning projected benefit obligation	\$ 149,868	\$ 186,435
Service cost	11,935	15,429
Interest cost	6,841	8,938
Plan participants' contributions	939	1,176
Actuarial (gain)/loss	27,454	(12,113)
Curtailments, settlements and special termination benefits	—	(5,446)
Foreign currency exchange rate changes	(3,291)	9,332
Benefits paid	(7,311)	(7,763)
Plan amendments and business combinations	—	28,844
Transfers out	—	(511)
Ending projected benefit obligation	<u>\$ 186,435</u>	<u>\$ 224,321</u>
Ending accumulated benefit obligation	<u>\$ 152,564</u>	<u>\$ 185,449</u>
Weighted average assumptions to determine benefit obligations		
Discount rate	2.0% - 6.3%	2.3% - 5.8%
Rate of compensation increase	2.0% - 5.0%	2.0% - 6.0%
Change in plan assets		
Beginning fair value of plan assets	\$ 42,620	\$ 64,151
Return on plan assets	8,232	6,790
Employer contributions	21,243	23,354
Plan participants' contributions	939	1,176
Foreign currency exchange rate changes	(1,572)	4,714
Divestitures, settlements and business combinations	—	—
Benefits paid	(7,311)	(7,763)
Ending fair value of plan assets	<u>\$ 64,151</u>	<u>\$ 92,422</u>
Funded status	<u>\$ (122,283)</u>	<u>\$ (131,899)</u>
Unrecognized transition obligations	424	372
Unrecognized prior service costs	1,034	(1,827)
Unrecognized net actuarial loss	57,884	48,197
Employer contributions after the measurement date	1,360	1,330
Net amount recognized	<u>\$ (61,581)</u>	<u>\$ (83,827)</u>
Amounts recognized in the consolidated balance sheets		
Prepaid benefit cost	\$ 226	\$ —
Accrued benefit cost	(89,595)	(112,807)
Intangible asset	1,212	1,403
Accumulated other comprehensive loss	26,576	27,577
Net amount recognized	<u>\$ (61,581)</u>	<u>\$ (83,827)</u>
Plans with projected benefit obligations in excess of plan assets		
Projected benefit obligation	\$ 186,435	\$ 224,321
Fair value of plan assets	\$ 64,151	\$ 92,422
Plans with accumulated benefit obligations in excess of plan assets		
Accumulated benefit obligation	\$ 149,460	\$ 181,787
Fair value of plan assets	\$ 59,362	\$ 86,010
Plan assets — allocation		
Equity securities	57%	58%
Debt securities	36%	37%
Cash	7%	5%

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Applied's investment strategy for its defined benefit plans is to invest assets in a prudent manner, maintaining well-diversified portfolios with the long-term objective of meeting the obligations of the plans as they come due. Asset allocation decisions are typically made by plan fiduciaries with input from Applied's pension committee. Applied's asset allocation strategy incorporates a sufficient equity exposure in order for the plans to benefit from the expected long-term outperformance of equities relative to the plans' liabilities. Applied retains investment managers, where appropriate, to manage the assets of the plans. Performance of investment managers is monitored by plan fiduciaries with the assistance of local investment consultants. The investment managers make investment decisions within the guidelines set forth by plan fiduciaries. Risk management practices include diversification across asset classes and investment styles, and periodic rebalancing toward target asset allocation ranges. Investment managers may use derivative instruments for efficient portfolio management purposes. Plan assets do not include any of Applied's own equity or debt securities.

A summary of the components of net periodic pension costs and the weighted average assumptions used for net periodic pension cost and benefit obligation calculations for fiscal 2004, 2005 and 2006 is presented below.

	2004	2005	2006
	(In thousands, except percentages)		
Components of net periodic pension cost			
Service cost	\$ 12,744	\$ 13,835	\$ 15,429
Interest cost	5,842	7,440	8,938
Expected return on plan assets	(2,261)	(2,727)	(4,362)
Amortization of transition obligation	163	67	63
Amortization of prior service costs	135	140	174
Settlement gain to be recognized	—	—	(5,569)
Amortization of net (gain)/loss	1,635	1,641	2,601
Net periodic pension cost	<u>\$ 18,258</u>	<u>\$ 20,396</u>	<u>\$ 17,274</u>
Weighted average assumptions			
Discount rate	2.0% - 5.6%	2.0% - 6.3%	2.0% - 6.3%
Expected long-term return on assets	3.5% - 7.5%	3.5% - 7.5%	3.5% - 7.5%
Rate of compensation increase	2.0% - 5.0%	2.0% - 5.0%	2.0% - 5.0%

Asset return assumptions are derived based on actuarial and statistical methodologies, from analysis of long-term historical data relevant to the country in which each plan is in effect and the investments applicable to the corresponding plan. The discount rate for each plan was derived by reference to appropriate benchmark yields on high quality corporate bonds, allowing for the approximate duration of both plan obligations and the relevant benchmark index.

Future expected benefit payments over the next ten fiscal years are: \$5 million in fiscal 2007, \$5 million in fiscal 2008, \$6 million in fiscal 2009, \$7 million in fiscal 2010, \$7 million in fiscal 2011, and \$42 million collectively for fiscal years 2012 through 2016. Company contributions to these plans for fiscal 2007 are expected to be approximately \$8 million.

Executive Deferred Compensation Plans Applied sponsors two unfunded deferred compensation plans, the Executive Deferred Compensation Plan (Predecessor EDCP) and the 2005 Executive Deferred Compensation Plan (2005 EDCP), under which certain employees may elect to defer a portion of their following year's eligible earnings. The Predecessor EDCP was frozen as of December 31, 2004 such that no new deferrals could be made under the plan after that date and the plan would qualify for "grandfather" relief under Section 409A of the Internal Revenue Code. The Predecessor EDCP participant accounts continue to be maintained under the plan and credited with deemed interest. The 2005 EDCP was adopted by Applied effective as of January 1, 2005 and is intended to

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

comply with the requirements of Code Section 409A. Amounts payable, including accrued deemed interest, totaled \$83 million at October 30, 2005 and \$79 million at October 29, 2006, which were included in other long-term liabilities in the Consolidated Balance Sheets.

Post-Retirement Benefits On January 1, 1999, Applied adopted a plan that provides certain medical and vision benefits to eligible retirees who are at least age 55 and who have at least 10 years of service at their date of retirement. An eligible retiree may elect coverage for an eligible spouse or domestic partner who is not eligible for Medicare. Coverage under the plan generally ends for both the retiree and spouse or domestic partner upon becoming eligible for Medicare. This plan has not had, and is not expected to have, a material effect on Applied's consolidated financial condition or results of operations.

Note 9 Income Taxes

The components of income from operations before income taxes were as follows:

Fiscal Year	2004	2005 (In thousands)	2006
U.S.	\$ 1,474,143	\$ 1,256,572	\$ 1,760,138
Foreign	355,107	324,997	406,833
	<u>\$ 1,829,250</u>	<u>\$ 1,581,569</u>	<u>\$ 2,166,971</u>

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

Fiscal Year	2004	2005 (In thousands)	2006
Current:			
U.S.	\$ 273,988	\$ 233,755	\$ 475,984
Foreign	116,351	62,824	124,797
State	8,681	16,918	24,302
	<u>399,020</u>	<u>313,497</u>	<u>625,083</u>
Deferred:			
U.S.	102,886	95,899	63,837
Foreign	(29,692)	13,505	(33,298)
State	5,733	(51,232)	(5,314)
	<u>78,927</u>	<u>58,172</u>	<u>25,225</u>
	<u>\$ 477,947</u>	<u>\$ 371,669</u>	<u>\$ 650,308</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A reconciliation between the statutory U.S. federal income tax rate of 35 percent and Applied's actual effective income tax provision rate is as follows:

Fiscal Year	2004	2005	2006
Tax provision at U.S. statutory rate	35.0%	35.0%	35.0%
Favorable resolutions from audits of prior years' income tax filings	—	(7.5)	(2.1)
Foreign earnings repatriation under the American Jobs Creation Act of 2004	—	2.0	—
Effect of foreign operations taxed at various rates	(1.3)	(1.2)	(0.8)
State income taxes, net of federal benefit	0.5	0.6	0.6
Research and other tax credits	(0.8)	(1.2)	(0.1)
Export sales benefit	(5.7)	(5.9)	(3.5)
Other	(1.6)	1.7	0.9
	<u>26.1%</u>	<u>23.5%</u>	<u>30.0%</u>

The 2006 reconciling items included benefits of \$61 million principally related to the favorable resolution from audits of prior years' income tax filings, partially offset by a \$17 million charge from the expensing of equity-based compensation.

The 2005 reconciling items included benefits of \$118 million due to a favorable resolution of audits of prior years' income tax filings and \$14 million relating to a change in estimate with respect to export benefits, partially offset by a charge of \$32 million relating to the distribution of foreign earnings under the American Jobs Creation Act of 2004.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The components of deferred income tax assets and liabilities are as follows:

	2005	2006
	(In thousands)	
Deferred tax assets:		
Inventory reserves and basis difference	\$ 100,306	\$ 96,615
Installation and warranty reserves	51,913	66,909
Accrued liabilities	229,008	288,634
Restructuring reserves	28,829	8,676
Deferred revenue	118,144	62,578
Tax credit and net operating loss carryforwards	146,498	64,108
Deferred compensation	31,943	30,547
Equity-based compensation	—	37,751
Intangibles	25,015	24,831
	<u>731,656</u>	<u>680,649</u>
Deferred tax liabilities:		
Depreciation	(42,242)	(13,889)
Purchased technology	(16,926)	(72,236)
Other	(25,718)	(25,216)
	<u>(84,886)</u>	<u>(111,341)</u>
	<u>\$ 646,770</u>	<u>\$ 569,308</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents the breakdown between current and non-current net deferred tax assets:

	2005	2006
	(In thousands)	
Current	\$ 581,183	\$ 455,473
Non-current	65,587	113,835
	<u>\$ 646,770</u>	<u>\$ 569,308</u>

U.S. income taxes have not been provided for approximately \$217 million of cumulative undistributed earnings of several non-U.S. subsidiaries. Applied intends to reinvest these earnings indefinitely in operations outside of the U.S.

As of October 29, 2006, Applied's net operating loss and state tax credit carryforwards for tax return purposes were \$64 million. The carry forwards have an indefinite life. Management believes that tax credit carryforwards will be utilized in future periods.

Applied's income taxes payable have been reduced by the tax benefits associated with employee stock option transactions. These benefits, credited directly to stockholders' equity, amounted to \$84 million for fiscal 2005 and \$24 million for fiscal 2006, with a corresponding reduction to taxes payable of \$84 million in fiscal 2005 and \$24 million in fiscal 2006.

The Internal Revenue Service has completed its field examination of Applied's federal income tax returns for fiscal years 2002 through 2004 and has issued a preliminary report. Management believes that adequate amounts have been accrued for adjustments resulting from the examination.

Note 10 Industry Segment and Geographic Operations

After the acquisition of Applied Films, Applied made certain changes to its internal financial reporting structure during the fourth quarter of fiscal 2006 and, as a result, is reporting four segments: Silicon, Fab Solutions, Display, and Adjacent Technologies. Applied's chief operating decision-maker has been identified as the President and CEO, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Segment information is presented based upon Applied's management organization structure as of October 29, 2006 and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to the reportable segments disclosed. Prior to the fourth quarter of fiscal 2006, Applied operated in one reportable segment.

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

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 the consolidated Company uses. Management measures the performance of each reportable segment based upon several metrics including orders, net sales and operating income. Management uses these results to evaluate the performance of, and to assign resources to, each of the reportable segments. Applied does not allocate to its reportable segments certain operating expenses, which it manages separately at the corporate level. These unallocated costs include equity-based compensation, regional marketing and sales, corporate functions (certain management, finance, legal, human resources and RD&E costs) and unabsorbed information technology and occupancy costs. In addition, Applied does not allocate to its reportable segments restructuring and asset impairment charges and any associated adjustments related to restructuring actions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Segment operating income excludes interest income/expense and other financial charges and income taxes according to how a particular reportable segment's management is measured.

The Silicon segment comprises a wide range of semiconductor manufacturing equipment that customers use to perform most of the steps in the chip fabrication process, including: atomic layer deposition, chemical vapor deposition, physical vapor deposition, electrochemical plating, etch, ion implantation, rapid thermal processing, chemical mechanical planarization, wafer wet cleaning, and wafer metrology and inspection.

The Fab Solutions segment offers a broad range of products and services designed to improve the performance and productivity of semiconductor manufacturers' fab operations.

The Display segment manufactures, sells and services equipment used to fabricate and test flat panel displays (FPD) for televisions, computer displays and other applications. With the acquisition of Applied Films, the Display segment expanded into equipment to manufacture color filters for flat panel displays.

The Adjacent Technologies segment manufactures, sells and services equipment used to fabricate solar photovoltaic cells, flexible electronics and energy-efficient glass.

Prior-period amounts have been reclassified to conform to the fiscal 2006 presentation.

Information for each reportable segment as of October 31, 2004, October 30, 2005 and October 29, 2006 and for the years then ended, is as follows:

	<u>Net Sales</u>	<u>Operating Income</u>	<u>Depreciation/ Amortization (In thousands)</u>	<u>Capital Expenditures</u>	<u>Segment Assets</u>
2004:					
Silicon	\$ 5,766,541	\$ 1,832,270	\$ 194,633	\$ 127,268	\$ 2,739,832
Fab Solutions	1,675,334	393,880	21,329	9,537	824,051
Display	571,178	177,457	23,261	6,502	258,395
Adjacent Technologies	—	—	—	—	—
Total Segment	<u>\$ 8,013,053</u>	<u>\$ 2,403,607</u>	<u>\$ 239,223</u>	<u>\$ 143,307</u>	<u>\$ 3,822,278</u>
2005:					
Silicon	\$ 4,467,432	\$ 1,104,891	\$ 170,743	\$ 114,951	\$ 2,512,756
Fab Solutions	1,767,946	399,786	30,485	6,274	921,583
Display	756,445	254,320	5,193	14,279	296,599
Adjacent Technologies	—	—	—	—	—
Total Segment	<u>\$ 6,991,823</u>	<u>\$ 1,758,997</u>	<u>\$ 206,421</u>	<u>\$ 135,504</u>	<u>\$ 3,730,938</u>
2006:					
Silicon	\$ 5,971,483	\$ 2,000,342	\$ 159,695	\$ 75,315	\$ 2,769,127
Fab Solutions	2,209,973	623,390	30,605	15,158	1,067,249
Display	965,825	318,667	8,270	5,265	584,740
Adjacent Technologies	19,733	(8,008)	3,495	348	293,691
Total Segment	<u>\$ 9,167,014</u>	<u>\$ 2,934,391</u>	<u>\$ 202,065</u>	<u>\$ 96,086</u>	<u>\$ 4,714,807</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The reconciliation of segment operating results to Applied consolidated totals for the fiscal years ending October 31, 2004, October 30, 2005 and October 29, 2006 is as follows:

	2004	2005 (In thousands)	2006
Total segment earnings from operations	\$ 2,403,607	\$ 1,758,997	\$ 2,934,391
Corporate and unallocated costs	(445,856)	(311,032)	(701,657)
Restructuring and asset impairment charges	(167,459)	—	(212,113)
Litigation settlements, net	(26,627)	—	—
Income from operations	<u>\$ 1,763,665</u>	<u>\$ 1,447,965</u>	<u>\$ 2,020,621</u>

The reconciliation of depreciation and amortization expense to Applied consolidated totals for the fiscal years ending October 31, 2004, October 30, 2005 and October 29, 2006 is as follows:

	2004	2005 (In thousands)	2006
Total segment depreciation and amortization	\$ 239,223	\$ 206,421	\$ 202,065
Depreciation on shared facilities	68,522	60,287	42,988
Depreciation on information technology assets	27,666	22,884	23,528
Other	20,127	10,841	1,832
Consolidated depreciation and amortization	<u>\$ 355,538</u>	<u>\$ 300,433</u>	<u>\$ 270,413</u>

The reconciliation of capital expenditures to Applied consolidated totals for the fiscal years ending October 31, 2004, October 30, 2005 and October 29, 2006 is as follows:

	2004	2005 (In thousands)	2006
Total segment capital expenditures	\$ 143,307	\$ 135,504	\$ 96,086
Shared facilities	27,447	8,558	37,329
Information technology assets	11,620	49,259	36,083
Other	8,203	6,329	9,984
Consolidated capital expenditures	<u>\$ 190,577</u>	<u>\$ 199,650</u>	<u>\$ 179,482</u>

The reconciliation of segment assets to Applied consolidated totals as of October 31, 2004, October 30, 2005 and October 29, 2006 is as follows:

	October 31, 2004	October 30, 2005 (In thousands)	October 29, 2006
Total segment assets	\$ 3,822,278	\$ 3,730,938	\$ 4,714,807
Cash and investments	6,577,996	5,985,221	3,212,199
Allowance for bad debts	(2,533)	(3,649)	(3,342)
Assets held for sale	—	—	37,211
Deferred income taxes	688,627	646,770	569,308
Other current assets	242,003	223,477	217,433
Common property, plant and equipment	688,784	683,168	551,064
Equity-method investment	—	—	144,431
Other assets	76,290	3,232	37,726
Consolidated total assets	<u>\$ 12,093,445</u>	<u>\$ 11,269,157</u>	<u>\$ 9,480,837</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

For geographical reporting, revenues are attributed to the geographic location in which the customers' facilities are located. Long-lived assets consist primarily of property, plant and equipment and equity-method investment, and are attributed to the geographic location in which they are located. Net sales and long-lived assets by geographic region were as follows:

	Net Sales	Long-lived Assets
	(In thousands)	
2004:		
North America(1)	\$ 1,337,050	\$ 1,117,967
Taiwan	2,006,402	21,869
Japan	1,416,639	87,615
Europe	794,026	93,543
Korea	879,333	19,300
Asia-Pacific(2)	1,579,603	30,984
Total outside North America	6,676,003	253,311
Consolidated total	<u>\$ 8,013,053</u>	<u>\$ 1,371,278</u>
2005:		
North America(1)	\$ 1,472,020	\$ 1,060,297
Taiwan	1,608,161	17,669
Japan	1,395,056	81,705
Europe	882,964	88,098
Korea	1,021,553	18,811
Asia-Pacific(2)	612,069	29,911
Total outside North America	5,519,803	236,194
Consolidated total	<u>\$ 6,991,823</u>	<u>\$ 1,296,491</u>
2006:		
North America(1)	\$ 1,707,996	\$ 894,598
Taiwan	2,079,065	16,777
Japan	1,518,294	154,432
Europe	1,005,923	89,741
Korea	1,698,673	5,513
Asia-Pacific(2)	1,157,063	36,436
Total outside North America	7,459,018	302,899
Consolidated total	<u>\$ 9,167,014</u>	<u>\$ 1,197,497</u>

(1) Primarily the United States.

(2) Includes China.

During fiscal 2004, no individual customer accounted for 10 percent of Applied's net sales. Samsung Electronics Co., Ltd. accounted for 10 percent of Applied's net sales in 2005 and 11 percent of Applied's net sales in 2006. These net sales were for products in multiple reportable segments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 11 **Commitments and Contingencies***Leases*

Applied leases some of its facilities and equipment under non-cancelable operating leases and has options to renew most leases, with rentals to be negotiated. Total rent expense was \$88 million for fiscal 2004, \$87 million for fiscal 2005, and \$70 million for fiscal 2006. Future minimum lease payments at October 29, 2006 totaled \$173 million and were: \$60 million for fiscal 2007; \$41 million for fiscal 2008; \$31 million for fiscal 2009; \$17 million for fiscal 2010; \$8 million for fiscal 2011; and \$16 million collectively for all periods thereafter.

Accounts Receivables Sales

Applied has agreements with various financial institutions to sell accounts receivable from selected customers. Applied also discounts letters of credit through various financial institutions. Under these agreements, Applied sold accounts receivable and discounted letters of credit in the amounts of \$859 million for fiscal 2004, \$158 million for fiscal 2005 and \$245 million for fiscal 2006. Discounting fees were not material for all periods presented. At October 29, 2006, the amount of sold accounts receivable remained outstanding under these agreements was immaterial. A portion of these sold accounts receivable is subject to certain recourse provisions. Applied has not experienced any losses under these recourse provisions.

Guarantees

Applied products are generally sold with a 12-month warranty period following installation. The provision for the estimated cost of warranty is recorded when revenue is recognized. Parts and labor are covered under the terms of the warranty agreement. The warranty provision is based on historical experience by product, configuration and geographic region.

Changes in the warranty reserves were as follows:

	2005	2006
	(In thousands)	
Beginning balance	\$ 178,918	\$ 136,613
Provisions for warranty	155,426	219,578
Consumption of reserves	(197,731)	(181,586)
Ending balance	<u>\$ 136,613</u>	<u>\$ 174,605</u>

As noted above, Applied's products are generally sold with a 12-month warranty. Accordingly, current warranty provisions are related to the current year's net sales, and warranty consumption is associated with current and prior year's net sales.

During the ordinary course of business, Applied also provides standby letters of credit or other guarantee instruments to certain parties as required for certain transactions initiated by either Applied or its subsidiaries. As of October 29, 2006, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately \$114 million. Applied has not recorded any liability in connection with these guarantee arrangements beyond that required to appropriately account for the underlying transaction being guaranteed. Applied does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee arrangements.

Applied 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 October 29, 2006, Applied Materials Inc. has provided parent guarantees to banks for approximately \$91 million to cover these services.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Legal Matters

On July 31, 2001, David Scharf, an individual, filed a lawsuit against Applied alleging that Applied has infringed, has induced others to infringe, and has contributed to others' infringement of, a patent concerning color synthesizing scanning electron microscope technology. Mr. Scharf seeks a preliminary and permanent injunction, a finding of willful infringement, damages (including treble damages), and costs. Applied has answered the complaint and counterclaimed for declaratory judgment of non-infringement and invalidity. On May 10, 2002, Mr. Scharf filed a request for re-examination of his patent with the Patent and Trademark Office (PTO). On June 26, 2002, the case was removed from the Court's active docket after the parties stipulated to stay the case pending the results of that re-examination. On July 11, 2002, Applied filed its own request for re-examination of Mr. Scharf's patent with the Patent and Trademark Office. Applied's request for re-examination was granted on September 19, 2002. On April 23, 2004, the PTO notified Applied that it intended to issue a re-examination certificate. On June 14, 2004, Applied filed a second request for re-examination of Mr. Scharf's patent with the PTO. The second request was denied on September 1, 2004. On October 1, 2004, Applied filed a petition for reconsideration of that denial, which subsequently was denied. The parties are engaged in discovery and on November 6, 2006, the Court heard opposing motions for summary judgment on the issue of infringement and claim construction. The Court has not yet ruled on these motions. Applied believes it has meritorious defenses and counterclaims and intends to pursue them vigorously.

On March 12, 2002, Linear Technology Corp. (LTC) filed a lawsuit against Applied in the Superior Court of the County of Santa Clara, California, alleging claims for breach of contract, fraud and deceit, negligent misrepresentation, suppression of fact, unfair competition, breach of warranty, express contractual indemnity, implied equitable indemnity and declaratory relief related to LTC's assertion that Applied is obligated to indemnify and defend LTC for certain claims in an underlying patent infringement lawsuit brought by Texas Instruments, Inc. After the Court dismissed many of its claims, LTC amended its complaint. LTC's Amended Complaint, as well as its Second, Third and Fourth Amended Complaints, were dismissed by the Court in whole or in part. On July 7, 2004, LTC filed a Fifth Amended Complaint, which the Court dismissed with prejudice on October 5, 2004. On January 11, 2005, LTC filed a notice of appeal of the dismissal of its complaint. Applied believes it has meritorious defenses and intends to pursue them vigorously.

On December 24, 2003, Applied filed a lawsuit against Jusung Engineering Co., Ltd. (Jusung Engineering) and Jusung Pacific Co., Ltd. (Jusung Pacific, referred to together with Jusung Engineering as Jusung) in Tao-Yuan District Court in Taiwan, captioned Applied Materials, Inc. v. Jusung Engineering Co., Ltd. The lawsuit alleges that Jusung is infringing a patent related to chemical vapor deposition owned by Applied. In the lawsuit, Applied seeks a provisional injunction prohibiting Jusung from importing, using, manufacturing, servicing or selling in Taiwan certain flat panel display manufacturing equipment. On December 25, 2003, the Tao-Yuan District Court ruled in favor of Applied's request for a provisional injunction and, on January 14, 2004, the Court issued a provisional injunction order against Jusung Pacific. Jusung Pacific appealed those decisions, and the decisions were affirmed on appeal. On January 30, 2004, Jusung Pacific requested permission to post a counterbond to have the Jusung Pacific injunction lifted. Jusung Pacific's counterbond request was granted and, on March 30, 2004, the provisional injunction order was lifted. At Applied's request, on December 11, 2004, the District Court issued a provisional injunction order against Jusung Engineering. Jusung Engineering appealed that order, and the order was affirmed on appeal. Jusung Engineering also requested permission to post a counterbond to have the Jusung Engineering injunction lifted. Jusung Engineering's counterbond request was granted, and, on April 25, 2005, the provisional injunction order against Jusung Engineering was lifted. Applied has appealed both counterbond decisions. On June 30, 2004, Applied filed a "main action" patent infringement complaint against Jusung in the Hsinchu District Court in Taiwan, captioned Applied Materials, Inc. v. Jusung Engineering Co., Ltd. In the lawsuit, Applied seeks damages and a permanent injunction for infringement of the same patent. The decisions regarding the provisional injunction and counterbond have no effect on the separate patent infringement lawsuit filed by Applied against Jusung in the Hsinchu Court. In August 2006, the Court set the litigation fee and the litigation security payment, and the main action is now proceeding on its merits. The Court held a second hearing in the main action on October 30,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

2006. This same patent is the subject of an invalidity proceeding filed in the Taiwanese Patent and Trademark Office by Jusung Pacific in June 2004. Applied believes it has meritorious claims and intends to pursue them vigorously.

On June 13, 2006, Applied filed an action in the Taiwanese Patent and Trademark Office challenging the validity of a patent owned by Jusung Engineering related to the severability of the transfer chamber. On June 20, 2006, Jusung Engineering filed a lawsuit against Applied and Applied's subsidiary, AKT, in Hsinchu District Court in Taiwan, captioned Jusung Engineering, Co. Ltd. v. AKT America, Inc. and Applied Materials, Inc., alleging infringement of this patent. Jusung Engineering's lawsuit seeks damages, costs and attorneys' fees, but does not seek injunctive relief. The Court has scheduled the first hearing in this matter for December 28, 2006. Applied believes that it has meritorious defenses that it intends to pursue vigorously.

On April 10, 2004, the Taiwan Fair Trade Commission (TFTC) notified Applied's subsidiary AKT that, pursuant to a complaint filed by Jusung, the TFTC had begun an investigation into whether AKT had violated the Taiwan Fair Trade Act. The investigation focuses on whether AKT violated the Taiwan Guidelines for the Review of Cases Involving Enterprises Issuing Warning Letters for Infringement on Copyright, Trademark and Patent Rights by allegedly notifying customers about AKT's patent rights and the infringement of those rights by Jusung. On June 15, 2004, the TFTC notified Applied that Applied also was the subject of the investigation. By letter dated April 15, 2005, the TFTC notified Applied and AKT that there was insufficient evidence to support a claim against either company. Jusung appealed the TFTC's decision, and the appeals court affirmed the decision of the TFTC in favor of Applied on February 7, 2006. Jusung has appealed the appeals court's affirmation of the decision of the TFTC.

On January 19, 2006, five companies that sell refurbished Applied tools (Silicon Services Consortium Inc., Semiconductor Support Services Co., OEM Surplus, Inc., Precision Technician Inc., and Semiconductor Equipment Specialist, Inc.) filed a lawsuit against Applied in the United States District Court for the Western District of Texas, captioned Silicon Services Consortium, Inc., et al. v. Applied Materials, Inc. The plaintiffs claim that a policy that Applied announced in January 2005 of limiting the sale of certain parts to them constituted an unlawful attempt to monopolize the refurbishment business, an interference with existing contracts, and an interference with prospective business relationships. The suit seeks injunctive relief, damages, costs and attorneys' fees. After Applied filed a motion to dismiss the original complaint, the plaintiffs filed an amended complaint alleging similar conduct. Applied filed a motion to dismiss the amended complaint on April 7, 2006, and a hearing before the Court was conducted on August 22, 2006. The Court has not yet ruled on these motions. Applied believes it has meritorious defenses and counterclaims and intends to pursue them vigorously.

Applied does not believe that the outcome of any of the above matters will have a material adverse effect on its financial condition or results of operations. From time to time, Applied receives notification from third parties, including customers and suppliers, seeking indemnification, litigation support, payment of money or other actions by Applied in connection with claims made against them. In addition, from time to time, Applied receives notification from third parties claiming that Applied may be or is infringing their intellectual property or other rights. Applied also is subject to various other legal proceedings and claims, both asserted and unasserted, that arise in the ordinary course of business. Although the outcome of these claims and proceedings cannot be predicted with certainty, Applied does not believe that any of these other existing proceedings or claims will have a material adverse effect on its consolidated financial condition or results of operations.

Note 12 Litigation Settlements, Net

Net litigation settlement expense of \$27 million reported in the fiscal 2004 Consolidated Statement of Operations consisted of costs of \$28 million related to the two patent litigation settlements with Varian Semiconductor Equipment Associates, Inc. and Novellus Systems, Inc., net of a gain of \$1 million related to a legal settlement in favor of Applied. During fiscal 2005 or 2006, there were no material litigation settlements.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 13 Business Combinations and Equity-Method Investment

On August 14, 2006, Applied's wholly-owned subsidiary, Metron Technology, Inc. (Metron), purchased certain assets of UMS Solutions' parts cleaning and recycling business in Singapore for \$10 million. The acquisition enhances Metron's capabilities in Southeast Asia with advanced, high-quality parts cleaning services to support its customers' semiconductor manufacturing requirements. In connection with this acquisition, Applied recorded goodwill of \$7 million and other intangible assets of \$1 million.

On July 20, 2006, Applied and Screen completed the formation of Sokudo, a Japanese joint venture company, to deliver advanced track solutions for customers' critical semiconductor manufacturing requirements. Screen owns 52 percent and holds the controlling interest in Sokudo, and Applied owns 48 percent. Screen transferred into Sokudo its existing track business and related intellectual property, including employees, products and its installed base of systems. Applied paid \$147 million for its investment in Sokudo. Additionally, Applied contributed to Sokudo certain technology and related intellectual property and will provide key development employees. Screen performs manufacturing for Sokudo under an outsourcing agreement. Applied accounts for its interest in Sokudo under the equity method of accounting. Under this accounting method, Applied's exposure to loss from ongoing operations is limited to \$144 million as of October 29, 2006, which represents Applied's carrying value of its investment in Sokudo. Applied's investment in Sokudo is classified as an equity-method investment on the Consolidated Balance Sheet. Applied's investment in Sokudo includes the unamortized excess of Applied's investment over its equity in the joint venture's net assets. This excess \$41 million at October 29, 2006 is being amortized on a straight-line basis over its estimated economic useful life of 7 years.

On July 7, 2006, Applied completed its acquisition of Applied Films Corporation, a Colorado corporation (Applied Films) and leading supplier of thin film deposition equipment used in manufacturing flat panel displays (FPDs), solar cells, flexible electronics and energy-efficient glass. Applied paid \$28.50 per share in cash for each outstanding share of Applied Films. The total purchase price was approximately \$484 million, or \$328 million net of Applied Films' existing cash and marketable securities. As part of the acquisition, Applied assumed Applied Films' outstanding stock options and restricted stock awards that, at the acquisition date, had a total fair value of \$26 million, of which \$18 million was allocated to the purchase price and the remainder to unearned compensation. Upon the acquisition and subject to vesting, Applied Films stock options became exercisable for shares of Applied common stock and Applied Films restricted stock awards became payable in shares of Applied common stock totaling, in the aggregate, 3 million shares of Applied common stock. The fair value of Applied Films' stock options assumed was determined using a Black-Scholes model. The use of the Black-Scholes model and method of determining the variables is consistent with Applied's valuation of equity-based compensation awards in accordance with SFAS 123(R) (see Note 1). Applied recorded an in-process research and development expense of \$14 million, reported as research, development and engineering expense in the Consolidated Statements of Operations; goodwill of \$226 million; and other intangible assets of \$140 million. The acquired in-process research and development expense was determined by identifying research projects for which technological feasibility had not been established and no alternative future use existed. The value of the projects identified as in-process was determined by estimating the future cash flows from the projects once commercially feasible, discounting the net cash flows back to their present value at a rate commensurate with the level of risk and maturity of the projects, and then applying a percentage of completion to the calculated value.

On December 23, 2005, Applied acquired all of the outstanding shares of ChemTrace Corporation and ChemTrace Precision Cleaning, Inc. (collectively, ChemTrace) for approximately \$22 million in cash, net of cash acquired, of which \$18 million was paid upon closing. ChemTrace provides customers with precision parts cleaning and materials testing solutions. In connection with this acquisition, Applied recorded goodwill of \$12 million and other intangible assets of \$8 million.

On June 28, 2005, Applied purchased certain assets of SCP Global Technology, Inc., consisting of single-wafer HF-last immersion technology and Marangoni clean/dry intellectual property, for approximately \$24 million in cash. In connection with this asset purchase, Applied recorded purchased technology and other intangible assets of \$20 million and other items of \$4 million.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

On December 16, 2004, Applied acquired the assets of ATMI, Inc.'s Treatment Systems business (EcoSys), which supported the gas abatement requirements of process equipment for integrated circuit manufacturing and other industrial applications, for approximately \$16 million in cash. In connection with this acquisition, Applied recorded goodwill of \$5 million, purchased technology and other intangible assets of \$8 million and other items of \$3 million, including liabilities assumed upon acquisition.

On December 14, 2004, Applied acquired substantially all of the operating subsidiaries and businesses of Metron Technology N.V., a provider of a range of products and services for fab-wide operations, for approximately \$85 million in cash. In connection with this acquisition, Applied recorded goodwill of \$76 million and other intangible assets of \$31 million, partially offset by other items of \$22 million, primarily for net liabilities assumed upon acquisition.

On June 14, 2004, Applied acquired Torrex Equipment Corporation, a developer of a multi-wafer system that utilizes chemical vapor deposition and atomic layer deposition processes to address front-end semiconductor manufacturing applications, for \$7 million in cash. In connection with this acquisition, Applied recorded goodwill of \$11 million, net of adjustments to the initial purchase price allocation, partially offset by other items of \$4 million, primarily for net liabilities assumed upon acquisition. The in-process research and development expense related to this transaction was \$5.8 million.

For all of the purchase business combinations discussed above, the results of operations prior to the acquisition dates were not material in relation to those of Applied for any of the periods presented herein. Goodwill is not amortized but is reviewed periodically for impairment and purchased technology is amortized over its useful life of 2 to 15 years.

Note 14 Subsequent Event

On November 6, 2006 Applied announced that it had entered into an agreement to purchase the assets of Brooks Software, a division of Brooks Automation, Inc., for \$125 million in cash. Brooks Software is a leading provider of factory management and control software to the semiconductor and flat panel display industries. Brooks Software's products complement Applied's existing software applications and are expected to enable Applied to offer customers a comprehensive computer integrated manufacturing (CIM) solution for optimizing fab operations. After the closing of this transaction, the Brooks Software business and employees will be integrated within the Applied Global Services organization and reported under the Fab Solutions segment. Completion of this acquisition is expected in the second quarter of fiscal 2007 and is subject to receipt of regulatory approvals and certain other closing conditions.

Note 15 Unaudited Quarterly Consolidated Financial Data

	Fiscal Quarter				Fiscal Year
	First	Second	Third	Fourth	
	(In thousands, except per share amounts)				
2005:					
Net sales	\$ 1,780,576	\$ 1,861,189	\$ 1,631,938	\$ 1,718,120	\$ 6,991,823
Gross margin	\$ 790,225	\$ 818,430	\$ 717,089	\$ 760,130	\$ 3,085,874
Net income	\$ 288,765	\$ 304,830	\$ 369,591	\$ 246,714	\$ 1,209,900
Earnings per share	\$ 0.17	\$ 0.18	\$ 0.23	\$ 0.15	\$ 0.73
2006:					
Net sales	\$ 1,857,592	\$ 2,247,686	\$ 2,543,443	\$ 2,518,293	\$ 9,167,014
Gross margin	\$ 837,699	\$ 1,044,625	\$ 1,223,354	\$ 1,186,124	\$ 4,291,802
Net income	\$ 142,780	\$ 412,814	\$ 512,040	\$ 449,029	\$ 1,516,663
Earnings per share	\$ 0.09	\$ 0.26	\$ 0.33	\$ 0.30	\$ 0.97

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Stockholders and Board of Directors
Applied Materials, Inc.:

We have audited the accompanying consolidated balance sheets of Applied Materials, Inc. and subsidiaries (the Company) as of October 29, 2006 and October 30, 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended October 29, 2006. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as of and for each of the years in the three-year period ended October 29, 2006, listed at Item 15(a) (2). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Applied Materials, Inc. and subsidiaries as of October 29, 2006 and October 30, 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended October 29, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule as of and for each of the years in the three year period ended October 29, 2006, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in note 1 to the consolidated financial statements, effective October 31, 2005 the Company adopted the provisions of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, applying the modified-prospective method.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Applied Materials, Inc.'s internal control over financial reporting as of October 29, 2006, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 14, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP
KPMG LLP

Mountain View, California
December 14, 2006

INDEX TO EXHIBITS

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

<u>Exhibit No.</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated May 4, 2006, among Applied Materials, Inc., Applied Films Corporation and Blue Acquisition, Inc., incorporated by reference to Applied's Form 10-Q for the quarter ended July 30, 2006 (file no. 000-06920) filed August 31, 2006.
3.1	Certificate of Incorporation of Applied Materials, Inc., as amended and restated through March 31, 2000, incorporated by reference to Applied's Form 10-Q for the quarter ended April 30, 2000 (file no. 002-45028) filed June 8, 2000.
3.2	Certificate of Designation, Preferences and Rights of the Terms of the Series A Junior Participating Preferred Stock dated as of July 9, 1999, incorporated by reference to Applied's Form 10-Q for the quarter ended August 1, 1999 (file no. 000-06920) filed September 14, 1999.
3.3	Bylaws of Applied Materials, Inc., as amended and restated through November 28, 2001, incorporated by reference to Applied's Form 10-K for fiscal year 2001 (file no. 002-45028) filed January 23, 2002.
4.1	Form of Indenture (including form of debt security) between Applied Materials, Inc. and Harris Trust Company of California, as Trustee, incorporated by reference to Applied's Form 8-K (file no. 000-06920) filed August 17, 1994.
4.2	Rights Agreement, dated as of July 7, 1999, between Applied Materials, Inc. and Harris Trust and Savings Bank, as Rights Agent, incorporated by reference to Applied's Registration Statement on Form 8-A (file no. 000-06920) dated July 13, 1999.
4.3	First Amendment to Rights Agreement, dated as of November 6, 2002, between Applied Materials, Inc. and Computershare Investor Services, LLC, as Rights Agent, incorporated by reference to Applied's Registration Statement on Form 8-A/A (file no. 000-06920) dated November 25, 2002.
10.1	License Agreement dated January 1, 1992, between Applied Materials and Varian Associates, Inc., incorporated by reference to Applied's Form 10-K for fiscal year 1992 (file no. 000-06920) filed December 16, 1992.
10.2*	Applied Materials, Inc. Executive Deferred Compensation Plan, as amended and restated on April 1, 1995, incorporated by reference to Applied's Form 10-Q for the quarter ended April 30, 1995 (file no. 000-06920) filed June 7, 1995.
10.3*	Amendment No. 1 to the Applied Materials, Inc. Executive Deferred Compensation Plan, incorporated by reference to Applied's Form 10-Q for the quarter ended July 26, 1998 (file no. 000-06920) filed September 9, 1998.
10.4*	Amendment No. 2 to the Applied Materials, Inc. Executive Deferred Compensation Plan, incorporated by reference to Applied's Form 10-Q for the quarter ended July 26, 1998 (file no. 000-06920) filed September 9, 1998.
10.5*	Applied Materials, Inc. amended and restated Employees' Stock Purchase Plan, incorporated by reference to Applied's Form 10-K for fiscal year 2002 (file no. 000-06920) filed January 23, 2003.
10.6*	Applied Materials, Inc. Nonqualified Stock Option Agreement related to the Employee Stock Incentive Plan, as amended (formerly named the "Applied Materials, Inc. 1995 Equity Incentive Plan"), incorporated by reference to Applied's Form 10-Q for the quarter ended May 2, 1999 (file no. 000-06920) filed June 15, 1999.
10.7	Form of Indemnification Agreement between Applied Materials, Inc. and Non-Employee Directors, dated June 11, 1999, incorporated by reference to Applied's Form 10-K for fiscal year 1999 (file no. 333-88777) filed January 31, 2000.
10.8	Form of Indemnification Agreement between Applied Materials, Inc. and James C. Morgan and Dan Maydan, dated June 11, 1999, incorporated by reference to Applied's Form 10-K for fiscal year 1999 (file no. 333-88777) filed January 31, 2000.
10.9	Form of Indemnification Agreement between Applied Materials, Inc. and certain of its officers, incorporated by reference to Applied's Form 10-K for fiscal year 1999 (file no. 333-88777) filed January 31, 2000.
10.10*	Applied Materials, Inc. amended and restated Senior Executive Bonus Plan, incorporated by reference to Applied's Definitive Proxy Statement (file no. 000-06920) filed February 15, 2002.

<u>Exhibit No.</u>	<u>Description</u>
10.11*	Form of Applied Materials, Inc. Nonqualified Stock Option Grant Agreement for use under the Employee Stock Incentive Plan, as amended (formerly named the "Applied Materials Inc. 1995 Equity Incentive Plan") incorporated by reference to Applied's Form 10-Q for the quarter ended April 29, 2001 (file no. 002-45028) filed June 7, 2001.
10.12*	Applied Materials, Inc. amended and restated 1998 Non-Executive Employee Retention Stock Option Plan, incorporated by reference to Applied's Form 10-K for fiscal year 2002 (file no. 000-06920) filed January 23, 2003.
10.13*	Applied Materials, Inc. amended and restated 2000 Global Equity Incentive Plan, incorporated by reference to Applied's Form 10-K for fiscal year 2002 (file no. 000-06920) filed January 23, 2003.
10.14*	Applied Materials, Inc. Profit Sharing Scheme (Ireland), incorporated by reference to Applied's S-8 (file no. 333-45011) filed January 27, 1998.
10.15*	Applied Materials, Inc. Stock Purchase Plan for Offshore Employees, as amended through April 16, 2002, incorporated by reference to Applied's Form 10-Q for the quarter ended April 27, 2003 (file no. 000-06920) filed June 11, 2003.
10.16*	Term Sheet for employment of Michael R. Splinter, incorporated by reference to Applied's Form 10-Q for the quarter ended April 27, 2003 (file no. 000-06920) filed June 11, 2003.
10.17	\$250,000,000 Three-Year Credit Agreement dated as of September 19, 2003 among Applied Materials, Inc., Citigroup USA, Inc., as administrative agent, and the lenders listed therein, incorporated by reference to Applied's Form 10-K for fiscal year 2003 (file no. 000-06920) filed January 13, 2004. (Confidential treatment has been granted for the redacted portions of the agreement.)
10.18	Amendment No. 1 to \$250,000,000 Three-Year Credit Agreement dated as of September 17, 2004 among Applied Materials, Inc., Citicorp USA, Inc., as administrative agent, and the lenders listed therein, incorporated by reference to Applied's Form 10-K for fiscal year 2004 (file no. 000-06920) filed December 15, 2004.
10.19	Binding Memorandum of Understanding between Applied Materials, Inc. and Novellus Systems, Inc. dated September 20, 2004, incorporated by reference to Applied's Form 8-K (file no. 000-06920) filed September 24, 2004. (Confidential treatment has been granted for the redacted portions of the agreement.)
10.20	Separation Agreement between Applied Materials, Inc. and Joseph R. Bronson dated November 30, 2004, incorporated by reference to Applied's Form 10-K for fiscal year 2004 (file no. 000-06920) filed December 15, 2004.
10.21*	Applied Materials, Inc. Nonemployee Director Share Purchase Plan, incorporated by reference to Applied's Form 10-Q for the quarter ended May 1, 2005 (file no. 000-06920) filed May 31, 2005.
10.22*	Election Form to Receive Shares in lieu of Retainer and/or Meeting Fees for use under the Applied Materials, Inc. Nonemployee Director Share Purchase Plan, incorporated by reference to Applied's Form 10-Q for the quarter ended May 1, 2005 (file no. 000-06920) filed May 31, 2005.
10.23*	Applied Materials, Inc. amended and restated Relocation Policy, incorporated by reference to Applied's Form 8-K (file no. 000-06920) filed October 31, 2005.
10.24*	Form of Restricted Stock Agreement for use under the Applied Materials, Inc. Employee Stock Incentive Plan, as amended, incorporated by reference to Applied's Form 10-K for fiscal year 2005 (file no. 000-06920) filed December 14, 2005.
10.25*	Form of Performance Share Agreement for use under the Applied Materials, Inc. Employee Stock Incentive Plan, as amended, incorporated by reference to Applied's Form 10-K for fiscal year 2005 (file no. 000-06920) filed December 14, 2005.
10.26*	Amendment No. 3 to the Applied Materials, Inc. Executive Deferred Compensation Plan, incorporated by reference to Applied's Form 10-K for fiscal year 2005 (file no. 000-06920) filed December 14, 2005.
10.27*	Amendment No. 4 to the Applied Materials, Inc. Executive Deferred Compensation Plan, incorporated by reference to Applied's Form 10-K for fiscal year 2005 (file no. 000-06920) filed December 14, 2005.
10.28*	Vesting Acceleration of Certain Stock Options, incorporated by reference to Applied's Form 10-K for fiscal year 2005 (file no. 000-06920) filed December 14, 2005.

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<u>Exhibit No.</u>	<u>Description</u>
10.29*	Adjustments to Senior Executive Officer Salaries, incorporated by reference to Applied's Form 10-Q for the quarter ended January 29, 2006 (file no. 000-06920) filed February 28, 2006.
10.30*	Compensation of Non-Employee Directors, incorporated by reference to Applied's Form 10-Q for the quarter ended January 29, 2006 (file no. 000-06920) filed February 28, 2006.
10.31*	Performance Goals and Bonus Formula for Fiscal Year 2006 under the Senior Executive Bonus Plan, incorporated by reference to Applied's Form 10-Q for the quarter ended January 29, 2006 (file no. 000-06920) filed February 28, 2006.
10.32*	Adjustments to Nonemployee Director Cash Compensation, incorporated by reference to Applied's Form 10-Q for the quarter ended July 30, 2006 (file no. 000-06920) filed August 31, 2006.
10.33*	Form of Non-Qualified Stock Option Grant Agreement for use under the Applied Materials Employee Stock Incentive Plan, as amended, incorporated by reference to Applied's Form 10-Q for the quarter ended July 30, 2006 (file no. 000-06920) filed August 31, 2006.
10.34	Form of Non-Qualified Stock Option Grant Agreement for use under the Applied Materials, Inc. 2000 Global Equity Incentive Plan, as amended, incorporated by reference to Applied's Form 10-Q for the quarter ended July 30, 2006 (file no. 000-06920) filed August 31, 2006.
10.35*	Form of Performance Shares Agreement for use under the Applied Materials, Inc. Employee Stock Incentive Plan, as amended, incorporated by reference to Applied's Form 10-Q for the quarter ended July 30, 2006 (file no. 000-06920) filed August 31, 2006.
10.36*	Applied Materials, Inc. amended and restated Employee Financial Assistance Plan.
10.37*	Amendment No. 1 to the Applied Materials, Inc. Employee Financial Assistance Plan.
10.38*	Applied Materials, Inc. Global Executive Incentive Plan.
10.39	\$100,000,000 364-Day Credit Agreement dated as of September 14, 2006 between Applied Materials, Inc., as borrower, and Citicorp USA, Inc., as lender. (Confidential treatment has been requested for redacted portions of the agreement.)**
10.40	Master Confirmation dated September 18, 2006 between Goldman, Sachs & Co. and Applied Materials, Inc. (Confidential treatment has been requested for redacted portions of the agreement.)
10.41	Supplemental Confirmation dated September 18, 2006 between Goldman, Sachs & Co. and Applied Materials, Inc. (Confidential treatment has been requested for redacted portions of the agreement.)
10.42*	Applied Materials, Inc. amended and restated Employee Stock Incentive Plan (formerly named the "Applied Materials, Inc. 1995 Equity Incentive Plan").
12	Ratio of Earnings to Fixed Charges.
21	Subsidiaries of Applied Materials, Inc.
23	Consent of Independent Registered Public Accounting Firm, KPMG LLP.
24	Power of Attorney.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Indicates a management contract or compensatory plan or arrangement, as required by Item 15(a)3.

** Certain schedules and exhibits to this agreement, as set forth in the Table of Contents of the agreement, have been omitted. Applied Materials, Inc. hereby undertakes to furnish supplementally copies of any of the omitted schedules and exhibits upon request by the Securities and Exchange Commission.

	<u>Title</u>	<u>Date</u>
* _____ Gerhard H. Parker	Director	December 14, 2006
* _____ Willem P. Roelandts	Director	December 14, 2006
Representing a majority of the members of the Board of Directors.		
*By /s/ MICHAEL R. SPLINTER _____ Michael R. SplinterAttorney-in-Fact **		
** By authority of the power of attorney filed herewith.		

SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS
ALLOWANCE FOR DOUBTFUL ACCOUNTS

Fiscal Year	Balance at Beginning of Year	Additions — Charged to Income (In thousands)	Additions — Business Combinations	Deductions	Balance at End of Year
2004	\$ 1,847	\$ 686	\$ —	\$ —	\$ 2,533
2005	\$ 2,533	\$ 213	\$ 1,220	\$ (317)	\$ 3,649
2006	\$ 3,649	\$ 582	\$ —	\$ (889)	\$ 3,342

APPLIED MATERIALS, INC.
AMENDED AND RESTATED
EMPLOYEE FINANCIAL ASSISTANCE PLAN
(as of December 8, 2003)

APPLIED MATERIALS, INC. (the "Company") hereby amends and restates in its entirety the Applied Materials, Inc. Employee Financial Assistance Plan adopted on September 10, 1999 (the "Plan") effective as of December 8, 2003 to read as follows:

SECTION 1 — BACKGROUND AND PURPOSES

1.1 Background. The Plan permits the Company to provide officers and employees with certain kinds of financial assistance. The Plan was first adopted on March 5, 1981 and has been amended or amended and restated from time to time thereafter. The Board of Directors of the Company (the "Board") has determined that the Plan may be reasonably expected to benefit the Company within the meaning of Section 3.12 of the Company's Bylaws.

1.2 Purpose of the Plan. The Plan is intended to benefit the Company by permitting it to assist present and future employees by providing funds or guarantees that will assist them in relocation, purchasing homes, exercising stock options and for other purposes which may be reasonably expected to benefit the Company within the meaning of Section 3.12 of the Company's Bylaws.

1.3 Definitions. For purposes of the Plan, the following definitions apply:

1.3.1 "Committee" shall mean the Human Resources and Compensation Committee of the Board of Directors of the Company.

1.3.2 "Equity Advance" shall mean an advance by an agent of the Company to a North American employee, with no obligation to repay, of sale proceeds not to exceed 90% of the net equity in the former residence of the employee, provided:

- a. The funds are required and used by the employee to make a down payment on the purchase of a new residence;
- b. The funds are required in advance of the closing of the sales transaction for the employee's former residence; and

c. The net sales proceeds from the former residence are paid to the Company.

1.3.3 "Guaranteed Offer" shall mean a Home Sale Assistance service pursuant to which an agent of the Company (pursuant to a relocation management services contract with the Company) agrees to purchase the residence of a North American employee if a suitable third party offer is not obtained.

1.3.4 "Home Sale Assistance" shall mean the relocation services provided by the Company to a North American employee pursuant to the "North America Relocation Home Sale Assistance: Full Buyout Program" administered by the Company's North America Relocation Department. For clarification purposes, the dollar limitations set forth for Home Sale Assistance in paragraphs 3.1, 3.2 and 3.3 below shall mean the maximum Equity Advance or Guaranteed Offer that may be funded by or on behalf of the Company.

1.3.5 "Officers" shall mean, as to the Company, a corporate Vice President and above, and as to any of the Company's subsidiaries, a Vice President and above.

1.3.6 "Section 16 Officers" shall mean those individuals designated as such by the Board of Directors of the Company.

1.3.7 "Special Purpose Loan" shall mean a loan for automobile assistance, housing assistance, exercising stock options or such other purpose as is reasonably expected to benefit the Company.

SECTION 2 — LOANS

2.1 Special Purpose Loans to Non-Officers Employed Outside North America. The Regional Controller and the Human Resources Director, or their functional equivalent, for the Company or a subsidiary, acting jointly and in accordance with guidelines and limits approved in advance by the Vice President, Global Human Resources and the Treasurer of the Company, may authorize a Special Purpose Loan for automobile assistance, housing assistance, exercising stock options or for other purposes to any employee employed outside North America who is not an Officer of the Company, in an amount that, when aggregated with all other outstanding Special Purpose Loans to such person, does not exceed a total principal amount of \$50,000 (as determined using the

Company's corporate accounting currency exchange rate at the time of issuance of the then-requested Special Purpose Loan).

2.2 Loans Up to \$100,000 to Non-Officers. Upon the written recommendation of the Company's Vice President, Human Resources as to each loan, any of the Company's Chief Executive Officer, President or Chief Financial Officer may authorize a Company loan to any employee of the Company or any of its subsidiaries who is not an Officer in an amount that, when aggregated with all other outstanding loans by the Company to such person, does not exceed \$100,000.

2.3 Loans Up to \$200,000 to Non-Officers. Upon the written recommendation of the Company's Vice President, Human Resources as to each loan, any two separate and individual of the Company's Chief Executive Officer, President and Chief Financial Officer may authorize a Company loan to any employee of the Company or any of its subsidiaries who is not an Officer in an amount that, when aggregated with all other outstanding loans by the Company to such person, does not exceed \$200,000.

2.4 Loans to Officers other than Section 16 Officers. The Company's Chief Executive Officer and President, acting jointly, may authorize a Company loan to any Officer of the Company or any of its subsidiaries, other than Section 16 Officers, in an amount that, when aggregated with all other loans to such Officer, does not exceed \$200,000.

2.5 Term and Interest of Loans. The term for all loans made pursuant to the authority set forth in paragraphs 2.1, 2.2, 2.3 and 2.4 above shall not exceed five years and shall bear interest, if at all, at a rate to be determined by the authorizing officers.

2.6 Other Loans. Loans not specifically authorized under paragraphs 2.1, 2.2, 2.3 and 2.4 hereof may be authorized by the Committee upon a finding that any such loan may be reasonably expected to benefit the Company; provided, however, that no loans may be made to Section 16 Officers.

SECTION 3 — HOME SALE ASSISTANCE

3.1 Home Sale Assistance Up to \$500,000 to North American Non-Officers. The Company's Vice President, Human Resources, or his or her designee, may authorize Home Sale Assistance, including Guaranteed Offers and Equity Advances, to any North

American employee of the Company who is not an Officer in an amount that does not exceed \$500,000.

3.2 Home Sale Assistance Up to \$1,000,000 to North American Non-Officers. The Company's Vice President, Human Resources, and Treasurer, or his or her designee, acting jointly, may authorize Home Sale Assistance, including Guaranteed Offers and Equity Advances, to any North American employee of the Company who is not an Officer in an amount that exceeds \$500,000 but does not exceed \$1,000,000.

3.3 Home Sale Assistance to North American Officers other than Section 16 Officers. Upon the written recommendation by the Company's Vice President, Human Resources, the Company's Chief Financial Officer and Treasurer, acting jointly, may authorize Home Sale Assistance, including Guaranteed Offers and Equity Advances, to any North American Officer of the Company other than Section 16 Officers in an amount that does not exceed \$1,000,000.

3.4 Home Sale Assistance to Section 16 Officers. The Committee may authorize Home Sale Assistance to any Section 16 Officer upon a finding that such Home Sale Assistance, including a Guaranteed Offer, may be reasonably expected to benefit the Company; provided, however, that Section 16 Officers may not receive Equity Advances.

3.5 Other Home Sale Assistance. Home Sale Assistance which is not already authorized or expressly prohibited under paragraphs 3.1, 3.2, 3.3 and 3.4 hereof may be authorized by the Committee upon a finding that such Home Sale Assistance may be reasonably expected to benefit the Company.

3.6 Limitations on Home Sale Assistance. All Home Sale Assistance under this Plan is subject to the maximum dollar amount of outstanding Home Sale Assistance, including Guaranteed Offers and Equity Advances, which shall be set from time to time by the Committee.

SECTION 4 — ADMINISTRATION AND ACCOUNTING

4.1 Special Purpose Loans. The Regional Controller, or his or her functional equivalent, for the Company or a subsidiary shall administer all Special Purpose Loans made in his or her region or area of responsibility and quarterly shall report such loans to the Treasurer of the Company, including:

- a. the number and amounts of all Special Purpose Loans granted in the reporting quarter; and
- b. the balances for all outstanding Special Purpose Loans as of the end of the reporting quarter.

4.2 Loans. The Treasurer of the Company shall administer all loans made pursuant to this Plan and semi-annually shall report such loans and Special Purpose Loans to the Committee, including:

- a. the outstanding balances of all loans, including Special Purpose Loans, made during the six months preceding the date of the report; and
- b. the balances of all previously made loans, including Special Purpose Loans, which remain outstanding as of the end of the six month reporting period.

4.3 Home Sale Assistance.

4.3.1 The Company's Vice President, Human Resources, or his or her designee, shall administer all Home Sale Assistance made pursuant to the Plan.

4.3.2 The Controller of the Company shall ensure that outstanding Home Sale Assistance, including all related Guaranteed Offers and Equity Advances, are properly reserved and accounted for on the books and records of the Company.

4.3.3 The Treasurer of the Company shall semiannually report to the Committee:

- a. all Home Sale Assistance, including all related Guaranteed Offers and Equity Advances, made during the six months preceding the date of the report;
- b. all previously made Guaranteed Offers and Equity Advances that remain outstanding; and
- c. the then-current fair market value of all acquired properties.

AMENDMENT NO. 1 TO
APPLIED MATERIALS, INC.
AMENDED AND RESTATED
EMPLOYEE FINANCIAL ASSISTANCE PLAN

The Applied Materials, Inc. Employee Financial Assistance Plan, as amended and restated effective December 9, 2003 (the "Plan"), is hereby further amended as follows:

1. Section 2.5 of the Plan is hereby amended and restated in its entirety as follows:

"2.5 Term and Interest of Loans. The term for all loans made pursuant to the authority set forth in paragraphs 2.1, 2.2, 2.3 and 2.4 above shall not exceed five years and shall bear interest, if at all, at a rate to be determined by the authorizing officers. Notwithstanding the foregoing, subject to the approval set forth in paragraph 2.7.3 below, loans may be extended for a term not to exceed seven years from the original date of the loan."

2. A new Section 2.7 is hereby added to the Plan as follows:

"2.7 Loan Amendments, Modifications and Extensions.

2.7.1 The Vice President, Global Human Resources and the Treasurer of the Company, acting jointly, may authorize amendments, modifications and extensions to any loans made by the Company pursuant to paragraphs 2.1, 2.2, 2.3, 2.4 and 2.6.

2.7.2 In the event that the Vice President, Global Human Resources or the Treasurer of the Company is a recipient of a loan from the Company for which an amendment, modification or extension is sought, then, notwithstanding the authority set forth in paragraph 2.7.1 above, authority shall vest in the Chief Financial Officer and either the Vice President, Global Human Resources or the Treasurer of the Company, as appropriate, whose loan is not subject to the proposed amendment, modification or extension.

2.7.3 Notwithstanding the authority set forth in paragraph 2.7.1 above, the Chief Financial Officer and the Vice President, Global Human Resources of the Company, acting jointly, may authorize: (i) the extension of the loan for a term not to exceed seven years from the original date of the loan, subject to the limitation set forth in paragraph 2.5 above; and (ii) the forgiveness of all or a portion of a loan, provided the loan had not been made to either of the aforementioned officers.

2.7.4 On a loan-by-loan basis and subject to certain parameters

approved in advance by the Vice President, Global Human Resources and Treasurer, the Vice President, Global Human Resources and the Treasurer of the Company, acting jointly, may delegate their joint authority hereunder to any Assistant Treasurer of the Company.

2.7.5 In the event a loan, including a Special Purpose Loan, or Equity Advance has been made to an employee who later becomes a Section 16 Officer, such loan or Equity Advance shall become due and payable immediately upon the appointment of such employee as a Section 16 Officer.”

3. Except as modified herein, all other provisions of the Plan remain in full force and effect.

**APPLIED MATERIALS, INC.
GLOBAL EXECUTIVE INCENTIVE PLAN**

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APPLIED MATERIALS, INC.
GLOBAL EXECUTIVE INCENTIVE PLAN

Section 1

ESTABLISHMENT AND PURPOSE

1.1 Purpose. Applied Materials, Inc. having established the Applied Materials, Inc. Global Executive Incentive Plan (the "Plan") effective as of September 6, 2000, hereby amends and restates the Plan effective as of December 10, 2004. The Plan is intended to increase shareholder value and the success of the Company by motivating executives (a) to perform to the best of their abilities, and (b) to achieve the Company's objectives. The Plan's goals are to be achieved by providing such executives with incentive awards based on the achievement of goals relating to their individual performance, the performance of the individual's business unit and the performance of the Company.

DEFINITIONS

The following words and phrases shall have the following meanings unless a different meaning is plainly required by the context:

2.1 "Actual Award" means as to any Plan Year, the actual award (if any) payable to a Participant for the Plan Year. Each Actual Award is determined by the Payout Formula for the Plan Year, subject to the Committee's authority under Section 3.5 to reduce or increase the award otherwise determined by the Payout Formula.

2.2 "Base Salary" means as to any Plan Year, 100% of the Participant's annualized salary rate on the last day of Plan participation during the Plan Year. A weighted average annualized salary rate will be used for certain mid Plan Year status changes including but not limited to part-time schedules, transfers to other countries and job scope reductions. Such Base Salary shall be before both (a) deductions for taxes or benefits, and (b) deferrals of compensation pursuant to Company-sponsored plans.

2.3 "Business Unit VP" Business Unit Vice President means the top level executive of a unit ("unit" is determined at the beginning of the plan year by the committee and generally includes Product Groups, Accounts & Support Functions)

2.4 "Committee" means the CEO or a committee appointed by the CEO to administer the Plan.

2.5 "Company" means Applied Materials, Inc., a Delaware corporation.

2.6 "Disability" means a permanent and total disability determined in accordance with uniform and nondiscriminatory standards adopted by the Committee from time to time.

2.7 "Earnings Per Share" means as to any Plan Year, the Company's Net Income or a business unit's Pro Forma Net Income, divided by a weighted average number of common shares outstanding and dilutive common equivalent shares deemed outstanding.

- 2.8 “Executive” means any employee in Global Job Group Senior Executive through x50 with the title of Director, Senior Director, Managing Director, Appointed Vice President, Corporate Vice President, Group Vice President, Senior Vice President or Executive Vice President.
- 2.9 “Individual MBOs” means as to a Participant for any Plan Year, the objective and measurable goals set by a “management by objectives” process and approved by the Committee at their discretion or the Business Unit Vice President at his/her discretion.
- 2.10 “Maximum Award” means as to any Participant for any Plan Year, the maximum amount that may be paid to a participant for any Plan Year.
- 2.11 “Participant” means as to any Plan Year, an executive who has been selected by and in the discretion of the Committee or the Business Unit Vice President for participation in the Plan for that Plan Year.
- 2.12 “Payout Formula” means as to any Plan Year, the formula or payout matrix established by the CEO or the Committee in order to determine the Actual Awards (if any) to be paid to Participants. The formula or matrix may differ from Participant to Participant and may differ from year to year.
- 2.13 “Performance Goals” means the goal(s) (or combined goal(s)) determined by the Committee (in its discretion for Officers) or the Business Unit Vice President (at his/her discretion for non- Officer executives) to be applicable to a Participant for a Plan Year. As determined by the CEO, Committee or the Business Unit Vice President, the Performance Goals applicable to each Participant shall provide for a targeted level or levels of achievement using both financial and operational performance measures. The Performance Goals may differ from Participant to Participant.
- 2.14 “Plan Year” means the fiscal year of the Company.
- 2.15 “Retirement” means, with respect to any Participant, a termination of his or her employment with the Company and all affiliates pursuant to any retirement program adopted by the Company.
- 2.16 “Target Award” means the target award payable under the Plan to a Participant for the Plan Year, expressed as a percentage of his or her Base Salary, as determined by the Committee or the Business Unit Vice President in accordance with Section 3.3.

SELECTION OF PARTICIPANTS AND DETERMINATION OF AWARDS

- 3.1 Selection of Participants. At the start of each fiscal year, the Committee in its sole discretion, shall select the executives of the Company who shall be Participants for the Plan Year. Participation in the Plan is in the sole discretion of the Committee and on a Plan Year by Plan Year basis. Accordingly, an executive who is a Participant for a given Plan Year in no way is guaranteed or assured of being selected for participation in any subsequent Plan Year or Years. Additionally, at the start of each fiscal year the Business Unit Vice President shall select the

executives of the Company (below the Officer level) who shall participate in the Plan. Participation below the Officer level is at the full discretion of the Business Unit Vice President, and on a Plan Year by Plan Year basis. Accordingly, an executive who is a Participant for a given Plan Year in no way is guaranteed or assured of being selected for participation in any subsequent Plan Year or Years. Any level of Executive who participates in the Plan is not eligible for any other Company incentive Plan (milestone Plans, Profit Sharing, etc.). An executive must be enrolled in the Plan by the last business day of the third fiscal quarter in order to be eligible to participate in the Plan for that fiscal year.

3.2 Determination of Performance Goals. The Committee, in its sole discretion, shall establish the Performance Goals for each Officer Participant for the Plan Year. Such Performance Goals shall be set forth in writing. The Business Unit Vice President, in his/her sole discretion, shall establish the Performance Goals for each non- Officer Executive Participant for the Plan Year. Such Performance Goals shall be set forth in writing.

3.3 Determination of Target Awards. The Committee, in its sole discretion, shall establish a Target Award for each Executive Officer Participant. The CEO or the Committee in its sole discretion shall determine each Participant's Target Award, and each Target Award shall be set forth in writing. The Business Unit Vice President, in his/her sole discretion, shall establish a Target Award for each non- Officer Executive Participant. Each non-Officer Executive Participant's Target Award shall be determined by the Business Unit Vice President in his/her sole discretion, and each Target Award shall be set forth in writing.

3.4 Determination of Payout Formula or Formulae. The Committee, in its sole discretion, shall establish a Payout Formula or Formulae for purposes of determining the Actual Award (if any) payable to each Participant. Each Payout Formula shall (a) be in writing, (b) be based on a comparison of actual performance to the Performance Goals, (c) provide for the payment of a Participant's Target Award if the Performance Goals for the Plan Year are achieved, and (d) provide for an Actual Award greater than or less than the Participant's Target Award, depending upon the extent to which actual performance exceeds or falls below the Performance Goals. Notwithstanding the preceding, no Participant's Actual Award under the Plan may exceed his or her Maximum Award. In addition, no payments shall be made under the Plan if the Company does not achieve a profit before tax of 10%. If the Company's profit before tax is greater than 5% but less than 10%, Plan participants will receive a payout equal to the US profit sharing rate.

3.5 Determination of Actual Awards. After the end of each Plan Year, the Committee (for Executive officers) or the Business Unit Vice President (for non- Officer Executives) shall determine the extent to which the Performance Goals applicable to each Participant for the Plan Year were achieved or exceeded. The Actual Award for each Participant shall be determined by applying the Payout Formula to the level of actual performance. Notwithstanding any contrary provision of the Plan, (a) the Committee, in its sole discretion, or the Business Unit Vice President (for non-Officer executives) in his/her sole discretion may increase, eliminate or reduce the Actual Award payable to any Participant that which otherwise would be payable under the Payout Formula. If a Participant terminates employment with the Company prior to the end of the fiscal year for a reason other than Retirement, Disability or death, he or she shall

not be entitled to the payment of an Actual Award for the Plan Year. An Award will be paid within two and one-half calendar months of the end of the Plan year to the estate of a deceased Participant, or to any Participant who terminates employment on account of retirement or disability during the Plan Year. The award will be determined based on the participant's level of achievement against the Performance Goals and is at the full discretion of the Committee. For Participants who are not enrolled in the Plan for a full Plan year due to leave of absence or disability, the award will be determined based on the participant's level of achievement against the Performance Goals and is at the full discretion of the Committee. For Participants who join the Plan after the start of the Plan Year, but before the last business day of the third fiscal quarter, the Target Award will be pro-rated for their time in the Plan (a partial month shall be treated as a full calendar month) and the Payout Formula shall be applied to the pro-rated Target Award and the level of actual performance.

PAYMENT OF AWARDS

4.1 Right to Receive Payment Each Actual Award that may become payable under the Plan shall be paid solely from the general assets of the Company. Nothing in this Plan shall be construed to create a trust or to establish or evidence any Participant's claim of any right other than as an unsecured general creditor with respect to any payment to which he or she may be entitled.

4.2 Timing of Payment. Payment of each Actual Award shall be made within two and one-half calendar months after the end of the Plan Year during which the Award was earned (other than employees on personal leave of absence on the last day of the Plan Year). In the case of Plan Participants who were on personal leave of absence, on the last day of the Plan Year, the payout will not be made until the employee has returned to work for 90 days.

4.3 Form of Payment. Each Actual Award normally shall be paid in cash (or its equivalent) in a single lump sum.

ADMINISTRATION

5.1 Committee is the Administrator. The Plan shall be administered by the Committee.

5.2 Delegation by the Committee. The Committee, in its sole discretion and on such terms and conditions as it may provide, may delegate all or any part of its authority and powers under the Plan to one or more officers or employees of the Company. As of the effective date of the Plan and until otherwise determined by the Committee, each Business Unit Vice President shall exercise the powers of the Committee under Section 3, but only with respect to Executives and Participants who are direct reports of the Business Unit Vice President. Notwithstanding the preceding, each decision, action or determination under the Plan by any Business Unit Vice President shall be subject to change by the Committee.

5.3 Committee Authority, the Committee shall have all discretion and authority necessary or appropriate to administer the Plan and to interpret the provisions of the Plan. Any determination, decision or action of the Committee in connection with the construction, interpretation, administration or application of the Plan (or any delegate of the committee) shall be final,

conclusive, and binding upon all persons, and shall be given the maximum deference permitted by law.

5.4 Tax Withholding The Company shall withhold all applicable taxes from any payment, including (but not limited to) any income, payroll, employment or other taxes

GENERAL PROVISIONS

6.1 Nonassignability. A Participant shall have no right to assign or transfer any interest under this Plan.

6.2 No Effect on Employment. The establishment and subsequent operation of the Plan, including eligibility as a Participant, shall not be construed as conferring any legal or other rights upon any Participant for the continuation of his or her employment for any Plan Year or any other period. Employment with the Company is on an at-will basis only. The Company expressly reserves the right, which may be exercised at any time and without regard to when during a Plan Year such exercise occurs, to terminate any individual's employment with or without cause, and to treat him or her without regard to the effect which such treatment might have upon him or her as a Participant.

6.3 No Individual Liability. No member of the Committee or the Board, or any officer or employee of the Company, shall be liable for any determination, decision or action made in good faith with respect to the Plan or any award under the Plan.

6.4 Severability; Governing Law. If any provision of the Plan is found to be invalid or unenforceable, such provision shall not affect the other provisions of the Plan, and the Plan shall be construed in all respects as if such invalid provision had been omitted. The provisions of the Plan shall be governed by and construed in accordance with the laws of the State of California, with the exception of California's conflict of laws provisions.

6.5 Affiliates of the Company. Requirements referring to employment with the Company or payment of awards may, in the Committee's discretion, be performed through the Company or any affiliate of the Company.

AMENDMENT AND TERMINATION

7.1 Amendment and Termination. The Committee may amend or terminate the Plan at any time and for any reason.

U.S. \$100,000,000

364-DAY CREDIT AGREEMENT

Dated as of September 14, 2006

Between

APPLIED MATERIALS, INC.

as Borrower

and

CITICORP USA, INC.

as Lender

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Exhibits

Exhibit A — Form of Revolving Credit Note

Exhibit B — Form of Notice of Revolving Credit Advance

Exhibit C — Form of Opinion of Vice President, Legal Services of the Borrower*

Exhibit D — Form of Opinion of Orrick, Herrington & Sutcliffe, LLP*

* These schedules and exhibits have not been filed herewith. The Company agrees to furnish supplementally any omitted materials to the Securities and Exchange Commission upon request.

364-DAY CREDIT AGREEMENT

Dated as of September 14, 2006

APPLIED MATERIALS, INC., a Delaware corporation, and CITICORP USA, INC. agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01 Certain Defined Terms.

As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

“Adjusted CD Rate” means, for any Interest Period for each Adjusted CD Rate Advance, an interest rate per annum equal to the sum of:

(a) the rate per annum obtained by dividing (i) the rate of interest determined by the Lender to be the bid rates per annum, at 9:00 A.M. (New York City time) (or as soon thereafter as practicable) two Business Days before the first day of such Interest Period, of New York certificate of deposit dealers of recognized standing selected by the Lender for the purchase at face value of certificates of deposit of Citibank in an amount substantially equal to such Adjusted CD Rate Advance and with a maturity equal to such Interest Period, by (ii) a percentage equal to 100% minus the Adjusted CD Rate Reserve Percentage (as defined below) for such Interest Period, plus

(b) the Assessment Rate (as defined below) for such Interest Period.

The “Adjusted CD Rate Reserve Percentage” for any Interest Period for each Adjusted CD Rate Advance means the reserve percentage applicable on the first day of such Interest Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for a member bank of the Federal Reserve System in New York City with deposits exceeding \$5 billion with respect to liabilities consisting of or including (among other liabilities) U.S. dollar nonpersonal time deposits in the United States with a maturity equal to such Interest Period and in an amount of \$100,000. The “Assessment Rate” for any Interest Period for each Adjusted CD Rate Advance means the annual assessment rate estimated by the Lender on the first day of such Interest Period for determining the then current annual assessment payable by Citibank to the Federal Deposit Insurance Corporation (or any successor) for insuring U.S. dollar deposits of Citibank in the United States.

“Adjusted CD Rate Advance” means a Revolving Credit Advance that bears interest as provided in Section 2.06(a)(iii).

“Affiliate” means, as to any Person, other than in respect of the Borrower or any of its direct or indirect Subsidiaries, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person. For purposes of this definition, the term “control” (including the terms “controlling”, “controlled by” and “under common control with”) of a Person means the possession, direct or indirect, of the power to vote, for purposes of Section 5.02(f) 10%, and for all other purposes 5%, or more of the Voting Stock of such Person or to direct or cause the direction of the

management and policies of such Person, whether through the ownership of Voting Stock, by contract or otherwise.

“**Applicable Lending Office**” means the Lender’s Domestic Lending Office in the case of a Base Rate Advance, the Lender’s Eurodollar Lending Office in the case of a Eurodollar Rate Advance and the Lender’s CD Lending Office in the case of an Adjusted CD Rate Advance.

“**Applicable Margin**” means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody’s	Applicable Margin for Base Rate Advances	Applicable Margin for Eurodollar Rate Advances	Applicable Margin for Adjusted CD Rate Advances
Level 1 A+/A1 or above	***	***	***
Level 2 A/A2	***	***	***
Level 3 A-/A3	***	***	***
Level 4 BBB+/Baa1	***	***	***
Level 5 Lower than Level 4 or unrated	***	***	***

“**Applicable Percentage**” means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody’s	Applicable Percentage
Level 1 A+/A1 or above	***
Level 2 A/A2	***
Level 3 A-/A3	***
Level 4 BBB+/Baa1	***
Level 5 Lower than Level 4 or unrated	***

“**Applicable Utilization Fee**” means (a) when the aggregate Revolving Credit Advances are equal to or less than 33% of the Commitment, a percentage per annum equal to 0%, and (b) when the

*** INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

aggregate Revolving Credit Advances exceed 33% of the Commitment, a percentage per annum equal to 0.125%.

“**Base Rate**” means a fluctuating interest rate per annum in effect from time to time, which rate per annum shall at all times be equal to the highest of:

(a) the rate of interest announced publicly by Citibank in New York, New York, from time to time, as Citibank’s base rate;

(b) the sum (adjusted to the nearest 1/4 of 1% or, if there is no nearest 1/4 of 1%, to the next higher 1/4 of 1%) of (i) 1/2 of 1% per annum, plus (ii) the rate obtained by dividing (A) the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks, such three-week moving average (adjusted to the basis of a year of 360 days) being determined weekly on each Monday (or, if such day is not a Business Day, on the next succeeding Business Day) for the three-week period ending on the previous Friday by Citibank on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of quotations for such rates received by Citibank from three New York certificate of deposit dealers of recognized standing selected by Citibank, by (B) a percentage equal to 100% minus the average of the daily percentages specified during such three-week period by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for Citibank with respect to liabilities consisting of or including (among other liabilities) three-month U.S. dollar non-personal time deposits in the United States, plus (iii) the average during such three-week period of the annual assessment rates estimated by Citibank for determining the then current annual assessment payable by Citibank to the Federal Deposit Insurance Corporation (or any successor) for insuring U.S. dollar deposits of Citibank in the United States; and

(c) 1/2 of one percent per annum above the Federal Funds Rate.

“**Base Rate Advance**” means a Revolving Credit Advance that bears interest as provided in Section 2.06(a)(i).

“**Benefit Arrangement**” means at any time an employee benefit plan within the meaning of Section 3(3) of ERISA which is not a Plan or a Multiemployer Plan and which is maintained or otherwise contributed to by any member of the ERISA Group.

“**Borrower**” means Applied Materials, Inc., a Delaware corporation.

“**Business Day**” means a day of the year on which banks are not required or authorized by law to close in New York City and, if the applicable Business Day relates to any Eurodollar Rate Advances, on which dealings are carried on in the London interbank market.

“**Capitalized Lease**” means any lease the obligation for rentals with respect to which is required to be capitalized on a Consolidated balance sheet of the lessee and its Subsidiaries in accordance with GAAP.

“**Capitalized Rentals**” of any Person means at any date the amount at which the aggregate rentals due and to become due under all Capitalized Leases under which such Person is a lessee would be reflected as a liability on a Consolidated balance sheet of such Person.

“CD Lending Office” means the office of the Lender specified as its “CD Lending Office” opposite its name on Schedule I hereto, or such other office of the Lender as the Lender may from time to time specify to the Borrower.

“Citibank” means Citibank, N.A.

“Closing Date” means September 17, 2006 or such other date as may be agreed upon by the Borrower and Lender.

“Commitment” means the amount set forth opposite the Lender’s name on the signature pages hereof, as such amount may be reduced pursuant to Section 2.04.

“Communications” shall have the meaning set forth in Section 7.02(b).

“Consolidated” refers to the consolidation of accounts in accordance with GAAP.

“Consolidated Debt” means all Debt of the Borrower and its Subsidiaries, determined in accordance with GAAP on a consolidated basis after eliminating intercompany items.

“Consolidated Net Tangible Assets” means, at any date, the total amount of all Tangible Assets of the Borrower and its Subsidiaries after deducting therefrom all liabilities which in accordance with GAAP would be included on their consolidated balance sheet, except Consolidated Debt.

“Consolidated Total Assets” means, at any date, the total assets of the Borrower and its Subsidiaries on a consolidated basis determined in accordance with GAAP.

“Convert”, “Conversion” and “Converted” each refers to a conversion of Revolving Credit Advances of one Type into Revolving Credit Advances of the other Type pursuant to Section 2.07 or 2.08.

“Debt” of any Person means, without duplication, (a) all Indebtedness of such Person for borrowed money, (b) all obligations of such Person for the deferred and unpaid purchase price of property or services (other than trade payables and accrued expenses incurred in the ordinary course of such Person’s business), (c) all Indebtedness of such Person evidenced by notes, bonds, debentures or other similar evidences of indebtedness, (d) all obligations of such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property) including, without limitation, obligations secured by Liens arising from the sale or transfer of notes or accounts receivable; provided that Debt shall not include any sale or transfer of notes or accounts receivable whether or not precautionary Liens are filed or recorded in connection with such sale or transfer of such notes or accounts receivable, if and only if such sale or transfer (A) is accounted for as true sale under GAAP and (B) pursuant to which there is no recourse (other than recourse for breach of customary representations and warranties or in connection with any such sales or transfers) to the seller of such notes or accounts receivable (as evidenced by there being no accounting reserve taken or required to be taken, which in the event a reserve is taken, the amount of Debt shall be deemed to be the amount of such reserve), and provided, further, that all trade payables and accrued expenses constituting current liabilities shall be excluded, (e) all Capitalized Rentals, (f) reimbursement obligations of such Person in respect of credit enhancement instruments, which reimbursement obligations are then due and payable by such Person, (g) all Debt of others referred to in clauses (a) through (f) above or clause (h) below guaranteed directly or indirectly in any manner by such Person, or in effect guaranteed directly or indirectly by such Person through an agreement (1) to pay

or purchase such Debt or to advance or supply funds for the payment or purchase of such Debt, (2) to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Debt or to assure the holder of such Debt against loss, (3) to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether such property is received or such services are rendered) or (4) otherwise to assure a creditor against loss, and (h) all Debt referred to in clauses (a) through (g) above secured by (or for which the holder of such Debt has an existing right, contingent or otherwise, to be secured by) any Lien on property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Debt, including, without limitation, obligations secured by Liens arising from the sale or transfer of notes, accounts receivable or other assets; provided, however, that obligations of such Person secured by Liens on notes, accounts receivable or other assets sold or transferred in a transaction which is accounted for as a true sale under GAAP shall not be Debt under this definition.

The Borrower's obligations under operating leases and Off-Balance Sheet Leases shall be excluded from this definition of Debt; provided that (A) no such exclusion shall be made if and to the extent that GAAP would require such obligations to be classified as debt for borrowed money and (B) in any event the term "Debt" shall include the Excess Lease Financed Amount (if any).

"Default" means any Event of Default or any event that would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

"Domestic Lending Office" means the office of the Lender specified as its "Domestic Lending Office" opposite its name on Schedule I hereto, or such other office of the Lender as the Lender may from time to time specify to the Borrower.

"EBITDA" means, for any period, Net Income plus, to the extent deducted in determining such Net Income, the sum of (a) Interest Expense, (b) income tax expense, (c) depreciation expense, (d) amortization expense, (e) one-time non-cash charges related to asset impairments and restructuring activities, and (f) cash and non-cash portions of discontinued operations and extraordinary items, all determined on a Consolidated basis for the Borrower and its Subsidiaries in accordance with GAAP.

"Effective Date" has the meaning specified in Section 3.01.

"Eligible Assignee" means (i) a Lender, (ii) an Affiliate of a Lender, and (iii) any other Person that has a rating for any class of non-credit enhanced long-term senior unsecured debt of not lower than A by S&P or A2 by Moody's and is approved by Borrower, such approval not to be unreasonably withheld or delayed.

"Environmental Action" means any action, suit, demand, demand letter, claim, notice of non-compliance or violation, notice of liability or potential liability, investigation, proceeding, consent order or consent agreement relating in any way to any Environmental Law, Environmental Permit or Hazardous Substances or arising from alleged injury or threat of injury to health, safety or the environment, including, without limitation, (a) by any governmental or regulatory authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any governmental or regulatory authority or any third party for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

"Environmental Laws" means any and all federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, injunctions and other governmental restrictions

relating to the environment or the effect of the environment on human health or to emissions, discharges or releases of pollutants, contaminants, Hazardous Substances or wastes into the environment including, without limitation, ambient air, surface water, ground water or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, Hazardous Substances or wastes or the clean-up or other remediation thereof.

“Environmental Permit” means any permit, approval, identification number, license or other authorization required under any Environmental Law.

“Equity Affiliate” means any Person in which the Borrower or any of its Subsidiaries holds an equity investment that is accounted for under the equity method.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

“ERISA Affiliate” means any member of the ERISA Group.

“ERISA Group” means the Borrower, any Subsidiary and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower or any Subsidiary, are treated as a single employer under Section 414 of the Internal Revenue Code.

“Eurocurrency Liabilities” has the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

“Eurodollar Lending Office” means the office of the Lender specified as its “Eurodollar Lending Office” opposite its name on Schedule I hereto, or such other office of the Lender as the Lender may from time to time specify to the Borrower.

“Eurodollar Rate” means, for any Interest Period for each Eurodollar Rate Advance, an interest rate per annum equal to the rate per annum obtained by dividing (a) the rate per annum (rounded upward to the nearest whole multiple of 1/16 of 1% per annum) appearing on Dow Jones Markets Telerate Page 3750 (or any successor page) as the London interbank offered rate for deposits in U.S. dollars at approximately 11:00 A.M. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period or, if for any reason such rate is not available, the rate per annum at which deposits in U.S. dollars are offered by the principal office of Citibank in London, England to prime banks in the London interbank market at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount substantially equal to such Eurodollar Rate Advance to be outstanding during such Interest Period and for a period equal to such Interest Period by (b) a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage for such Interest Period.

“Eurodollar Rate Advance” means a Revolving Credit Advance that bears interest as provided in Section 2.06(a)(ii).

“Eurodollar Rate Reserve Percentage” for any Interest Period for any Eurodollar Rate Advance means the reserve percentage applicable two Business Days before the first day of such Interest Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for a member bank of the Federal Reserve System in New York City with respect to liabilities or assets consisting of or including

Eurocurrency Liabilities (or with respect to any other category of liabilities that includes deposits by reference to which the interest rate on Eurodollar Rate Advances is determined) having a term equal to such Interest Period.

“Events of Default” has the meaning specified in Section 6.01.

“Excess Lease Financed Amount” means the amount (if any) by which the Lease Financed Amount exceeds (a) \$300,000,000 at any time when the Borrower’s Public Debt Rating is lower than BBB+ by S&P or Baa1 by Moody’s or (b) \$600,000,000 at any time when the Borrower’s Public Debt rating is at least BBB+ by S&P or Baa1 by Moody’s.

“Federal Funds Rate” means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day on such transactions received by the Lender from three Federal funds brokers of recognized standing selected by it.

“Funded Debt” means, with respect to any Person for such Person and its Subsidiaries, determined on a consolidated basis in accordance with GAAP, at the time of determination, the sum of the outstanding principal amount of all Debt which would be reflected as liabilities on the balance sheet of such Person, other than the following items which shall not be included in Funded Debt: (a) Debt or other obligations of others guaranteed by such Person and its Subsidiaries; (b) all reimbursement obligations (whether contingent or otherwise) in respect of the undrawn portion of letters of credit, bankers’ acceptances, surety or other bonds, and similar instruments (including, without limitation, those outstanding with respect to letters of credit); and (c) all liabilities in respect of unfunded vested benefits under any Plan.

“GAAP” means at any time generally accepted accounting principles as then in effect, applied on a basis consistent (except for changes concurred in by the Borrower’s independent public accountants) with the most recent audited consolidated financial statements of the Borrower and its Subsidiaries delivered to the Lender; provided that, if the Borrower notifies the Lender that the Borrower wishes to amend any covenant in Article V or any definition of a term used in any such covenant to eliminate the effect of any change in generally accepted accounting principles on the operation of such covenant (or if the Lender notifies the Borrower that it wishes to amend any such covenant or definition for such purpose), then, for purposes of such covenant or definition only, “GAAP” shall mean GAAP as in effect immediately before the relevant change in generally accepted accounting principles became effective, until either such notice is withdrawn or such covenant or definition is amended in a manner satisfactory to the Borrower and the Lender.

“Hazardous Substances” means any substance or waste defined as “toxic” or “hazardous” under any Environmental Laws, including, without limitation, petroleum, its derivatives, by-products and other hydrocarbons.

“Hedge Agreements” means interest rate swap, cap or collar agreements, interest rate future or option contracts, currency swap agreements, currency future or option contracts and other similar agreements.

“Indebtedness” of any Person means and includes all obligations of such Person which in accordance with GAAP should be classified upon a balance sheet of such Person as liabilities of such Person.

“Intangible Assets” means at any date the total amount of all assets of the Borrower and its Subsidiaries that are properly classified as “intangible assets” in accordance with GAAP and, in any event, shall include, without limitation, goodwill, patents, trade names, trademarks, copyrights, franchises, experimental expense, organization expense, unamortized debt discount and expense, and deferred charges other than prepaid insurance, prepaid leases and prepaid taxes and current deferred taxes which are classified on the balance sheet of the Borrower and its Subsidiaries as a current asset in accordance with GAAP and in which classification the Borrower’s independent public accountants concur; provided that the foregoing Intangible Assets shall be deemed to be in an amount equal to zero at all times during which such Intangible Assets, in the aggregate, are less than 2% of stockholders’ equity of the Borrower.

“Interest Expense” of any Person for any period means the aggregate amount of interest or fees paid, accrued or scheduled to be paid or accrued in respect of any Debt (including the interest portion of rentals under Capitalized Leases) and all but the principal component of payments in respect of conditional sales, equipment trust or other title retention agreements paid, accrued or scheduled to be paid or accrued by such Person during such period, net of interest income, determined in accordance with GAAP.

“Interest Period” means, for each Eurodollar Rate Advance or Adjusted CD Rate Advance, the period commencing on the date of such Revolving Credit Advance or the date of the Conversion of any Revolving Credit Advance into such an Revolving Credit Advance and ending on the last day of the period selected by the Borrower pursuant to the provisions below and, thereafter, with respect to Eurodollar Rate Advances or Adjusted CD Rate Advances, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by the Borrower pursuant to the provisions below. The duration of each such Interest Period shall be one, two, three or six months in the case of a Eurodollar Rate Advance, and 30, 60, 90, 120 or 180 days in the case of an Adjusted CD Rate Advance, in each case, as the Borrower may, upon notice received by the Lender not later than 11:00 A.M. (New York City time) on the third Business Day prior to the first day of such Interest Period, select; provided, however, that:

(i) the Borrower may not select any Interest Period that ends after the Termination Date;

(ii) Interest Periods commencing on the same date for Eurodollar Rate Advances or Adjusted CD Rate Advances shall be of the same duration;

(iii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided, however, in the case of an Interest Period for a Eurodollar Rate Advance that, if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and

(iv) in the case of an Interest Period for a Eurodollar Rate Advance, whenever the first day of any Interest Period occurs on a day of an initial calendar month for which there is no numerically corresponding day in the calendar month that succeeds such initial calendar month

by the number of months equal to the number of months in such Interest Period, such Interest Period shall end on the last Business Day of such succeeding calendar month.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

“Lease Financed Amount” means, with respect to Off-Balance Sheet Leases, (a) in the case of the Existing Off-Balance Sheet Lease, the sum of the aggregate outstanding principal amount of the Loans (as defined therein) and the outstanding Investment Amounts (as defined therein) or (b) in the case of any other Off-Balance Sheet Lease, the sum of the comparable amounts as defined therein.

“Lender” means Citigroup USA, Inc. and any Eligible Assignee thereof, as applicable.

“Lender’s Account” means the account of the Lender maintained by the Lender at Citibank at its office at 399 Park Avenue, New York, New York 10043, Account No. 4058-0062, Attention: Steven Curcio, Global Loans.

“Leverage Ratio” means, as of any date of determination, the ratio of (a) Consolidated Funded Debt, to (b) Consolidated EBITDA for the most recently completed four consecutive fiscal quarters ending on or prior to such date, in each case for the Borrower and its Subsidiaries as of such date.

“Lien” means any lien, security interest or other charge or encumbrance of any kind, or any other type of preferential arrangement, including, without limitation, the lien or retained security title of a conditional vendor and any easement, right of way or other encumbrance on title to real property.

Off Balance Sheet Leases and the arrangements set forth therein shall be excluded from this definition; provided that:

(a) if any portion of the Lease Financed Amount is included in Debt under the last sentence of the definition of Debt, then for purposes of Section 5.03, Off-Balance Sheet Leases and the arrangements set forth therein shall be deemed to create a Lien securing the Excess Lease Financed Amount; and

(b) if Off-Balance Sheet Leases and the arrangements set forth therein create a lien on any property or assets other than (i) the property and assets leased pursuant to Off-Balance Sheet Leases, (ii) rights of the Borrower as sublessor of any portion of such property and assets and (iii) Permitted Lease Collateral, such lien shall not be excluded from this definition.

“Margin Stock” means “margin stock” as such term is defined in Regulation U.

“Material Adverse Effect” means any material adverse change in the business, condition (financial or otherwise) or operations of the Borrower or the Borrower and its Subsidiaries taken as a whole.

“Material Debt” means Debt (other than the Note) of the Borrower and/or one or more of its Subsidiaries, arising in one or more related or unrelated transactions, in an aggregate principal or face amount exceeding \$75,000,000.

“Material Financial Obligations” means a principal or face amount of Debt and/or payment obligations (calculated after giving effect to any applicable netting agreements) in respect of

Hedge Agreements of the Borrower and/or one or more of its Subsidiaries, arising in one or more related or unrelated transactions, exceeding in the aggregate \$75,000,000.

“Material Plan” means, at any time, a Plan or Plans having aggregate Unfunded Liabilities in excess of \$75,000,000.

“Minority Interests” means any shares of stock of any class of a Subsidiary (other than directors’ qualifying shares as required by law) that are not owned by the Borrower and/or one or more of its Subsidiaries.

“Moody’s” means Moody’s Investors Service, Inc. or its successors.

“Multiemployer Plan” means, at any time, an employee pension benefit plan within the meaning of Section 4001(a)(3) of ERISA to which any member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contribution, including for these purposes any Person which ceased to be a member of the ERISA Group during such five year period.

“Net Income” of any Person means, for any period, net income before (i) extraordinary items, (ii) the results of discontinued operations and (iii) the effect of any cumulative change in accounting principles, determined in accordance with GAAP.

“Notice of Revolving Credit Advance” has the meaning specified in Section 2.02(a).

“Off-Balance Sheet Leases” means one or more lease agreements and related agreements entered into by the Borrower or any of its Subsidiaries from time to time, in each case in a transaction which the Borrower or such Subsidiary intends to be treated as an “operating lease” for financial reporting purposes but as a loan for one or more of the following purposes: (a) federal, state and local income or franchise tax, (b) bankruptcy, (c) real estate law and (d) commercial law (including uniform commercial law).

“Patriot Act” means the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Pub. L. 107-56.

“PBGC” means the Pension Benefit Guaranty Corporation (or any successor).

“Permitted Lease Collateral” means any cash or cash equivalents securing the obligations of the Borrower or its Subsidiaries in any Off-Balance Sheet Lease.

“Person” means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited liability company or other entity, or a government or any political subdivision or agency thereof.

“Plan” means, at any time, an employee pension benefit plan (other than a Multiemployer Plan) which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and either (i) is maintained, or contributed to, by any member of the ERISA Group for employees of any member of the ERISA Group or (ii) has at any time within the preceding five years been maintained, or contributed to, by any Person which was at such time a member of the ERISA Group for employees of any Person which was at such time a member of the ERISA Group.

“Public Debt Rating” means, as of any date for S&P, the lowest rating that has been most recently announced by S&P for any class of non-credit enhanced long-term senior unsecured debt issued by the Borrower and, as of any date for Moody’s, the lowest rating that has been most recently announced by Moody’s for any class of non-credit enhanced long-term senior unsecured debt issued by the Borrower. For purposes of the foregoing, (a) if only one of S&P and Moody’s shall have in effect a Public Debt Rating, the Applicable Margin and the Applicable Percentage shall be determined by reference to the available rating; (b) if neither S&P nor Moody’s shall have in effect a Public Debt Rating, the Applicable Margin and the Applicable Percentage will be set in accordance with Level 5 under the definition of “Applicable Margin” or “Applicable Percentage”, as the case may be; (c) if the ratings established by S&P and Moody’s shall fall within different levels, the Applicable Margin and the Applicable Percentage shall be based upon the higher rating; (d) if any rating established by S&P or Moody’s shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; and (e) if S&P or Moody’s shall change the basis on which ratings are established, each reference to the Public Debt Rating announced by S&P or Moody’s, as the case may be, shall refer to the then equivalent rating by S&P or Moody’s, as the case may be.

“Reportable Event” means any “reportable event” as defined in section 4043 of ERISA for which the 30-day notice requirement has not been waived under applicable regulations.

“Revolving Credit Advance” means an advance by the Lender to the Borrower and refers to a Base Rate Advance, a Eurodollar Rate Advance or an Adjusted CD Rate Advance (each of which shall be a “Type” of Revolving Credit Advance).

“Revolving Credit Note” means a promissory note of the Borrower payable to the order of the Lender, delivered pursuant to a request made under Section 2.14 in substantially the form of Exhibit A hereto, evidencing the aggregate indebtedness of the Borrower to the Lender resulting from the Revolving Credit Advances.

“S&P” means Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. or its successors.

“SEC” means the Securities and Exchange Commission.

“Subsidiary” means, as to any Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by such Person; unless otherwise specified, “Subsidiary” means a Subsidiary of the Borrower.

“Tangible Assets” means, at any date, Consolidated Total Assets (less depreciation, depletion and other properly deductible valuation reserves) after deducting (but without duplication) Intangible Assets.

“Termination Date” means the earlier of (a) September 16, 2007, and (b) the date of termination of the Commitment pursuant to Section 2.04 or 6.01.

“Unfunded Liabilities” means, with respect to any Plan at any time, the amount (if any) by which (i) the value of all benefit liabilities under such Plan, determined on a plan termination basis using the assumptions prescribed by the PBGC for purposes of Section 4044 of ERISA, exceeds (ii) the fair market value of all Plan assets allocable to such liabilities under Title IV of ERISA (excluding any accrued but unpaid contributions), all determined as of the then most recent valuation date for such Plan,

but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or any other Person under Title IV of ERISA.

“Voting Stock” means capital stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

SECTION 1.02 Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”.

SECTION 1.03 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP.

ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCES

SECTION 2.01 The Revolving Credit Advances. The Lender agrees, on the terms and conditions hereinafter set forth, to make Revolving Credit Advances to the Borrower from time to time on any Business Day during the period from the Effective Date until the Termination Date in an aggregate amount not to exceed at any time outstanding the Lender’s Commitment. Each Revolving Credit Advance shall be in an amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof. Within the limits of the Lender’s Commitment, the Borrower may borrow under this Section 2.01, prepay pursuant to Section 2.09 and reborrow under this Section 2.01.

SECTION 2.02 Making the Revolving Credit Advances. (a) Each Revolving Credit Advance shall be made on notice, given not later than (i) 1:00 P.M. (New York City time) on the third Business Day prior to the date of the proposed Revolving Credit Advance in the case of a Eurodollar Rate Advance, (ii) 1:00 P.M. (New York City time) on the second Business Day prior to the date of the proposed Revolving Credit Advance in the case of an Adjusted CD Rate Advance or (iii) 12:00 noon (New York City time) on the date of the proposed Revolving Credit Advance in the case of a Base Rate Advance, by the Borrower to the Lender. Each such notice of a Revolving Credit Advance (a “Notice of Revolving Credit Advance”) shall be by telephone or email, confirmed immediately in writing, telecopier or email in substantially the form of Exhibit B hereto, specifying therein the requested (I) date of such Revolving Credit Advance, (II) Type of Revolving Credit Advances, (III) amount of such Revolving Credit Advance, and (IV) in the case of a Eurodollar Rate Advance or Adjusted CD Rate Advance, initial Interest Period for each such Revolving Credit Advance. The Lender shall, before 2:00 P.M. (New York City time) on the date of such Revolving Credit Advance and upon fulfillment of the applicable conditions set forth in Article III, make such Advance available to the Borrower at such account as is mutually agreed to.

(b) Anything in subsection (a) above to the contrary notwithstanding, (i) the Borrower may not select Eurodollar Rate Advances or Adjusted CD Rate Advances if the amount thereof is less than \$10,000,000 or if the obligation of the Lender to make Eurodollar Rate Advances shall then be suspended pursuant to Section 2.07 or 2.11 and (ii) there may not be more than six separate Eurodollar Rate Advances outstanding at any time.

(c) Each Notice of Revolving Credit Advance shall be irrevocable and binding on the Borrower.

SECTION 2.03 Fees. The Borrower agrees to pay to the Lender a facility fee on the amount of the Lender's Commitment from the date hereof until the Termination Date at a rate per annum equal to the Applicable Percentage in effect from time to time, payable in arrears quarterly on the last day of each March, June, September and December, commencing December 31, 2006, and on the Termination Date.

SECTION 2.04 Termination or Reduction of the Commitment. The Borrower shall have the right, upon at least three Business Days' notice to the Lender, to terminate in whole or reduce in part, the unused portions of the Commitment of the Lender, provided that each partial reduction shall be in the aggregate amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof. Once terminated or reduced, the Commitment may not be reinstated.

SECTION 2.05 Repayment of Revolving Credit Advances. The Borrower shall repay to the Lender on the Termination Date the aggregate principal amount of the Revolving Credit Advances then outstanding.

SECTION 2.06 Interest on Revolving Credit Advances.

(a) Scheduled Interest. The Borrower shall pay interest on the unpaid principal amount of each Revolving Credit Advance from the date of such Revolving Credit Advance until such principal amount shall be paid in full, at the following rates per annum:

(i) Base Rate Advances. During such periods as such Revolving Credit Advance is a Base Rate Advance, a rate per annum equal at all times to the sum of (x) the Base Rate in effect from time to time plus (y) the Applicable Margin in effect from time to time plus (z) the Applicable Utilization Fee, if any, in effect from time to time, payable in arrears quarterly on the last day of each March, June, September and December during such periods and on the date such Base Rate Advance shall be Converted or paid in full.

(ii) Eurodollar Rate Advances. During such periods as such Revolving Credit Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during each Interest Period for such Revolving Credit Advance to the sum of (x) the Eurodollar Rate for such Interest Period for such Revolving Credit Advance plus (y) the Applicable Margin in effect from time to time plus (z) the Applicable Utilization Fee, if any, in effect from time to time, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period every three months from the first day of such Interest Period and on the date such Eurodollar Rate Advance shall be Converted or paid in full.

(iii) Adjusted CD Rate Advances. During such periods as such Revolving Credit Advance is an Adjusted CD Rate Advance, a rate per annum equal at all times during each Interest Period for such Revolving Credit Advance to the sum of (x) the Adjusted CD Rate for such Interest Period for such Revolving Credit Advance plus (y) the Applicable Margin in effect from time to time plus (z) the Applicable Utilization Fee, if any, in effect from time to time, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than 90 days, on each day that occurs during such Interest Period every 90 days from the first day of such Interest Period and on the date such Adjusted CD Rate Advance shall be Converted or paid in full.

(b) Default Interest. Upon the occurrence and during the continuance of an Event of Default, the Borrower shall pay interest on (i) the unpaid principal amount of each Revolving Credit

Advance, payable in arrears on the dates referred to in clause (a)(i), (a)(ii) or (a)(iii) above, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on such Revolving Credit Advance pursuant to clause (a)(i), (a)(ii) or (a)(iii) above and (ii) to the fullest extent permitted by law, the amount of any interest, fee or other amount payable hereunder that is not paid when due, from the date such amount shall be due until such amount shall be paid in full, payable in arrears on the date such amount shall be paid in full and on demand, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on Base Rate Advances pursuant to clause (a)(i) above.

SECTION 2.07 Interest Rate Determination.

(a) If, with respect to any Eurodollar Rate Advances, the Lender notifies the Borrower that the Eurodollar Rate for any Interest Period for such Revolving Credit Advances will not adequately reflect the cost to the Lender of making, funding or maintaining Eurodollar Rate Advances for such Interest Period, (i) each Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance, and (ii) the obligation of the Lender to make, or to Convert Revolving Credit Advances into, Eurodollar Rate Advances shall be suspended until the Lender shall notify the Borrower that the circumstances causing such suspension no longer exist.

(b) If the Borrower shall fail to select the duration of any Interest Period for any Eurodollar Rate Advances or Adjusted CD Rate Advances in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, such Revolving Credit Advances will automatically, on the last day of the then existing Interest Period therefor, be Converted into Base Rate Advances.

(c) On the date on which the aggregate unpaid principal amount of Eurodollar Rate Advances or Adjusted CD Rate Advances shall be reduced, by payment or prepayment or otherwise, to less than \$10,000,000, such Revolving Credit Advances shall automatically Convert into Base Rate Advances.

(d) Upon the occurrence and during the continuance of any Event of Default, (i) each Eurodollar Rate Advance and each Adjusted CD Rate Advance will automatically, on the last day of the then existing Interest Period therefor Convert into a Base Rate Advance and (ii) the obligation of the Lender to make, or to Convert Advances into, Eurodollar Rate Advances or Adjusted CD Rate Advances shall be suspended.

SECTION 2.08 Optional Conversion of Revolving Credit Advances. The Borrower may on any Business Day, upon notice given to the Lender not later than 12:00 noon (New York City time) on the third Business Day prior to the date of the proposed Conversion and subject to the provisions of Sections 2.07 and 2.11, Convert all Revolving Credit Advances of one Type into Revolving Credit Advances of another Type; provided, however, that any Conversion of Eurodollar Rate Advances or Adjusted CD Rate Advances into Advances of another type shall be made only on the last day of an Interest Period for such Advances, any Conversion of Base Rate Advances into Eurodollar Rate Advances or Adjusted CD Rate Advances shall be in an amount not less than the minimum amount specified in Section 2.02(b) and no Conversion of any Revolving Credit Advances shall result in more separate Eurodollar Rate Advances than permitted under Section 2.02(b). Each such notice of a Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the Revolving Credit Advances to be Converted, and (iii) if such Conversion is into Eurodollar Rate Advances or Adjusted CD Rate Advances, the duration of the initial Interest Period for each such Revolving Credit Advance. Each notice of Conversion shall be irrevocable and binding on the Borrower.

SECTION 2.09 Optional Prepayments of Revolving Credit Advances. The Borrower may, upon notice at least two Business Days' prior to the date of such prepayment, in the case of Eurodollar Rate Advances or Adjusted CD Rate Advances, and not later than 12:00 noon (New York City time) on the date of such prepayment, in the case of Base Rate Advances, to the Lender stating the proposed date and aggregate principal amount of the prepayment, and if such notice is given the Borrower shall, prepay the outstanding principal amount of the Revolving Credit Advances in whole or in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that (x) each partial prepayment shall be in an aggregate principal amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof and (y) in the event of any such prepayment of a Eurodollar Rate Advance or an Adjusted CD Rate Advance, the Borrower shall be obligated to reimburse the Lender in respect thereof pursuant to Section 7.04(c).

SECTION 2.10 Increased Costs. (a) If, due to either (i) the introduction of or any change in or in the interpretation of any law or regulation after the Effective Date or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law) after the Effective Date, there shall be any increase in the cost to the Lender of agreeing to make or making, funding or maintaining Eurodollar Rate Advances or Adjusted CD Rate Advances (excluding for purposes of this Section 2.10 any such increased costs resulting from (I) Taxes or Other Taxes (as to which Section 2.13 shall govern) and (II) changes in the basis of taxation of overall net income or overall gross income by the United States or by the foreign jurisdiction or state under the laws of which the Lender is organized or has its Applicable Lending Office or any political subdivision thereof), then the Borrower shall from time to time, upon demand by the Lender, pay to the Lender additional amounts sufficient to compensate the Lender for such increased cost. A certificate as to the amount of such increased cost, submitted to the Borrower by the Lender, shall be conclusive and binding for all purposes, absent manifest error.

(b) If the Lender determines that compliance with any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) affects or would affect the amount of capital required or expected to be maintained by the Lender or any corporation controlling the Lender and that the amount of such capital is increased by or based upon the existence of the Lender's commitment to lend hereunder and other commitments of this type, then, upon demand by the Lender, the Borrower shall pay to the Lender, from time to time as specified by the Lender, additional amounts sufficient to compensate the Lender or such corporation in the light of such circumstances, to the extent that the Lender reasonably determines such increase in capital to be allocable to the existence of the Lender's commitment to lend hereunder. A certificate as to such amounts submitted to the Borrower by the Lender shall be conclusive and binding for all purposes, absent manifest error.

(c) If the Lender fails to give the Borrower any prompt notice required by this Section 2.10, the Borrower shall not be required to indemnify and compensate the Lender under this Section 2.10 for any amounts attributable to the event or factual circumstance required to be disclosed in such notice and arising during or with respect to any period ending more than 90 days before notice thereof has been delivered to the Borrower, provided that this subsection (c) shall in no way limit the right of the Lender to demand or receive compensation to the extent that such compensation relates to any law, rule, regulation, interpretation, administration, request or directive (or any change therein) which by its terms has retroactive application if such notice is given within 90 days after the date of enactment or effectiveness of such retroactive law, rule, regulation, interpretation, administration, request or directive (or change therein).

SECTION 2.11 Illegality. Notwithstanding any other provision of this Agreement, if the Lender shall notify the Borrower that the introduction of or any change in or in the interpretation of

any law or regulation makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for the Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Advances or to fund or maintain Eurodollar Rate Advances hereunder, (a) each Eurodollar Rate Advance will automatically, upon such demand, Convert into a Base Rate Advance and (b) the obligation of the Lender to make Eurodollar Rate Advances or to Convert Revolving Credit Advances into Eurodollar Rate Advances shall be suspended until the Lender shall notify the Borrower that the circumstances causing such suspension no longer exist.

SECTION 2.12 Payments and Computations. (a) The Borrower shall make each payment hereunder not later than 11:00 A.M. (New York City time) on the day when due to the Lender at the Lender's Account in same day funds.

(b) All computations of interest based on the Base Rate shall be made by the Lender on the basis of a year of 365 or 366 days, as the case may be, all computations of interest based on the Eurodollar Rate, the Adjusted CD Rate or the Federal Funds Rate and of facility fees shall be made by the Lender on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or facility fees are payable. Each determination by the Lender of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(c) Whenever any payment hereunder or under the Revolving Credit Note shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or facility fee, as the case may be; provided, however, that, if such extension would cause payment of interest on or principal of Eurodollar Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

SECTION 2.13 Taxes. (a) Any and all payments by the Borrower hereunder or under the Revolving Credit Note shall be made, in accordance with Section 2.12, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of the Lender, taxes imposed on its overall net income, and franchise taxes imposed on it in lieu of net income taxes, by the jurisdiction under the laws of which the Lender is organized or any political subdivision thereof and taxes imposed on its overall net income, and franchise taxes imposed on it in lieu of net income taxes, by the jurisdiction of the Lender's Applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities in respect of payments hereunder or under the Revolving Credit Note being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Revolving Credit Note to the Lender, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.13) the Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder or under the Revolving Credit Note or from the execution, delivery or registration of, performing under, or otherwise with respect to, this Agreement or the Revolving Credit Note (hereinafter referred to as "Other Taxes").

(c) The Borrower shall indemnify the Lender for and hold it harmless against the full amount of Taxes or Other Taxes (including, without limitation, taxes of any kind imposed by any jurisdiction on amounts payable under this Section 2.13) imposed on or paid by the Lender and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be made within 30 days from the date the Lender makes written demand therefor.

(d) Within 30 days after the date of any payment of Taxes, the Borrower shall furnish to the Lender, at its address referred to in Section 7.02, the original or a certified copy of a receipt evidencing such payment. In the case of any payment hereunder or under the Revolving Credit Note by or on behalf of the Borrower through an account or branch outside the United States or by or on behalf of the Borrower by a payor that is not a United States person, if the Borrower determines that no Taxes are payable in respect thereof, the Borrower shall furnish, or shall cause such payor to furnish, to the Lender, at such address, an opinion of counsel acceptable to the Lender stating that such payment is exempt from Taxes. For purposes of this subsection (d) and subsection (e), the terms "United States" and "United States person" shall have the meanings specified in Section 7701 of the Internal Revenue Code.

(e) If the Lender is organized under the laws of a jurisdiction outside the United States from time to time thereafter as requested in writing by the Borrower (but only so long as the Lender remains lawfully able to do so), shall provide the Borrower with two original Internal Revenue Service forms W-8BEN or W-8EC1, as appropriate, or any successor or other form prescribed by the Internal Revenue Service, certifying that the Lender is exempt from or entitled to a reduced rate of United States withholding tax on payments pursuant to this Agreement or the Revolving Credit Note. If the form provided by the Lender at the time the Lender first becomes a party to this Agreement indicates a United States interest withholding tax rate in excess of zero, withholding tax at such rate shall be considered excluded from Taxes unless and until the Lender provides the appropriate forms certifying that a lesser rate applies, whereupon withholding tax at such lesser rate only shall be considered excluded from Taxes for periods governed by such form; provided, however, that, if at the date the Lender assignee becomes a party to this Agreement, the assignor was entitled to payments under subsection (a) in respect of United States withholding tax with respect to interest paid at such date, then, to such extent, the term Taxes shall include (in addition to withholding taxes that may be imposed in the future or other amounts otherwise includable in Taxes) United States withholding tax, if any, applicable with respect to the assignee on such date. If any form or document referred to in this subsection (e) requires the disclosure of information, other than information necessary to compute the tax payable and information required on the date hereof by Internal Revenue Service form W-8BEN or W-8EC1, that the Lender reasonably considers to be confidential, the Lender shall give notice thereof to the Borrower and shall not be obligated to include in such form or document such confidential information.

(f) For any period with respect to which the Lender has failed to provide the Borrower with the appropriate form described in Section 2.13(e) (other than if such failure is due to a change in law occurring subsequent to the date on which a form originally was required to be provided, or if such form otherwise is not required under subsection (e) above), the Lender shall not be entitled to indemnification under Section 2.13(a) or (c) with respect to Taxes imposed by the United States by reason of such failure; provided, however, that should the Lender become subject to Taxes because of its failure to deliver a form required hereunder, the Borrower shall take such steps as the Lender shall reasonably request to assist the Lender to recover such Taxes.

(g) If the Lender claims any additional amounts payable pursuant to this Section 2.13, it agrees to use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to change the jurisdiction of its Eurodollar Lending Office if the making of such a change would avoid the need for, or reduce the amount of, any such additional amounts that may

thereafter accrue and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to the Lender.

SECTION 2.14 Evidence of Debt. (a) The Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to the Lender resulting from each Revolving Credit Advance from time to time, including the amounts of principal and interest payable and paid to the Lender from time to time hereunder in respect of Revolving Credit Advances. The Borrower agrees that upon notice by the Lender to the Borrower to the effect that a Revolving Credit Note is required or appropriate in order for the Lender to evidence (whether for purposes of pledge, enforcement or otherwise) the Revolving Credit Advances owing to, or to be made by, the Lender, the Borrower shall promptly execute and deliver to the Lender a Revolving Credit Note payable to the order of the Lender in a principal amount up to the Commitment of the Lender.

(b) Entries made in good faith by the Lender in its account or accounts pursuant to subsection (a) above, shall be prima facie evidence of the amount of principal and interest due and payable or to become due and payable from the Borrower to the Lender, under this Agreement, absent manifest error; provided, however, that the failure of the Lender to make an entry, or any finding that an entry is incorrect, in such account or accounts shall not limit or otherwise affect the obligations of the Borrower under this Agreement.

SECTION 2.15 Use of Proceeds. The proceeds of the Revolving Credit Advances shall be available (and the Borrower agrees that it shall use such proceeds) solely for general corporate purposes of the Borrower and its Subsidiaries, including commercial paper backstop.

ARTICLE III

CONDITIONS TO EFFECTIVENESS AND LENDING

SECTION 3.01 Conditions Precedent to Effectiveness of Section 2.01. Section 2.01 of this Agreement shall become effective on and as of the first date (the "Effective Date") on which the following conditions precedent have been satisfied:

(a) There shall have occurred no material adverse change in the properties, business, profits or condition (financial or otherwise) of the Borrower or of the Borrower and its Subsidiaries taken as a whole since October 30, 2005, except as disclosed in the Borrower's filings with the SEC or as disclosed in writing to the Lender prior to the date hereof.

(b) Except as set forth under the heading "Legal Proceedings" in the Borrower's 2005 Form 10-K and other SEC filings filed by Borrower prior to the Effective Date, there shall exist no action, suit or proceeding pending against, or to the knowledge of the Borrower threatened against or affecting, the Borrower or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official (i) in which there is a reasonable possibility of an adverse determination which would have a Material Adverse Effect, or (ii) which in any manner draws into question the validity of this Agreement or the Revolving Credit Note.

(c) All governmental and third party consents and approvals necessary in connection with the transactions contemplated hereby shall have been obtained (without the imposition of any conditions that are not acceptable to the Lender) and shall remain in effect, and no law, regulation or provision in an existing agreement shall be applicable in the reasonable judgment of the Lender that restrains, prevents or imposes materially adverse conditions upon the transactions contemplated hereby.

- (d) The Borrower shall have notified the Lender in writing as to the proposed Effective Date.
- (e) The Borrower shall have paid all accrued fees and expenses of the Lender (including the accrued fees and expenses of counsel to the Lender) as agreed separately in writing by the parties to such agreement.
- (f) On the Effective Date, the following statements shall be true:
 - (i) The representations and warranties contained in Section 4.01 are correct on and as of the Effective Date, and
 - (ii) No event exists that constitutes a Default or Event of Default.
- (g) The Lender shall have received on or before the Effective Date the following, each dated such day, in form and substance satisfactory to it:
 - (i) The Revolving Credit Note to the order of the Lender to the extent requested by the Lender pursuant to Section 2.14.
 - (ii) Certified copies of the general resolutions of the Board of Directors of the Borrower which authorize the Borrower to enter into this Agreement and the Revolving Credit Note, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement and the Revolving Credit Note.
 - (iii) A certificate of the Secretary or an Assistant Secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign this Agreement and the Revolving Credit Note and the other documents to be delivered hereunder.
 - (iv) A favorable opinion of the Vice President, Legal Services of the Borrower, substantially in the form of Exhibit C hereto and as to such other matters as the Lender may reasonably request.
 - (v) A favorable opinion of Orrick, Herrington & Sutcliffe, L.L.P., counsel for the Borrower, substantially in the form of Exhibit D hereto and as to such other matters as the Lender may reasonably request.

SECTION 3.02 Conditions Precedent to Each Revolving Credit Advance. The obligation of the Lender to make a Revolving Credit Advance shall be subject to the conditions precedent that the Effective Date shall have occurred and on the date of such Revolving Credit Advance (a) the following statements shall be true (and each of the giving of the applicable Notice of Revolving Credit Advance and the acceptance by the Borrower of the proceeds of such Revolving Credit Advance shall constitute a representation and warranty by the Borrower that on the date of such Revolving Credit Advance such statements are true):

- (i) the representations and warranties contained in Section 4.01 (other than Section 4.01(d)(ii)) are correct on and as of the date of such Revolving Credit Advance, before and after giving effect to such Revolving Credit Advance and to the application of the proceeds therefrom, as though made on and as of such date, and

(ii) no event has occurred and is continuing, or would result from such Revolving Credit Advance or from the application of the proceeds therefrom, that constitutes a Default; and (b) the Lender shall have received such other approvals, opinions or documents as it may reasonably request.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES

SECTION 4.01 Representations and Warranties of the Borrower. The Borrower represents and warrants as follows:

(a) Corporate Existence and Power. Each of the Borrower and each Subsidiary:

(i) is a corporation duly organized and validly existing under the laws of its jurisdiction of incorporation;

(ii) has all requisite power and authority and all necessary licenses and permits to own and operate its properties and to carry on its business as now conducted and as presently proposed to be conducted, except where failures to have such licenses and permits would not, in the aggregate, have a Material Adverse Effect; and

(iii) is duly licensed or qualified and is in good standing as a foreign corporation in each jurisdiction wherein the nature of the business transacted by it or the nature of the property owned or leased by it makes such licensing or qualification necessary, except where failures to be so licensed, qualified or in good standing would not, in the aggregate, have a Material Adverse Effect.

(b) Corporate and Governmental Authorization; No Contravention. The execution, delivery and performance by the Borrower of this Agreement and the Revolving Credit Note are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the certificate of incorporation or by-laws of the Borrower or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Borrower or any of its Subsidiaries or result in the creation or imposition of any Lien on any asset of the Borrower or any of its Subsidiaries.

(c) Binding Effect. This Agreement constitutes a valid and binding agreement of the Borrower and the Revolving Credit Note, when executed and delivered in accordance with this Agreement, will constitute a valid and binding obligation of the Borrower, in each case enforceable in accordance with its terms, except as limited by (i) bankruptcy, insolvency or similar laws affecting creditors' rights generally and (ii) general principles of equity.

(d) Financial Information. (i) The consolidated balance sheet of the Borrower and its Subsidiaries as of October 30, 2005, and the related consolidated statements of operations and cash flows for the fiscal year then ended, reported on by KPMG LLP and set forth in the Borrower's 2005 Form 10-K (or an exhibit thereto), a copy of which has been obtained by each of the Lenders, fairly present, in conformity with generally accepted accounting principles, the consolidated financial position

of the Borrower and its Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year.

(ii) There has been no material adverse change since October 30, 2005, in the business, financial position or results of operations of the Borrower and its Subsidiaries, considered as a whole, except as disclosed in the Borrower's filings with the SEC prior to the Effective Date.

(e) Litigation. Except as set forth under the heading "Legal Proceedings" in the Borrower's 2005 Form 10-K and as disclosed in any SEC filings of the Borrower made prior to the Effective Date, and then only to the extent that there have been no adverse developments with respect to such "Legal Proceedings" since such Form 10-K or in such SEC filings, there is no action, suit or proceeding pending against, or to the knowledge of the Borrower any investigation, action, suit or proceeding threatened against or affecting, the Borrower or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official (i) in which there is a reasonable possibility of an adverse determination which would have a Material Adverse Effect, or (ii) which in any manner draws into question the validity of this Agreement or the Revolving Credit Note.

(f) Compliance with ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code with respect to each Plan. No member of the ERISA Group has (i) sought a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code in respect of any Plan, (ii) failed to make any contribution or payment to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement, or made any amendment to any Plan or Benefit Arrangement, which has resulted or could result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Internal Revenue Code which will violate Section 5.02(a) hereof or (iii) incurred any unpaid liability in excess of \$75,000,000 under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

(g) Environmental Matters. The Borrower has a process of conducting periodic internal reviews relating to compliance by the Borrower and its Subsidiaries with Environmental Laws and liabilities thereunder. On the basis of such reviews and other business processes, except as set forth in the Borrower's 2005 Form 10-K, nothing has come to the attention of the Borrower which would lead it to believe that costs associated with compliance with Environmental Laws or liabilities thereunder (including, without limitation, any capital or operating expenses required for cleanup, closure of properties or compliance with Environmental Laws or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties) would have a Material Adverse Effect.

(h) Taxes. All federal and state income tax returns required to be filed by the Borrower or any Subsidiary in any jurisdiction have, in fact, been filed and all other tax returns required to be filed in any other jurisdiction have, in fact, been filed, except where the failure to so file in such jurisdictions (other than in connection with federal or state income tax returns) would not have a Material Adverse Effect, and all taxes, assessments, fees and other governmental charges upon the Borrower or any Subsidiary or upon any of their respective properties, income or franchises, which are shown to be due and payable in such returns, have been paid. For all taxable years ending on or before October 1997, the Federal income tax liability of the Borrower and its Subsidiaries has been satisfied and either the period of limitations on assessment of additional Federal income tax has expired or the Borrower and its Subsidiaries have entered into an agreement with the Internal Revenue Service closing conclusively the

total tax liability for the taxable year. The provisions for taxes on the books of the Borrower and each Subsidiary are adequate for all open years, and for its current fiscal period.

(i) No Regulatory Restrictions on Advances. The Borrower is not (i) primarily engaged in a business or businesses of investing, reinvesting, owning, holding or trading in securities; (ii) a "holding company" or a "subsidiary company" of a holding company within the meaning of the Public Utility Holding Company Act of 2005, as amended; or (iii) otherwise subject to any regulatory scheme applicable to it which restricts its ability to incur debt under this Agreement.

(j) Full Disclosure. All written information heretofore furnished by the Borrower to the Lender for purposes of or in connection with this Agreement or any transaction contemplated hereby does not, and all such written information hereafter furnished by the Borrower to the Lender will not, contain any untrue statement of a material fact or in the aggregate omit a material fact necessary to make the statements therein not misleading on the date as of which such information is stated or certified. There is no fact peculiar to the Borrower or its Subsidiaries which the Borrower has not disclosed to the Lender in writing which has had or, so far as the Borrower can now reasonably foresee, will have a Material Adverse Effect.

ARTICLE V

COVENANTS OF THE BORROWER

SECTION 5.01 Affirmative Covenants. So long as any Revolving Credit Advance shall remain unpaid or the Lender shall have any Commitment hereunder, the Borrower will:

(a) Compliance with Laws, Etc. Comply, and cause each Subsidiary to comply, in all material respects with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities (including, without limitation, Environmental Laws and ERISA and the rules and regulations thereunder) except (A) where the necessity of compliance therewith is contested in good faith by appropriate proceedings or (B) where the violation of which, individually or in the aggregate, would not reasonably be expected to (x) result in a Material Adverse Effect or (y) if such violation is not remedied, result in any Lien not permitted under Section 5.02(a).

(b) Payment of Obligations. Pay and discharge, and cause each Subsidiary to pay and discharge, at or before maturity, all their respective material obligations and liabilities, including, without limitation, tax liabilities, except where the same may be contested in good faith by appropriate proceedings, and maintain, and cause each Subsidiary to maintain, in accordance with GAAP, appropriate reserves for the accrual of any of the same.

(c) Maintenance of Property; Insurance. (i) Keep, and cause each Subsidiary to keep, all property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted; provided that nothing in this Section 5.01(c)(i) shall prevent the abandonment of any property if such abandonment does not result in any Default hereunder and the Borrower determines, in the exercise of its reasonable business judgment, that such abandonment is in the interest of the Borrower.

(ii) Maintain, and cause each Subsidiary to maintain, insurance coverage by financially sound and reputable insurers and in such forms and amounts and against such risks as are customary for corporations of established reputation engaged in the same or a similar business and owning and operating similar properties in similar locations.

(d) Preservation of Corporate Existence, Etc. Preserve, renew and keep in full force and effect, and cause each Subsidiary to preserve, renew and keep in full force and effect, their respective corporate existence and their respective rights, privileges and franchises, except to the extent that failures to maintain their respective rights, privileges and franchises could not, in the aggregate, reasonably be expected to have a Material Adverse Effect; provided that nothing in this Section 5.01(d) shall prohibit (A) the merger of a Subsidiary into the Borrower or the merger or consolidation of a Subsidiary with or into another Person if the corporation surviving such consolidation or merger is a Subsidiary and if, in each case, after giving effect thereto, no Default shall have occurred and be continuing or (B) the termination of the corporate existence of any Subsidiary if such termination does not result in any Default hereunder and the Borrower determines, in the exercise of its reasonable business judgment, that such termination is in the interest of the Borrower.

(e) Visitation Rights. Permit the Lender (i) to visit and inspect during normal business hours (at the expense of such Lender unless an Event of Default has occurred and is continuing), under the Borrower's guidance and, so long as no Default shall have occurred and be continuing, upon not less than three Business Days' prior notice, any of the properties of the Borrower or any Subsidiary, (ii) to examine (to the extent material to ascertaining compliance with the terms and provisions hereof or to the extent reasonably related to the financial condition or material operations of the Borrower or a Subsidiary) all of their books of account, records, reports and other papers, and to make copies and extracts therefrom (other than attorney-client privileged and attorney work-product documents) and (iii) to the extent material to ascertaining compliance with the terms and provisions hereof or to the extent reasonably related to the financial condition or material operations of the Borrower or a Subsidiary, to discuss their respective affairs, finances and accounts with their respective officers, employees (who are managers or officers), and independent public accountants and by this provision the Borrower authorizes said accountants to discuss with the Lender the finances and affairs of the Borrower and its Subsidiaries; provided that the Lender shall have given prior written notice to the Borrower of its intention to discuss such finances and affairs with such accountants and have given the Borrower the opportunity to participate in such discussions, all at such reasonable times and as often as may be reasonably requested. Notwithstanding the above, the Borrower may, if and to the extent required by applicable law, deny such access or information to the Lender.

(f) Keeping of Books. Keep, and cause each of its Subsidiaries to keep, proper books of record and account, in which full, true and correct entries shall be made of all dealings and transactions in relation to its business and activities in accordance with generally accepted accounting principles in effect from time to time.

(g) Reporting Requirements. Deliver in writing or by email to the Lender (except as stated in clauses (i), (ii), (iv), (vi) and (vii) below and Section 7.01(b)) or make available electronically:

(i) as soon as available and in any event within 45 days after the end of each quarterly fiscal period (except the last) of each fiscal year, copies of:

(A) a consolidated balance sheet of the Borrower and its Subsidiaries as of the close of such quarterly fiscal period, setting forth in comparative form the consolidated figures as of the close of the fiscal year then most recently ended,

(B) consolidated statements of operations of the Borrower and its Subsidiaries for such quarterly fiscal period and for the portion of the fiscal year ending with such quarterly fiscal period, in each case setting forth in comparative

form the consolidated figures for the corresponding period and portion of the preceding fiscal year and

(C) a consolidated statement of cash flows of the Borrower and its Subsidiaries for the portion of the fiscal year ending with such quarterly fiscal period, setting forth in comparative form the consolidated figures for the corresponding period of the preceding fiscal year,

it being agreed that (1) delivery of such financial statements shall be deemed to be a representation by the Borrower that such financial statements fairly present, in conformity with GAAP, the consolidated financial position of the Borrower and its Subsidiaries as of the close of such quarterly fiscal period and their consolidated results of operations and cash flows for the portion of the fiscal year ending at the end of such quarterly fiscal period (subject to normal year-end adjustments) and (2) the Borrower may satisfy the requirements of this Section 5.01(a)(i) by filing its Quarterly Report on Form 10-Q with the SEC; provided that such Form 10-Q satisfies the foregoing requirements of this paragraph (i);

(ii) as soon as available and in any event within 90 days after the close of each fiscal year of the Borrower, copies of:

(A) a consolidated balance sheet of the Borrower and its Subsidiaries as of the close of such fiscal year, and

(B) consolidated statements of operations and cash flows of the Borrower and its Subsidiaries for such fiscal year,

in each case setting forth in comparative form the consolidated figures for the two preceding fiscal years, all in reasonable detail and accompanied by a report thereon of a firm of independent public accountants of recognized national standing selected by the Borrower to the effect that the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Borrower and its Subsidiaries as of the end of the fiscal year being reported on and their consolidated results of operations and cash flows for said year in conformity with GAAP and that the examination of such accountants in connection with such financial statements has been conducted in accordance with generally accepted auditing standards, it being agreed that the Borrower may satisfy the requirements of this Section 5.01(a)(ii) by filing its Annual Report on Form 10-K with the SEC; provided that such Form 10-K (including the exhibits filed therewith) satisfies the requirements of this paragraph (ii);

(iii) promptly upon receipt thereof, one copy of each interim or special audit made by independent accountants of the books of the Borrower or any Subsidiary and any management letter received from such accountants, in all cases, material to the financial condition or operations of the Borrower or of the Borrower and its Subsidiaries taken as a whole;

(iv) promptly upon their becoming available, one copy of each financial statement, report, notice or proxy statement sent by the Borrower to stockholders generally and of each regular or periodic report, and any registration statement or prospectus (other than those on Form S-8) filed by the Borrower or any Subsidiary with any securities exchange or the SEC or any successor agency; provided that the filing of such document with the SEC shall satisfy such requirement, and copies of any orders in any proceedings to which the Borrower or any of its

Subsidiaries is a party, issued by any governmental agency, Federal or state, having jurisdiction over the Borrower or any of its Subsidiaries, which orders are material to the financial condition or operations of the Borrower or the Borrower and its Subsidiaries taken as a whole;

(v) promptly upon the occurrence thereof, written notice of (A) a Reportable Event with respect to any Plan; (B) the institution of any steps by the Borrower, any ERISA Affiliate, the PBGC or any other person to terminate any Plan if such termination were to result in a liability of the Borrower or any Subsidiary to the PBGC in an amount which could materially and adversely affect the condition, financial or otherwise, of the Borrower or of the Borrower and its Subsidiaries taken as a whole; (C) the institution of any steps by the Borrower or any ERISA Affiliate to withdraw from any Plan or any Multiemployer Plan if such withdrawal would result in a liability of the Borrower or any Subsidiary in an amount which could materially and adversely affect the condition, financial or otherwise, of the Borrower or of the Borrower and its Subsidiaries taken as a whole; (D) a "prohibited transaction" within the meaning of Section 406 of ERISA (which has not been exempted under or pursuant to Section 408 of ERISA) in connection with any Plan if such "prohibited transaction" would result in a liability of the Borrower or any Subsidiary in an amount which could materially and adversely affect the condition, financial or otherwise, of the Borrower or of the Borrower and its Subsidiaries taken as a whole; (E) any increase in the contingent liability of the Borrower or any Subsidiary with respect to any post-retirement welfare liability in an amount that could have a Material Adverse Effect; or (F) the taking of any action by, or the threat in writing of the taking of any action by, the Internal Revenue Service, the Department of Labor or the PBGC with respect to any of the foregoing;

(vi) within the periods provided in paragraphs (i) and (ii) above, a certificate of an authorized financial officer of the Borrower stating that such officer has reviewed the provisions of this Agreement and (A) setting forth the information and computations (in sufficient detail) required in order to establish whether the Borrower was in compliance with the requirements of Sections 5.02(a) and 5.03 at the end of the period covered by the financial statements then being furnished and (B) stating whether there existed as of the date of such financial statements and whether, to the best of such officer's knowledge, there exists on the date of the certificate or existed at any time during the period covered by such financial statements any Default and, if any such condition or event exists on the date of the certificate, specifying the nature and period of existence thereof and the action the Borrower is taking and proposes to take with respect thereto; provided, that the email of such certificate in accordance with Section 7.01(b) shall satisfy the delivery requirements of this paragraph;

(vii) within the period provided in paragraph (ii) above, a certificate of the accountants who render an opinion with respect to such financial statements, stating (A) that they have reviewed this Agreement, and (B) whether, in making their audit, such accountants have become aware of any Default under Section 6.01 insofar as any such terms or provisions pertain to or involve accounting matters or determinations, and if any such condition or event then exists specifying the nature and period of existence thereof; provided, that the email of such certificate in accordance with Section 7.01(b) shall satisfy the delivery requirements of this paragraph;

(viii) within five days after any officer of the Borrower obtains knowledge of any Default, if such Default is then continuing, a certificate of the chief financial officer or the chief accounting officer of the Borrower setting forth the details thereof and the action which the Borrower is taking and proposes to take with respect thereto;

(ix) promptly upon any change in the Public Debt Rating, a notice reporting such change and stating the date on which such change was publicly announced by the relevant rating agency; and

(x) from time to time such additional information regarding the financial position or business of the Borrower and its Subsidiaries as the Lender may reasonably request.

SECTION 5.02 Negative Covenants. So long as any Revolving Credit shall remain unpaid or the Lender shall have any Commitment hereunder, the Borrower will not:

(a) Liens, Etc. Create, incur or suffer to exist, or permit any of its Subsidiaries to create, incur or suffer to exist, any Lien on or with respect to any of its properties, whether now owned or hereafter acquired, or upon any income or profits therefrom, or acquire or agree to acquire, or permit any Subsidiary to acquire, any property or assets upon conditional sales agreements or other title retention devices, except:

(i) Liens for property taxes and assessments or governmental charges or levies and Liens securing claims or demands of mechanics and materialmen, provided that payment thereof is not at the time required by Section 5.01(a) or (b);

(ii) any Lien of or resulting from any judgment or award; provided that either (A) the amount secured thereby does not exceed \$75,000,000 or (B) if the amount secured thereby does exceed \$75,000,000, the time for the appeal or petition for rehearing of such judgment or award shall not have expired, or the Borrower or a Subsidiary shall in good faith be prosecuting an appeal or proceeding for a review thereof, and execution of such judgment or award shall be stayed pending such appeal or proceeding for review;

(iii) Liens incidental to the conduct of business conducted by the Borrower and its Subsidiaries in the ordinary course of business or the ownership of properties and assets owned by the Borrower and its Subsidiaries (including Liens in connection with worker's compensation, unemployment insurance and other like laws, warehousemen's and attorneys' liens and statutory landlords' liens) and Liens to secure the performance of bids, tenders or trade contracts, or to secure statutory obligations, surety or appeal bonds or other Liens of like general nature incurred in the ordinary course of business of the Borrower and its Subsidiaries and not in connection with the borrowing of money, provided in each case, the obligation secured is not overdue or, if overdue, is being contested in good faith by appropriate actions or proceedings;

(iv) survey exceptions or encumbrances, encroachments, easements or reservations, or rights of others for rights-of-way, utilities and other similar purposes, zoning restrictions, declarations of covenants, conditions and restrictions, other title exceptions or other restrictions as to the use of real properties, which are necessary or appropriate in the good faith judgment of the Borrower for the conduct of the business of the Borrower and its Subsidiaries and which, individually or in the aggregate, do not in any event materially impair their use in the operation of the business of the Borrower or of the Borrower and its Subsidiaries taken as a whole;

(v) Liens securing Indebtedness of a Subsidiary to the Borrower or to another Subsidiary;

(vi) Liens existing as of the Effective Date and reflected in Schedule 5.02(a) hereto, including any renewals, extensions or replacements of any such Lien, provided that:

(A) no additional property is encumbered in connection with any such renewal, extension or replacement of any such Lien; and

(B) there is no increase in the aggregate principal amount of Debt secured by any such Lien from that which was outstanding or permitted to be outstanding with respect to such Lien as of the Effective Date or the date of such renewal, extension or replacement, whichever is greater;

(vii) Liens incurred after the Effective Date given to secure the payment of the purchase price and/or other direct costs incurred in connection with the acquisition, construction, improvement or rehabilitation of assets including Liens incurred by the Borrower or any Subsidiary securing Debt incurred in connection with industrial development bond and pollution control financings, including Liens existing on such assets at the time of acquisition thereof or at the time of acquisition by the Borrower or a Subsidiary of any business entity (including a Subsidiary) then owning such assets, whether or not such existing Liens were given to secure the payment of the purchase price of the assets to which they attach, provided that (A) except in the case of Liens existing on assets at the time of acquisition of a Subsidiary then owning such assets, the Lien shall be created within twelve (12) months of the later of the acquisition of, or the completion of the construction or improvement in respect of, such assets and shall attach solely to the assets acquired, purchased, or financed, or (B) except in the case of Liens existing on assets at the time of acquisition of a Subsidiary then owning such assets or Liens in connection with industrial development bond or pollution control financings, at the time of the incurrence of such Lien, the aggregate amount remaining unpaid on all Debt secured by Liens on such assets whether or not assumed by the Borrower or a Subsidiary shall not exceed an amount equal to 75% of the lesser of the total purchase price or fair market value, at the time such Debt is incurred, of such assets (as determined in good faith by the Board of Directors of the Borrower;

(viii) Liens arising from the sale or transfer of accounts receivable and notes of the Borrower and its Subsidiaries, provided that the Borrower and its Subsidiaries shall receive adequate consideration therefor;

(ix) Liens on notes or accounts receivable sold or transferred in a transaction which is accounted for as a true sale under GAAP;

(x) Liens securing Debt, to the extent that such Liens are not otherwise permitted by this Section 5.02(a), provided that immediately after giving effect to the incurrence of any such Lien, the sum of the aggregate principal amount of all outstanding Debt secured by Liens permitted solely by reason of this Sections 5.02(a)(x) shall not exceed 15% of Consolidated Net Tangible Assets; and

(xi) Liens incurred in connection with any renewals, extensions or refundings of any Debt secured by Liens described in Sections 5.02(a)(vii), (viii), (ix) or (x), provided that there is no increase in the aggregate principal amount of Debt secured thereby and no additional property is encumbered.

In the event that any property of the Borrower or its Subsidiaries is subjected to a lien in violation of this Section 5.02(a), but no other provision of this Agreement (the Indebtedness secured by such lien being referred to as "Prohibited Secured Indebtedness"), such violation shall not constitute an Event of Default hereunder if the Borrower, substantially simultaneously with the incurrence of such lien, makes or causes to be made a provision whereby the Revolving Credit Note will be secured equally and ratably with all Prohibited Secured Indebtedness and delivers to the Lender an opinion to that effect, and, in any case, the

Revolving Credit Note shall have the benefit, to the full extent that, and with such priority as, the Lender may be entitled to under applicable law, of an equitable lien to secure the Revolving Credit Note on such property of the Borrower or its Subsidiaries that secures Prohibited Secured Indebtedness. The opinion referred to in the preceding sentence shall be addressed to the Lender, shall contain such qualifications and limitations as are reasonably acceptable to the Lender and shall be delivered by counsel of nationally recognized standing selected by the Borrower and satisfactory to the Lender. Such counsel shall be deemed to be satisfactory to the Lender unless, during the 15 day period after the Lender has received written notice identifying such counsel, the Lender shall have objected to such selection in writing to the Borrower.

Notwithstanding any of the foregoing provisions of this Section 5.02(a) including, without limitation, the terms and provisions of the preceding paragraph of this Section 5.02(a), the Borrower shall not, and shall not permit any Subsidiary to, create or incur, or suffer to be incurred or to exist, any Lien (other than Liens described in Section 5.02(a)(i) through (iv), inclusive) upon any land, property or buildings (or any interest therein) described as Special Unencumbered Property in Schedule 5.02(a)(xii) hereto.

(b) Consolidations, Mergers and Sales of Assets. Consolidate or merge with or into any other Person or sell, lease or otherwise transfer, directly or indirectly, all or substantially all of its assets to any other Person; provided that the Borrower may merge with another Person if immediately after giving effect to such merger (x) no Default shall exist, and (y) the Borrower is the surviving entity.

(c) Accounting Changes. Make or permit, or permit any of its Subsidiaries to make or permit, any change in accounting policies or reporting practices, except as required or permitted by GAAP.

(d) Change in Nature of Business. Engage, or permit any of its Subsidiaries to engage, in any business if, as a result, the primary business, taken on a consolidated basis, which would then be engaged in by the Borrower and its Subsidiaries would be substantially changed from the business of the manufacture of capital equipment for the electronics and solar industries.

(e) Use of Proceeds. Use proceeds of the Revolving Credit Advances made under this Agreement, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying Margin Stock unless, at all times when any such proceeds are used to buy or carry Margin Stock, not more than 25% of the value (as determined by any reasonable method) of the assets (either of the Borrower only or of the Borrower and its Subsidiaries on a consolidated basis) which are subject to any restriction in Sections 5.02(a) or 5.02(b) consists of Margin Stock.

(f) Transactions with Affiliates. Enter into or be a party to, or permit any Subsidiary to enter into or be a party to, any transaction or arrangement with any Affiliate (including, without limitation, the purchase from, sale to or exchange of property with, or the rendering of any service by or for, any Affiliate), except in the ordinary course of and pursuant to the reasonable requirements of the Borrower's or such Subsidiary's (as the case may be) business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than would be obtained in a comparable arm's-length transaction with a Person other than an Affiliate.

SECTION 5.03 Financial Covenant. So long as any Revolving Credit Advance shall remain unpaid or the Lender shall have any Commitment hereunder, the Borrower will maintain as of the

last day of each fiscal quarter, determined on the basis of the most recently completed four consecutive fiscal quarters ending on such day, a Consolidated Leverage Ratio of not greater than *** .

ARTICLE VI

EVENTS OF DEFAULT

SECTION 6.01 Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

- (a) the Borrower shall fail to pay any principal of any Revolving Credit Advance when due or shall fail to pay any interest, fee, or other amount payable hereunder within three Business Days or five days after it becomes due, whichever is later;
- (b) any representation, warranty, certification or statement made by the Borrower in this Agreement or in any certificate, financial statement or other document delivered pursuant to this Agreement shall prove to have been incorrect in any material respect when made (or deemed made);
- (c) the Borrower shall fail to perform or observe any other term, covenant or agreement contained in this Agreement on its part to be performed or observed (other than clause (a) above) if such failure shall remain unremedied for 30 days after written notice thereof shall have been given to the Borrower by the Lender;
- (d) the Borrower or any Subsidiary shall fail to make any payment in respect of any Material Financial Obligations when due or within any applicable grace period;
- (e) any event or condition shall occur which results in the acceleration of the maturity of any Material Debt or enables (after the lapse of any cure period and the receipt of any required notices) the holder of such Debt or any Person acting on such holder's behalf to accelerate the maturity thereof;
- (f) the Borrower or any Subsidiary shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall admit in writing its inability to pay its debts generally, or shall take any corporate action to authorize any of the foregoing; provided that no event otherwise constituting an Event of Default under this clause (f) shall be an Event of Default if the total assets of all entities with respect to which an event has occurred which would otherwise have constituted an Event of Default under this clause (f) or clause (g) do not exceed \$75,000,000 in the aggregate;
- (g) an involuntary case or other proceeding shall be commenced against the Borrower or any Subsidiary seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the

*** INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower or any Subsidiary under the federal bankruptcy laws as now or hereafter in effect; provided that no event otherwise constituting an Event of Default under this clause (g) shall be an Event of Default if the total assets of all entities with respect to which an event has occurred which would otherwise have constituted an Event of Default under clause (f) or this clause (g) do not exceed \$75,000,000 in the aggregate;

(h) any ERISA Affiliate shall fail to pay when due (or in the case of an ERISA Affiliate acquired by the Borrower or a Subsidiary after the due date thereof, within 30 days after such ERISA Affiliate is so acquired) an amount or amounts aggregating in excess of \$75,000,000 which it shall have become liable to pay under Title IV of ERISA; or notice of intent to terminate a Material Plan shall be filed under Title IV of ERISA by any ERISA Affiliate, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate, to impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or to cause a trustee to be appointed to administer any Material Plan; or there shall occur a complete or partial withdrawal from, or a default, within the meaning of Section 4219(c)(5) of ERISA, with respect to, one or more Multiemployer Plans which could cause one or more ERISA Affiliates to incur a current payment obligation in excess of \$50,000,000;

(i) final judgments or orders for the payment of money in excess of \$75,000,000 in the aggregate (excluding amounts with respect to which a financially sound and reputable insurer has admitted liability) shall be rendered against the Borrower or any Subsidiary and such judgments or orders shall continue unsatisfied and unstayed for a period of 30 consecutive days; or

(j) either (i) any person or group of persons (within the meaning of Section 13 or 14 of the Exchange Act) shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the SEC under said Act) of 30% or more of the outstanding shares of Voting Stock of the Borrower; or (ii) during any period of 12 consecutive calendar months, commencing before or after the date of this Agreement, individuals who were directors of the Borrower on the first day of such period (the "Initial Directors") shall cease for any reason to constitute a majority of the board of directors of the Borrower unless the Persons replacing such individuals were nominated or elected by a majority of the directors (x) who were Initial Directors at the time of such nomination or election and/or (y) who were nominated or elected by a majority of directors who were Initial Directors at the time of such nomination or election;

then, and in any such event, the Lender (i) may, by notice to the Borrower, declare the obligation of the Lender to make Revolving Credit Advances to be terminated, whereupon the same shall forthwith terminate, and (ii) may, by notice to the Borrower, declare the Revolving Credit Advances, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Revolving Credit Advances, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower; provided, however, that in the case of any of the Events of Default specified in clause (f) or (g) above with respect to the Borrower, without any notice to the Borrower or any other act by the Lender, the Commitment shall thereupon terminate and the Revolving Credit Advances (together with accrued interest thereon) shall immediately become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower.

ARTICLE VII
MISCELLANEOUS

SECTION 7.01 Amendments, Etc. No amendment or waiver of any provision of this Agreement or the Revolving Credit Note, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Borrower and the Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 7.02 Notices, Etc. (a) Except to the extent set forth in Section 7.02(b) and in the proviso to this Section 7.02(a), all notices and other communications provided under this Agreement shall be in writing (including telecopier or email communication) and mailed, telecopied, emailed or delivered (x) if to the Borrower, at its address at 3050 Bowers Avenue, Santa Clara, California 95054, Attention: Robert Friess; Telecopier: 408-986-7825; email: Robert_Friess@amat.com; provided, that if such notice is to be delivered pursuant to Section 6.01, 7.05, 7.01 or 7.07, then such notice shall be delivered by mail or express delivery (and not delivered electronically or by telecopy) at the address above to the Attention of: Robert Friess, Treasurer (or his successor) and Joseph Sweeney, Group Vice President, Legal Affairs and Intellectual Property (or his successor), or at such other address as shall be designated by Borrower in a written notice to the other parties; and (y) if to the Lender, at its Domestic Lending Office specified opposite its name on Schedule I hereto or at such other address as shall be designated by such party in a written notice to the Borrower, provided that materials required to be delivered pursuant to Sections 5.01(g)(vi) and (vii) shall be delivered as specified in Section 7.02(b) or as otherwise specified to the Borrower by the Lender from time to time. All such notices and communications shall, when mailed, telecopied or e-mailed, be effective when deposited in the mails, telecopied, or confirmed by e-mail, respectively, except that notices and communications to the Lender pursuant to Article II or III shall not be effective until received by the Lender. Delivery by telecopier of an executed counterpart of any amendment or waiver of any provision of this Agreement or the Revolving Credit Note or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof.

(b) So long as Citibank or any of its Affiliates is the Lender, the Borrower hereby agrees that, unless otherwise requested by the Lender, it will provide to the Lender all information, documents and other materials that it is obligated to furnish to the Lender pursuant to this Agreement, including, without limitation, all notices, financial statements, financial and other reports, certificates and other required information materials, but excluding any such communication that (i) relates to a request for an amendment or for a new, or a conversion of an existing, borrowing or other extension of credit (including any election of an interest rate or interest period relating thereto), (ii) relates to the payment of any principal or other amount due under this Agreement prior to the scheduled date therefor, (iii) provides notice of any default or event of default under this Agreement, (iv) is required to be delivered to satisfy any condition precedent to the effectiveness of this Agreement and/or any borrowing or other extension of credit hereunder or (v) initiates or responds to legal process (all such non-excluded information being referred to herein collectively as the "Communications") by transmitting the Communications in an electronic/soft medium (provided such Communications contain any required signatures) in a format acceptable to the Lender to oploanswebadmin@citigroup.com (or such other e-mail address designated by the Lender from time to time).

Each party hereto agrees that any electronic communication referred to in this Section 7.02(b) shall be deemed delivered upon the posting of a record of such communication (properly addressed to such party at the e-mail address provided to the Lender) as "sent" in the e-mail system of the sending party or, in the case of any such communication to the Lender, upon the posting of a record of

such communication as “received” in the e-mail system of the Lender; provided that if such communication is not so received by the Lender during the normal business hours (Eastern Standard Time) of the Lender, such communication shall be deemed delivered at the opening of business on the next Business Day for the Lender.

SECTION 7.03 No Waiver; Remedies. No failure on the part of the Lender to exercise, and no delay in exercising, any right hereunder or under the Revolving Credit Note shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 7.04 Costs and Expenses. (a) The Borrower shall pay (i) all out-of-pocket expenses of the Lender, including reasonable fees and disbursements of special counsel for the Lender, in connection with the preparation of this Agreement (subject to any limits agreed upon in writing by the Borrower and the Lender), any waiver or consent hereunder or any amendment hereof or any Default or alleged Default hereunder and (ii) if an Event of Default occurs, all out-of-pocket expenses incurred by the Lender, including (without duplication) the reasonable fees and disbursements of outside counsel and the allocated cost of inside counsel, in connection with such Event of Default and collection, bankruptcy, insolvency and other enforcement proceedings resulting therefrom.

(b) The Borrower agrees to indemnify and hold harmless the Lender and each of its Affiliates and their officers, directors, employees, agents and advisors (each, an “Indemnified Party”) from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of (including, without limitation, in connection with any investigation, litigation or proceeding or preparation of a defense in connection therewith) (i) the Revolving Credit Note, this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Revolving Credit Advances or (ii) the actual or alleged presence of Hazardous Substances on any property of the Borrower or any of its Subsidiaries or any Environmental Action relating in any way to the Borrower or any of its Subsidiaries, except to the extent such claim, damage, loss, liability or expense resulted from such Indemnified Party’s gross negligence or willful misconduct. In the case of an investigation, litigation or other proceeding to which the indemnity in this Section 7.04(b) applies, such indemnity shall be effective whether or not such investigation, litigation or proceeding is brought by the Borrower, its directors, shareholders or creditors or an Indemnified Party or any other Person or any Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated. The Borrower also agrees not to assert any claim for special, indirect, consequential or punitive damages against the Lender, any of its Affiliates, or any of their respective directors, officers, employees, attorneys and agents, on any theory of liability, arising out of or otherwise relating to the Revolving Credit Note, this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Revolving Credit Advances.

(c) If any payment of principal with respect to any Eurodollar Rate Advance or Adjusted CD Rate Advance, or any such Revolving Credit Advance is Converted to a different Type of Revolving Credit Advance (pursuant to Section 2.07(d) or (e), 2.09 or 2.11, acceleration of the maturity of the Revolving Credit Advances pursuant to Section 6.01 or for any other reason) other than on the last day of the Interest Period for such Revolving Credit Advance, or if the Borrower fails to borrow, prepay, Convert or continue any such Revolving Credit Advance after notice has been given to the Lender in accordance with Section 2.02(a), 2.05, 2.08 or 2.09, the Borrower shall reimburse the Lender for any resulting loss or expense (with interest if appropriate) incurred by it or by an existing or prospective assignee or participant in the related Revolving Credit Advance, including (without limitation) any loss

incurred in obtaining, liquidation or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow, prepay, Convert or continue; provided that such Lender shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which certificate shall show in reasonable detail the basis for calculating such amount and shall be conclusive in the absence of manifest error.

(d) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in Sections 2.10, 2.13 and 7.04 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the Revolving Credit Note.

SECTION 7.05 Right of Set-off. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the declaration of the Revolving Credit Advances due and payable pursuant to the provisions of Section 6.01, the Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Lender or such Affiliate to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement and the Revolving Credit Note, without limitation of clauses (i) and (ii) above, whether or not the Lender shall have made any demand under this Agreement or the Revolving Credit Note and although such obligations may be unmaturred. The Lender agrees promptly to notify the Borrower after any such set-off and application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Lender and its Affiliates under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) that the Lender and its Affiliates may have.

SECTION 7.06 Binding Effect. This Agreement shall become effective (other than Section 2.01, which shall only become effective upon satisfaction of the conditions precedent set forth in Section 3.01) when it shall have been executed by the Borrower and the Lender and thereafter shall be binding upon and inure to the benefit of the Borrower and the Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Lender.

SECTION 7.07 Confidentiality. (a) The Lender agrees (on behalf of itself and each of its Affiliates, directors, employees and representatives) to use reasonable precautions to keep confidential, in accordance with safe and sound banking practices, any non-public information supplied to it by the Borrower pursuant to this Agreement after such information is identified by the Borrower as being confidential, provided that nothing herein shall limit the disclosure of any such information (i) to the extent required by statute, rule, regulation or judicial process, provided that the Borrower is given prompt written notice (to the extent permitted by law) that such disclosure is required, (ii) to counsel for the Lender, (iii) to bank examiners, auditors or accountants, (iv) in connection with any litigation to which the Lender is a party, provided that the Borrower has been given prompt prior written notice (to the extent permitted by law) of such proposed disclosure or (v) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant), or any actual or proposed contractual counterparty (or its advisors) to any securitization, hedge, or other derivative transaction relating to the parties' obligations hereunder, agrees in writing to be bound by the terms of this Section 7.07.

(b) Notwithstanding anything herein to the contrary, the Borrower, and the Lender may disclose to any and all persons, without limitation of any kind, the U.S. tax treatment and tax structure of the Agreement and all materials of any kind (including opinions or other tax analyses) that are

provided to a Borrower or the Lender, as the case may be, relating to such U.S. tax treatment and tax structure.

SECTION 7.08 Governing Law. This Agreement and the Revolving Credit Note shall be governed by, and construed in accordance with, the laws of the State of New York.

SECTION 7.09 Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier or electronic mail (in pdf format) shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 7.10 Jurisdiction, Etc. (a) Each of the parties hereto hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the Revolving Credit Note, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such New York State court or, to the extent permitted by law, in such federal court. The Borrower hereby further irrevocably consents to the service of process in any action or proceeding in such courts by the mailing thereof by any parties hereto by registered or certified mail, postage prepaid, to the Borrower at its address specified pursuant to Section 7.02. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law, provided that this sentence shall not limit the right of any party hereto to appeal any judgment. Nothing in this Agreement shall affect any right that any party may otherwise have to bring any action or proceeding relating to this Agreement or the Revolving Credit Note in the courts of any jurisdiction.

(b) Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the Revolving Credit Note in any New York State or federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

SECTION 7.11 Patriot Act Notice. The Lender hereby notifies the Borrower that pursuant to the requirements of the Patriot Act, it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow the Lender to identify the Borrower in accordance with the Patriot Act. The Borrower shall, and shall cause each of its Subsidiaries to, provide, to the extent commercially reasonable, such information and take such actions as are reasonably requested by the Lender in order to assist the Lender in maintaining compliance with the Patriot Act.

SECTION 7.12 Assignments. The Lender may assign, in whole, not in part, all its rights and obligations under this Agreement and the Note, including, without limitation, the Commitment, Advances owing to it and the Note, with five (5) days prior written notice to the Borrower; provided, however, each assignment shall be made to an Eligible Assignee and pursuant to an assignment and assumption agreement in form reasonably acceptable to the Lender, such Eligible Assignee and the Borrower. Upon such execution, delivery, and acceptance, from and after the effective date specified in each assignment agreement, (x) the assignee thereunder shall be a party hereto and, to the extent that

rights and obligations hereunder have been assigned to it pursuant to such agreement, have the rights and obligations of the Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such agreement, relinquish its rights and be released from its obligations under this Agreement and, the original Lender shall cease to be a party hereto.

SECTION 7.13 Waiver of Jury Trial. Each of the Borrower and the Lender hereby irrevocably waives all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to this Agreement or the Revolving Credit Note or the actions of the Lender in the negotiation, administration, performance or enforcement thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

APPLIED MATERIALS, INC.

By /s/ Nancy H. Handel

Name: Nancy H. Handel

Title: Chief Financial Officer

By /s/ Robert M. Friess

Name: Robert M. Friess

Title: Vice President, Treasurer

CITICORP USA, INC.

By /s/ Kathryn D. Song

Name: Kathryn D. Song

Title: Vice President

CREDIT AGREEMENT SIGNATURE PAGE

SCHEDULE I
COMMITMENTS AND APPLICABLE LENDING OFFICES

<u>Name of Initial Lender</u>	<u>Revolving Credit Commitment</u>	<u>Domestic Lending Office</u>	<u>Eurodollar Lending Office</u>	<u>CD Lending Office</u>
Citicorp USA, Inc.	\$100,000,000	399 Park Avenue, New York, NY 10043	399 Park Avenue, New York, NY 10043	399 Park Avenue, New York, NY 10043

U.S.\$100,000,000

Dated: _____, 2006

FOR VALUE RECEIVED, the undersigned, APPLIED MATERIALS, INC., a Delaware corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of CITICORP USA, INC. (the "Lender") for the account of its Applicable Lending Office on the Termination Date (each as defined in the Credit Agreement referred to below) the principal sum of U.S.\$100,000,000 or, if less, the aggregate principal amount of the Revolving Credit Advances made by the Lender to the Borrower pursuant to the 364-Day Credit Agreement dated as of September 14, 2006, among the Borrower and the Lender (as amended or modified from time to time, the "Credit Agreement"; the terms defined therein being used herein as therein defined) outstanding on such date.

The Borrower promises to pay interest on the unpaid principal amount of each Revolving Credit Advance from the date of such Revolving Credit Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement.

Both principal and interest are payable in lawful money of the United States of America as provided in the Credit Agreement, in same day funds. Each Revolving Credit Advance owing to the Lender by the Borrower pursuant to the Credit Agreement, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Promissory Note.

This Promissory Note is the Revolving Credit Note referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, (i) provides for the making of Revolving Credit Advances by the Lender to the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the U.S. dollar amount first above mentioned, the indebtedness of the Borrower resulting from each such Revolving Credit Advance being evidenced by this Promissory Note and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

APPLIED MATERIALS, INC.

By _____
Title:

Citicorp USA, Inc.
Two Penns Way
New Castle, Delaware 19720

[Date]

Attention: Bank Loan Syndications Department

Ladies and Gentlemen:

The undersigned, APPLIED MATERIALS, INC., refers to the 364-Day Credit Agreement, dated as of September 14, 2006, (as amended or modified from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among the undersigned and you and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the Credit Agreement that the undersigned hereby requests a Revolving Credit Advance under the Credit Agreement, and in that connection sets forth below the information relating to such Revolving Credit Advance (the "Proposed Revolving Credit Advance") as required by Section 2.02(a) of the Credit Agreement:

- (i) The Business Day of the Proposed Revolving Credit Advance is _____, 200_.
- (ii) The Type of Revolving Credit Advances is [Base Rate Advances] [Eurodollar Rate Advances] [Adjusted CD Rate Advances].
- (iii) The amount of the Proposed Revolving Credit Advance is \$_____.
- (iv) The initial Interest Period for each [Eurodollar Rate Advance] [Adjusted CD Rate Advance] is ___month[s].]

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Revolving Credit Advance:

(A) the representations and warranties contained in Section 4.01 of the Credit Agreement (except the representations set forth in subsection (d)(i) thereof and in subsection (e)(i) thereof) are correct, before and after giving effect to the Proposed Revolving Credit Advance and to the application of the proceeds therefrom, as though made on and as of such date; and

(B) no event has occurred and is continuing, or would result from such Proposed Revolving Credit Advance or from the application of the proceeds therefrom, that constitutes a Default.

Very truly yours,

APPLIED MATERIALS, INC.

By _____
Title:

To: Applied Materials, Inc.
3050 Bowers Avenue
Santa Clara, CA 95054

From: Goldman, Sachs & Co.

Subject: Accelerated Share Buyback

Date: September 18, 2006

This master confirmation ("Master Confirmation") dated as September 18, 2006, is intended to supplement the terms and provisions of certain Transactions (each, a "Transaction") entered into from time to time between Goldman, Sachs & Co. ("GS&Co.") and Applied Materials, Inc. ("Counterparty"). This Master Confirmation, taken alone, is neither a commitment by either party to enter into any Transaction nor evidence of a Transaction. The terms of any particular Transaction shall be set forth in a Supplemental Confirmation in the form of Annex A hereto, which references this Master Confirmation (the "Supplemental Confirmation"). This Master Confirmation and each Supplemental Confirmation together shall constitute a "Confirmation" as referred to in the Agreement specified below.

The definitions and provisions contained in the 2002 ISDA Equity Derivatives Definitions (the "Equity Definitions"), as published by the International Swaps and Derivatives Association, Inc., are incorporated into this Master Confirmation. This Master Confirmation and each Supplemental Confirmation evidence a complete binding agreement between the Counterparty and GS&Co. as to the subject matter and terms of each Transaction to which this Master Confirmation and the related Supplemental Confirmation relate and shall supersede all prior or contemporaneous written or oral communications with respect thereto.

This Master Confirmation and each Supplemental Confirmation supplement, form a part of, and are subject to an agreement in the form of the 1992 ISDA Master Agreement (Multicurrency-Cross Border) (the "Agreement") as if GS&Co. and Counterparty had executed the Agreement on the date of this Master Confirmation (but without any Schedule except for (i) the election of Loss and Second Method, New York law (without regard to the conflicts of law principles) as the governing law and US Dollars ("USD") as the Termination Currency, (ii) the election that subparagraph (ii) of Section 2(c) will not apply to Transactions and (iii) the replacement of the word "third" in the last line of Section 5(a)(i) with the word "first").

All provisions contained or incorporated by reference in the Agreement shall govern this Master Confirmation and each Supplemental Confirmation relating to a Transaction except as expressly modified herein or in the related Supplemental Confirmation.

If, in relation to any Transaction to which this Master Confirmation and related Supplemental Confirmation relate, there is any inconsistency between the Agreement, this Master Confirmation, any Supplemental Confirmation and the Equity Definitions, the following will prevail for purposes of such Transaction in the order of precedence indicated: (i) such Supplemental Confirmation; (ii) this Master Confirmation; (iii) the Agreement; and (iv) the Equity Definitions.

1. On the fifth Clearance System Business Day following the Trade Date for each Transaction, GS&Co. will deliver to Counterparty a number of Shares equal to the Number of Shares for the relevant Transaction, and Counterparty will pay to GS&Co. cash in immediately available funds in an amount to be specified in the Supplemental Confirmation (the "Initial Purchase Price") equal to the product of the Initial Share Price (as set forth below) and the Number of Shares. Each Transaction is intended to be in substance and effect an adjustment to the Initial Purchase Price. Solely for the purposes of the Equity Definitions, each Transaction

constitutes a Share Forward Transaction. Set forth below are the terms and conditions which, together with the terms and conditions set forth in each Supplemental Confirmation (in respect of each relevant Transaction), shall govern each such Transaction.

General Terms:

Trade Date:	For each Transaction, as set forth in the Supplemental Confirmation.
Seller:	Counterparty
Buyer:	GS&Co.
Shares:	Common Stock, \$0.01 par value of Counterparty, (Ticker: AMAT)
Number of Shares:	For each Transaction, as set forth in the Supplemental Confirmation.
Initial Share Price	For each Transaction, as set forth in the Supplemental Confirmation, to be the Relevant Price as of the Trade Date.
Forward Price:	For each Transaction, the Initial Share Price for such Transaction.
Prepayment:	Not Applicable
Variable Obligation:	Not Applicable
Exchange:	NASDAQ Global Select Market
Related Exchange(s):	All Exchanges
Market Disruption Event:	The definition of "Market Disruption Event" in Section 6.3(a) of the Equity Definitions is hereby amended by replacing the words "at any time during the one-hour period that ends at the relevant Valuation Time" in the third line thereof with the words "at any time on any Scheduled Trading Day during the Valuation Period or" after the word "material".
Counterparty Additional Payment Amount:	For each Transaction, as set forth in the Supplemental Confirmation.

Valuation:

Valuation Period:	Each Scheduled Trading Day during the period commencing on and including the first succeeding Scheduled Trading Day following the Trade Date, to and including the Valuation Date (but excluding any day(s) on which the Valuation Period is suspended in accordance with Section 5 herein). Notwithstanding anything to the contrary in the Equity Definitions, to the extent that any Scheduled Trading Day in the Valuation Period is a Disrupted Day, the Calculation Agent may postpone the Valuation Date. In such event, the Calculation Agent must determine whether (i) such Disrupted Day is a Disrupted Day in full, in which case such Disrupted
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Day shall not be included for purposes of determining the Settlement Price, or (ii) such Disrupted Day is a Disrupted Day only in part, in which case the VWAP Price for such Disrupted Day shall be determined by the Calculation Agent based on Rule 10b-18 eligible transactions in the Shares on such Disrupted Day effected before the relevant Market Disruption Event occurred and/or after the relevant Market Disruption Event ended, and the weighting of the VWAP Prices for the relevant Scheduled Trading Days during the Valuation Period shall be adjusted by the Calculation Agent for purposes of determining the Settlement Price, with such adjustments based on, among other factors, the duration of any Market Disruption Event and the volume, historical trading patterns and price of the Shares.

If a Disrupted Day occurs during the Valuation Period, and each of the nine immediately following Scheduled Trading Days is a Disrupted Day, then the Calculation Agent, in its reasonable discretion, may either (i) determine the VWAP Price for such ninth Scheduled Trading Day and adjust the weighting of the VWAP Prices for the relevant Scheduled Trading Days during the Valuation Period as it deems appropriate for purposes of determining the Settlement Price based on, among other factors, the duration of any Market Disruption Event and the volume, historical trading patterns and price of the Shares or (ii) disregard such day for purposes of determining the Settlement Price and further postpone the Valuation Date as it deems appropriate to determine the VWAP Price.

Valuation Date:

For each Transaction, the date set forth in the Supplemental Confirmation (as the same may be postponed in accordance with the provisions hereof).

Settlement Terms:

Settlement Currency:

USD

Settlement Method Election:

Applicable; *provided* that (a) Section 7.1 of the Equity Definitions is hereby amended by deleting the word "Physical" in the sixth line thereof and replacing it with the words "Net Share" and deleting the word "Physical" in the last line thereof and replacing it with the word "Cash" and (b) in the event that GS&Co. would deliver to the Counterparty an amount of Shares under Net Share Settlement, Cash Settlement shall be applicable in lieu of Net Share Settlement.

Electing Party:

Counterparty

Settlement Method Election Date:

The fifth Scheduled Trading Day immediately prior to the Valuation Date.

Default Settlement Method:

Cash Settlement

Forward Cash Settlement Amount:

An amount in the Settlement Currency equal to the sum of (a) the Number of Shares multiplied by an amount equal to (i) the

Settlement Price *minus* (ii) the Forward Price *plus* (b) the Counterparty Additional Payment Amount.

Settlement Price:

The arithmetic mean of the VWAP Prices of the Shares for each Scheduled Trading Day in the Valuation Period *minus* the Settlement Price Adjustment Amount.

Settlement Price Adjustment Amount:

For each Transaction, as set forth in the Supplemental Confirmation.

VWAP Price:

For any Exchange Business Day, as determined by the Calculation Agent based on the NASDAQ Volume Weighted Average Price per Share for the regular trading session (including any extensions thereof) for such Exchange Business Day (without regard to pre-open or after hours trading outside of any regular trading session for such Exchange Business Day), as published by Bloomberg at 4:15 p.m. New York time on such Exchange Business Day, on Bloomberg page "AMAT.Q <Equity> AQR_SEC" (or any successor thereto). For purposes of calculating the VWAP Price, the Calculation Agent will include only those trades that are reported during the period of time during which Counterparty could purchase its own shares under Rule 10b-18(b)(2), and pursuant to the conditions of Rule 10b-18(b)(3) each under the Exchange Act (as defined herein) (such trades, "Rule 10b-18 eligible transactions").

Counterparty's Contact Details for Purpose of Giving Notice:

Telephone No.: 408-235 4880
Facsimile No.: 408-563 4710
Attention: Robert Friess
Corporate Treasury

Mailing Address: 2881 Scott Blvd., M/S 2047
P.O.Box 58039
Santa Clara, CA 95050

GS&Co.'s Contact Details for Purpose of Giving Notice:

Telephone No.: (212) 902-8996
Facsimile No.: (212) 902-0112
Attention: Equity Operations: Options and Derivatives

With a copy to:
Tracey McCabe
Equity Capital Markets
One New York Plaza
New York, NY 10004
Telephone No.: (212) 357-0428
Facsimile No.: (212) 902-3000

Net Share Settlement:

Net Share Settlement Procedures:

Net Share Settlement shall be made in accordance with the procedures attached hereto as Annex B.

Net Share Settlement Price:	The Relevant Price on the Net Share Valuation Date, as reduced by the per Share amount of the underwriting discount and/or commissions agreed to pursuant to the equity underwriting agreement contemplated by the Net Share Settlement Procedures.
Valuation Time:	As provided in Section 6.1 of the Equity Definitions; <i>provided</i> that Section 6.1 of the Equity Definitions is hereby amended by inserting the words "Net Share Valuation Date," before the words "Valuation Date" in the first and third lines thereof.
Net Share Valuation Date:	The Exchange Business Day immediately following the Valuation Date.
Net Share Settlement Date:	The third Exchange Business Day immediately following the Valuation Date.
Reserved Shares:	Initially, 62,800,000 Shares. The Reserved Shares for each Transaction may be increased or decreased in a Supplemental Confirmation.
Relevant Price:	As provided in Section 1.23(b) of the Equity Definitions; <i>provided</i> that Section 1.23(b) of the Equity Definitions is hereby amended by replacing each occurrence therein of "the Valuation Date or Averaging Date, as the case may be," with the term "such day."
Share Adjustments:	
Potential Adjustment Event:	Notwithstanding anything to the contrary in Section 11.2(e) of the Equity Definitions, an Extraordinary Dividend shall not constitute a Potential Adjustment Event.
Extraordinary Dividend:	For any calendar quarter, any dividend or distribution on the Shares with an ex-dividend date occurring during such calendar quarter (other than any dividend or distribution of the type described in Section 11.2(e)(i) or Section 11.2(e)(ii) (A) or (B) of the Equity Definitions) (a "Dividend") the amount or value of which (as determined by the Calculation Agent), when aggregated with the amount or value (as determined by the Calculation Agent) of any and all previous Dividends with ex-dividend dates occurring in the same calendar quarter, exceeds the Ordinary Dividend Amount.
Ordinary Dividend Amount:	For each Transaction, as set forth in the Supplemental Confirmation.
Method of Adjustment:	Calculation Agent Adjustment
Extraordinary Events:	
Consequences of Merger Events:	
(a) Share-for-Share:	Calculation Agent Adjustment

(b) Share-for-Other:	Cancellation and Payment on that portion of the Other Consideration that consists of cash; Calculation Agent Adjustment on the remainder of the Other Consideration.
(c) Share-for-Combined: Determining Party:	Component Adjustment Calculation Agent
Tender Offer:	Applicable
Consequences of Tender Offers:	
(a) Share-for-Share:	Calculation Agent Adjustment
(b) Share-for-Other:	Cancellation and Payment on that portion of the Other Consideration that consists of cash; Calculation Agent Adjustment on the remainder of the Other Consideration.
(c) Share-for-Combined: Determining Party:	Component Adjustment Calculation Agent
Nationalization, Insolvency or Delisting:	Cancellation and Payment; <i>provided</i> that in addition to the provisions of Section 12.6(a)(iii) of the Equity Definitions, it shall also constitute a Delisting if the Exchange is located in the United States and the Shares are not immediately re-listed, re-traded or re-quoted on any of the New York Stock Exchange, the American Stock Exchange or The NASDAQ National Market (or their respective successors); and if the Shares are immediately re-listed, re-traded or re-quoted on any such exchange or quotation system, such exchange or quotation system shall be deemed to be the Exchange.
Additional Disruption Events:	
(a) Change in Law:	Applicable
(b) Insolvency Filing:	Applicable
(c) Loss of Stock Borrow:	Applicable; <i>provided</i> that Sections 12.9(a)(vii) and 12.9(b)(iv) of the Equity Definitions are amended by deleting the words "at a rate equal to or less than the Maximum Stock Loan Rate" and replacing them with "at a rate of return to the stock borrower equal to or greater than zero".
Hedging Party: Determining Party:	GS&Co. GS&Co.
Non-Reliance:	Applicable
Agreements and Acknowledgements Regarding Hedging Activities:	Applicable
Additional Acknowledgements:	Applicable

Net Share Settlement Upon
Early Termination:

Counterparty shall have the right, in its sole discretion, in lieu of making any payment required to be made by it (the “**Early Termination Amount**”) (x) pursuant to Sections 6(d) and 6(e) of the Agreement following the occurrence of an Early Termination Date in respect of the Agreement or (y) pursuant to Section 12.7 or 12.9 of the Equity Definitions (except with respect to any portion of the consideration for the Shares consisting of cash in the event of a Merger Event or Tender Offer) following the occurrence of an Extraordinary Event, elect to settle its obligation to pay the Early Termination Amount in Shares in accordance with the terms, and subject to the conditions, for Net Share Settlement herein by giving written notice to GS&Co. of such election on the day that the notice fixing an Early Termination Date is effective or the date on which the Transaction(s) are cancelled or terminated pursuant to Article 12 of the Equity Definitions (the “Cancellation Date”). If Counterparty elects Net Share Settlement under such circumstances: (a) the Net Share Valuation Date shall be (x) the date specified in the notice fixing an Early Termination Date, which shall be either the Exchange Business Day that such notice is effective or the first Exchange Business Day immediately following the Exchange Business Day that such notice is effective or (y) the Cancellation Date, as the case may be, (b) the Net Share Settlement Date shall be deemed to be the Exchange Business Day immediately following the Early Termination Date or the Cancellation Date, as the case may be and (c) all references to Forward Cash Settlement Amount in Annex B hereto shall be deemed references to the Early Termination Amount or the Cancellation Amount, as the case may be.

Transfer:

Notwithstanding anything to the contrary in the Agreement, GS&Co. may assign, transfer and set over all rights, title and interest, powers, privileges and remedies of GS&Co. under any Transaction, in whole or in part, to an affiliate of GS&Co. that is guaranteed by The Goldman Sachs Group, Inc. without the consent of Counterparty.

GS&Co. Payment Instructions:

Chase Manhattan Bank New York
For A/C Goldman, Sachs & Co.
A/C # 930-1-011483
ABA: 021-000021

Counterparty Payment Instructions:

To be provided by Counterparty

2. Calculation Agent: GS&Co. All determinations made by the Calculation Agent shall be made in good faith and in a commercially reasonable manner. Following any calculation by the Calculation Agent hereunder, upon a prior written request by the Counterparty, the Calculation Agent will provide to the Counterparty by e-mail to the e-mail address provided by the Counterparty in such a prior written request a report (in a commonly used file format for the storage and manipulation of financial data) displaying in reasonable detail the basis for such calculation.

3. Representations, Warranties and Covenants of GS&Co. and Counterparty.

(a) Each party represents and warrants that it (i) is an “eligible contract participant”, as defined in the U.S. Commodity Exchange Act, as amended and (ii) is entering into each Transaction hereunder as principal (and not as agent or in any other capacity, fiduciary or otherwise) and not for the benefit of any third party.

(b) Each party acknowledges that the offer and sale of each Transaction to it is intended to be exempt from registration under the Securities Act of 1933, as amended (the “**Securities Act**”), by virtue of Section 4(2) thereof and the provisions of Regulation D promulgated thereunder (“**Regulation D**”). Accordingly, each party represents and warrants to the other that (i) it has the financial ability to bear the economic risk of its investment in each Transaction and is able to bear a total loss of its investment, (ii) it is an “accredited investor” as that term is defined under Regulation D, (iii) it will purchase each Transaction for investment and not with a view to the distribution or resale thereof in a manner that would violate the Securities Act, and (iv) the disposition of each Transaction is restricted under this Master Confirmation, the Securities Act and state securities laws.

4. Additional Representations, Warranties and Covenants of Counterparty.

As of (i) the date hereof and (ii) the period of time from the Trade Date until the time that each party has fully performed all of its obligations under the related Transaction, Counterparty represents, warrants and covenants to GS&Co. that:

(a) the purchase or writing of any Transaction and the transactions contemplated hereby do not and will not violate Rule 13e-1 or Rule 13e-4 under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”);

(b) it is not entering into any Transaction (i) on the basis of, and is not aware of, any material non-public information with respect to the Shares (ii) in anticipation of, in connection with, or to facilitate, a distribution of its securities, a self tender offer or a third-party tender offer or (iii) to create actual or apparent trading activity in the Shares (or any security convertible into or exchangeable for the Shares) or to otherwise manipulate the price of the Shares (or any security convertible into or exchangeable for the Shares);

(c) Counterparty is in compliance with its reporting obligations under the Exchange Act and its most recent Annual Report on Form 10-K, together with all reports subsequently filed by it pursuant to the Exchange Act, taken together and as amended and supplemented, do not, as of their respective filing dates, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(d) each Transaction is being entered into pursuant to a publicly disclosed Share buy-back program and its Board of Directors has approved the use of the Transactions to effect the Share buy-back program;

(e) without limiting the generality of Section 13.1 of the Equity Definitions, Counterparty acknowledges that GS&Co. is not making any representations or warranties with respect to the treatment of any Transaction under FASB Statements 128, 133 (as amended), 149 or 150, EITF 00-19 (or any successor issue statements) or under the Financial Accounting Standards Board’s Liabilities & Equity Project;

(f) Counterparty is not, and will not be, engaged in a “distribution” of Shares or securities that are convertible into, or exchangeable or exercisable for Shares for purposes of Regulation M promulgated under the Exchange Act (“**Regulation M**”) (other than securities or activities excepted from Regulation M by reason of Rules 101(b) and (c) and 102(b), (c) and (d) under the Exchange Act) at any time during the Valuation Period, or the one Exchange Business Day immediately following the Relevant Period, unless Counterparty has provided written notice to GS&Co. of such distribution (a “**Regulation M Distribution Notice**”) not later than the Scheduled Trading Day immediately preceding the first day of the relevant “restricted period” (as defined in Regulation M); Counterparty acknowledges that any such notice may cause the Valuation Period to be extended or suspended pursuant to Section 5 below; accordingly, Counterparty acknowledges that its delivery of such notice must comply with the standards set forth in Section 6 below;

(g) it shall report each Transaction as required under Regulation S-K and/or Regulation S-B under the Exchange Act, as applicable;

(h) on the Trade Date and on each day of the Valuation Period, (i) the assets of Counterparty at their fair valuation exceed the liabilities of Counterparty, including contingent liabilities, (ii) the capital of Counterparty is adequate to conduct the business of Counterparty and (iii) Counterparty has the ability to pay its debts and obligations as such debts mature and does not intend to, or does not believe that it will, incur debt beyond its ability to pay as such debts mature;

(i) it has not, and during any Valuation Period will not, enter into agreements similar to the Transactions described herein where any initial hedge period (however defined) or the calculation period (however defined) in such other transaction will overlap at any time (including as a result of extensions in such initial hedge period or calculation period as provided in the relevant agreements) with any Valuation Period under this Master Confirmation. In the event that the initial hedge period or calculation period in any other similar transaction overlaps with any Valuation Period under this Master Confirmation as a result of an extension of the Valuation Date pursuant to Section 5 herein, Counterparty shall promptly amend such transaction to avoid any such overlap; and

(j) Counterparty is not and, after giving effect to the Transaction, will not be, required to register as an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.

5. Suspension of Valuation Period.

(a) If Counterparty concludes that it will be engaged in a distribution of the Shares for purposes of Regulation M (other than securities or activities excepted from Regulation M by reason of Rules 101(b) and (c) and 102(b), (c) and (d) under the Exchange Act), Counterparty agrees that it will, on a day no later than the Scheduled Trading Day immediately preceding the start of the relevant restricted period, provide GS&Co. with a Regulation M Distribution Notice. Upon the effectiveness of such Regulation M Distribution Notice, GS&Co. shall halt any purchase of Shares in connection with hedging any Transaction during the relevant "restricted period". If on any Scheduled Trading Day Counterparty delivers the Regulation M Distribution Notice in writing (and confirms by telephone) by 8:30 a.m. New York Time (the "Notification Time") then such notice shall be effective as of such Notification Time. In the event that Counterparty delivers such Regulation M Distribution Notice in writing and/or confirms by telephone after the Notification Time, then such notice shall be effective as of 8:30 a.m. New York Time on the following Scheduled Trading Day or as otherwise required by law or agreed between Counterparty and GS&Co. The Valuation Period shall be suspended and the Valuation Date shall be postponed for each Scheduled Trading Day in such restricted period.

(b) In the event that GS&Co. concludes, in its reasonable discretion, that as a result of an event, condition or circumstance arising after the Trade Date it is appropriate with respect to any legal, regulatory or self-regulatory requirements or related policies and procedures (whether or not such requirements, policies or procedures are imposed by law or have been voluntarily adopted by GS&Co.), for it to refrain from purchasing Shares on any Scheduled Trading Day during the Valuation Period, GS&Co. may by written notice to Counterparty elect to suspend the Valuation Period for such number of Scheduled Trading Days as is specified in the notice. Unless GS&Co. is under legal, regulatory, contractual or other obligation not to disclose the underlying reasons for such a suspension, the notice (which may be verbal) shall specify the reason for GS&Co.'s election to suspend the Valuation Period. The Valuation Period shall be suspended and the Valuation Date shall be postponed for each Scheduled Trading Day occurring during any such suspension.

(c) In the event that the Valuation Period is suspended pursuant to Section 5(a) or (b) above during the regular trading session on the Exchange then the Calculation Agent in its reasonable discretion shall, in calculating the Forward Price, extend the Valuation Period and make adjustments to the weighting of each Rule 10b-18 eligible transaction in the Shares on the relevant Exchange Business Days during the Valuation Period for purposes of determining the Forward Price, with such adjustments based on, among other factors, the duration of any such suspension and the volume, historical trading patterns and price of the Shares.

6. 10b5-1 Plan. Counterparty represents, warrants and covenants to GS&Co. that for each Transaction:

(a) Counterparty is entering into this Master Confirmation and each Transaction hereunder in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b5-1 under the Exchange Act (“Rule 10b5-1”) or any antifraud or anti-manipulation provisions of the federal or applicable state securities laws and that it has not entered into or altered and will not enter into or alter any corresponding or hedging transaction or position with respect to the Shares. Counterparty acknowledges that it is the intent of the parties that each Transaction entered into under this Master Confirmation comply with the requirements of Rule 10b5-1(c)(1)(i)(A) and (B) and each Transaction entered into under this Master Confirmation shall be interpreted to comply with the requirements of Rule 10b5-1(c).

(b) Counterparty will not seek to control or influence GS&Co. to make “purchases or sales” (within the meaning of Rule 10b5-1(c)(1)(i)(B)(3)) under any Transaction entered into under this Master Confirmation, including, without limitation, GS&Co.’s decision to enter into any hedging transactions. Counterparty represents and warrants that it has consulted with its own advisors as to the legal aspects of its adoption and implementation of this Master Confirmation and each Supplemental Confirmation under Rule 10b5-1.

(c) Counterparty acknowledges and agrees that any amendment, modification, waiver or termination of this Master Confirmation or the relevant Supplement Confirmation must be effected in accordance with the requirements for the amendment or termination of a “plan” as defined in Rule 10b5-1(c). Without limiting the generality of the foregoing, any such amendment, modification, waiver or termination shall be made in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b-5, and no such amendment, modification, waiver or termination shall be made at any time at which Counterparty or any officer, director, manager or similar person of Counterparty is aware of any material non-public information regarding Counterparty or the Shares.

7. Counterparty Purchases. Counterparty represents, warrants and covenants to GS&Co. that, for each Transaction, Counterparty (or any “affiliated purchaser” as defined in Rule 10b-18 under the Exchange Act (“Rule 10b-18”)) shall not, without the prior written consent of GS&Co., directly or indirectly purchase any Shares (including by means of a derivative instrument), listed contracts on the Shares or securities that are convertible into, or exchangeable or exercisable for Shares (including, without limitation, any Rule 10b-18 purchases of blocks (as defined in Rule 10b-18)) during any Relevant Period, except for purchases from its employees that are not “Rule 10b-18 purchases” (as defined in Rule 10b-18(a)(13)). During this time, any such purchases by Counterparty shall be made through GS&Co., or if not through GS&Co., with the prior written consent of GS&Co., and in compliance with Rule 10b-18 or otherwise in a manner that Counterparty and GS&Co. believe is in compliance with applicable requirements.

8. Additional Termination Events. The declaration of any Extraordinary Dividend by Counterparty during the Valuation Period for any Transaction shall constitute an Additional Termination Event, with Counterparty as the sole Affected Party and all Transactions hereunder as the Affected Transactions.

9. [reserved]

10. Automatic Termination Provisions. Notwithstanding anything to the contrary in Section 6 of the Agreement:

(a) If a Termination Price is specified in one or more Supplemental Confirmations, then an Additional Termination Event with Counterparty as the sole Affected Party and all Transactions to which such Supplemental Confirmations relate as Affected Transactions will automatically occur without any notice or action by GS&Co. or Counterparty if the price of the Shares on the Exchange at any time falls below such Termination Price. The Exchange Business Day that the price of the Shares on the Exchange at any time falls below the Termination Price will be the “Early Termination Date” for purposes of the Agreement.

(b) Notwithstanding anything to the contrary in Section 6(d) of the Agreement, following the occurrence of such an Additional Termination Event, GS&Co. will notify Counterparty of the amount owing under Section 6(e) of the Agreement within a commercially reasonable time period (with such period based upon the amount of time, determined by GS&Co. (or any of its Affiliates) in its reasonable discretion, that it would take to unwind any of its Hedge Position(s) related to the Transaction in a commercially reasonable manner based on

relevant market indicia). For purposes of the “Net Share Settlement Upon Early Termination” provisions herein, the date that such notice is effective shall constitute the Net Share Valuation Date and the Early Termination Date.

11. Special Provisions for Merger Transactions. Notwithstanding anything to the contrary herein or in the Equity Definitions, Counterparty shall,

(a) prior to the opening of trading in the Shares on any day during any Relevant Period on which Counterparty makes, or expects to be made, any public announcement (as defined in Rule 165(f) under the Securities Act of 1933, as amended) of any Merger Transaction, notify GS&Co. of such public announcement;

(b) promptly notify GS&Co. following any such announcement that such announcement has been made;

(c) promptly provide GS&Co. with written notice specifying (i) Counterparty’s average daily Rule 10b-18 Purchases (as defined in Rule 10b-18) during the three full calendar months immediately preceding the Announcement Date that were not effected through GS&Co. or its affiliates and (ii) the number of Shares purchased pursuant to the proviso in Rule 10b-18(b)(4) under the Exchange Act for the three full calendar months preceding the Announcement Date. Such written notice shall be deemed to be a certification by Counterparty to GS&Co. that such information is true and correct. In addition, Counterparty shall promptly notify GS&Co. of the earlier to occur of the completion of such transaction and the completion of the vote by target shareholders. Counterparty acknowledges that any such notice may cause the terms of any Transaction to be adjusted or such Transaction to be terminated; accordingly, Counterparty acknowledges that its delivery of such notice must comply with the standards set forth in Section 6; and

(d) GS&Co. in its reasonable discretion may (i) suspend the Valuation Period and postpone the Valuation Date or (ii) treat the occurrence of such public announcement as an Additional Termination Event with Counterparty as the sole Affected Party and the Transactions hereunder as the Affected Transactions.

“Merger Transaction” means any merger, acquisition or similar transaction involving a recapitalization as contemplated by Rule 10b-18(a)(13)(iv) under the Exchange Act.

12. Special Calculation and Settlement Following Early Termination and Extraordinary Events. Notwithstanding anything to the contrary in this Master Confirmation or any Supplemental Confirmation hereunder, in the event that an Extraordinary Event occurs that results in the termination or cancellation of one or more Transactions or an Early Termination Date occurs or is designated with respect to one or more Transactions (each an “Elected Transaction” and collectively, the “Elected Transactions”), then GS&Co. may elect, in its sole discretion, by notice to Counterparty, to have Counterparty deliver the Number of Early Settlement Shares to GS&Co. on the date that such notice is effective and either (x) GS&Co. shall pay to Counterparty the Special Termination Amount, if such amount is positive, or (y) Counterparty shall either (1) pay to GS&Co. the absolute value of the Special Termination Amount, if such amount is negative, or (2) elect for the provisions set forth opposite “Net Share Settlement Upon Early Termination” to apply except that all references in such provision to “the Early Termination Amount” shall be replaced with references to “the Special Termination Amount”. To the extent that Counterparty elects to deliver Early Settlement Shares to GS&Co. accompanied by an effective Registration Statement (as defined in Annex B and satisfactory to GS&Co. in its sole discretion) covering such Shares, Counterparty must be in compliance with the conditions specified in (iii) through (ix) in Annex B hereto at the time of such delivery. If Counterparty elects to deliver Unregistered Shares (as defined in Annex B) to GS&Co., Counterparty and GS&Co. will negotiate in good faith on acceptable procedures and documentation relating to the sale of such Unregistered Shares. Counterparty and GS&Co. agree that the payment of the Special Termination Amount and the delivery of the Early Settlement Shares satisfy in full any obligation of a party to make any payments pursuant to Section 6(e) of the Agreement or Article 12 of the Equity Definitions, as the case may be, in respect of the Elected Transactions.

“Number of Early Settlement Shares” means a number of Shares (“Early Settlement Shares”) as determined by GS&Co. in a good faith and commercially reasonable manner based on its or any of its Affiliates’ Hedge Positions with respect to the Elected Transactions under this Master Confirmation.

“Special Termination Amount” means the sum of (a) the product of (i) the Number of Early Settlement Shares *multiplied by* (ii) a per Share price (the “Early Termination Price”) determined by GS&Co. in a good faith and commercially reasonable manner based on relevant market indicia, including GS&Co.’s funding costs associated with Early Settlement Shares and costs incurred or estimated to be incurred by GS&Co. in connection with the purchase and sale of Shares in order to close out GS&Co.’s or any of its Affiliates’ Hedge Positions with respect to each Affected Transaction and, in the event that Counterparty delivers Unregistered Shares to GS&Co., whether GS&Co. and Counterparty have agreed on acceptable procedures and documentation relating to such Unregistered Shares as described above and (b) any amount owing under Section 6(e) of the Agreement or Article 12 of the Equity Definitions, as the case may be, in respect of the Elected Transactions by GS&Co. to Counterparty (expressed as a positive number) or by Counterparty to GS&Co. (expressed as a negative number).

13. Acknowledgments. The parties hereto intend for:

(a) Each Transaction to be a “securities contract” as defined in Section 741(7) of the U.S. Bankruptcy Code (Title 11 of the United States Code) (the “Bankruptcy Code”), a “swap agreement” as defined in Section 101(53B) of the Bankruptcy Code, or a “forward contract” as defined in Section 101(25) of the Bankruptcy Code, and the parties hereto to be entitled to the protections afforded by, among other Sections, Sections 362(b)(6), 362(b)(17), 362(b)(27), 555, 556, 560 and 561 of the Bankruptcy Code;

(b) the Agreement to be a “master netting agreement” as defined in Section 101 (38A) of the Bankruptcy Code;

(c) a party’s right to liquidate or terminate any Transaction, net out or offset termination values of payment amounts, and to exercise any other remedies upon the occurrence of any Event of Default under the Agreement with respect to the other party to constitute a “contractual right” (as defined in the Bankruptcy Code);

(d) any cash, securities or other property transferred as performance assurance, credit support or collateral with respect to each Transaction to constitute “margin payments” (as defined in the Bankruptcy Code); and

(e) all payments for, under or in connection with each Transaction, all payments for the Shares and the transfer of such Shares to constitute “settlement payments” and “transfers” (as defined in the Bankruptcy Code).

14. Calculations on Early Termination and Set-Off.

(a) Notwithstanding anything to the contrary in the Agreement or the Equity Definitions, the calculation of any Settlement Amounts, Unpaid Amounts and amounts owed in respect of cancelled Transactions under Article 12 of the Equity Definitions shall be calculated separately for (A) all Terminated Transactions (it being understood that such term for purposes of this paragraph includes Transactions cancelled pursuant to Article 12 of the Equity Definitions) in the Shares of the Issuer that qualify as equity under applicable accounting rules (collectively, the “Equity Shares”) as determined by the Calculation Agent and (B) all other Terminated Transactions under the Agreement including, without limitation, Transactions in Shares other than those of the Issuer (collectively, the “Other Shares”).

(b) The parties agree to amend Section 6 of the Agreement by adding a new Section 6(f) thereto as follows:

“(f) Upon the occurrence of an Event of Default or Termination Event with respect to a party who is the Defaulting Party or the Affected Party or upon the occurrence of an Extraordinary Event that results in the termination or cancellation of any Transaction (such Defaulting Party, Affected Party or, in the case of such an Extraordinary Event, either party, “X”), the other party (“Y”) will have the right (but not be obliged) without prior notice to X or any other person to set-off or apply any obligation of X owed to Y (or any Affiliate of Y) (whether or not matured or contingent and whether or not arising under the

Agreement, and regardless of the currency, place of payment or booking office of the obligation) against any obligation of Y (or any Affiliate of Y) owed to X (whether or not matured or contingent and whether or not arising under the Agreement, and regardless of the currency, place of payment or booking office of the obligation). Y will give notice to the other party of any set-off effected under this Section 6(f).

Amounts (or the relevant portion of such amounts) subject to set-off may be converted by Y into the Termination Currency at the rate of exchange at which such party would be able, acting in a reasonable manner and in good faith, to purchase the relevant amount of such currency. If any obligation is unascertained, Y may in good faith estimate that obligation and set-off in respect of the estimate, subject to the relevant party accounting to the other when the obligation is ascertained. Nothing in this Section 6(f) shall be effective to create a charge or other security interest. This Section 6(f) shall be without prejudice and in addition to any right of set-off, combination of accounts, lien or other right to which any party is at any time otherwise entitled (whether by operation of law, contract or otherwise)."

(c) Notwithstanding anything to the contrary in the foregoing, GS&Co. agrees not to set off or net amounts due from Counterparty with respect to any Transaction against amounts due from GS&Co. to Counterparty under obligations other than Equity Contracts. "**Equity Contract**" means any transaction relating to Shares between the parties (or any of their affiliates) that qualifies as 'equity' under applicable accounting rules.

15. Payment Date Upon Early Termination. Notwithstanding anything to the contrary in Section 6(d)(ii) of the Agreement, all amounts calculated as being due in respect of an Early Termination Date under Section 6(e) of the Agreement will be payable on the day that notice of the amount payable is effective.

16. Credit Support Documents. The parties hereto acknowledge that no Transaction hereunder is secured by any collateral that would otherwise secure the obligations of Counterparty herein or pursuant to the Agreement.

17. Claim in Bankruptcy. GS&Co. agrees that in the event of the bankruptcy of Counterparty, GS&Co. shall not have rights or assert a claim that is senior in priority to the rights and claims available to the shareholders of the common stock of Counterparty.

18. Transactions by GS&Co. [***]

19. Offices.

(a) The Office of GS&Co. for each Transaction is: One New York Plaza, New York, New York 10004.

(b) The Office of Counterparty for each Transaction is: 3050 Bowers Avenue, Santa Clara, California 95054.

20. Governing Law. The Agreement, this Master Confirmation and each Supplemental Confirmation and all matters arising in connection with the Agreement, this Master Confirmation and each Supplemental Confirmation shall be governed by, and construed and enforced in accordance with, the laws of the State of New York (without reference to its choice of laws doctrine).

*** INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

21. Counterparts. This Master Confirmation may be executed in any number of counterparts, all of which shall constitute one and the same instrument, and any party hereto may execute this Master Confirmation by signing and delivering one or more counterparts.

22. Arbitration.

(a) All parties to this Confirmation are giving up the right to sue each other in court, including the right to a trial by jury, except as provided by the rules of the arbitration forum in which a claim is filed.

(b) Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited.

(c) The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court proceedings.

(d) The arbitrators do not have to explain the reason(s) for their award.

(e) The panel of arbitrators will typically include a minority of arbitrators who were or are affiliated with the securities industry, unless Counterparty is a member of the organization sponsoring the arbitration facility, in which case all arbitrators may be affiliated with the securities industry.

(f) The rules of some arbitration forums may impose time limits for bringing a claim in arbitration. In some cases, a claim that is ineligible for arbitration may be brought in court.

(g) The rules of the arbitration forum in which the claim is filed, and any amendments thereto, shall be incorporated into this Confirmation.

(h) Counterparty agrees that any and all controversies that may arise between Counterparty and GS & Co., including, but not limited to, those arising out of or relating to the Agreement or any Transaction hereunder, shall be determined by arbitration conducted before The New York Stock Exchange, Inc. ("NYSE") or NASD Dispute Resolution ("NASD-DR"), or, if the NYSE and NASD-DR decline to hear the matter, before the American Arbitration Association, in accordance with their arbitration rules then in force. The award of the arbitrator shall be final, and judgment upon the award rendered may be entered in any court, state or federal, having jurisdiction.

(i) No person shall bring a putative or certified class action to arbitration, nor seek to enforce any pre-dispute arbitration agreement against any person who has initiated in court a putative class action or who is a member of a putative class who has not opted out of the class with respect to any claims encompassed by the putative class action until: (i) the class certification is denied; (ii) the class is decertified; or (iii) Counterparty is excluded from the class by the court.

(j) Such forbearance to enforce an agreement to arbitrate shall not constitute a waiver of any rights under this Confirmation except to the extent stated herein.

23. Counterparty hereby agrees (a) to check this Master Confirmation carefully and immediately upon receipt so that errors or discrepancies can be promptly identified and rectified and (b) to confirm that the foregoing correctly sets forth the terms of the agreement between GS&Co. and Counterparty with respect to any Transaction, by manually signing this Master Confirmation or this page hereof as evidence of agreement to such terms and providing the other information requested herein and immediately returning an executed copy to Equity Derivatives Documentation Department, facsimile No. 212-428-1980/83.

Yours sincerely,

GOLDMAN, SACHS & CO.

By: /s/ Conrad Langenegger
Authorized Signatory
Name: Conrad Langenegger
Title: Vice President,
Equity Derivatives Administration

Agreed and Accepted By:

APPLIED MATERIALS, INC.

By: /s/ Nancy H. Handel
Name: Nancy H. Handel
Title: Senior Vice President and Chief Financial Officer

ANNEX A
SUPPLEMENTAL CONFIRMATION

To: Applied Materials, Inc.
3050 Bowers Avenue
Santa Clara, CA 95054

From: Goldman, Sachs & Co.

Subject: Accelerated Share Buyback

Ref. No: [Insert Reference No.]

Date: September 18, 2006

The purpose of this Supplemental Confirmation is to confirm the terms and conditions of the Transaction entered into between Goldman, Sachs & Co. ("GS&Co.") and Applied Materials, Inc. ("Counterparty" and together with GS&Co., the "Contracting Parties") on the Trade Date specified below. This Supplemental Confirmation is a binding contract between GS&Co. and Counterparty as of the relevant Trade Date for the Transaction referenced below.

1. This Supplemental Confirmation supplements, forms part of, and is subject to the Master Confirmation dated as of September 18, 2006 (the "Master Confirmation") between the Contracting Parties, as amended and supplemented from time to time. All provisions contained in the Master Confirmation govern this Supplemental Confirmation except as expressly modified below.

2. The terms of the Transaction to which this Supplemental Confirmation relates are as follows:

Trade Date:	[_____, 200_]
Initial Share Price:	USD [___] per Share.
Valuation Date:	[_____, 200_]
Number of Shares:	[_____]
Settlement Price Adjustment Amount	USD[___]
Ordinary Dividend Amount:	For any calendar quarter, USD[___]
Termination Price:	USD[___] per Share
Reserved Shares:	[_____] Shares
Counterparty Additional Payment Amount:	USD[_____]

3. Counterparty represents and warrants to GS&Co. that neither it (nor any "affiliated purchaser" as defined in Rule 10b-18 under the Exchange Act) have made any purchases of blocks pursuant to the proviso in Rule 10b-18(b)(4) under the Exchange Act during the four full calendar weeks immediately preceding the Trade Date.

4. This Supplemental Confirmation may be executed in any number of counterparts, all of which shall constitute one and the same instrument, and any party hereto may execute this Supplemental Confirmation by signing and delivering one or more counterparts.

Counterparty hereby agrees (a) to check this Supplemental Confirmation carefully and immediately upon receipt so that errors or discrepancies can be promptly identified and rectified and (b) to confirm that the foregoing

correctly sets forth the terms of the agreement between GS&Co. and Counterparty with respect to this Transaction, by manually signing this Supplemental Confirmation or this page hereof as evidence of agreement to such terms and providing the other information requested herein and immediately returning an executed copy to Equity Derivatives Documentation Department, facsimile No. 212-428-1980/83.

Yours sincerely,

GOLDMAN, SACHS & CO.

By: _____
Authorized Signatory

Agreed and Accepted

APPLIED MATERIALS, INC.

By: _____
Name:
Title:

ANNEX B

NET SHARE SETTLEMENT PROCEDURES

The following Net Share Settlement Procedures shall apply to the extent that Counterparty elects Net Share Settlement in accordance with the Master Confirmation:

Net Share Settlement shall be made by delivery of the number of Shares equal in value to the Forward Cash Settlement Amount (the "Settlement Shares"), with such Shares' value based on the Net Share Settlement Price, as determined by the Calculation Agent. Delivery of such Settlement Shares shall be made free of any contractual or other restrictions in good transferable form on the Net Share Settlement Date with Counterparty (i) representing and warranting to GS&Co. at the time of such delivery that it has good, valid and marketable title or right to sell and transfer all such Shares to GS&Co. under the terms of the related Transaction free of any lien charge, claim or other encumbrance and (ii) making the representations and agreements contained in Section 9.11(ii) through (iv) of the Equity Definitions to GS&Co. with respect to the Settlement Shares (except that the representations and agreements contained in Section 9.11(ii) through (iv) of the Equity Definitions shall be modified by excluding any representations therein relating to restrictions, obligations, limitations or requirements under applicable securities laws as a result of the fact the Counterparty is the issuer of the Settlement Shares). GS&Co. or any affiliate of GS&Co. designated by GS&Co. (GS&Co. or such affiliate, "GS") shall resell the Settlement Shares during a period (the "Resale Period") commencing no earlier than the Net Share Valuation Date. The Resale Period shall end on the Exchange Business Day on which GS completes the sale of all Settlement Shares or a sufficient number of Settlement Shares so that the realized net proceeds of such sales exceed the Forward Cash Settlement Amount. Notwithstanding the foregoing, if resale by GS of the Settlement Shares, as determined by GS in its reasonable discretion (i) occurs during a distribution for purposes of Regulation M, and if GS would be subject to the restrictions of Rule 101 of Regulation M in connection with such distribution, the Resale Period will be postponed or tolled, as the case may be, until the Exchange Business Day immediately following the end of any "restricted period" as such term is defined in Regulation M with respect to such distribution under Regulation M or (ii) conflict with any legal, regulatory or self-regulatory requirements or related policies and procedures applicable to GS (whether or not such requirements, policies or procedures are imposed by law or have been voluntarily adopted by GS), the Resale Period will be postponed or tolled, as the case may be, until such conflict is no longer applicable. During the Resale Period, if the realized net proceeds from the resale of the Settlement Shares exceed the Forward Cash Settlement Amount, GS shall refund such excess in cash to Counterparty by the close of business on the third Exchange Business Day immediately following the last day of the Resale Period. If the Forward Cash Settlement Amount exceeds the realized net proceeds from such resale, Counterparty shall transfer to GS by the open of the regular trading session on the Exchange on the third Scheduled Trading Day immediately following the last day of the Resale Period the amount of such excess (the "Additional Amount") in cash or in the number of Shares ("Make-whole Shares") in an amount that, based on the Net Share Settlement Price on the last day of the Resale Period (as if such day was the "Net Share Valuation Date" for purposes of computing such Net Share Settlement Price), has a dollar value equal to the Additional Amount, as determined by the Calculation Agent. The Resale Period shall continue to enable the sale of the Make-whole Shares. If Counterparty elects to pay the Additional Amount in Shares, the requirements and provisions set forth below shall apply. This provision shall be applied successively until the Additional Amount is equal to zero.

Net Share Settlement of a Transaction is subject to the following conditions:

Counterparty at its sole expense shall:

(i) as promptly as practicable (but in no event more than fifteen (15) Exchange Business Days immediately following the Settlement Method Election Date or, in the case of an election of Net Share Settlement upon the occurrence of an Extraordinary Event or an Early Termination Date, no more than one Exchange Business Day immediately following either the Cancellation Date or the Early Termination Date, as the case may be) file under the Securities Act and use its reasonable efforts to make effective, as promptly as practicable, a registration statement or supplement or amend an outstanding registration statement, in any such case, in form and substance reasonably satisfactory to GS (the "Registration Statement") covering the offering and sale by GS of not less than 150% of the Shares

necessary to fulfill the Net Share Settlement delivery obligation by Counterparty (determining the number of such Shares to be registered on the basis of the average of the Settlement Prices on the fifteen (15) Exchange Business Days prior to the date of such filing, amendment or supplement, as the case may be);

(ii) maintain the effectiveness of the Registration Statement until GS has sold all shares to be delivered by Counterparty in satisfaction of its Net Share Settlement obligations;

(iii) have afforded GS and its counsel and other advisers a reasonable opportunity to conduct a due diligence investigation of Counterparty customary in scope for transactions in which GS acts as underwriter of equity securities, and GS shall have been satisfied (with the approval of its Commitments Committee in accordance with its customary review process) with the results of such investigation;

(iv) have negotiated and entered into an agreement with GS providing for such covenants, conditions, representations and warranties, underwriting discounts, commissions, indemnities and contribution rights as are customary for GS equity underwriting agreements, together with customary certificates and opinions of counsel and letters of independent auditors of Counterparty to be delivered to GS covering the shares to be delivered by Counterparty in satisfaction of its Net Share Settlement obligations;

(v) have delivered to GS such number of prospectuses relating thereto as GS shall have reasonably requested and shall promptly update and provide GS with replacement prospectuses as necessary to ensure the prospectus does not contain any untrue statement of a material fact or any omission of a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading;

(vi) have retained for GS nationally-recognized underwriting counsel acceptable to GS (in its sole discretion) with broad experience in similar registered securities offerings and such counsel shall have agreed to act as such;

(vii) have taken all steps necessary for the shares sold by GS to be listed or quoted on the primary exchange or quotation system that the Shares are listed or quoted on;

(viii) have paid all reasonable and actual out-of-pocket costs and expenses of GS and all reasonable and actual fees and expenses of GS's outside counsel and other independent experts in connection with the foregoing; and

(ix) take such action as is required to ensure that GS's sale of the Shares does not violate, or result in a violation of, the federal or state securities laws.

In the event that the Registration Statement is not declared effective by the Securities Exchange Commission (the "SEC") or any of the conditions specified in (ii) through (ix) above are not satisfied on or prior to the Valuation Date (or, in the case of an election of Net Share Settlement upon the occurrence of an Extraordinary Event or an Early Termination Date, on or prior to the first Exchange Business Day following either the Cancellation Date or the Early Termination Date, as the case may be), then Counterparty may deliver Unregistered Shares (as defined below) to GS in accordance with the following conditions. If GS and Counterparty can agree on acceptable pricing, procedures and documentation relating to the sale of such Unregistered Shares (including, without limitation, applicable requirements in (iii) through (ix) above and insofar as pertaining to private offerings), then such Unregistered Shares shall be deemed to be the "Settlement Shares" for the purposes of the related Transaction and the settlement procedure specified in this Annex B shall be followed except that in the event that the Forward Cash Settlement Amount exceeds the proceeds from the sale of such Unregistered Shares then for the purpose of calculating the number of Make-whole Shares to be delivered by Counterparty, GS shall determine the discount to the Net Share Settlement Price at which it can sell the Unregistered Shares. Notwithstanding the delivery of the Unregistered Shares, Counterparty shall endeavor in good faith to have a registration statement declared effective by the SEC as soon as practical. In the event that GS has not sold sufficient Unregistered Shares

to satisfy Counterparty's obligations to GS contained herein at the time that a Registration Statement covering the offering and sale by GS of a number of Shares equal in value to not less than 150% of the amount then owed to GS is declared effective (based on the Net Share Settlement Price on the Exchange Business Day (as if such Exchange Business Day were the "Net Share Valuation Date" for purposes of computing such Net Share Settlement Price) that the Registration Statement was declared effective), GS shall return all unsold Unregistered Shares to Counterparty and Counterparty shall deliver such number of Shares covered by the effective Registration Statement equal to 100% of the amount then owed to GS based on such Net Share Settlement Price. Such delivered shares shall be deemed to be the "Settlement Shares" for the purposes of the related Transaction and the settlement procedure specified in this Master Confirmation (including the obligation to deliver any Make-whole Shares, if applicable) shall be followed. In all cases GS shall be entitled to take any and all required actions in the course of its sales of the Settlement Shares, including without limitation making sales of the Unregistered Shares only to "Qualified Institutional Buyers" (as such term is defined under the Securities Act), to ensure that the sales of the Unregistered Shares and the Settlement Shares covered by the Registration Statement are not integrated resulting in a violation of the securities laws and Counterparty agrees to take all actions requested by GS in furtherance thereof.

If GS and Counterparty cannot agree on acceptable pricing, procedures and documentation relating to the sales of such Unregistered Shares then the number of Unregistered Shares to be delivered to GS pursuant to the provisions above shall not be based on the Net Share Settlement Price but rather GS shall determine the value attributed to each Unregistered Share in a commercially reasonable manner and based on such value Counterparty shall deliver a number of Shares equal in value to the Forward Cash Settlement Amount. For the purposes hereof "Unregistered Shares" means Shares that have not been registered pursuant to an effective registration statement under the Securities Act or any state securities laws ("Blue Sky Laws") and that cannot be sold, transferred, pledged or otherwise disposed of without registration under the Securities Act or under applicable Blue Sky Laws unless such sale, transfer, pledge or other disposition is made in a transaction exempt from registration thereunder.

In the event that Counterparty delivers Shares pursuant to an election of Net Share Settlement then Counterparty agrees to indemnify and hold harmless GS, its affiliates and its assignees and their respective directors, officers, employees, agents and controlling persons (GS and each such person being an "Indemnified Party") from and against any and all losses, claims, damages and liabilities (or actions in respect thereof), joint or several, to which such Indemnified Party may become subject, under the Securities Act or otherwise, (i) relating to or arising out of any of the Transactions contemplated by this Master Confirmation concerning the Shares or (ii) arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, prospectus, Registration Statement or other written material relating to the Shares delivered to prospective purchasers, including in each case any amendments or supplements thereto and including but not limited to any documents deemed to be incorporated in any such document by reference (the "Offering Materials"), or arising out of or based upon any omission or alleged omission to state in the Offering Materials a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that, in the case of this clause (ii), Counterparty will not be liable to the extent that any loss, claim, damage or liability arises out of or is based upon any untrue statement or omission or alleged untrue statement or omission in the Offering Materials made in reliance upon and in conformity with written information furnished to Counterparty by GS expressly for use in the Offering Materials, as expressly identified in a letter to be delivered at the closing of the delivery of Shares by Counterparty to GS. The foregoing indemnity shall exclude losses that GS incurs solely by reason of the proceeds from the sale of the Capped Number of Shares being less than the Forward Cash Settlement Amount. Counterparty will not be liable under the foregoing indemnification provision to the extent that any loss, claim, damage, liability or expense is found in a nonappealable judgment by a court of competent jurisdiction to have resulted from GS's willful misconduct, gross negligence or bad faith in performing the services that are subject of this Master Confirmation. If for any reason the foregoing indemnification is unavailable to any Indemnified Party or insufficient to hold harmless any Indemnified Party, then Counterparty shall contribute, to the maximum extent permitted by law, to the amount paid or payable by the Indemnified Party as a result of such loss, claim, damage or liability. In addition, Counterparty will reimburse any Indemnified Party for all expenses (including reasonable counsel fees and expenses) as they are incurred (after notice to Counterparty) in connection with the investigation of, preparation for or defense or settlement of any pending or threatened claim or any action, suit or proceeding arising therefrom, whether or not such Indemnified Party is a party thereto and whether or not such claim, action, suit or proceeding is initiated or brought by or on behalf of Counterparty. Counterparty also agrees that no Indemnified Party shall have any liability to Counterparty or any person asserting

claims on behalf of or in right of Counterparty in connection with or as a result of any matter referred to in the Agreement or this Master Confirmation except to the extent that any losses, claims, damages, liabilities or expenses incurred by Counterparty result from the gross negligence, willful misconduct or bad faith of the Indemnified Party. This indemnity shall survive the completion of any Transaction contemplated by this Master Confirmation and any assignment and delegation of a Transaction made pursuant to this Master Confirmation or the Agreement shall inure to the benefit of any permitted assignee of GS&Co.

In no event shall the number of Settlement Shares (including, without duplication, any Unregistered Shares) and any Make-whole Shares, be greater than the Reserved Shares minus the amount of any Shares actually delivered under any other Transaction(s) under this Master Confirmation (the result of such calculation, the "Capped Number"). Counterparty represents and warrants (which shall be deemed to be repeated on each day that a Transaction is outstanding) that the Capped Number is equal to or less than the number of Shares determined according to the following formula:

$$A - B$$

Where A = the number of authorized but unissued shares of the Issuer that are not reserved for future issuance on the date of the determination of the Capped Number; and

B = the maximum number of Shares required to be delivered to third parties if Counterparty elected Net Share Settlement of all transactions in the Shares (other than Transactions in the Shares under this Master Confirmation) with all third parties that are then currently outstanding and unexercised.

B-4

SUPPLEMENTAL CONFIRMATION

To: Applied Materials, Inc.
3050 Bowers Avenue
Santa Clara, CA 95054

From: Goldman, Sachs & Co.

Subject: Accelerated Share Buyback

Ref. No: SDB1622403043

Date: September 18, 2006

The purpose of this Supplemental Confirmation is to confirm the terms and conditions of the Transaction entered into between Goldman, Sachs & Co. ("GS&Co.") and Applied Materials, Inc. ("Counterparty" and together with GS&Co., the "Contracting Parties") on the Trade Date specified below. This Supplemental Confirmation is a binding contract between GS&Co. and Counterparty as of the relevant Trade Date for the Transaction referenced below.

1. This Supplemental Confirmation supplements, forms part of, and is subject to the Master Confirmation dated as of September 18, 2006 (the "Master Confirmation") between the Contracting Parties, as amended and supplemented from time to time. All provisions contained in the Master Confirmation govern this Supplemental Confirmation except as expressly modified below.
2. The terms of the Transaction to which this Supplemental Confirmation relates are as follows:

Trade Date:	September 18, 2006
Initial Share Price:	USD17.20 per Share.
Valuation Date:	January 18, 2007
Number of Shares:	145,000,000
Settlement Price Adjustment Amount	USD [***]
Ordinary Dividend Amount:	For any calendar quarter, USD [***]
Termination Price:	USD [***] per Share
Reserved Shares:	62,800,000 Shares
Counterparty Additional Payment Amount:	USD [***]

3. Counterparty represents and warrants to GS&Co. that neither it (nor any "affiliated purchaser" as defined in Rule 10b-18 under the Exchange Act) have made any purchases of blocks pursuant to the proviso in Rule 10b-18(b)(4) under the Exchange Act during the four full calendar weeks immediately preceding the Trade Date.

*** INFORMATION HAS BEEN OMITTED AND FILED SEPARATELY WITH THE COMMISSION. CONFIDENTIAL TREATMENT HAS BEEN REQUESTED WITH RESPECT TO THE OMITTED PORTIONS.

4. This Supplemental Confirmation may be executed in any number of counterparts, all of which shall constitute one and the same instrument, and any party hereto may execute this Supplemental Confirmation by signing and delivering one or more counterparts.

Counterparty hereby agrees (a) to check this Supplemental Confirmation carefully and immediately upon receipt so that errors or discrepancies can be promptly identified and rectified and (b) to confirm that the foregoing correctly sets forth the terms of the agreement between GS&Co. and Counterparty with respect to this Transaction, by manually signing this Supplemental Confirmation or this page hereof as evidence of agreement to such terms and providing the other information requested herein and immediately returning an executed copy to Equity Derivatives Documentation Department, facsimile No. 212-428-1980/83.

Yours sincerely,

GOLDMAN, SACHS & CO.

By: /s/ Conrad Langenegger
Authorized Signatory
Name: Conrad Langenegger
Title: Vice President,
Equity Derivatives Administration

Agreed and Accepted

APPLIED MATERIALS, INC.

By: /s/ Nancy H. Handel
Name: Nancy H. Handel
Title: Senior Vice President and
Chief Financial Officer

APPLIED MATERIALS, INC.
EMPLOYEE STOCK INCENTIVE PLAN
(as amended and restated on September 13, 2006)

SECTION 1
BACKGROUND AND PURPOSE

1.1 Background. The Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, SARs, Restricted Stock, Performance Units, and Performance Shares.

1.2 Purpose of the Plan. The Plan is intended to attract, motivate, and retain (a) employees of the Company and its Affiliates, (b) consultants who provide significant services to the Company and its Affiliates, and (c) directors of the Company who are employees of neither the Company nor any Affiliate. The Plan also is designed to encourage stock ownership by Participants, thereby aligning their interests with those of the Company's stockholders.

SECTION 2
DEFINITIONS

The following words and phrases shall have the following meanings unless a different meaning is plainly required by the context:

2.1 "1934 Act" means the Securities Exchange Act of 1934, as amended. Reference to a specific section of the 1934 Act or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

2.2 "Affiliate" means any corporation or any other entity (including, but not limited to, partnerships and joint ventures) controlling, controlled by, or under common control with the Company.

2.3 "Affiliated SAR" means an SAR that is granted in connection with a related Option, and which automatically will be deemed to be exercised at the same time that the related Option is exercised.

2.4 "Annual Revenue" means the Company's or a business unit's net sales for the Fiscal Year, determined in accordance with generally accepted accounting principles; provided, however, that prior to the Fiscal Year, the Committee shall determine whether any significant item(s) shall be excluded or included from the calculation of Annual Revenue with respect to one or more Participants.

2.5 "Award" means, individually or collectively, a grant under the Plan of Nonqualified Stock Options, Incentive Stock Options, SARs, Restricted Stock, Performance Units, or Performance Shares.

2.6 "Award Agreement" means the written agreement setting forth the terms and provisions applicable to each Award granted under the Plan.

2.7 “Board” or “Board of Directors” means the Board of Directors of the Company.

2.8 “Code” means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

2.9 “Committee” means the committee appointed by the Board (pursuant to Section 3.1) to administer the Plan.

2.10 “Company” means Applied Materials, Inc. , a Delaware corporation, or any successor thereto. With respect to the definitions of the Performance Goals, the Committee may determine that “Company” means Applied Materials, Inc. and its consolidated subsidiaries.

2.11 “Consultant” means any consultant, independent contractor, or other person who provides significant services to the Company or its Affiliates, but who is neither an Employee nor a Director.

2.12 “Controllable Profits” means as to any Fiscal Year, a business unit’s Annual Revenue minus (a) cost of sales, (b) research, development, and engineering expense, (c) marketing and sales expense, (d) general and administrative expense, (e) extended receivables expense, and (f) shipping requirement deviation expense.

2.13 “Customer Satisfaction MBOs” means as to any Participant, the objective and measurable individual goals set by a “management by objectives” process and approved by the Committee, which goals relate to the satisfaction of external or internal customer requirements.

2.14 “Director” means any individual who is a member of the Board of Directors of the Company.

2.15 “Disability” means a permanent and total disability within the meaning of Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Committee in its discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Committee from time to time.

2.16 “Earnings Per Share” means as to any Fiscal Year, the Company’s Net Income or a business unit’s Pro Forma Net Income, divided by a weighted average number of common shares outstanding and dilutive common equivalent shares deemed outstanding.

2.17 “Employee” means any employee of the Company or of an Affiliate, whether such employee is so employed at the time the Plan is adopted or becomes so employed subsequent to the adoption of the Plan.

2.18 “Exercise Price” means the price at which a Share may be purchased by a Participant pursuant to the exercise of an Option.

2.19 "Fair Market Value" means the last quoted per share selling price for Shares on the relevant date, or if there were no sales on such date, the arithmetic mean of the highest and lowest quoted selling prices on the nearest day before and the nearest day after the relevant date, as determined by the Committee. Notwithstanding the preceding, for federal, state, and local income tax reporting purposes, fair market value shall be determined by the Committee (or its delegate) in accordance with uniform and nondiscriminatory standards adopted by it from time to time.

2.20 "Fiscal Year" means the fiscal year of the Company.

2.21 "Freestanding SAR" means a SAR that is granted independently of any Option.

2.22 "Grant Date" means, with respect to an Award, the date that the Award was granted.

2.23 "Incentive Stock Option" means an Option to purchase Shares which is designated as an Incentive Stock Option and is intended to meet the requirements of Section 422 of the Code.

2.24 "Individual MBOs" means as to a Participant, the objective and measurable goals set by a "management by objectives" process and approved by the Committee (in its discretion).

2.25 "Net Income" means as to any Fiscal Year, the income after taxes of the Company for the Fiscal Year determined in accordance with generally accepted accounting principles, provided that prior to the Fiscal Year, the Committee shall determine whether any significant item(s) shall be included or excluded from the calculation of Net Income with respect to one or more Participants.

2.26 "New Orders" means as to any Fiscal Year, the firm orders for a system, product, part, or service that are being recorded for the first time as defined in the Company's Order Recognition Policy.

2.27 "Nonemployee Director" means a Director who is an employee of neither the Company nor of any Affiliate.

2.28 "Nonqualified Stock Option" means an option to purchase Shares which is not intended to be an Incentive Stock Option.

2.29 "Option" means an Incentive Stock Option or a Nonqualified Stock Option.

2.30 "Participant" means an Employee, Consultant, or Nonemployee Director who has an outstanding Award.

2.31 "Performance Goals" means the goal(s) (or combined goal(s)) determined by the Committee (in its discretion) to be applicable to a Participant with respect to an Award. As determined by the Committee, the Performance Goals applicable to an Award may provide for a targeted level or levels of achievement using one or more of the following measures: (a) Annual Revenue, (b) Controllable Profits, (c) Customer Satisfaction MBOs, (d) Earnings Per Share, (e) Individual MBOs, (f) Net Income, (g) New Orders, (h) Pro Forma Net Income, (i) Return on Designated Assets, and (j) Return on Sales. The Performance Goals may differ from Participant to Participant and from Award to Award. Any criteria used may be (i) measured in absolute terms, (ii) compared to another company or companies, (iii) measured against the performance of the Company

as a whole or a segment of the Company and/or (iv) measured on a pre-tax or post-tax basis (if applicable).

2.32 "Performance Share" means an Award granted to a Participant pursuant to Section 8.

2.33 "Performance Unit" means an Award granted to a Participant pursuant to Section 8.

2.34 "Period of Restriction" means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. As provided in Section 7, such restrictions may be based on the passage of time, the achievement of target levels of performance, or the occurrence of other events as determined by the Committee, in its discretion. Notwithstanding any contrary provision of the Plan, a Period of Restriction shall expire at a rate no faster than one-third (1/3) of the Shares covered by an Award each year unless determined otherwise by the Committee at its discretion solely by reason of death, Disability, Retirement or major capital change.

2.35 "Plan" means the Applied Materials, Inc. Employee Stock Incentive Plan, as set forth in this instrument and as hereafter amended from time to time. The Plan formerly was named the Applied Materials, Inc. 1995 Equity Incentive Plan.

2.36 "Pro Forma Net Income" means as to any business unit for any Fiscal Year, the Controllable Profits of such business unit, minus allocations of designated corporate expenses.

2.37 "Reload Option" means an Option that automatically is granted if a Participant pays the exercise price of an Option by tendering Shares.

2.38 "Restricted Stock" means an Award granted to a Participant pursuant to Section 7.

2.39 "Retirement" means, in the case of an Employee or a Nonemployee Director: (a) a Termination of Service occurring on or after age sixty-five (65), or (b) a Termination of Service occurring on or after age sixty (60) with at least ten (10) Years of Service. Notwithstanding the preceding, in the case of any Option granted to any Employee prior to December 10, 1998, "Retirement" means a Termination of Service by reason of the Employee's retirement at or after his or her normal retirement date under the Applied Materials, Inc. Employee Savings and Retirement Plan, or any successor plan. With respect to a Consultant, no Termination of Service shall be deemed to be on account of "Retirement."

2.40 "Return on Designated Assets" means as to any Fiscal Year, the Pro Forma Net Income of a business unit, divided by the average of beginning and ending business unit designated assets, or Net Income of the Company, divided by the average of beginning and ending designated corporate assets.

2.41 "Return on Sales" means as to any Fiscal Year, the percentage equal to the Company's Net Income or the business unit's Pro Forma Net Income, divided by the Company's or the business unit's Annual Revenue.

2.42 "Rule 16b-3" means Rule 16b-3 promulgated under the 1934 Act, and any future regulation amending, supplementing or superseding such regulation.

2.43 "Section 16 Person" means a person who, with respect to the Shares, is subject to Section 16 of the 1934 Act.

2.44 "Shares" means the shares of common stock of the Company.

2.45 "Stock Appreciation Right" or "SAR" means an Award, granted alone or in connection with a related Option, that pursuant to Section 7 is designated as an SAR.

2.46 "Subsidiary," means any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

2.47 "Tandem SAR" means an SAR that is granted in connection with a related Option, the exercise of which shall require forfeiture of the right to purchase an equal number of Shares under the related Option (and when a Share is purchased under the Option, the SAR shall be canceled to the same extent).

2.48 "Termination of Service" means (a) in the case of an Employee, a cessation of the employee-employer relationship between the Employee and the Company or an Affiliate for any reason, including, but not by way of limitation, a termination by resignation, discharge, death, Disability, Retirement, or the disaffiliation of an Affiliate, but excluding any such termination where there is a simultaneous reemployment by the Company or an Affiliate; (b) in the case of a Consultant, a cessation of the service relationship between the Consultant and the Company or an Affiliate for any reason, including, but not by way of limitation, a termination by resignation, discharge, death, Disability, or the disaffiliation of an Affiliate, but excluding any such termination where there is a simultaneous re-engagement of the consultant by the Company or an Affiliate; and (c) in the case of a Nonemployee Director, a cessation of the Director's service on the Board for any reason, including, but not by way of limitation, a termination by resignation, death, Disability, Retirement or non-re-election to the Board.

2.49 "Years of Service" means, in the case of an Employee, the number of full months from the Employee's latest hire date with the Company or an Affiliate to the date in question, divided by 12. The Employee's latest hire date shall be determined after giving effect to the non-401(k) Plan principles of North American Human Resources Policy No. 2-06, Re-Employment of Former Employees/Bridging of Service, as such Policy may be amended or superseded from time to time. With respect to a Nonemployee Director, "Years of Service" means the number of years of continuous service on the Board of Directors.

SECTION 3 ADMINISTRATION

3.1 The Committee. The Plan shall be administered by the Committee. The Committee shall consist of not less than two (2) Directors who shall be appointed from time to time by, and shall serve at the pleasure of, the Board of Directors. The Committee shall be comprised solely of Directors who both are (a) "non-employee directors" under Rule 16b-3, and (b) "outside directors" under Section 162(m) of the Code.

3.2 Authority of the Committee. It shall be the duty of the Committee to administer the Plan in accordance with the Plan's provisions. The Committee shall have all powers and discretion necessary or appropriate to administer the Plan and to control its operation, including, but not limited to, the power to (a) determine which Employees and Consultants shall be granted Awards, (b) prescribe the terms and conditions of the Awards, (c) interpret the Plan and the Awards, (d) adopt such procedures and subplans as are necessary or appropriate to permit participation in the Plan by Employees, Consultants and Directors who are foreign nationals or employed outside of the United States, (e) adopt rules for the administration, interpretation and application of the Plan as are consistent therewith, and (f) interpret, amend or revoke any such rules. Except as provided in Section 4.3, the Committee may not reprice outstanding Options or institute a program whereby outstanding Awards are surrendered or cancelled in exchange for Awards of the same type (which may have a lower exercise price or purchase price), of a different type and/or cash without first obtaining stockholder approval.

3.3 Delegation by the Committee. The Committee, in its sole discretion and on such terms and conditions as it may provide, may delegate all or any part of its authority and powers under the Plan to one or more Directors or officers of the Company; provided, however, that the Committee may not delegate its authority and powers (a) with respect to Section 16 Persons, or (b) in any way which would jeopardize the Plan's qualification under Section 162(m) of the Code or Rule 16b-3.

3.4 Decisions Binding. All determinations and decisions made by the Committee, the Board, and any delegate of the Committee pursuant to the provisions of the Plan shall be final, conclusive, and binding on all persons, and shall be given the maximum deference permitted by law.

SECTION 4 SHARES SUBJECT TO THE PLAN

4.1 Number of Shares. Subject to adjustment as provided in Section 4.3, the total number of Shares available for grant under the Plan shall not exceed 367,200,000. Shares granted under the Plan may be either authorized but unissued Shares or treasury Shares. The total number of Shares that may be granted pursuant to awards of Restricted Stock, Performance Shares and Performance Units may not exceed 20,000,000 Shares.

4.2 Lapsed Awards. If an Award is settled in cash, or is cancelled, terminates, expires, or lapses for any reason (with the exception of the termination of a Tandem SAR upon exercise of the related Option, or the termination of a related Option upon exercise of the corresponding Tandem SAR), any Shares subject to such Award again shall be available to be the subject of an Award.

4.3 Adjustments in Awards and Authorized Shares. In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, split-up, Share combination, or other change in the corporate structure of the Company affecting the Shares, the Committee shall adjust the number and class of Shares which may be delivered under the Plan, the number, class, and price of Shares subject to outstanding Awards, and the numerical limits of Sections 5.1, 6.1, 7.1, 8.1 and 9.1, in such manner as the Committee (in its sole discretion) shall determine to be appropriate to prevent the dilution or diminution of such Awards. Notwithstanding the preceding, the number of Shares subject to any Award always shall be a whole number.

SECTION 5
STOCK OPTIONS

5.1 Grant of Options. Subject to the terms and provisions of the Plan, Options may be granted to Employees and Consultants at any time and from time to time as determined by the Committee in its sole discretion. The Committee, in its sole discretion, shall determine the number of Shares subject to each Option, provided that during any Fiscal Year, no Participant shall be granted Options covering more than 1,400,000 Shares. The Committee may grant Incentive Stock Options, Nonqualified Stock Options, or a combination thereof. The Committee may not grant Reload Options.

5.2 Award Agreement. Each Option shall be evidenced by an Award Agreement that shall specify the Exercise Price, the expiration date of the Option, the number of Shares to which the Option pertains, any conditions to exercise of the Option, and such other terms and conditions as the Committee, in its discretion, shall determine. The Award Agreement shall also specify whether the Option is intended to be an Incentive Stock Option or a Nonqualified Stock Option.

5.3 Exercise Price. Subject to the provisions of this Section 5.3, the Exercise Price for each Option shall be determined by the Committee in its sole discretion.

5.3.1 Nonqualified Stock Options. In the case of a Nonqualified Stock Option, the Exercise Price shall be not less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date.

5.3.2 Incentive Stock Options. In the case of an Incentive Stock Option, the Exercise Price shall be not less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date; provided, however, that if on the Grant Date, the Employee (together with persons whose stock ownership is attributed to the Employee pursuant to Section 424(d) of the Code) owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any of its Subsidiaries, the Exercise Price shall be not less than one hundred and ten percent (110%) of the Fair Market Value of a Share on the Grant Date.

5.3.3 Substitute Options. Notwithstanding the provisions of Sections 5.3.1 and 5.3.2, in the event that the Company or an Affiliate consummates a transaction described in Section 424(a) of the Code (e.g., the acquisition of property or stock from an unrelated corporation), persons who become Employees or Consultants on account of such transaction may be granted Options in substitution for options granted by their former employer. If such substitute Options are granted, the Committee, in its sole discretion and consistent with Section 424(a) of the Code, may determine that such substitute Options shall have an exercise price less than one hundred percent (100%) of the Fair Market Value of the Shares on the Grant Date.

5.4 Expiration of Options.

5.4.1 Expiration Dates. Each Option shall terminate no later than the first to occur of the following events:

- (a) The date for termination of the Option set forth in the written Award Agreement; or

- (b) The expiration of seven (7) years from the Grant Date; or
- (c) The expiration of one (1) year from the date of the Participant's Termination of Service for a reason other than the Participant's death, Disability or Retirement; or
- (d) The expiration of three (3) years from the date of the Participant's Termination of Service by reason of Disability; or
- (e) The expiration of three (3) years from the date of the Participant's Retirement (except as provided in Section 5.8.2 regarding Incentive Stock Options).

5.4.2 Death of Participant. Notwithstanding Section 5.4.1, if a Participant dies prior to the expiration of his or her Options, the Committee, in its discretion, may provide that his or her Options shall be exercisable for up to three (3) years after the date of death.

5.4.3 Committee Discretion. Subject to the limits of Sections 5.4.1 and 5.4.2, the Committee, in its sole discretion, (a) shall provide in each Award Agreement when each Option expires and becomes unexercisable, and (b) may, after an Option is granted, extend the maximum term of the Option (subject to Section 5.8.4 regarding Incentive Stock Options).

5.5 Exercisability of Options. Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall determine in its sole discretion. After an Option is granted, the Committee, in its sole discretion, may accelerate the exercisability of the Option.

5.6 Payment. Options shall be exercised by the Participant's delivery of a written notice of exercise to the Secretary of the Company (or its designee), setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by full payment for the Shares.

Upon the exercise of any Option, the Exercise Price shall be payable to the Company in full in cash or its equivalent. The Committee, in its sole discretion, also may permit exercise (a) by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Exercise Price, or (b) by any other means which the Committee, in its sole discretion, determines to both provide legal consideration for the Shares, and to be consistent with the purposes of the Plan.

As soon as practicable after receipt of a written notification of exercise and full payment for the Shares purchased, the Company shall deliver to the Participant (or the Participant's designated broker), Share certificates (which may be in book entry form) representing such Shares.

5.7 Restrictions on Share Transferability. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option as it may deem advisable, including, but not limited to, restrictions related to applicable federal securities laws, the requirements of any national securities exchange or system upon which Shares are then listed or traded, or any blue sky or state securities laws.

5.8 Certain Additional Provisions for Incentive Stock Options.

5.8.1 Exercisability. The aggregate Fair Market Value (determined on the Grant Date(s)) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by any Employee during any calendar year (under all plans of the Company and its Subsidiaries) shall not exceed \$100,000.

5.8.2 Termination of Service. No Incentive Stock Option may be exercised more than three (3) months after the Participant's Termination of Service for any reason other than Disability or death, unless (a) the Participant dies during such three-month period, and (b) the Award Agreement or the Committee permits later exercise. No Incentive Stock Option may be exercised more than one (1) year after the Participant's Termination of Service on account of Disability, unless (a) the Participant dies during such one-year period, and (b) the Award Agreement or the Committee permit later exercise.

5.8.3 Company and Subsidiaries Only. Incentive Stock Options may be granted only to persons who are employees of the Company or a Subsidiary on the Grant Date.

5.8.4 Expiration. No Incentive Stock Option may be exercised after the expiration of seven (7) years from the Grant Date; provided, however, that if the Option is granted to an Employee who, together with persons whose stock ownership is attributed to the Employee pursuant to Section 424(d) of the Code, owns stock possessing more than 10% of the total combined voting power of all classes of the stock of the Company or any of its Subsidiaries, the Option may not be exercised after the expiration of five (5) years from the Grant Date.

SECTION 6
STOCK APPRECIATION RIGHTS

6.1 Grant of SARs. Subject to the terms and conditions of the Plan, an SAR may be granted to Employees and Consultants at any time and from time to time as shall be determined by the Committee, in its sole discretion. The Committee may grant Affiliated SARs, Freestanding SARs, Tandem SARs, or any combination thereof.

6.1.1 Number of Shares. The Committee shall have complete discretion to determine the number of SARs granted to any Participant, provided that during any Fiscal Year, no Participant shall be granted SARs covering more than 700,000 Shares.

6.1.2 Exercise Price and Other Terms. The Committee, subject to the provisions of the Plan, shall have complete discretion to determine the terms and conditions of SARs granted under the Plan. However, the exercise price of a Freestanding SAR shall be not less than one hundred percent (100%) of the Fair Market Value of a Share on the Grant Date. The exercise price of Tandem or Affiliated SARs shall equal the Exercise Price of the related Option.

6.2 Exercise of Tandem SARs. Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable. With respect to a Tandem SAR granted in connection with an

Incentive Stock Option: (a) the Tandem SAR shall expire no later than the expiration of the underlying Incentive Stock Option; (b) the value of the payout with respect to the Tandem SAR shall be for no more than one hundred percent (100%) of the difference between the Exercise Price of the underlying Incentive Stock Option and the Fair Market Value of the Shares subject to the underlying Incentive Stock Option at the time the Tandem SAR is exercised; and (c) the Tandem SAR shall be exercisable only when the Fair Market Value of the Shares subject to the Incentive Stock Option exceeds the Exercise Price of the Incentive Stock Option.

6.3 Exercise of Affiliated SARs. An Affiliated SAR shall be deemed to be exercised upon the exercise of the related Option. The deemed exercise of an Affiliated SAR shall not necessitate a reduction in the number of Shares subject to the related Option.

6.4 Exercise of Freestanding SARs. Freestanding SARs shall be exercisable on such terms and conditions as the Committee, in its sole discretion, shall determine.

6.5 SAR Agreement. Each SAR grant shall be evidenced by an Award Agreement that shall specify the exercise price, the term of the SAR, the conditions of exercise, and such other terms and conditions as the Committee, in its sole discretion, shall determine.

6.6 Expiration of SARs. An SAR granted under the Plan shall expire upon the date determined by the Committee, in its sole discretion, and set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Section 5.4 also shall apply to SARs.

6.7 Payment of SAR Amount. Upon exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

- (a) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times
- (b) The number of Shares with respect to which the SAR is exercised.

At the discretion of the Committee, the payment upon SAR exercise may be in cash, in Shares of equivalent value, or in some combination thereof.

SECTION 7 RESTRICTED STOCK

7.1 Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock to Employees and Consultants in such amounts as the Committee, in its sole discretion, shall determine. The Committee, in its sole discretion, shall determine the number of Shares to be granted to each Participant, provided that during any Fiscal Year, no Participant shall receive more than 350,000 Shares of Restricted Stock.

7.2 Restricted Stock Agreement. Each Award of Restricted Stock shall be evidenced by an Award Agreement that shall specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Committee, in its sole discretion, shall determine. Unless the

Committee determines otherwise, Shares of Restricted Stock shall be held by the Company as escrow agent until the restrictions on such Shares have lapsed.

7.3 Transferability. Except as provided in this Section 7, Shares of Restricted Stock may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction.

7.4 Other Restrictions. The Committee, in its sole discretion, may impose such other restrictions on Shares of Restricted Stock as it may deem advisable or appropriate, in accordance with this Section 7.4.

7.4.1 General Restrictions. The Committee may set restrictions based upon the achievement of specific performance objectives (Company-wide, divisional, or individual), applicable federal or state securities laws, or any other basis determined by the Committee in its discretion.

7.4.2 Section 162(m) Performance Restrictions. For purposes of qualifying grants of Restricted Stock as “performance-based compensation” under Section 162(m) of the Code, the Committee, in its discretion, may set restrictions based upon the achievement of Performance Goals. The Performance Goals shall be set by the Committee on or before the latest date permissible to enable the Restricted Stock to qualify as “performance-based compensation” under Section 162(m) of the Code. In granting Restricted Stock which is intended to qualify under Section 162(m) of the Code, the Committee shall follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Restricted Stock under Section 162(m) of the Code (e.g., in determining the Performance Goals).

7.4.3 Legend on Certificates. The Committee, in its discretion, may legend the certificates representing Restricted Stock to give appropriate notice of such restrictions. For example, the Committee may determine that some or all certificates representing Shares of Restricted Stock shall bear the following legend:

“The sale or other transfer of the shares of stock represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer as set forth in the Applied Materials, Inc. Employee Stock Incentive Plan, and in a Restricted Stock Agreement. A copy of the Plan and such Restricted Stock Agreement may be obtained from the Secretary of Applied Materials, Inc.”

7.5 Removal of Restrictions. Except as otherwise provided in this Section 7, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall be released from escrow as soon as practicable after the last day of the Period of Restriction. Subject to the minimum Period of Restriction specified in Section 2.35, the Committee, in its discretion, may accelerate the time at which any restrictions shall lapse or be removed. After the restrictions have lapsed, the Participant shall be entitled to have any legend or legends under Section 7.4.3 removed from his or her Share certificate, and the Shares shall be freely transferable by the Participant.

7.6 Voting Rights. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares, unless the Committee determines otherwise.

7.7 Dividends and Other Distributions. During the Period of Restriction, Participants holding Shares of Restricted Stock shall be entitled to receive all dividends and other distributions paid with respect to such Shares unless otherwise provided in the Award Agreement. If any such dividends or distributions are paid in Shares, the Shares shall be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

7.8 Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed shall revert to the Company and again shall become available for grant under the Plan.

SECTION 8
PERFORMANCE UNITS AND PERFORMANCE SHARES

8.1 Grant of Performance Units/Shares. Performance Units and Performance Shares may be granted to Employees and Consultants at any time and from time to time, as shall be determined by the Committee, in its sole discretion. The Committee shall have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant provided that during any Fiscal Year, (a) no Participant shall receive Performance Units having an initial value greater than \$3,000,000, and (b) no Participant shall receive more than 350,000 Performance Shares.

8.2 Value of Performance Units/Shares. Each Performance Unit shall have an initial value that is established by the Committee on or before the Grant Date. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the Grant Date.

8.3 Performance Objectives and Other Terms. The Committee shall set performance objectives in its discretion which, depending on the extent to which they are met, will determine the number or value of Performance Units/Shares that will be paid out to the Participants. The time period during which the performance objectives must be met shall be called the "Performance Period." Each Award of Performance Units/Shares shall be evidenced by an Award Agreement that shall specify the Performance Period, and such other terms and conditions as the Committee, in its sole discretion, shall determine.

8.3.1 General Performance Objectives. The Committee may set performance objectives based upon the achievement of Company-wide, divisional, and/or individual goals (including, but not limited to, continued employment), applicable federal or state securities laws, or any other basis determined by the Committee in its discretion.

8.3.2 Section 162(m) Performance Objectives. For purposes of qualifying grants of Performance Units/Shares as "performance-based compensation" under Section 162(m) of the Code, the Committee, in its discretion, may determine that the performance objectives applicable to Performance Units/Shares shall be based on the achievement of Performance Goals. The

Performance Goals shall be set by the Committee on or before the latest date permissible to enable the Performance Units/Shares to qualify as “performance-based compensation” under Section 162(m) of the Code. In granting Performance Units/Shares which are intended to qualify under Section 162(m) of the Code, the Committee shall follow any procedures determined by it from time to time to be necessary or appropriate to ensure qualification of the Performance Units/Shares under Section 162(m) of the Code (e.g., in determining the Performance Goals).

8.4 Earning of Performance Units/Shares. After the applicable Performance Period has ended, the holder of Performance Units/Shares shall be entitled to receive a payout of the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives have been achieved. After the grant of a Performance Unit/Share, the Committee, in its sole discretion, may reduce or waive any performance objectives for such Performance Unit/Share.

8.5 Form and Timing of Payment of Performance Units/Shares. Payment of earned Performance Units/Shares shall be made as soon as practicable after the expiration of the applicable Performance Period. The Committee, in its sole discretion, may pay earned Performance Units/Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period) or in a combination thereof.

8.6 Cancellation of Performance Units/Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units/Shares shall be forfeited to the Company, and again shall be available for grant under the Plan.

SECTION 9 NONEMPLOYEE DIRECTOR OPTIONS

The provisions of this Section 9 are applicable only to Options granted to Nonemployee Directors. The provisions of Section 5 are applicable to Options granted to Employees and Consultants (and to the extent provided in Section 9.2.8, to Options granted to Nonemployee Directors).

9.1 Granting of Options.

9.1.1 Initial Grants. Each Nonemployee Director who first becomes a Nonemployee Director on or after the effective date of this Plan, automatically shall receive, as of the date that the individual first is appointed or elected as a Nonemployee Director, an Option to purchase 45,000 Shares.

9.1.2 Ongoing Grants. Each Nonemployee Director who both (a) is a Nonemployee Director on the last business day of a Fiscal Year, and (b) has served as a Nonemployee Director for the entire Fiscal Year which includes such last business day, automatically shall receive, as of the first business day of the following Fiscal Year only, an Option to purchase 25,000 Shares.

9.2 Terms of Options.

9.2.1 Option Agreement. Each Option granted pursuant to this Section 9 shall be evidenced by a written Award Agreement between the Participant and the Company.

9.2.2 Exercise Price. The Exercise Price for the Shares subject to each Option granted pursuant to this Section 9 shall be 100% of the Fair Market Value of such Shares on the Grant Date.

9.2.3 Exercisability. Each Option granted pursuant to this Section 9 shall become exercisable as to twenty-five percent (25%) of the Shares on each of the first four annual anniversaries of the Grant Date. Notwithstanding the preceding, once a Participant ceases to be a Director, his or her Options which are not then exercisable shall never become exercisable and shall be immediately forfeited, except to the limited extent provided in the Sections 9.2.4 and 9.2.6.

9.2.4 Retirement of Participant. In the event that a Participant is age sixty (60) or over and has completed at least ten (10) Years of Service and then incurs a Termination of Service due to Retirement, the right to exercise all or a portion of any Shares subject to his or her Options that remain unexercisable immediately prior to such Retirement shall accrue on the date of Retirement in accordance with the following rules. If the Participant has less than fifteen (15) Years of Service as of the date of his or her Retirement, fifty percent (50%) of the Shares that otherwise would have vested during the twelve (12) months immediately following the Retirement (had the Participant remained a Nonemployee Director throughout such 12 month period) shall vest on the Retirement date. If the Participant has at least fifteen (15) (but less than twenty (20)) Years of Service as of the date of the Retirement, one hundred percent (100%) of the Shares that otherwise would have vested during the twelve (12) months immediately following the Retirement (had the Participant remained a Nonemployee Director throughout such 12 month period) shall vest on the Retirement date. If the Participant has at least twenty (20) (but less than twenty-five (25)) Years of Service as of the date of the Retirement, (a) one hundred percent (100%) of the Shares that otherwise would have vested during the twelve (12) months immediately following the Retirement (had the Participant remained a Nonemployee Director throughout such 12 month period) shall vest on the Retirement date, and (b) fifty percent (50%) of the Shares that otherwise would have vested during the second twelve (12) months following the Retirement (had the Participant remained a Nonemployee Director throughout such 12 month period) shall vest on the Retirement date. If the Participant has at least twenty-five (25) Years of Service as of the date of the Retirement, one hundred percent (100%) of the Shares that otherwise would have vested during the twenty-four (24) months immediately following the Retirement (had the Participant remained a Nonemployee Director throughout such 24 month period) shall vest on the Retirement date.

9.2.5 Expiration of Options. Each Option granted pursuant to this Section 9 shall terminate upon the first to occur of the following events:

- (a) The expiration of five (5) years or (in the case of any Option granted after October 10, 2000) seven (7) years from the Grant Date; or
- (b) The expiration of seven (7) months from the date of the Participant's Termination of Service for any reason other than the Participant's death, Disability or Retirement; or

(c) The expiration of one (1) year from the date of the Participant's Termination of Service by reason of Disability or Retirement.

9.2.6 Death of Participant. Notwithstanding the provisions of Section 9.2.5, if a Participant dies prior to the expiration of his or her Options in accordance with Section 9.2.5, then (a) one hundred percent (100%) of the Shares covered by his or her Options shall immediately become one hundred percent (100%) exercisable, and (b) his or her Options shall terminate one (1) year after the date of his or her death.

9.2.7 Not Incentive Stock Options. Options granted pursuant to this Section 9 shall not be designated as Incentive Stock Options.

9.2.8 Other Terms. All provisions of the Plan not inconsistent with this Section 9 shall apply to Options granted to Nonemployee Directors.

SECTION 10
MISCELLANEOUS

10.1 Deferrals. The Committee, in its sole discretion, may permit a Participant to defer receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant under an Award. Any such deferral elections shall be subject to such rules and procedures as shall be determined by the Committee in its sole discretion.

10.2 No Effect on Employment or Service. Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment or service at any time, with or without cause. For purposes of the Plan, transfer of employment of a Participant between the Company and any one of its Affiliates (or between Affiliates) shall not be deemed a Termination of Service. Employment with the Company and its Affiliates is on an at-will basis only.

10.3 Participation. No Employee or Consultant shall have the right to be selected to receive an Award under this Plan, or, having been so selected, to be selected to receive a future Award.

10.4 Indemnification. Each person who is or shall have been a member of the Committee, or of the Board, shall be indemnified and held harmless by the Company against and from (a) any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan or any Award Agreement, and (b) from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such claim, action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Certificate of Incorporation or Bylaws, by contract, as a matter of law, or otherwise, or under any power that the Company may have to indemnify them or hold them harmless.

10.5 Successors. All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business or assets of the Company.

10.6 Beneficiary Designations. If permitted by the Committee, a Participant under the Plan may name a beneficiary or beneficiaries to whom any vested but unpaid Award shall be paid in the event of the Participant's death. Each such designation shall revoke all prior designations by the Participant and shall be effective only if given in a form and manner acceptable to the Committee. In the absence of any such designation, any vested benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate and, subject to the terms of the Plan and of the applicable Award Agreement, any unexercised vested Award may be exercised by the administrator or executor of the Participant's estate.

10.7 Limited Transferability of Awards. No Award granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will, by the laws of descent and distribution, or to the limited extent provided in Section 10.6. All rights with respect to an Award granted to a Participant shall be available during his or her lifetime only to the Participant. Notwithstanding the foregoing, the Participant may, in a manner specified by the Committee, (a) transfer a Nonqualified Stock Option to a Participant's spouse, former spouse or dependent pursuant to a court-approved domestic relations order which relates to the provision of child support, alimony payments or marital property rights, and (b) transfer a Nonqualified Stock Option by bona fide gift and not for any consideration, to (i) a member or members of the Participant's immediate family, (ii) a trust established for the exclusive benefit of the Participant and/or member(s) of the Participant's immediate family, (iii) a partnership, limited liability company of other entity whose only partners or members are the Participant and/or member(s) of the Participant's immediate family, or (iv) a foundation in which the Participant and/or member(s) of the Participant's immediate family control the management of the foundation's assets.

10.8 No Rights as Stockholder. Except to the limited extent provided in Sections 7.6 and 7.7, no Participant (nor any beneficiary) shall have any of the rights or privileges of a stockholder of the Company with respect to any Shares issuable pursuant to an Award (or exercise thereof), unless and until certificates representing such Shares shall have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Participant (or beneficiary).

SECTION 11 AMENDMENT, TERMINATION, AND DURATION

11.1 Amendment, Suspension, or Termination. The Board, in its sole discretion, may amend, suspend or terminate the Plan, or any part thereof, at any time and for any reason. The amendment, suspension, or termination of the Plan shall not, without the consent of the Participant, alter or impair any rights or obligations under any Award theretofore granted to such Participant. No Award may be granted during any period of suspension or after termination of the Plan.

11.2 Duration of the Plan. The amended and restated Plan shall be effective as of September 13, 2006 and subject to Section 11.1 (regarding the Board's right to amend or terminate the Plan).

shall remain in effect thereafter. However, without further stockholder approval, no Incentive Stock Option may be granted under the Plan after December 28, 2013.

SECTION 12
TAX WITHHOLDING

12.1 Withholding Requirements. Prior to the delivery of any Shares or cash pursuant to an Award (or exercise thereof), the Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy federal, state, and local taxes (including the Participant's FICA obligation) required to be withheld with respect to such Award (or exercise thereof).

12.2 Withholding Arrangements. The Committee, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (a) electing to have the Company withhold otherwise deliverable Shares, or (b) delivering to the Company already-owned Shares having a Fair Market Value equal to the amount required to be withheld. The amount of the withholding requirement shall be deemed to include any amount which the Committee agrees may be withheld at the time the election is made, not to exceed the amount determined by using the maximum federal, state or local marginal income tax rates applicable to the Participant with respect to the Award on the date that the amount of tax to be withheld is to be determined. The Fair Market Value of the Shares to be withheld or delivered shall be determined as of the date that the taxes are required to be withheld.

SECTION 13
LEGAL CONSTRUCTION

13.1 Gender and Number. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

13.2 Severability. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

13.3 Requirements of Law. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

13.4 Securities Law Compliance. With respect to Section 16 Persons, transactions under this Plan are intended to comply with all applicable conditions of Rule 16b-3. To the extent any provision of the Plan, Award Agreement or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

13.5 Governing Law. The Plan and all Award Agreements shall be construed in accordance with and governed by the laws of the State of California.

13.6 Captions. Captions are provided herein for convenience only, and shall not serve as a basis for interpretation or construction of the Plan.

RATIO OF EARNINGS TO FIXED CHARGES
(In thousands, except ratios)

	2002	2003	2004	2005	2006
Income/(loss) before taxes and fixed charges (net of capitalized interest):					
Income/(loss) from operations before income taxes	\$ 340,511	\$ (211,556)	\$ 1,829,250	\$ 1,581,569	\$ 2,166,971
Add fixed charges net of capitalized interest(1)	98,944	93,762	84,203	69,078	61,565
Total income/(loss) before taxes and fixed charges	\$ 439,455	\$ (117,794)	\$ 1,913,453	\$ 1,650,647	\$ 2,228,536
Fixed charges:					
Interest expense	\$ 49,357	\$ 46,875	\$ 52,877	\$ 37,819	\$ 36,096
Capitalized interest	—	—	—	—	—
Interest component of rent expense(2)	46,542	44,751	29,190	29,123	23,470
Total fixed charges	\$ 95,899	\$ 91,626	\$ 82,067	\$ 66,942	\$ 59,566
Ratio of earnings/(loss) to fixed charges (3)	4.58 x	(1.29)x	23.32 x	24.66 x	37.41 x

(1) Capitalized interest includes interest capitalized during the period, less the amount of previously capitalized interest that was amortized during the period.

(2) The interest factor is estimated at one-third of total rent expense for the applicable period, which management believes represents a reasonable approximation of the interest factor.

(3) Due to Applied's loss in fiscal 2003, the ratio of coverage was less than 1:1. Applied would have needed to generate additional earnings of \$209 million to achieve the coverage ratio of 1:1.

SUBSIDIARIES OF APPLIED MATERIALS, INC.

LEGAL ENTITY NAME		PLACE OF INCORPORATION
Applied Materials Japan, Inc.		Japan
Applied Materials (Holdings)	(1)	California
Applied Materials Asia-Pacific, Ltd.	(2)	Delaware
Applied Materials Israel, Ltd.	(3)	Israel
Applied Materials SPV1, Inc.	(4)	Delaware
Parker Technologies, Inc.		California
AKT, Inc.	(5)	Japan
Etec Systems, Inc.		Nevada
Display Products Group, Inc.		Nevada
Global Knowledge Services, Inc.		Delaware
Electron Vision Corporation		California
AKT Japan, LLC		Delaware
Boxer Cross, Inc.		Delaware
Applied Materials India Private Limited		India
Torrex Equipment Corporation		California
Metron Technology, Inc.	(6)	Delaware
Applied Ventures, LLC		Delaware
Applied Films Corporation	(7)	Colorado
Sokudo Co., Ltd. ¹	(8)	Japan
<hr/>		
(1) Applied Materials (Holdings) owns the following subsidiary: Applied Materials UK Limited		California
(2) Applied Materials Asia-Pacific, Ltd. owns the following subsidiaries: Applied Materials Korea, Ltd. Applied Materials Taiwan, Ltd. Applied Materials South East Asia Pte. Ltd. Applied Materials China, Ltd. AMAT (Thailand) Limited Applied Materials (Shanghai) Co., Ltd. Applied Materials (China) Holdings, Ltd.	(a) (b) (c)	Korea Taiwan Singapore Hong Kong Thailand P.R. China P.R. China
(3) Applied Materials Israel, Ltd. owns the following subsidiary: Integrated Circuit Testing GmbH		Germany.
(4) Applied Materials SPV1, Inc. owns the following subsidiary: Applied Materials SPV2, Inc.	(d)	Delaware
(5) AKT, Inc. owns the following subsidiary: AKT America, Inc.		California

¹ Sokudo Co., Ltd. is a joint venture which is 48% owned by Applied Materials, Inc., and 52% owned by Dainippon Screen Mtg. Co., Ltd.

LEGAL ENTITY NAME		PLACE OF INCORPORATION
(6) Metron Technology, Inc. owns the following subsidiaries:		
Metron Technology (Benelux) B.V.	(e)	Netherlands
Metron Technology (France) EURL		France
Metron Technology (Deutschland) GmbH		Germany
Metron Technology (Europa) Ltd.	(f)	United Kingdom
Metron Technology (Israel) Ltd.		Israel
Metron Technology (Italia) S.r.L.		Italy
Intec Technology (S) Pte.		Singapore
ECS Industries Sdn. Bhd.		Malaysia
Metron Technology (Japan) K.K.		Japan
Metron Technology (Asia) Ltd.	(g)	Hong Kong
T.A. Kyser Co.		Nevada
Metron Technology Corporation	(h)	California
(7) Applied Films Corporation owns the following subsidiaries:		
AFCO GP, Inc.		Colorado
Applied Films Taiwan Co., Ltd.		Taiwan
Applied Films Japan Corporation		Japan
AFCO C.V.	(k)	Netherlands
Applied Materials Fairfield Corp	(l)	Delaware
Applied Films Asia Pacific Limited	(m)	Hong Kong
PT Applied Materials Indonesia		Indonesia
Applied Materials Zaventum		Belgium
(8) Sokudo Co., Ltd. owns the following subsidiary:		
Sokudo USA, LLC Delaware		
(a) Applied Materials South East Asia Pte. Ltd. owns the following subsidiary:		
Applied Materials (AMSEA) Sdn Bhd		Malaysia
(b) Applied Materials China, Ltd. owns the following subsidiaries:		
Applied Materials China (Tianjin) Co., Ltd		P.R. China
Applied Materials (China), Inc.		P.R. China
(c) Applied Materials (China) Holdings, Ltd., owns the following subsidiary:		
Applied Materials (Xi'an), Ltd.		P.R. China
(d) Applied Materials SPV2, Inc. owns the following 50-50 joint venture:		
eLith LLC		Delaware
(e) Metron Technology (Benelux) B.V. owns the following subsidiary:		
Metron Technology (Nordic) AB		Sweden
(f) Metron Technology (Europa) Ltd. owns the following subsidiaries:		
Metron Technology (Ireland) Ltd.		Ireland
Shieldcare Limited		Scotland

LEGAL ENTITY NAME		PLACE OF INCORPORATION
(g) Metron Technology (Asia) Ltd. owns the following subsidiaries: Metron Technology (Hong Kong) Ltd. Metron Technology (Far East) Ltd. Metron Technology (Shanghai) Ltd. Metron Technology (Korea) Ltd. Metron Technology (Taiwan) Ltd. Metron Technology (Singapore) Pte. Ltd. Metron Technology (Malaysia) Sdn Bhd		Hong Kong Hong Kong P.R. China Korea Taiwan Singapore Malaysia
(h) Metron Technology Corporation owns the following subsidiary: Metron Technology Distribution Corporation	(i)	California
(i) Metron Technology Distribution Corporation owns the following subsidiary: ChemTrace ChemTrace Precision Cleaning, Inc.	(j)	California California
(j) ChemTrace owns the following subsidiary: ChemTrace Taiwan, Ltd. Taiwan		
(k) AFCO C.V. owns the following subsidiaries: Applied Materials Europe BV Applied Materials Deutschland Holding GmbH Applied Materials Korea, Ltd.	(o) (n)	Netherlands Germany Korea
(l) Applied Materials Fairfield Corp owns the following subsidiaries: Vacuum Coating Technologies GmbH Vacuum Coating Technologies (Shanghai) Co., Ltd.		Germany PRC
(m) Applied Films Asia Pacific Limited owns the following subsidiary: Applied Films China Co., Ltd.		PRC
(n) Applied Materials Deutschland Holding GmbH owns the following subsidiaries: Applied Materials Verwaltung GmbH Applied Materials GmbH & Co., KG		Germany Germany
(o) Applied Materials Europe BV owns the following subsidiaries: Applied Materials GmbH Applied Materials France SARL WGKTC1 Limited Applied Materials Ireland Ltd. Applied Materials Sweden AB Applied Materials Italy Srl. Applied Materials Belgium N.V.		Germany France United Kingdom Ireland Sweden Italy Belgium

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Applied Materials, Inc.:

We consent to the incorporation by reference in the registration statements (No. 2-69114; 2-77987; 2-77988; 2-85545; 2-94205; 33-24530; 33-52072; 33-52076; 33-63847; 33-64285; 333-21367; 333-31289; 333-31291; 333-45007; 333-45011; 333-69193; 333-71241; 333-71243; 333-71245; 333-88777; 333-88779; 333-34118; 333-35396; 333-52518; 333-74764; 333-75698; 333-105355; 333-116393; 333-123531; 333-124711; 333-135977) on Form S-8 of Applied Materials, Inc. of our reports dated December 14, 2006, with respect to the consolidated balance sheets of Applied Materials, Inc. as of October 29, 2006 and October 30, 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended October 29, 2006, and the related financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting as of October 29, 2006, and the effectiveness of internal control over financial reporting as of October 29, 2006, which reports appear in the October 29, 2006, annual report on Form 10-K of Applied Materials, Inc.

As discussed in Note 1 to the consolidated financial statements, effective October 31, 2005, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (R), *Share-Based Payment*, applying the modified-prospective method.

/s/ KPMG LLP

Mountain View, California
December 14, 2006

POWER OF ATTORNEY

The undersigned directors and officers of Applied Materials, Inc., a Delaware corporation (the Company), hereby constitute and appoint Michael R. Splinter and George S. Davis, and each of them, with full power to act without the other, the undersigned's true and lawful attorney-in-fact, with full power of substitution and resubstitution, for the undersigned and in the undersigned's name, place and stead in the undersigned's capacity as an officer and/or director of the Company, to execute in the name and on behalf of the undersigned an annual report of the Company on Form 10-K for the fiscal year ended October 29, 2006 (the Report), under the Securities Exchange Act of 1934, as amended, and to file such Report, with exhibits thereto and other documents in connection therewith and any and all amendments thereto, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing necessary or desirable to be done and to take any other action of any type whatsoever in connection with the foregoing which, in the opinion of such attorney-in-fact, may be of benefit to, in the best interest of, or legally required of, the undersigned, it being understood that the documents executed by such attorney-in-fact on behalf of the undersigned pursuant to this Power of Attorney shall be in such form and shall contain such terms and conditions as such attorney-in-fact may approve in such attorney-in-fact's discretion.

IN WITNESS WHEREOF, we have hereunto set our hands this 12 day of December, 2006.

/s/ MICHAEL H. ARMACOST

Michael H. Armacost
Director

/s/ ROBERT H. BRUST

Robert H. Brust
Director

/s/

Deborah A. Coleman
Director

/s/ PHILIP V. Gerdine

Philip V. Gerdine
Director

/s/ THOMAS J. IANNOTTI

Thomas J. Iannotti
Director

/s/ CHARLES Y.S. LIU

Charles Y.S. Liu
Director

/s/ JAMES C. MORGAN

James C. Morgan
Chairman of the Board

/s/ GERHARD H. PARKER

Gerhard H. Parker
Director

/s/ WILLEM P. ROELANDTS

Willem P. Roelandts
Director

/s/ MICHAEL R. SPLINTER

Michael R. Splinter
President, Chief Executive Officer and Director

CERTIFICATION

I, Michael R. Splinter, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: December 14, 2006

/s/ MICHAEL R. SPLINTER

Michael R. Splinter

President, Chief Executive Officer

CERTIFICATION

I, George S. Davis, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: December 14, 2006

/s/ GEORGE S. DAVIS

George S. Davis
Senior Vice President, Chief Financial Officer

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

In connection with this Annual Report on Form 10-K of Applied Materials, Inc. for the fiscal year ended October 29, 2006, I, Michael R. Splinter, 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-K for the fiscal year ended October 29, 2006 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-K for the fiscal year ended October 29, 2006 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: December 14, 2006

/s/ MICHAEL R. SPLINTER

Michael R. Splinter

President, Chief Executive Officer

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

In connection with this Annual Report on Form 10-K of Applied Materials, Inc. for the fiscal year ended October 29, 2006, I, George S. Davis, Senior Vice President, Chief Financial Officer of Applied Materials, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-K for the fiscal year ended October 29, 2006 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-K for the fiscal year ended October 29, 2006 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: December 14, 2006

/s/ GEORGE S. DAVIS

George S. Davis
Senior Vice President, Chief Financial Officer