UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended January 25, 2015

or

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

For the transition period from to

Commission File Number 000-06920

Applied Materials, Inc.

(Exact name of registrant as specified in its charter)

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

(408) 727-5555

(Registrant's telephone number, including area code)

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

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

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

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

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

Number of shares outstanding of the issuer's common stock as of February 11, 2015: 1,228,696,722

APPLIED MATERIALS, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JANUARY 25, 2015

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PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

	Three Months Ended	
	January 25, 2015	January 26, 2014
	(Unaudited) (In millions, except per share amounts)	
Net sales	$ 2,359	$ 2,190
Cost of products sold	1,400	1,299
Gross profit	959	891
Operating expenses:		
Research, development and engineering	351	356
Marketing and selling	111	109
General and administrative	117	120
Gain on derivatives associated with announced business combination	(78)	(24)
Total operating expenses	501	561
Income from operations	458	330
Interest expense	23	25
Interest and other income, net	2	10
Income before income taxes	437	315
Provision for income taxes	89	62
Net income	$ 348	$ 253
Earnings per share:		
Basic and diluted	$ 0.28	$ 0.21
Weighted average number of shares:		
Basic	1,224	1,206
Diluted	1,240	1,225

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended	
	January 25, 2015	January 26, 2014
	(Unaudited)	
	(In millions)	
Net income	$ 348	$ 253
Other comprehensive income (loss), net of tax:		
Change in unrealized net gain on investments	(1)	(3)
Change in unrealized net gain on derivative investments	1	(1)
Change in cumulative translation adjustments	(1)	(2)
Other comprehensive income (loss), net of tax	(1)	(6)
Comprehensive income	$ 347	$ 247

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS

	January 25, 2015	October 26, 2014
	(In millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,929	$ 3,002
Short-term investments	158	160
Accounts receivable, net	1,580	1,670
Inventories	1,641	1,567
Other current assets	625	568
Total current assets	6,933	6,967
Long-term investments	930	935
Property, plant and equipment, net	864	861
Goodwill	3,304	3,304
Purchased technology and other intangible assets, net	905	951
Deferred income taxes and other assets	137	156
Total assets	$ 13,073	$ 13,174
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,737	$ 1,883
Customer deposits and deferred revenue	784	940
Total current liabilities	2,521	2,823
Long-term debt	1,947	1,947
Other liabilities	533	536
Total liabilities	5,001	5,306
Stockholders' equity:		
Common stock	12	12
Additional paid-in capital	6,364	6,384
Retained earnings	13,297	13,072
Treasury stock	(11,524)	(11,524)
Accumulated other comprehensive loss	(77)	(76)
Total stockholders' equity	8,072	7,868
Total liabilities and stockholders' equity	$ 13,073	$ 13,174

Amounts as of January 25, 2015 are unaudited. Amounts as of October 26, 2014 are derived from the October 26, 2014 audited consolidated financial statements.

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)
(In millions)

Three Months Ended January 25, 2015	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income (Loss)	Total
Balance at October 26, 2014	1,221	$ 12	$ 6,384	$ 13,072	717	$ (11,524)	$ (76)	$ 7,868
Net income	—	—	—	348	—	—	—	348
Other comprehensive loss, net of tax	—	—	—	—	—	—	(1)	(1)
Dividends	—	—	—	(123)	—	—	—	(123)
Share-based compensation	—	—	48	—	—	—	—	48
Issuance under stock plans, net of a tax benefit of $39 and other	8	—	(68)	—	—	—	—	(68)
Balance at January 25, 2015	1,229	$ 12	$ 6,364	$ 13,297	717	$ (11,524)	$ (77)	$ 8,072

(Unaudited)
(In millions)

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

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	January 25, 2015	January 26, 2014
	(Unaudited) (In millions)	
Cash flows from operating activities:		
Net income	$ 348	$ 253
Adjustments required to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	92	94
Unrealized gain on derivatives associated with announced business combination	(78)	(24)
Share-based compensation	48	46
Excess tax benefits from share-based compensation	(39)	(18)
Deferred income taxes and other	36	9
Changes in operating assets and liabilities:		
Accounts receivable	90	123
Inventories	(74)	(119)
Other assets	1	37
Accounts payable and accrued expenses	(156)	(106)
Customer deposits and deferred revenue	(156)	107
Income taxes payable	(39)	20
Other liabilities	(13)	(50)
Cash provided by operating activities	60	372
Cash flows from investing activities:		
Capital expenditures	(49)	(48)
Proceeds from sales and maturities of investments	140	364
Purchases of investments	(141)	(163)
Cash provided by (used in) investing activities	(50)	153
Cash flows from financing activities:		
Proceeds from common stock issuances and other	—	10
Excess tax benefits from share-based compensation	39	18
Payments of dividends to stockholders	(122)	(120)
Cash used in financing activities	(83)	(92)
Increase (decrease) in cash and cash equivalents	(73)	433
Cash and cash equivalents — beginning of period	3,002	1,711
Cash and cash equivalents — end of period	$ 2,929	$ 2,144
Supplemental cash flow information:		
Cash payments for income taxes	$ 89	$ 26
Cash refunds from income taxes	$ 3	$ 9
Cash payments for interest	$ 39	$ 39

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Basis of Presentation

Basis of Presentation

In the opinion of management, the unaudited interim consolidated condensed financial statements of Applied Materials, Inc. and its subsidiaries (Applied or the Company) included herein have been prepared on a basis consistent with the October 26, 2014 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These unaudited interim consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Applied's Annual Report on Form 10-K for the fiscal year ended October 26, 2014 (2014 Form 10-K). Applied's results of operations for the three months ended January 25, 2015 are not necessarily indicative of future operating results. Applied's fiscal year ends on the last Sunday in October of each year. Fiscal 2015 and 2014 each contain 52 weeks, and the first three months of fiscal 2015 and 2014 each contained 13 weeks.

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

Use of Estimates

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

Revenue Recognition

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

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued authoritative guidance that requires revenue recognition to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new standard will supersede most current revenue recognition guidance, including industry-specific guidance. The guidance becomes effective for Applied in the first quarter of fiscal 2018, and can be applied either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Early adoption is prohibited. Applied is currently evaluating the effect of this new guidance on Applied's financial position, results of operations and its ongoing financial reporting, including the selection of a transition method.

In April 2014, the FASB issued authoritative guidance that raises the threshold for a disposal transaction to qualify as a discontinued operation and requires additional disclosures about discontinued operations and disposals of individually significant components that do not qualify as discontinued operations. The authoritative guidance becomes effective prospectively for Applied in the first quarter of fiscal 2016. Early adoption is permitted, but only for disposals that have not been reported in financial statements previously issued.

Note 2 Earnings Per Share

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

	Three Months Ended	
	January 25, 2015	January 26, 2014
	(In millions, except per share amounts)	
Numerator:		
Net income	$ 348	$ 253
Denominator:		
Weighted average common shares outstanding	1,224	1,206
Effect of dilutive stock options, restricted stock units and employee stock purchase plan shares	16	19
Denominator for diluted earnings per share	1,240	1,225
Basic and diluted earnings per share	$ 0.28	$ 0.21
Potentially dilutive securities	1	1

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

Note 3 Cash, Cash Equivalents and Investments

Summary of Cash, Cash Equivalents and Investments

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

January 25, 2015	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(In millions)		
Cash	$ 491	$ —	$ —	$ 491
Cash equivalents:				
Money market funds	2,438	—	—	2,438
Total Cash equivalents	2,438	—	—	2,438
Total Cash and Cash equivalents	$ 2,929	$ —	$ —	$ 2,929
Short-term and long-term investments:				
U.S. Treasury and agency securities	$ 79	$ —	$ —	$ 79
Non-U.S. government securities*	12	—	—	12
Municipal securities	374	2	—	376
Commercial paper, corporate bonds and medium-term notes	221	1	—	222
Asset-backed and mortgage-backed securities	284	1	2	283
Total fixed income securities	970	4	2	972
Publicly traded equity securities	19	30	—	49
Equity investments in privately-held companies	67	—	—	67
Total short-term and long-term investments	$ 1,056	$ 34	$ 2	$ 1,088
Total Cash, Cash equivalents and Investments	$ 3,985	$ 34	$ 2	$ 4,017

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

October 26, 2014	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Cash	$ 508	$ —	$ —	$ 508
Cash equivalents:				
Money market funds	2,494	—	—	2,494
Total Cash equivalents	2,494	—	—	2,494
Total Cash and Cash equivalents	$ 3,002	$ —	$ —	$ 3,002
Short-term and long-term investments:				
U.S. Treasury and agency securities	$ 62	$ —	$ —	$ 62
Non-U.S. government securities	14	—	—	14
Municipal securities	391	2	—	393
Commercial paper, corporate bonds and medium-term notes	223	1	—	224
Asset-backed and mortgage-backed securities	287	1	2	286
Total fixed income securities	977	4	2	979
Publicly traded equity securities	19	31	—	50
Equity investments in privately-held companies	66	—	—	66
Total short-term and long-term investments	$ 1,062	$ 35	$ 2	$ 1,095
Total Cash, Cash equivalents and Investments	$ 4,064	$ 35	$ 2	$ 4,097

Maturities of Investments

The following table summarizes the contractual maturities of Applied's investments at January 25, 2015:

	Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	$ 149	$ 149
Due after one through five years	537	539
No single maturity date**	370	400
	$ 1,056	$ 1,088

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

Gains and Losses on Investments

During the three months ended January 25, 2015, gross realized gains and losses on investments were not material. During the three months ended January 26, 2014, gross realized gains on investments were $12 million and gross realized losses on investments were not material.

At January 25, 2015 and October 26, 2014, gross unrealized losses related to Applied's investment portfolio were not material. Applied regularly reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether an unrealized loss is considered to be temporary, or other-than-temporary and therefore impaired, include: the length of time and extent to which fair value has been lower than the cost basis; the financial condition, credit quality and near-term prospects of the investee; and whether it is more likely than not that Applied will be required to sell the security prior to recovery. Generally, the contractual terms of investments in marketable securities do not permit settlement at prices less than the amortized cost of the investments. Applied determined that the gross unrealized losses on its marketable securities at January 25, 2015 and January 26, 2014 were temporary in nature and therefore it did not recognize any impairment of its marketable securities during the three months ended January 25, 2015 or January 26, 2014. Impairment charges on equity investments in privately-held companies during the three months ended January 25, 2015 and January 26, 2014 were not material. These impairment charges are included in interest and other income, net in the consolidated condensed statement of operations.

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

Note 4 Fair Value Measurements

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

Fair Value Hierarchy

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

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

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

Investments with remaining effective maturities of 12 months or less from the balance sheet date are classified as short-term investments. Investments with remaining effective maturities of more than 12 months from the balance sheet date are classified as long-term investments. As of January 25, 2015, substantially all of Applied’s available-for-sale, short-term and long-term investments were recognized at fair value that was determined based upon observable inputs.

Assets Measured at Fair Value on a Recurring Basis

Financial assets (excluding cash balances) measured at fair value on a recurring basis are summarized below as of January 25, 2015 and October 26, 2014:

	January 25, 2015			October 26, 2014		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	(In millions)					
Assets:						
Money market funds	$ 2,438	$ —	$ 2,438	$ 2,494	$ —	$ 2,494
U.S. Treasury and agency securities	56	23	79	43	19	62
Non-U.S. government securities	—	12	12	—	14	14
Municipal securities	—	376	376	—	393	393
Commercial paper, corporate bonds and medium-term notes	—	222	222	—	224	224
Asset-backed and mortgage-backed securities	—	283	283	—	286	286
Publicly traded equity securities	49	—	49	50	—	50
Foreign exchange derivative assets	—	131	131	—	52	52
Total	$ 2,543	$ 1,047	$ 3,590	$ 2,587	$ 988	$ 3,575

There were no transfers between Level 1 and Level 2 fair value measurements during the three months ended January 25, 2015 or January 26, 2014. Applied did not have any financial assets measured at fair value on a recurring basis within Level 3 fair value measurements as of January 25, 2015 or October 26, 2014.

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

Equity investments in privately-held companies are generally accounted for under the cost method of accounting and are periodically assessed for other-than-temporary impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred. If Applied determines that an other-than-temporary impairment has occurred, the investment will be written down to its estimated fair value based on available information, such as pricing in recent rounds of financing, current cash positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data. At January 25, 2015, equity investments in privately-held companies totaled $67 million, of which $58 million of investments were accounted for under the cost method of accounting and $9 million of investments had been measured at fair value on a non-recurring basis within Level 3 fair value measurements due to an other-than-temporary decline in value. At October 26, 2014, equity investments in privately-held companies totaled $66 million, of which $57 million of investments were accounted for under the cost method of accounting and $9 million of investments had been measured at fair value on a non-recurring basis within Level 3 fair value measurements due to an other-than-temporary decline in value. Impairment charges on equity investments in privately-held companies during the three months ended January 25, 2015 and January 26, 2014 were not material.

Other

The carrying amounts of Applied's financial instruments, including cash and cash equivalents, accounts receivable, notes payable, and accounts payable and accrued expenses, approximate fair value due to their short maturities. At January 25, 2015 and October 26, 2014, the carrying amount of long-term debt was $1.9 billion and the estimated fair value was $2.2 billion. The estimated fair value of long-term debt is determined by Level 2 inputs and is based primarily on quoted market prices for the same or similar issues.

Note 5 Derivative Instruments and Hedging Activities

Derivative Financial Instruments

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

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

Hedges related to anticipated transactions are designated and documented at the inception of the hedge as cash flow hedges and are typically entered into once per month. Cash flow hedges are evaluated for effectiveness quarterly. The effective portion of the gain or loss on these hedges is reported as a component of accumulated other comprehensive income or loss (AOCI) in stockholders' equity and is reclassified into earnings when the hedged transaction affects earnings. The majority of the after-tax net income or loss related to derivative instruments included in AOCI at January 25, 2015 is expected to be reclassified into earnings within 12 months. Changes in the fair value of currency forward exchange and option contracts due to changes in time value are excluded from the assessment of effectiveness. Both ineffective hedge amounts and hedge components excluded from the assessment of effectiveness are recognized in earnings. If the transaction being hedged is no longer probable to occur, or if a portion of any derivative is deemed to be ineffective, Applied promptly recognizes the gain or loss on the associated financial instrument in general and administrative expenses. The amount recognized due to discontinuance of cash flow hedges that were probable not to occur by the end of the originally specified time period was not significant for the three months ended January 25, 2015 and January 26, 2014.

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

During the fourth quarters of fiscal 2014 and 2013, Applied purchased foreign exchange option contracts to limit its foreign exchange risk associated with the announced business combination with Tokyo Electron Limited (TEL). The derivatives used to hedge currency exposure did not qualify for hedge accounting treatment. These derivatives are marked to market at the end of each reporting period with gains and losses recorded as part of operating expenses. At January 25, 2015 and October 26, 2014, the fair value of these foreign exchange option contracts was approximately $130 million and $52 million, respectively. Applied recorded unrealized gains of $78 million and $24 million during the three months ended January 25, 2015 and January 26, 2014, respectively, related to such contracts. The cash flow impact of these derivatives has been classified as operating cash flows in the Consolidated Condensed Statements of Cash Flows. To further mitigate credit exposure in connection with these foreign exchange option contracts, Applied entered into security arrangements with certain counterparties, which require the counterparties to post collateral amounting to the approximate fair value of the derivative contracts. The cash collateral is included in cash and cash equivalents in the Consolidated Condensed Statements of Financial Position, with the corresponding liability included in accounts payable and accrued expenses.

Other than the foreign exchange option contracts discussed in the preceding paragraph, the fair values of other derivative instruments at January 25, 2015 and October 26, 2014 were not material.

The effects of derivative instruments on the Consolidated Condensed Statements of Operations for the three months ended January 25, 2015 and January 26, 2014 were as follows:

		Three Months Ended January 25, 2015			Three Months Ended January 26, 2014		
		Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing	Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing
	Location of Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in AOCI	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in Income	Gain or (Loss) Recognized in AOCI	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in Income
		(In millions)					
Derivatives in Cash Flow Hedging Relationships							
Foreign exchange contracts	Cost of products sold	$ 5	$ 8	$ (1)	$ 5	$ 3	$ —
Foreign exchange contracts	General and administrative	—	(4)	—	—	3	(1)
Total		$ 5	$ 4	$ (1)	$ 5	$ 6	$ (1)

		Amount of Gain or (Loss) Recognized in Income	
		Three Months Ended	
	Location of Gain or (Loss) Recognized in Income	January 25, 2015	January 26, 2014
		(In millions)	
Derivatives Not Designated as Hedging Instruments			
Foreign exchange contracts	General and administrative	$ 99	$ 39
Total		$ 99	$ 39

Credit Risk Contingent Features

If Applied’s credit rating were to fall below investment grade, it would be in violation of credit risk contingent provisions of the derivative instruments discussed above, and certain counterparties to the derivative instruments could request immediate payment on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk related contingent features that were in a net liability position was immaterial as of January 25, 2015.

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

Note 6 Accounts Receivable, Net

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

Applied did not factor any accounts receivable during the three months ended January 25, 2015 and factored accounts receivable of $45 million during the three months ended January 26, 2014. Applied did not discount promissory notes or utilize programs to discount letters of credit issued by customers during the three months ended January 25, 2015 or January 26, 2014. Financing charges on the sale of receivables and discounting of letters of credit are included in interest expense in the accompanying Consolidated Condensed Statements of Operations and were not material for all periods presented.

Accounts receivable are presented net of allowance for doubtful accounts of $58 million at both January 25, 2015 and October 26, 2014. Applied sells its products principally to manufacturers within the semiconductor, display and solar industries. While Applied believes that its allowance for doubtful accounts is adequate and represents its best estimate as of January 25, 2015, it continues to closely monitor customer liquidity and industry and economic conditions, which may result in changes to Applied’s estimates regarding collectability.

Note 7 Balance Sheet Detail

	January 25, 2015	October 26, 2014
	(In millions)	
Inventories		
Customer service spares	$ 318	$ 316
Raw materials	411	405
Work-in-process	341	316
Finished goods	571	530
	$ 1,641	$ 1,567

Included in finished goods inventory are $116 million at January 25, 2015, and $104 million at October 26, 2014, of newly-introduced systems at customer locations where the sales transaction did not meet Applied's revenue recognition criteria as set forth in Note 1. Finished goods inventory includes $202 million and $164 million of evaluation inventory at January 25, 2015 and October 26, 2014, respectively.

	January 25, 2015	October 26, 2014
	(In millions)	
Other Current Assets		
Deferred income taxes, net	$ 216	$ 232
Prepaid income taxes and income taxes receivable	82	79
Prepaid expenses and other	327	257
	$ 625	$ 568

	Useful Life	January 25, 2015	October 26, 2014
	(In years)	(In millions)	
Property, Plant and Equipment, Net			
Land and improvements		$ 161	$ 156
Buildings and improvements	3-30	1,268	1,227
Demonstration and manufacturing equipment	3-5	867	829
Furniture, fixtures and other equipment	3-15	588	575
Construction in progress		43	61
Gross property, plant and equipment		2,927	2,848
Accumulated depreciation		(2,063)	(1,987)
		$ 864	$ 861

	January 25, 2015	October 26, 2014
	(In millions)	
Accounts Payable and Accrued Expenses		
Accounts payable	$ 650	$ 613
Compensation and employee benefits	356	524
Warranty	119	113
Dividends payable	123	122
Income taxes payable	44	142
Other accrued taxes	47	51
Interest payable	14	30
Other	384	288
	$ 1,737	$ 1,883

	January 25, 2015	October 26, 2014
	(In millions)	
Customer Deposits and Deferred Revenue		
Customer deposits	$ 180	$ 286
Deferred revenue	604	654
	$ 784	$ 940

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

	January 25, 2015	October 26, 2014
	(In millions)	
Other Liabilities		
Deferred income taxes	$ 23	$ 32
Income taxes payable	244	225
Defined and postretirement benefit plans	198	208
Other	68	71
	$ 533	$ 536

Note 8 Business Combination

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

The new combined company, Eteris N.V., will have dual headquarters in Tokyo and Santa Clara and dual listing of its shares on the Tokyo Stock Exchange and NASDAQ, and will be incorporated in the Netherlands. In June 2014, the shareholders of Applied and TEL approved the proposed business combination. The closing of the transaction remains subject to customary conditions, including regulatory approvals. It is expected that the combined company will commence a $3.0 billion stock repurchase program targeted to be executed within 12 months following the closing of the transaction.

The Business Combination Agreement contains mutual pre-closing covenants, including the obligation of Applied and TEL to conduct their businesses in the ordinary course consistent in all material respects with past practices, and certain termination rights.

Note 9 Goodwill, Purchased Technology and Other Intangible Assets

Goodwill and Purchased Intangible Assets

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

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

To test goodwill for impairment, Applied first performs a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, Applied then performs the two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. Under the two-step goodwill impairment test, Applied would in the first step compare the estimated fair value of each reporting unit to its carrying value. Applied determines the fair value of each of its reporting units based on a weighting of income and market approaches. If the carrying value of a reporting unit exceeds its fair value, Applied would then perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If Applied determines that the carrying value of a reporting unit's goodwill exceeds its implied fair value, Applied would record an impairment charge equal to the difference. Applied's reporting units are consistent with the reportable segments identified in Note 15, Industry Segment Operations, which are based on the manner in which Applied operates its business and the nature of those operations.

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

Details of goodwill and other indefinite-lived intangible assets as of January 25, 2015 and October 26, 2014 were as follows :

	Goodwill	Other Intangible Assets	Total
		(In millions)	
Silicon Systems Group	$ 2,151	$ 103	$ 2,254
Applied Global Services	1,027	6	1,033
Display	126	18	144
Carrying amount	$ 3,304	$ 127	$ 3,431

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

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

	January 25, 2015	October 26, 2014
	(In millions)	
Purchased technology, net	$ 595	$ 636
Intangible assets - finite-lived, net	183	188
Intangible assets - indefinite-lived	127	127
Total	$ 905	$ 951

Finite-Lived Purchased Intangible Assets

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

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

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

Details of finite-lived intangible assets were as follows as of January 25, 2015 and October 26, 2014:

	January 25, 2015			October 26, 2014		
	Purchased Technology	Other Intangible Assets	Total	Purchased Technology	Other Intangible Assets	Total
	(In millions)					
Gross carrying amount:						
Silicon Systems Group	$ 1,346	$ 252	$ 1,598	$ 1,346	$ 252	$ 1,598
Applied Global Services	28	44	72	28	44	72
Display	110	33	143	110	33	143
Energy and Environmental Solutions	5	17	22	5	17	22
Gross carrying amount	$ 1,489	$ 346	$ 1,835	$ 1,489	$ 346	$ 1,835
Accumulated amortization:						
Silicon Systems Group	$ (755)	$ (81)	$ (836)	$ (716)	$ (77)	$ (793)
Applied Global Services	(25)	(44)	(69)	(24)	(44)	(68)
Display	(110)	(32)	(142)	(110)	(31)	(141)
Energy and Environmental Solutions	(4)	(6)	(10)	(3)	(6)	(9)
Accumulated amortization	$ (894)	$ (163)	$ (1,057)	$ (853)	$ (158)	$ (1,011)
Carrying amount	$ 595	$ 183	$ 778	$ 636	$ 188	$ 824

Details of amortization expense by segment for the three months ended January 25, 2015 and January 26, 2014 were as follows:

	Three Months Ended	
	January 25, 2015	January 26, 2014
	(In millions)	
Silicon Systems Group	$ 43	$ 42
Applied Global Services	1	1
Display	1	1
Energy and Environmental Solutions	1	2
Total	$ 46	$ 46

For the three months ended January 25, 2015 and January 26, 2014, amortization expense was charged to the following categories:

	Three Months Ended	
	January 25, 2015	January 26, 2014
	(In millions)	
Cost of products sold	$ 40	$ 40
Marketing and selling	5	5
General and administrative	1	1
Total	$ 46	$ 46

As of January 25, 2015, future estimated amortization expense is expected to be as follows:

	Amortization Expense
	(In millions)
2015	135
2016	175
2017	172
2018	171
2019	29
Thereafter	96
Total	$ 778

Note 10 Borrowing Facilities and Long-Term Debt

Applied has credit facilities for unsecured borrowings in various currencies of up to $1.6 billion, of which $1.5 billion is comprised of a committed revolving credit agreement with a group of banks that is scheduled to expire in May 2017. This agreement provides for borrowings in United States dollars at interest rates keyed to one of the two rates selected by Applied for each advance and includes financial and other covenants. Remaining credit facilities in the amount of approximately $68 million are with Japanese banks. Applied's ability to borrow under these facilities is subject to bank approval at the time of the borrowing request, and any advances will be at rates indexed to the banks' prime reference rate denominated in Japanese yen. No amounts were outstanding under any of these facilities at both January 25, 2015 and October 26, 2014, and Applied has not utilized these credit facilities.

In December 2014, the undrawn $1.5 billion unsecured revolving credit agreement was amended. The amendment provides for waiver of certain defaults to the extent arising from the transactions contemplated by the proposed business combination with TEL. In addition, effective on the date of the completion of the proposed business combination, the amendment permits certain exclusions from the calculation of the financial covenant and modifies the termination date of the agreement to the earlier of the one-year anniversary of the completion of the business combination, or May 2017.

Long-term debt outstanding as of January 25, 2015 and October 26, 2014 was as follows:

	Principal Amount	Effective Interest Rate	Interest Pay Dates
	(In millions)		
2.650% Senior Notes Due 2016	$ 400	2.666%	June 15, December 15
7.125% Senior Notes Due 2017	200	7.190%	April 15, October 15
4.300% Senior Notes Due 2021	750	4.326%	June 15, December 15
5.850% Senior Notes Due 2041	600	5.879%	June 15, December 15
	1,950		
Total unamortized discount	(3)		
Total long-term debt	$ 1,947		

Note 11 Stockholders' Equity, Comprehensive Income and Share-Based Compensation

Accumulated Other Comprehensive Income (Loss)

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

	Unrealized Gain on Investments, Net	Unrealized Gain on Derivative Instruments Qualifying as Cash Flow Hedges	Defined and Postretirement Benefit Plans	Cumulative Translation Adjustments	Total
	(in millions)				
Balance at October 26, 2014	$ 24	$ —	$ (105)	$ 5	$ (76)
Other comprehensive income (loss) before reclassifications	(1)	3	—	(1)	1
Amounts reclassified out of AOCI	—	(2)	—	—	(2)
Other comprehensive income (loss), net of tax	(1)	1	—	(1)	(1)
Balance at January 25, 2015	$ 23	$ 1	$ (105)	$ 4	$ (77)

The effects on net income of amounts reclassified from AOCI for the three months ended January 25, 2015 and January 26, 2014 were not material.

Stock Repurchase Program

On March 5, 2012, Applied's Board of Directors approved a stock repurchase program authorizing up to $3.0 billion in repurchases over the next three years ending in March 2015. Under this authorization, Applied purchases shares of its common stock on the open market. Applied did not purchase any shares of its common stock during the three months ended January 25, 2015 and January 26, 2014. At January 25, 2015, $1.6 billion remained available for future stock repurchases under this repurchase program.

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

Dividends

In December 2014, Applied's Board of Directors declared quarterly cash dividends in the amount of $0.10 per share. Dividends declared during the three months ended January 25, 2015 and January 26, 2014 totaled $123 million and $121 million, respectively. Applied currently anticipates that cash dividends will continue to be paid on a quarterly basis, although the declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on Applied's financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination by the Board of Directors that cash dividends are in the best interests of Applied's stockholders.

Share-Based Compensation

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

During the three months ended January 25, 2015 and January 26, 2014, Applied recognized share-based compensation expense related to stock options, ESPP shares, restricted stock, restricted stock units, performance shares and performance units. The effect of share-based compensation on the results of operations was as follows:

	Three Months Ended	
	January 25, 2015	January 26, 2014
	(In millions)	
Cost of products sold	$ 15	$ 14
Research, development, and engineering	18	17
Marketing and selling	6	6
General and administrative	9	9
Total share-based compensation	$ 48	$ 46

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

At January 25, 2015, Applied had $350 million in total unrecognized compensation expense, net of estimated forfeitures, related to grants of share-based awards and shares issued under Applied's ESPP, which will be recognized over a weighted average period of 2.9 years. At January 25, 2015, there were 167 million shares available for grants of share-based awards under the Employee Stock Incentive Plan, and an additional 34 million shares available for issuance under the ESPP.

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

A summary of the changes in restricted stock units, restricted stock, performance shares and performance units outstanding under Applied's equity compensation plans during the three months ended January 25, 2015 is presented below:

	Shares		Weighted Average Grant Date Fair Value
	(In millions, except per share amounts)		
Non-vested restricted stock units, restricted stock, performance shares and performance units at October 26, 2014	33	$	12.59
Granted	9	$	23.58
Vested	(12)	$	11.71
Canceled	—	$	13.80
Non-vested restricted stock units, restricted stock, performance shares and performance units at January 25, 2015	30	$	16.31

With respect to the performance-based awards granted in fiscal 2013 and 2012, as of October 26, 2014, all performance goals had been fully achieved, but such awards remained subject to time-based vesting.

During the first quarter of fiscal 2015, certain executive officers were granted awards that are subject to the achievement of specified performance goals (performance-based awards). These performance-based awards become eligible to vest only if performance goals are achieved and will vest only if the grantee remains employed by Applied through each applicable vesting date. These performance-based awards require the achievement of targeted levels of adjusted annual operating profit margin. Additional shares become eligible for time-based vesting if Applied achieves certain levels of total shareholder return (TSR) relative to a peer group, comprised of companies in the Standard & Poor's 500 Information Technology Index, measured at the end of a two-year period.

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

Note 12 Employee Benefit Plans

Applied sponsors a number of employee benefit plans, including defined benefit plans of certain foreign subsidiaries, and a plan that provides certain medical and vision benefits to eligible retirees. A summary of the components of net periodic benefit costs of these defined and postretirement benefit plans for the three months ended January 25, 2015 and January 26, 2014 is presented below:

	Three Months Ended	
	January 25, 2015	January 26, 2014
	(In millions)	
Service cost	$ 3	$ 4
Interest cost	4	4
Expected return on plan assets	(4)	(3)
Amortization of actuarial loss	2	1
Settlement gain	(1)	—
Net periodic benefit cost	$ 4	$ 6

Note 13 Income Taxes

Applied’s effective tax rates for the first quarters of fiscal 2015 and 2014 were 20.4 percent and 19.7 percent, respectively. The effective tax rate for the first quarter of fiscal 2015 was slightly higher than in the same period in the prior year primarily due to resolutions and changes related to income tax liabilities for prior years, partially offset by the benefit from the reinstatement of the U.S. federal research and development tax credit during the first quarter of fiscal 2015 which was retroactive to its expiration in December 2013.

Note 14 Warranty, Guarantees and Contingencies

Warranty

Changes in the warranty reserves during the three months ended January 25, 2015 and January 26, 2014 were as follows:

	Three Months Ended	
	January 25, 2015	January 26, 2014
	(In millions)	
Beginning balance	$ 113	$ 102
Provisions for warranty	36	27
Consumption of reserves	(30)	(23)
Ending balance	$ 119	$ 106

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

Guarantees

In the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to third parties as required for certain transactions initiated by either Applied or its subsidiaries. As of January 25, 2015, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately $49 million. Applied has not recorded any liability in connection with these guarantee agreements beyond that required to appropriately account for the underlying transaction being guaranteed. Applied does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee agreements.

Applied also has agreements with various banks to facilitate subsidiary banking operations worldwide, including overdraft arrangements, issuance of bank guarantees, and letters of credit. As of January 25, 2015, Applied has provided parent guarantees to banks for approximately $102 million to cover these arrangements.

Legal Matters

Korea Criminal Proceedings

In 2010, the Seoul Eastern District Court began hearings on indictments brought by the Seoul Prosecutor's Office for the Eastern District of Korea (the Prosecutor's Office) alleging that employees of several companies improperly received and used confidential information belonging to Samsung Electronics Co., Ltd. (Samsung), a major Applied customer based in Korea. The individuals charged included the former head of Applied Materials Korea (AMK), who at the time of the indictment was a vice president of Applied Materials, Inc., and certain other AMK employees. Neither Applied nor any of its subsidiaries was named as a party to the proceedings. Hearings on these matters concluded in November 2012 and the Court issued its decision on February 7, 2013. As part of the ruling, nine AMK employees (including the former head of AMK) were acquitted of all charges, while one AMK employee was found guilty on some of the charges and received a suspended jail sentence. The Prosecutor's Office and various individuals appealed the matter to the High Court. On June 20, 2014, the High Court rendered its decision, finding all defendants not guilty, including all ten AMK employees. The prosecutor has appealed the High Court decision to the Korean Supreme Court.

Other Matters

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

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

Note 15 Industry Segment Operations

Applied’s four reportable segments are: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. As defined under the accounting literature, Applied’s chief operating decision-maker has been identified as the President and Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Segment information is presented based upon Applied’s management organization structure as of January 25, 2015 and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to Applied’s reportable segments.

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

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

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

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

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

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

Net sales and operating income (loss) for each reportable segment for the three months ended January 25, 2015 and January 26, 2014 were as follows:

	Three Months Ended	
	Net Sales	Operating Income (Loss)
	(In millions)	
January 25, 2015:		
Silicon Systems Group	$ 1,446	$ 307
Applied Global Services	583	153
Display	275	72
Energy and Environmental Solutions	55	(4)
Total Segment	$ 2,359	$ 528
January 26, 2014:		
Silicon Systems Group	$ 1,484	$ 314
Applied Global Services	507	125
Display	159	26
Energy and Environmental Solutions	40	(11)
Total Segment	$ 2,190	$ 454

Reconciliations of total segment operating results to Applied consolidated totals for the three months ended January 25, 2015 and January 26, 2014 were as follows:

	Three Months Ended	
	January 25, 2015	January 26, 2014
	(In millions)	
Total segment operating income	$ 528	$ 454
Corporate and unallocated costs	(128)	(137)
Certain items associated with announced business combination	(20)	(11)
Gain on derivatives associated with announced business combination	78	24
Income from operations	$ 458	$ 330

The following customers accounted for at least 10 percent of Applied's net sales for the three months ended January 25, 2015, which were for products in multiple reportable segments.

	Percentage of Net Sales
Samsung Electronics Co., Ltd.	23%
Taiwan Semiconductor Manufacturing Company Limited	14%

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

The following management's discussion and analysis is provided in addition to the accompanying consolidated condensed financial statements and notes to assist in understanding Applied's results of operations and financial condition. Financial information as of January 25, 2015 should be read in conjunction with the financial statements for the fiscal year ended October 26, 2014 contained in the Company's Form 10-K filed December 17, 2014.

This report contains forward-looking statements that involve a number of risks and uncertainties. Examples of forward-looking statements include those regarding Applied's future financial or operating results, cash flows and cash deployment strategies, declaration of dividends, share repurchases, business strategies and priorities, costs and cost controls, products, competitive positions, management's plans and objectives for future operations, research and development, strategic acquisitions and investments, the proposed business combination with Tokyo Electron Limited, growth opportunities, restructuring activities, backlog, working capital, liquidity, investment portfolio and policies, taxes, supply chain, manufacturing properties, legal proceedings and claims, customer demand and spending, end-use demand, market and industry trends and outlooks, general economic conditions and other statements that are not historical facts, as well as their underlying assumptions. Forward-looking statements include statements may contain words such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "potential" and "continue," the negative of these terms, or other comparable terminology. All forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in Part II, Item 1A, "Risk Factors," below and elsewhere in this report. These and many other factors could affect Applied's future financial condition and operating results and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by Applied or on its behalf. Forward-looking statements are based on management's estimates, projections and expectations as of the date hereof, and Applied undertakes no obligation to revise or update any such statements.

Overview

Applied provides manufacturing equipment, services and software to the global semiconductor, flat panel display, solar photovoltaic (PV) and related industries. Applied's customers include manufacturers of semiconductor wafers and chips, flat panel liquid crystal and other displays, solar PV cells and modules, and other electronic devices. These customers may use what they manufacture in their own end products or sell the items to other companies for use in advanced electronic components. Applied operates in four reportable segments: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. A summary of financial information for each reportable segment is found in Note 15 of Notes to Consolidated Condensed Financial Statements. A discussion of factors that could affect Applied's operations is set forth under "Risk Factors" in Part II, Item 1A, which is incorporated herein by reference. Product development and manufacturing activities occur primarily in the United States, Europe, Israel, and Asia. Applied's broad range of equipment and service products are highly technical and are sold primarily through a direct sales force.

Applied's results are driven primarily by worldwide demand for semiconductors, which in turn depends on end-user demand for electronic products. Each of Applied's businesses is subject to cyclical industry conditions, as demand for manufacturing equipment and services can change depending on supply and demand for chips, display technologies, solar PVs and other electronic devices, as well as other factors, such as global economic and market conditions, and the nature and timing of technological advances in fabrication processes. In addition, a significant driver in the semiconductor and display industries is end-demand for mobile consumer products, which is characterized by seasonality that impacts the timing of customer investments in manufacturing equipment and, in turn, Applied business. In light of these conditions, Applied's results can vary significantly year-over-year, as well as quarter-over-quarter.

The following tables present certain significant measurements for the periods indicated:

	Three Months Ended			Change	
	January 25, 2015	October 26, 2014	January 26, 2014	Q1 2015 over Q4 2014	Q1 2015 over Q1 2014
	(In millions, except per share amounts and percentages)				
New orders	$ 2,273	$ 2,255	$ 2,285	$ 18	$ (12)
Net sales	$ 2,359	$ 2,264	$ 2,190	$ 95	$ 169
Gross profit	$ 959	$ 959	$ 891	$ —	$ 68
Gross margin	40.7%	42.4%	40.7%	(1.7) points	—
Operating income	$ 458	$ 412	$ 330	$ 46	$ 128
Operating margin	19.4%	18.2%	15.1%	1.2 point	4.3 points
Net income	$ 348	$ 256	$ 253	$ 92	$ 95
Earnings per diluted share	$ 0.28	$ 0.21	$ 0.21	$ 0.07	$ 0.07
Non-GAAP Adjusted Results					
Non-GAAP adjusted gross profit	$ 999	$ 1,001	$ 930	$ (2)	$ 69
Non-GAAP adjusted gross margin	42.3%	44.2%	42.5%	(1.9) points	(0.2) point
Non-GAAP adjusted operating income	$ 447	$ 442	$ 380	$ 5	$ 67
Non-GAAP adjusted operating margin	18.9%	19.5%	17.4%	(0.6) point	1.5 points
Non-GAAP adjusted net income	$ 338	$ 338	$ 279	$ —	$ 59
Non-GAAP adjusted earnings per diluted share	$ 0.27	$ 0.27	$ 0.23	$ —	$ 0.04

Reconciliations of non-GAAP adjusted measures are presented below under "Non-GAAP Adjusted Results." Fiscal 2015 and 2014 each contain 52 weeks, and the first three months of fiscal years 2015 and 2014 each contained 13 weeks.

Mobility, and the increasing technological functionality of mobile devices, continues to be the largest drivers of semiconductor industry spending. The first three months of fiscal 2015 were characterized by improved demand for semiconductor equipment by memory customers as manufacturers invested in technology upgrades, and continued demand from foundry customers, driven by demand for advanced mobile chips. Mobility represents a significant driver of display industry spending, which has resulted in continued manufacturing capacity expansion for mobile applications. Demand for larger LCD TVs is also a factor for display industry investments, although demand for TV manufacturing equipment remains susceptible to highly cyclical conditions. Investment in solar equipment remained low due to ongoing excess manufacturing capacity in the industry.

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

Results of Operations

New Orders

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

	Three Months Ended								Change	
	January 25, 2015			October 26, 2014			January 26, 2014		Q1 2015 over Q4 2014	Q1 2015 over Q1 2014
	(In millions, except percentages)									
Silicon Systems Group	$ 1,426	63%		$ 1,334	59%		$ 1,569	69%	7%	(9)%
Applied Global Services	690	30%		747	33%		597	26%	(8)%	16%
Display	107	5%		130	6%		79	3%	(18)%	35%
Energy and Environmental Solutions	50	2%		44	2%		40	2%	14%	25%
Total	$ 2,273	100%		$ 2,255	100%		$ 2,285	100%	1%	(1)%

New orders for the first quarter of fiscal 2015 increased slightly compared to the prior quarter primarily due to higher orders for semiconductor equipment, offset by lower demand for semiconductor services, 200mm equipment and display equipment. New orders for the first quarter of fiscal 2015 were essentially flat compared to the same period in fiscal 2014. The Silicon Systems Group's proportion of total new orders relative to other segments increased compared to the prior quarter and continues to constitute the majority of total new orders.

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

	Three Months Ended						Change	
	January 25, 2015		October 26, 2014		January 26, 2014		Q1 2015 over Q4 2014	Q1 2015 over Q1 2014
	(In millions, except percentages)							
Taiwan	$ 545	24%	$ 599	27%	$ 984	43%	(9)%	(45)%
China	296	13%	211	9%	326	14%	40%	(9)%
Korea	546	24%	251	11%	240	11%	118%	128%
Japan	242	11%	287	13%	163	7%	(16)%	48%
Southeast Asia	85	4%	113	5%	50	2%	(25)%	70%
Asia Pacific	1,714	76%	1,461	65%	1,763	77%	17%	(3)%
United States	411	18%	596	26%	403	18%	(31)%	2%
Europe	148	6%	198	9%	119	5%	(25)%	24%
Total	$ 2,273	100%	$ 2,255	100%	$ 2,285	100%	1%	(1)%

The increase in new orders from customers in Korea in the first quarter of fiscal 2015 compared to the prior quarter primarily reflected higher orders for semiconductor equipment, partially offset by lower demand for display equipment. The changes in new orders from customers in the United States and China in the first quarter of fiscal 2015 compared to the prior quarter was primarily due to changes in customer mix for semiconductor equipment.

The changes in new orders from customers in Korea, Taiwan, Southeast Asia and Japan in the first quarter of fiscal 2015 compared to the same periods in the prior year primarily reflected changes in customer mix for semiconductor equipment.

Changes in backlog during the three months ended January 25, 2015 were as follows:

		January 25, 2015
		(In millions)
Beginning balance	$	2,917
New orders		2,273
Net sales		(2,359)
Net adjustments		(53)
Ending balance	$	2,778

Backlog consists of: (1) orders for which written authorizations have been accepted and assigned shipment dates are within the next 12 months, or shipment has occurred but revenue has not been recognized; and (2) contractual service revenue and maintenance fees to be earned within the next 12 months. Applied's backlog at any particular time is not necessarily indicative of actual sales for any future periods due to the potential for customer changes in delivery schedules or cancellation of orders. Approximately 76 percent of backlog as of the end of the first quarter of fiscal 2015 is anticipated to be shipped within the next two quarters. Backlog adjustments were negative during the first quarter of fiscal 2015 and totaled $53 million, primarily consisting of unfavorable foreign currency impacts.

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

	January 25, 2015			October 26, 2014			July 27, 2014			Q1 2015 over Q4 2014	Q1 2015 over Q3 2014
	(In millions, except percentages)										
Silicon Systems Group	$	1,369	49%	$	1,400	48%	$	1,514	51%	(2)%	(10)%
Applied Global Services		837	30%		775	27%		648	22%	8%	29%
Display		418	15%		593	20%		651	22%	(30)%	(36)%
Energy and Environmental Solutions		154	6%		149	5%		155	5%	3%	(1)%
Total	$	2,778	100%	$	2,917	100%	$	2,968	100%	(5)%	(6)%

Total backlog decreased in the first quarter of fiscal 2015 compared to the prior quarter primarily due to lower orders for display equipment. In the first quarter of fiscal 2015, approximately 66 percent of net sales in the Silicon Systems Group, Applied's largest business segment, were for orders received and shipped within the quarter, up from 44 percent in the prior quarter.

Net Sales

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

	Three Months Ended									Change	
	January 25, 2015			October 26, 2014			January 26, 2014			Q1 2015 over Q4 2014	Q1 2015 over Q1 2014
	(In millions, except percentages)										
Silicon Systems Group	$	1,446	61%	$	1,434	63%	$	1,484	68%	1%	(3)%
Applied Global Services		583	25%		592	26%		507	23%	(2)%	15%
Display		275	12%		190	9%		159	7%	45%	73%
Energy and Environmental Solutions		55	2%		48	2%		40	2%	15%	38%
Total	$	2,359	100%	$	2,264	100%	$	2,190	100%	4%	8%

Net sales for the first quarter of fiscal 2015 increased compared to the prior quarter led by higher customer spending on display equipment. The Silicon Systems Group's relative share of total net sales decreased slightly compared to the prior quarter but remains the largest contributor of net sales.

For the first quarter of fiscal 2015 compared to the same period in the prior year, net sales increased primarily due to greater customer investments in semiconductor spares and services, 200mm and display equipment.

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

	Three Months Ended									Change	
	January 25, 2015			October 26, 2014			January 26, 2014			Q1 2015 over Q4 2014	Q1 2015 over Q1 2014
	(In millions, except percentages)										
Taiwan	$	519	22%	$	618	27%	$	705	32%	(16)%	(26)%
China		388	16%		303	14%		589	27%	28%	(34)%
Korea		464	20%		187	8%		201	9%	148%	131%
Japan		231	10%		209	9%		164	8%	11%	41%
Southeast Asia		85	4%		136	6%		87	4%	(38)%	(2)%
Asia Pacific		1,687	72%		1,453	64%		1,746	80%	16%	(3)%
United States		529	22%		633	28%		280	13%	(16)%	89%
Europe		143	6%		178	8%		164	7%	(20)%	(13)%
Total	$	2,359	100%	$	2,264	100%	$	2,190	100%	4%	8%

The changes in net sales from customers in Korea, the United States, Taiwan and China in the first quarter of fiscal 2015 compared to the prior quarter and the same period in fiscal 2014 primarily reflected changes in customer mix. In addition, higher customer spending on display equipment contributed to the change in net sales from customers in China in the first quarter of fiscal 2015 compared to the prior quarter and the same period in fiscal 2014.

Gross Margin

Gross margins for the periods indicated were as follows:

	Three Months Ended			Change	
	January 25, 2015	October 26, 2014	January 26, 2014	Q1 2015 over Q4 2014	Q1 2015 over Q1 2014
	(In millions, except percentages)				
Gross profit	$ 959	$ 959	$ 891	$ —	$ 68
Gross margin	40.7%	42.4%	40.7%	(1.7) points	—
Non-GAAP Adjusted Results					
Non-GAAP adjusted gross profit	$ 999	$ 1,001	$ 930	$ (2)	$ 69
Non-GAAP adjusted gross margin	42.3%	44.2%	42.5%	(1.9) points	(0.2) point

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

Gross profit, non-GAAP adjusted gross profit, gross margin and non-GAAP adjusted gross margin in the first quarter of fiscal 2015 decreased compared to the prior quarter, despite higher net sales, primarily due to unfavorable changes in product and customer mix. Gross profit and non-GAAP adjusted gross profit for the first quarter of fiscal 2015 increased compared to the same period in the prior year, primarily reflecting higher net sales, but were flat as a percentage of net sales primarily due to unfavorable changes in product mix. Gross profit and non-GAAP adjusted gross profit during each of the three months ended January 25, 2015, October 26, 2014 and January 26, 2014 included $15 million, $13 million and $14 million, respectively, of share-based compensation expense.

Research, Development and Engineering

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

	Three Months Ended			Change	
	January 25, 2015	October 26, 2014	January 26, 2014	Q1 2015 over Q4 2014	Q1 2015 over Q1 2014
	(In millions)				
Research, development and engineering	$ 351	$ 360	$ 356	$ (9)	$ (5)

Applied’s future operating results depend to a considerable extent on its ability to maintain a competitive advantage in the equipment and service products it provides. Development cycles range from 12 to 36 months depending on whether the product is an enhancement of an existing product, which typically has a shorter development cycle, or a new product, which typically has a longer development cycle. Most of Applied’s existing products resulted from internal development activities and innovations involving new technologies, materials and processes. In certain instances, Applied acquires technologies, either in existing or new product areas, to complement its existing technology capabilities and to reduce time to market.

Management believes that it is critical to continue to make substantial investments in RD&E to assure the availability of innovative technology that meets the current and projected requirements of its customers’ most advanced designs. Applied has maintained and intends to continue its commitment to investing in RD&E in order to continue to offer new products and technologies. RD&E expenses decreased slightly during the first quarter of fiscal 2015 compared to the prior quarter and compared to the same period in the prior year, but continue to reflect ongoing investment in product development initiatives. RD&E expenses during the three months ended January 25, 2015, October 26, 2014 and January 26, 2014 included $18 million, $17 million and $17 million, respectively, of share-based compensation expense.

Marketing and Selling

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

	Three Months Ended			Change	
	January 25, 2015	October 26, 2014	January 26, 2014	Q1 2015 over Q4 2014	Q1 2015 over Q1 2014
			(In millions)		
Marketing and selling	$ 111	$ 99	$ 109	$ 12	$ 2

Marketing and selling expenses for the first quarter of fiscal 2015 increased compared to the prior quarter primarily due to the reversal of provisions for bad debts recorded in the prior quarter, while marketing and selling expenses remained essentially flat compared to the same period in fiscal 2014. Marketing and selling expenses during the three months ended January 25, 2015, October 26, 2014 and January 26, 2014 each included $6 million of share-based compensation expense.

General and Administrative

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

	Three Months Ended			Change	
	January 25, 2015	October 26, 2014	January 26, 2014	Q1 2015 over Q4 2014	Q1 2015 over Q1 2014
			(In millions)		
General and administrative	$ 117	$ 127	$ 120	$ (10)	$ (3)

G&A expenses for the first quarter of fiscal 2015 decreased compared to the prior quarter primarily due to holiday shutdown savings, while G&A expenses for the first quarter of fiscal 2015 remained almost flat compared to the same period of the prior year. G&A expenses during the three months ended January 25, 2015, October 26, 2014 and January 26, 2014 each included $9 million of share-based compensation expense.

Gain on Derivatives Associated with Announced Business Combination

Gain on derivatives associated with announced business combination amounted to $78 million, $39 million and $24 million during the three months ended January 25, 2015, October 26, 2014 and January 26, 2014, respectively. Changes in gain on derivatives result from exchange rate fluctuations. For further details, see Note 5 of Notes to Consolidated Condensed Financial Statements.

Interest Expense and Interest and Other Income, net

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

	Three Months Ended			Change	
	January 25, 2015	October 26, 2014	January 26, 2014	Q1 2015 over Q4 2014	Q1 2015 over Q1 2014
			(In millions)		
Interest expense	$ 23	$ 23	$ 25	$ —	$ (2)
Interest and other income, net	$ 2	$ 9	$ 10	$ (7)	$ (8)

Interest expense remained flat in the first quarter of fiscal 2015 compared to the prior quarter and to the same period in fiscal 2014. Interest expenses incurred were primarily associated with the senior unsecured notes issued in June 2011.

Interest and other income, net decreased in the first quarter of fiscal 2015 compared to the prior quarter and to the same period in fiscal 2014, primarily due to realized gains on sales of securities recorded during the prior quarter and first quarter of fiscal 2014.

Income Taxes

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

	Three Months Ended			Change	
	January 25, 2015	October 26, 2014	January 26, 2014	Q1 2015 over Q4 2014	Q1 2015 over Q1 2014
	(In millions, except percentages)				
Provision for income taxes	$ 89	$ 142	$ 62	$ (53)	$ 27
Effective tax rate	20.4%	35.7%	19.7%	(15.3) points	0.7 point

Applied's effective tax rate is affected by the geographical composition of income, which includes jurisdictions with income tax incentives and differing tax rates. It is also affected by discrete events that are not consistent from period to period, such as changes in income tax laws and regulations and the resolution of income tax filings.

Applied's effective tax rate for the first quarter of fiscal 2015 was lower than the rate for the prior quarter due primarily to resolutions and changes related to income tax liabilities for prior years, reinstatement of the U.S. federal research and development tax credit during the first quarter of fiscal 2015 which was retroactive to its expiration in December 2013, and changes in the geographical composition of income. The effective tax rate for the first quarter of fiscal 2015 was slightly higher than in the same period in the prior year primarily due to resolutions and changes related to income tax liabilities for prior years, partially offset by the benefit from the reinstatement of the U.S. federal research and development tax credit during the first quarter of fiscal 2015 which was retroactive to its expiration in December 2013.

Segment Information

Applied reports financial results in four segments: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. A description of the products and services, as well as financial data, for each reportable segment can be found in Note 15 of Notes to Consolidated Condensed Financial Statements. Applied does not allocate to its reportable segments certain operating expenses that it manages separately at the corporate level. These unallocated costs include costs for share-based compensation; certain management, finance, legal, human resource, and RD&E functions provided at the corporate level; and unabsorbed information technology and occupancy. In addition, Applied does not allocate to its reportable segments restructuring and asset impairment charges and any associated adjustments related to restructuring actions, unless these actions pertain to a specific reportable segment.

The results for each reportable segment are discussed below.

Silicon Systems Group Segment

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

The competitive environment for the Silicon Systems Group in the first three months of fiscal 2015 reflected continued investment by semiconductor manufacturers, with net sales to memory customers improving during this period as manufacturers of DRAM and NAND products invest in technology upgrades. Foundry investments were also a key driver of the segment’s net sales as customers ramp wafer starts at advanced nodes to meet demand for advanced mobile chips.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	January 25, 2015	October 26, 2014	January 26, 2014	Q1 2015 over Q4 2014		Q1 2015 over Q1 2014	
	(In millions, except percentages and ratios)						
New orders	$ 1,426	$ 1,334	$ 1,569	$ 92	7%	$ (143)	(9)%
Net sales	1,446	1,434	1,484	12	1%	(38)	(3)%
Book to bill ratio	1.0	0.9	1.1				
Operating income	307	305	314	2	1%	(7)	(2)%
Operating margin	21.2%	21.3%	21.2%		(0.1) point		—%
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income	$ 350	$ 352	$ 357	(2)	(1)%	(7)	(2)%
Non-GAAP adjusted operating margin	24.2%	24.5%	24.1%		(0.3) point		0.1 point

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

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

	Three Months Ended		
	January 25, 2015	October 26, 2014	January 26, 2014
Foundry	34%	50%	60%
Memory	52%	32%	32%
Logic and other	14%	18%	8%
	100%	100%	100%

New orders for the first quarter of fiscal 2015 increased from the prior quarter primarily due to higher demand from memory customers, partially offset by lower orders from foundry, logic and other customers. New orders from memory customers constituted the majority of this segment's new orders during the first quarter of fiscal 2015. Net sales for the first quarter of fiscal 2015 increased sequentially primarily due to higher spending from memory customers, partially offset by decreased investments from foundry and logic customers. Approximately 66 percent of net sales in the first quarter of fiscal 2015 were for orders received and shipped within the quarter. Operating margin and non-GAAP adjusted operating margin slightly decreased, despite a slight increase in net sales, primarily due to unfavorable changes in product mix. In the first quarter of fiscal 2015, two customers accounted for approximately 50 percent of this segment's total new orders and net sales.

New orders and net sales for the first quarter of fiscal 2015 decreased compared to the same period in fiscal 2014 mainly due to decreased demand and spending from foundry customers, partially offset by higher investments from memory customers. Operating income and non-GAAP adjusted operating income slightly decreased in the first quarter of fiscal 2015 compared to the same period in the prior year, reflecting the decrease in net sales, while operating margin and non-GAAP operating margin were almost flat primarily due to lower RD&E expenses in the first quarter of fiscal 2015.

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

	Three Months Ended						Change	
	January 25, 2015		October 26, 2014		January 26, 2014		Q1 2015 over Q4 2014	Q1 2015 over Q1 2014
	(In millions, except percentages)							
Taiwan	$ 382	26%	$ 475	33%	$ 593	40%	(20)%	(36)%
United States	$ 374	26%	$ 480	33%	$ 156	11%	(22)%	140%

Applied Global Services Segment

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

Industry conditions that affected Applied Global Services' sales of spares and services during the first three months of fiscal 2015 were principally semiconductor manufacturers' wafer starts, as well as utilization rates.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	January 25, 2015	October 26, 2014	January 26, 2014	Q1 2015 over Q4 2014		Q1 2015 over Q1 2014	
	(In millions, except percentages and ratios)						
New orders	$ 690	$ 747	$ 597	$ (57)	(8)%	$ 93	16%
Net sales	583	592	507	(9)	(2)%	76	15%
Book to bill ratio	1.2	1.3	1.2				
Operating income	153	146	125	7	5%	28	22%
Operating margin	26.2%	24.7%	24.7%		1.5 points		1.5 points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income	154	146	126	8	5%	28	22%
Non-GAAP adjusted operating margin	26.4%	24.7%	24.9%		1.7 points		1.5 points

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

New orders for the first quarter of fiscal 2015 decreased compared to the prior quarter primarily due to decreased demand for semiconductor services and 200mm equipment. Net sales for the first quarter of fiscal 2015 decreased from the prior quarter primarily due to lower investment in semiconductor spares as well as in display and remanufactured semiconductor equipment. Operating income and non-GAAP adjusted operating income increased compared to the prior quarter, despite a decrease in net sales, primarily due to favorable changes in product mix and foreign currency and lower operating expenses from spending controls.

New orders and net sales for the first quarter of fiscal 2015 increased compared to the same period in fiscal 2014 mainly due to higher demand for semiconductor spares and services. In addition, greater investments in 200mm equipment systems contributed to higher net sales for the first quarter of fiscal 2015 compared to the same period in fiscal 2014. Operating income and non-GAAP adjusted operating income increased in the first quarter of fiscal 2015 compared to the same period in the prior year, reflecting the increase in net sales.

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

Display Segment

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

The market environment for Applied's Display segment in the first quarter of fiscal 2015 has been characterized by continued demand for manufacturing equipment for TV and high-end mobile devices, although this sector remains susceptible to highly cyclical conditions. Uneven order and revenue patterns in the Display segment can cause significant fluctuations quarter-over-quarter, as well as year-over year.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	January 25, 2015	October 26, 2014	January 26, 2014	Q1 2015 over Q4 2014		Q1 2015 over Q1 2014	
	(In millions, except percentages and ratios)						
New orders	$ 107	$ 130	$ 79	$ (23)	(18)%	$ 28	35%
Net sales	275	190	159	85	45%	116	73%
Book to bill ratio	0.4	0.7	0.5				
Operating income	72	52	26	20	38%	46	177%
Operating margin	26.2%	27.4%	16.4%		(1.2) points		9.8 points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income	$ 73	$ 52	$ 27	21	40%	46	170%
Non-GAAP adjusted operating margin	26.5%	27.4%	17.0%		(0.9) point		9.5 points

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

New orders for the first quarter of fiscal 2015 decreased compared to the prior quarter primarily due to a decrease in TV manufacturing equipment orders, while net sales were higher compared to the prior quarter due to timing of shipments of TV manufacturing equipment. Operating income and non-GAAP adjusted operating income increased compared to the prior quarter, reflecting increased net sales. Operating margin and non-GAAP adjusted operating margin decreased over the prior quarter, despite an increase in net sales, due primarily to prior quarter sales of tools for which inventory had been previously fully reserved. Three customers accounted for approximately 90 percent of new orders for the Display segment in the first quarter of fiscal 2015, with one customer accounting for more than 30 percent of new orders. Four customers accounted for a majority of net sales for this segment in the first quarter of fiscal 2015.

New orders for the first quarter of fiscal 2015 increased compared to the same period in the prior year primarily due to continued capacity expansion for mobile applications, while net sales were higher than compared to the same period in the prior year mainly due to timing of shipments of TV equipment. Operating income and non-GAAP adjusted operating income increased for the first quarter of fiscal 2015 from the comparable period in fiscal 2014, reflecting higher net sales and favorable product mix.

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

	Three Months Ended								Change	
	January 25, 2015			October 26, 2014			January 26, 2014		Q1 2015 over Q4 2014	Q1 2015 over Q1 2014
	(In millions, except percentages)									
China	$	239	87%	$	136	72%	$	155	97%	76%	54%
Korea	$	39	14%	$	58	31%	$	4	3%	(33)%	875%

Energy and Environmental Solutions Segment

The Energy and Environmental Solutions segment includes products for fabricating crystalline-silicon (c-Si) solar PV wafers and cells, as well as high throughput roll-to-roll deposition equipment for flexible electronics, packaging and other applications. This business is focused on delivering solutions to generate and conserve energy, with an emphasis on lowering the cost to produce solar modules and increasing conversion efficiency. While end-demand for solar PVs has been robust over the last several years, investment in capital equipment has remained low as global PV production capacity exceeds anticipated demand. The solar equipment environment improved slightly in the first quarter of fiscal 2015 relative to the same period in the prior year.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	January 25, 2015	October 26, 2014	January 26, 2014	Q1 2015 over Q4 2014		Q1 2015 over Q1 2014	
	(In millions, except percentages and ratios)						
New orders	$ 50	$ 44	$ 40	$ 6	14%	$ 10	25%
Net sales	55	48	40	7	15%	15	38%
Book to bill ratio	0.9	0.9	1.0				
Operating loss	(4)	(3)	(11)	(1)	(33)%	7	64%
Operating margin	(7.3)%	(6.3)%	(27.5)%		(1.0) point		20.2 points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating loss	(3)	(1)	(10)	(2)	(200)%	7	70%
Non-GAAP adjusted operating margin	(5.5)%	(2.1)%	(25.0)%		(3.4) points		19.5 points

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

New orders and net sales during the periods presented remained at low levels due to continued excess manufacturing capacity in the solar industry. Three customers accounted for approximately 64 percent of new orders and 46 percent of net sales for this segment during the first quarter of fiscal 2015. Operating margin and non-GAAP adjusted operating margin decreased for the first quarter compared to the prior quarter, despite an increase in net sales, primarily due to unfavorable product mix. Operating margin and non-GAAP operating margin for the first quarter of fiscal 2015 were higher compared to the same period in the prior year primarily reflecting higher net sales, and usage of raw materials which had been previously fully reserved.

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

	Three Months Ended								Change	
	January 25, 2015			October 26, 2014			January 26, 2014		Q1 2015 over Q4 2014	Q1 2015 over Q1 2014
	(In millions, except percentages)									
China	$	30	55%	$	25	52%	$	11	28%	20%	173%
Europe	$	6	11%	$	2	4%	$	17	43%	200%	(65)%

Financial Condition, Liquidity and Capital Resources

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

	January 25, 2015	October 26, 2014
	(In millions)	
Cash and cash equivalents	$ 2,929	$ 3,002
Short-term investments	158	160
Long-term investments	930	935
Total cash, cash-equivalents and investments	$ 4,017	$ 4,097

Sources and Uses of Cash

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

	Three Months Ended	
	January 25, 2015	January 26, 2014
	(In millions)	
Cash provided by operating activities	$ 60	$ 372
Cash provided by (used in) investing activities	$ (50)	$ 153
Cash used in financing activities	$ (83)	$ (92)

Operating Activities

Cash from operating activities for the three months ended January 25, 2015 was $60 million, which reflects net income adjusted for the effect of non-cash charges and changes in working capital components. Non-cash charges included depreciation, amortization, share-based compensation, unrealized gain on derivatives associated with the announced business combination with TEL and deferred income taxes. During the first quarter of fiscal 2015, Applied used cash for its variable compensation programs. In addition, cash from operating activities reflected an increase in inventories and decreases in customer deposits, deferred revenue and income taxes payable.

Applied did not discount promissory notes or utilize programs to discount letters of credit issued by customers during the three months ended January 25, 2015 or January 26, 2014. Discounting of letters of credit depends on many factors, including the willingness of financial institutions to discount the letters of credit and the cost of such arrangements. Applied did not factor any accounts receivable during the three months ended January 25, 2015 and factored accounts receivable of $45 million during the three months ended January 26, 2014.

Applied’s working capital was $4.4 billion at January 25, 2015 and $4.1 billion at October 26, 2014.

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

	January 25, 2015	October 26, 2014	January 26, 2014
Days sales outstanding	61	67	63
Days inventory outstanding	107	109	107
Days payable outstanding	42	43	45

Days sales outstanding varies due to the timing of shipments and payment terms. Days sales outstanding decreased in the first quarter of fiscal 2015 compared to the prior quarter primarily due to better collection performance and favorable revenue linearity. Days inventory outstanding decreased during the first quarter of fiscal 2015 compared to the prior quarter reflecting higher business volumes, partially offset by higher inventories at quarter end. Days payable outstanding decreased slightly during the first quarter of fiscal 2015 compared to the prior quarter due to increased business volumes.

Investing Activities

Applied used $50 million of cash in investing activities during the three months ended January 25, 2015. Purchases of investments, net of proceeds from sales and maturities of investments, totaled $1 million and capital expenditures were $49 million during the three months ended January 25, 2015.

Financing Activities

Applied used cash for financing activities in the amount of $83 million during the three months ended January 25, 2015, consisting primarily of $122 million in payment of cash dividends to stockholders, offset by excess tax benefits from share-based compensation of $39 million.

In December 2014, Applied's Board of Directors declared quarterly cash dividends in the amount of $0.10 per share payable in March 2015. Applied currently anticipates that cash dividends will continue to be paid on a quarterly basis, although the declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on Applied’s financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination by the Board of Directors that cash dividends are in the best interests of Applied’s stockholders.

Applied has credit facilities for unsecured borrowings in various currencies of up to $1.6 billion, of which $1.5 billion comprised of a committed revolving credit agreement with a group of banks that is scheduled to expire in May 2017. This agreement provides for borrowings in United States dollars at interest rates keyed to one of the two rates selected by Applied for each advance and includes financial and other covenants with which Applied was in compliance at January 25, 2015. Remaining credit facilities in the amount of approximately $68 million are with Japanese banks. Applied’s ability to borrow under these facilities is subject to bank approval at the time of the borrowing request, and any advances will be at rates indexed to the banks’ prime reference rate denominated in Japanese yen. No amounts were outstanding under any of these facilities at both January 25, 2015 and October 26, 2014, and Applied has not utilized these credit facilities. In December 2014, the undrawn $1.5 billion unsecured revolving credit agreement was amended, effective on the date of the completion of the proposed business combination with TEL, to permit certain exclusions from the calculation of the financial covenant and modify the termination date of the agreement to the earlier of the one-year anniversary of the completion of the business combination, or May 2017.

Applied has debt agreements that contain financial and other covenants. These covenants require Applied to maintain certain minimum financial ratios. At January 25, 2015, Applied was in compliance with all such covenants. See Note 10 of Notes to Consolidated Condensed Financial Statements for additional discussion of long-term debt.

In the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to third parties as required for certain transactions initiated by either Applied or its subsidiaries. As of January 25, 2015, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately $49 million. Applied has not recorded any liability in connection with these guarantee agreements beyond that required to appropriately account for the underlying transaction being guaranteed. Applied does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee agreements.

Applied also has agreements with various banks to facilitate subsidiary banking operations worldwide, including overdraft arrangements, issuance of bank guarantees, and letters of credit. As of January 25, 2015, Applied Materials, Inc. has provided parent guarantees to banks for approximately $102 million to cover these arrangements.

Others

During the fourth quarter of fiscal 2014 and 2013, Applied purchased foreign exchange option contracts to limit its foreign exchange risk associated with the announced business combination with TEL. At January 25, 2015, the fair value of these foreign exchange option contracts was approximately $130 million. To further mitigate credit exposure in connection with these foreign exchange option contracts, Applied entered into security arrangements with certain counterparties, which require the counterparties to post collateral amounting to the approximate fair value of the derivative contracts. The cash collateral is included in cash and cash equivalents in the Consolidated Condensed Statements of Financial Position, with the corresponding liability included in accounts payable and accrued expenses. See Note 5 of Notes to Consolidated Condensed Financial Statements for additional discussion of derivative instruments.

Applied’s investment portfolio consists principally of investment grade money market mutual funds, U.S. Treasury and agency securities, municipal bonds, corporate bonds and mortgage-backed and asset-backed securities, as well as equity securities. Applied regularly monitors the credit risk in its investment portfolio and takes appropriate measures, which may include the sale of certain securities, to manage such risks prudently in accordance with its investment policies. During the three months ended January 25, 2015, Applied did not recognize any impairment of its fixed income or publicly traded equity securities. At January 25, 2015, gross unrealized losses due to a decrease in the fair value of certain fixed income securities were not material.

During the three months ended January 25, 2015, Applied did not record a bad debt provision. While Applied believes that its allowance for doubtful accounts at January 25, 2015 is adequate, it will continue to closely monitor customer liquidity and economic conditions.

As of January 25, 2015, approximately $2.4 billion of cash, cash equivalents, and marketable securities held by foreign subsidiaries may be subject to U.S. taxes if repatriated for U.S. operations. Of this amount, Applied intends to permanently reinvest approximately $1.9 billion of these funds outside of the U.S. and does not plan to repatriate these funds. For the remaining cash, cash equivalents and marketable securities held by foreign subsidiaries, U.S. taxes have been provided for in the financial statements.

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

Critical Accounting Policies and Estimates

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

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

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

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

Revenue Recognition

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

Warranty Costs

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

Allowance for Doubtful Accounts

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

Inventory Valuation

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

Goodwill and Intangible Assets

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

Income Taxes

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

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

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

Non-GAAP Adjusted Results

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

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

APPLIED MATERIALS, INC.

UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED RESULTS

	Three Months Ended		
(In millions, except percentages)	**January 25, 2015**	**October 26, 2014**	**January 26, 2014**
Non-GAAP Adjusted Gross Profit			
Reported gross profit - GAAP basis	$ 959	$ 959	$ 891
Certain items associated with acquisitions[1]	40	42	39
Non-GAAP adjusted gross profit	$ 999	$ 1,001	$ 930
Non-GAAP adjusted gross margin (% of net sales)	42.3%	44.2%	42.5%
Non-GAAP Adjusted Operating Income			
Reported operating income - GAAP basis	$ 458	$ 412	$ 330
Certain items associated with acquisitions[1]	46	48	45
Acquisition integration costs	1	4	11
Gain on derivatives associated with announced business combination, net	(78)	(39)	(24)
Certain items associated with announced business combination[2]	20	23	11
Restructuring charges and asset impairments[3]	—	(2)	7
Gain on sale of facility	—	(4)	—
Non-GAAP adjusted operating income	$ 447	$ 442	$ 380
Non-GAAP adjusted operating margin (% of net sales)	18.9%	19.5%	17.4%
Non-GAAP Adjusted Net Income			
Reported net income - GAAP basis	$ 348	$ 256	$ 253
Certain items associated with acquisitions[1]	46	48	45
Acquisition integration costs	1	4	11
Gain on derivatives associated with announced business combination, net	(78)	(39)	(24)
Certain items associated with announced business combination[2]	20	23	11
Restructuring charges and asset impairments[3]	—	(2)	7
Impairment (gain on sale) of strategic investments, net	1	(5)	(5)
Gain on sale of facility	—	(4)	—
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items	(17)	50	(15)
Income tax effect of non-GAAP adjustments	17	7	(4)
Non-GAAP adjusted net income	$ 338	$ 338	$ 279

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

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

3 Results for the three months ended October 26, 2014 and January 26, 2014 included a $2 million favorable adjustment of restructuring reserve and $7 million of employee-related costs, respectively, related to the restructuring program announced on October 3, 2012.

APPLIED MATERIALS, INC.

UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED RESULTS

(In millions, except per share amounts)	**Three Months Ended**		
	January 25, 2015	**October 26, 2014**	**January 26, 2014**
Non-GAAP Adjusted Earnings Per Diluted Share			
Reported earnings per diluted share - GAAP basis	$ 0.28	$ 0.21	$ 0.21
Certain items associated with acquisitions	0.03	0.04	0.03
Acquisition integration costs	—	—	0.01
Gain on derivatives associated with announced business combination, net	(0.04)	(0.02)	(0.01)
Certain items associated with announced business combination	0.01	0.01	—
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items	(0.01)	0.03	(0.01)
Non-GAAP adjusted earnings per diluted share	$ 0.27	$ 0.27	$ 0.23
Weighted average number of diluted shares	1,240	1,236	1,225

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

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

	Three Months Ended		
(In millions, except percentages)	**January 25, 2015**	**October 26, 2014**	**January 26, 2014**
SSG Non-GAAP Adjusted Operating Income			
Reported operating income - GAAP basis	$ 307	$ 305	$ 314
Certain items associated with acquisitions[1]	43	46	42
Acquisition integration costs	—	1	1
Non-GAAP adjusted operating income	$ 350	$ 352	$ 357
Non-GAAP adjusted operating margin (% of net sales)	24.2 %	24.5 %	24.1 %
AGS Non-GAAP Adjusted Operating Income			
Reported operating income - GAAP basis	$ 153	$ 146	$ 125
Certain items associated with acquisitions[1]	1	—	1
Non-GAAP adjusted operating income	$ 154	$ 146	$ 126
Non-GAAP adjusted operating margin (% of net sales)	26.4 %	24.7 %	24.9 %
Display Non-GAAP Adjusted Operating Income			
Reported operating income - GAAP basis	$ 72	$ 52	$ 26
Certain items associated with acquisitions[1]	1	—	1
Non-GAAP adjusted operating income	$ 73	$ 52	$ 27
Non-GAAP adjusted operating margin (% of net sales)	26.5 %	27.4 %	17.0 %
EES Non-GAAP Adjusted Operating Loss			
Reported operating loss - GAAP basis	$ (4)	$ (3)	$ (11)
Certain items associated with acquisitions[1]	1	2	1
Non-GAAP adjusted operating loss	$ (3)	$ (1)	$ (10)
Non-GAAP adjusted operating margin (% of net sales)	(5.5)%	(2.1)%	(25.0)%

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

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

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

Applied is exposed to interest rate risk related to its investment portfolio and debt issuances. Applied’s investment portfolio includes fixed-income securities with a fair value of approximately $1.0 billion at January 25, 2015. These securities are subject to interest rate risk and will decline in value if interest rates increase. Based on Applied’s investment portfolio at January 25, 2015, an immediate 100 basis point increase in interest rates would result in a decrease in the fair value of the portfolio of approximately $15 million. While an increase in interest rates reduces the fair value of the investment portfolio, Applied will not realize the losses in the consolidated statement of operations unless the individual fixed-income securities are sold prior to recovery or the loss is determined to be other-than-temporary. At January 25, 2015, the carrying amount of debt issued by Applied was $1.9 billion with an estimated fair value of $2.2 billion. A hypothetical decrease in interest rates of 100 basis points would result in an increase in the fair value of Applied’s debt issuances of approximately $184 million at January 25, 2015.

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

In certain cases, Applied uses derivatives to hedge specific foreign currency exposures. During the fourth quarters of fiscal 2014 and 2013, as part of an overall risk management strategy, Applied purchased foreign exchange option contracts to limit its foreign exchange risk associated with the announced business combination with TEL in the event there is a significant weakening in the Japanese yen as compared to the U.S. dollar. The derivatives used to hedge the currency exposure did not qualify for hedge accounting treatment. At January 25, 2015, the fair value of the foreign exchange currency option contracts was approximately $130 million. Applied recorded an unrealized gain of $78 million during the first quarter of fiscal 2015 related to such contracts. Changes in the exchange rate between the U.S. dollar and the Japanese yen would impact Applied's consolidated financial statements. The future maximum loss exposure on this option contract is generally limited to its fair value as of the most recent balance sheet date. For further details, see Note 5 of Notes to Consolidated Condensed Financial Statements.

Item 4. ***Controls and Procedures***

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

During the first quarter of fiscal 2015, there were no changes in the internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act, that materially affected, or are reasonably likely to materially affect, Applied’s internal control over financial reporting.

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

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

The information set forth above under the caption "Legal Matters" in Note 14 contained in Notes to Consolidated Condensed Financial Statements is incorporated herein by reference.

Item 1A: *Risk Factors*

The risk factors set forth below include any material changes to, and supersede the description of, the risk factors disclosed in Part I, Item 1A of Applied's 2014 Form 10-K. These factors could materially and adversely affect Applied's business, financial condition or results of operations and cause reputational harm, and they should be carefully considered in evaluating the Company and its business, in addition to other information presented elsewhere in this report.

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

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

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

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

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

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

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

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

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

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

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

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

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

Applied must accurately forecast, and allocate appropriate resources and investment towards addressing, key technology changes and inflections, such as the transition to 20nm devices, in order to enable opportunities for gains. In addition, the proposed industry transition from 300mm to 450mm wafers presents opportunities as well as risks and uncertainties, including those related to cost, technical complexity, timing, and the resulting effect on demand for manufacturing equipment and services.

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

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

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

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

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

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

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

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

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

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

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

Applied's semiconductor customer base historically has been, and is becoming even more, highly concentrated as a result of economic and industry conditions. In the first three months of fiscal 2015, two semiconductor manufacturers accounted for approximately 50 percent of Silicon Systems Group net sales and two customers accounted for 37 percent of Applied's consolidated net sales. Applied's display customer base is also highly concentrated, while concentration within Applied's solar customer base varies depending on the product line but is increasing due to challenging industry conditions. Applied's customer base is also geographically-concentrated. See Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for tabular presentations of net sales by geographic region.

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

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

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

In the first quarter of fiscal 2015, approximately 78 percent of Applied's net sales were to customers in regions outside the United States. Moreover, China now represents the largest market for various electronic products, such as TVs, PCs, and smartphones. Certain of Applied's R&D and manufacturing facilities, as well as suppliers to Applied, are also located outside the United States, including in Singapore, Taiwan, China, Korea, Israel, Germany and Italy. Applied is also expanding its business and operations in new countries. The global nature of Applied's business and operations, combined with the need to continually improve the Company's operating cost structure, presents challenges, including but not limited to those arising from:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Applied is exposed to various risks related to legal proceedings.

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

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

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

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

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

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

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

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

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

As a global company, Applied is subject to taxation in the United States and various other countries. Significant judgment is required to determine and estimate worldwide tax liabilities. Applied's future annual and quarterly tax rates could be affected by numerous factors, including changes in the: (1) applicable tax laws; (2) amount and composition of pre-tax income in countries with differing tax rates; (3) plans of the Company to permanently reinvest certain funds held outside of the U.S.; and (4) valuation of Applied's deferred tax assets and liabilities. As of January 25, 2015, Applied intends to permanently reinvest approximately $1.9 billion of these funds outside of the U.S. and does not plan to repatriate these funds.

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

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

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

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

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

Applied is subject to various risks related to: (1) new, different, inconsistent or conflicting laws, rules and regulations that may be enacted by executive order, legislative bodies or regulatory agencies in the countries in which Applied operates; (2) disagreements or disputes between national or regional regulatory agencies related to international trade; and (3) the interpretation and application of laws, rules and regulations. As a public company with global operations, Applied is subject to the laws of multiple jurisdictions and the rules and regulations of various governing bodies, including those related to financial and other disclosures, corporate governance, privacy, and anti-corruption. Changes and ambiguities in laws, regulations and standards create uncertainty and challenges regarding compliance matters. Efforts to comply with new and changing regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

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

During the first quarter of fiscal 2015, there were no shares of common stock repurchased by Applied. On March 5, 2012, the Board of Directors approved a stock repurchase program authorizing up to $3.0 billion in repurchases over the next three years, ending March 2015. At January 25, 2015, $1.6 billion remained available for future stock repurchases under this repurchase program.

Item 6. ***Exhibits***

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

		Incorporated by Reference			
Exhibit No.	**Description**	**Form**	**File No.**	**Exhibit No.**	**Filing Date**
10.1	Amendment No. 2 and Waiver to Credit Agreement, dated as of December 19, 2014, among Applied Materials, Inc., the lenders parties thereto and JPMorgan Chase Bank, N.A., as administrative agent for the lenders	8-K	000-06920	10.1	12/22/2014
10.2	Form of Amendment to Retention Bonus and Equity Award Amendment Agreement entered into between Applied Materials, Inc. and certain officers identified in the attached schedule†				
10.3	Equity Award Amendment Agreement, dated December 11, 2014, between Applied Materials, Inc. and Charles Read†				
10.4	Applied Materials, Inc. Applied Incentive Plan, amended and restated effective October 27, 2014†				
10.5	Form of Performance Shares Agreement for fiscal 2015 performance-based equity awards for certain executive officers under the amended and restated Applied Materials, Inc. Employee Stock Incentive Plan†				
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†				
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†				
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002‡				
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002‡				
101.INS	XBRL Instance Document‡				
101.SCH	XBRL Taxonomy Extension Schema Document‡				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document‡				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document‡				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document‡				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document‡				

† Filed herewith.
‡ Furnished herewith.

SIGNATURES

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

APPLIED MATERIALS, INC.

By: /s/ ROBERT J. HALLIDAY

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

February 19, 2015

By: /s/ CHARLES W. READ

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

February 19, 2015

3050 Bowers Avenue | P.O. Box 58039
Santa Clara, California 95054, U.S.A.
Telephone: 408 727 5555
www.appliedmaterials.com

APPLIED MATERIALS®

December 10, 2014

[Name]
3225 Oakmead Village Drive, M/S 1223
P.O. Box 58039
Santa Clara, CA 95052-8039

Re: Amendment to Retention Bonus and Equity Award Amendments

Dear [First Name]:

This letter is an amendment (the "*Amendment*") to the Retention Bonus and Equity Award Amendments letter, dated October 4, 2013, between you and Applied Materials, Inc. (the "*Original Agreement*" and, together with this Amendment, the "*Agreement*"). Any capitalized terms used but not defined in this Amendment have the meanings assigned to them in the Original Agreement.

As you know, the strategic combination with Tokyo Electron Limited (the "*Transaction*") is a large and highly complex undertaking. Your continued contributions as a part of Applied's deep and talented leadership team are critical to the Company in order to ensure the successful closing of the Transaction and post-closing planning and integration, while simultaneously leading the continued effective operations of Applied's business. Applied entered into the Original Agreement with you to recognize your continuing dedication to Applied and provide further incentive for you to remain with Applied through and beyond the Transaction. Applied recognizes that the completion of the Transaction is taking longer than originally anticipated, making it even more important to Applied that you have appropriate incentives to remain with the Company through the Transaction, the post-Transaction integration period and beyond. For that reason, we are offering you the changes to your Original Agreement that are described below. These changes provide additional acceleration of vesting to certain of your Applied equity awards that otherwise are scheduled to vest in 2015, and potentially delay the date on which you may earn the Retention Bonus from March 31, 2015 to December 11, 2015. In order to accept these changes to your Original Agreement, please sign and return this Amendment by the deadline indicated below.

1. **Change to Time-based Equity Awards.** The first sentence of the first paragraph of Section 2 of the Original Agreement ("Time-based Equity Awards") is amended and restated to read in its entirety as follows:

> "If the Transaction is completed, all of your then-outstanding and unvested, "time-based" equity awards covering Shares [that were granted prior to September 24, 2013 (the "*Time Awards*")][that were granted prior to September 24, 2013 or on November 10, 2013 (together, the "*Time Awards*")], will be amended to provide that the unvested Shares subject to the Time Awards that are scheduled to vest during calendar year 2015 will accelerate vesting as of the date three trading days prior to the Expected Closing."

2. **[Retention Bonus.** Section 3 ("Retention Bonus") of the Original Agreement is amended and restated to read in its entirety as follows:

> "Regardless of whether the Transaction is completed, you are eligible to receive a lump sum cash retention bonus (the "*Retention Bonus*") equal to [___%] of your annual base salary as in effect on the Bonus Date (less applicable taxes and other required withholdings) within thirty (30) days after the Bonus Date (as defined below). You will receive the Retention Bonus only if you remain continuously employed with Applied through the earlier of (i) December 11, 2015, or (ii) the date that is six months after (a) the closing of the Transaction, or (b) the termination of the Transaction without completion (the earlier of these dates is referred to as the "*Bonus Date*")."]

3. **Full Force and Effect.** To the extent not amended hereby, the Original Agreement shall remain in full force and effect.

To accept this Amendment, please date and sign this letter below where indicated and return it to Greg Lawler. If you do not accept this Amendment by December 19, 2014, it will not become effective.

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

Sincerely,

Michael R. Splinter
Executive Chairman of the Board of Directors
Applied Materials, Inc.

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

Agreed and Accepted:

Dated: ________________________, 2014 [NAME]

____

Schedule of Amendment to Retention Bonus and Equity Award Amendment Agreements

Name	**Date of Agreement**	**Retention Bonus**
Gary E. Dickerson	December 11, 2014	N/A
Randhir Thakur	December 19, 2014	352.5%
Robert J. Halliday	December 17, 2014	352.5%
Thomas F. Larkins	December 19, 2014	315.0%
Ali Salehpour	December 22, 2014	315.0%
Omkaram Nalamasu	December 11, 2014	300.0%

3050 Bowers Avenue | P.O. Box 58039
Santa Clara, California 95054, U.S.A.
Telephone: 408 727 5555
www.appliedmaterials.com

APPLIED MATERIALS®

December 10, 2014

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

Re: Equity Award Amendment

Dear Charles:

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

1. Change to Time-based Equity Awards. If the Transaction is completed, your restricted stock unit award covering shares of Applied common stock ("*Shares*") that was granted on October 30, 2013 (the "*Award*") will be amended to provide that the unvested Shares that are scheduled to vest during calendar year 2015 will accelerate vesting as of the date three trading days prior to the Expected Closing (as defined below). We refer to this change to the Award as the "*Acceleration Amendment*" and the date that it takes effect as the "*Acceleration Amendment Date*." In order for the Acceleration Amendment to apply, your Award must be outstanding as of the Acceleration Amendment Date and be expected to be taxed under Section 4985 of the Internal Revenue Code of 1986, as amended (the "*Code*"). The Code Section 4985 tax will apply to your Award if, under Code Section 4985, you are expected to be a "disqualified individual" of Applied when the Transaction closes.

For purposes of this Agreement, (1) a "*trading day*" refers to any day on which Applied common stock is traded on the NASDAQ Global Select Market, and (2) the date the Transaction is expected to close (the "*Expected Closing*") will be determined solely in the discretion of the Chair of the Human Resources and Compensation Committee of Applied's Board of Directors (the "*Chair*").

Please note that the Acceleration Amendment will not occur if for any reason the Transaction is terminated without being completed. Whether you are expected to be a disqualified individual for purposes of the first paragraph in this Section 1 will be determined by the Chair, in his sole discretion. Your amended Award will remain subject to all of the other terms and conditions in the agreement and the plan under which the Award was granted.

2. Assignment. Upon or at any time after the closing of the Transaction, you may become an employee of Applied's parent entity or any of its subsidiaries. Applied may assign this Agreement and its rights and obligations to Applied's parent entity or any other entity within the controlled group that includes Applied and its parent.

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

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

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

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

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

8. Complete Agreement; Modifications. This Agreement contains the entire agreement of the parties with respect to this subject matter, and supersedes all prior and contemporaneous written and oral agreements, discussions, negotiations, understandings or courses of conduct with respect to this subject matter. This Agreement may not be modified or changed in any manner except by a writing executed by you and a duly authorized executive officer of Applied. No party is relying upon any other agreement, representation, statement, omission, understanding or course of conduct which is not expressly set forth in this Agreement. Headings used in this Agreement are for convenience only and will not be used to interpret its substantive terms.

To accept this Agreement, please date and sign this letter below where indicated and return it to Greg Lawler. If you do not accept this Agreement by December 19, 2014, it will not become effective.

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

Sincerely,

/s/ Michael R. Splinter

Michael R. Splinter
Executive Chairman of the Board of Directors
Applied Materials, Inc.

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

Agreed and Accepted:

Dated: December 11, 2014

Charles Read

/s/ Charles Read

APPLIED MATERIALS, INC.

APPLIED INCENTIVE PLAN

(Amended and Restated Effective October 27, 2014)

APPLIED MATERIALS, INC.
APPLIED INCENTIVE PLAN

(Amended and Restated Effective October 27, 2014)

1. ESTABLISHMENT AND PURPOSE

Applied Materials, Inc., having originally established the Applied Materials, Inc. Applied Incentive Plan (the "Plan") effective as of December 8, 2008, hereby amends and restates the Plan in its entirety effective as of October 27, 2014. The Plan is intended to increase shareholder value and the success of the Company and its affiliates by motivating Plan Participants to perform to the best of their abilities, and to achieve and even exceed the Company's objectives. The Plan's goals are to be achieved by providing Plan Participants with the potential to receive incentive awards based on their meeting or exceeding performance goals set for the Company, their business units, and/or the Participant.

2. DEFINITIONS

The following terms will have the following meanings unless a different meaning is plainly required by the context:

2.1. "Affiliate" means any corporation or any other entity (including, but not limited to, partnerships, joint ventures and limited liability companies) that the Committee determines to be controlling, controlled by, or under common control with the Company.

2.2. "Applicable Laws" means the requirements relating to the administration or payment of Payable Awards under U.S. federal and state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Company's or any ultimate parent entity's common stock or ordinary shares are listed or quoted and the applicable laws of any foreign country or jurisdiction where Payable Awards are, or will be, paid under the Plan.

2.3. "Award Period" means the fiscal year of the Company or such period longer or shorter than a fiscal year, as determined by the Committee in its sole discretion. The Committee, in its sole discretion, may determine that with respect to any Participant, an Award Period will terminate on a date earlier than originally scheduled and may determine the Payable Awards, if any, for such shortened Award Period in accordance with the terms of the Plan.

2.4. "Board" means the Company's Board of Directors or, if Applied Materials, Inc. is not the highest level (ultimate parent) entity among it and its Affiliates, the board of directors of the ultimate parent entity of the Company.

2.5. "Cause" means a Participant's (a) failure to perform (other than due to mental or physical disability or death) the duties of his or her position (as they may exist from time to time) to the reasonable satisfaction of the Company or an Affiliate after receipt of a written warning or performance improvement plan; (b) any act of dishonesty taken in connection with the Participant's responsibilities as an employee that is intended to result in his or her personal enrichment; (c) conviction or plea of no contest to a crime that negatively reflects on the Participant's fitness to perform his or her duties or harms the reputation or business of the Company or of an Affiliate; (d) willful or reckless misconduct that is injurious to the reputation or business of the Company or of an Affiliate; or (e) violation of a material policy of the Company or of an Affiliate.

2.6. "CEO" means the Chief Executive Officer of the Company; provided, however, that if Applied Materials, Inc. is not the highest level (ultimate parent) entity among it and its Affiliates, the Chief Executive Officer of the Company may determine that the Chief Executive Officer of the ultimate parent entity of the Company may act as the "CEO" under the Plan.

2.7. "Committee" means the Company's CEO or a committee of one or more employees or other individuals appointed by the CEO to administer the Plan. Notwithstanding the foregoing, in the case of a Section 16 Officer, "Committee" means the HRCC.

2.8. "Company" means Applied Materials, Inc., a Delaware corporation, and any successor thereto.

2.9. "Disability" means a Participant's disability occurring during an Award Period for which the Participant actually receives benefits under a Company-sponsored long-term disability plan.

2.10. "Employer" means with respect to an individual Participant, the Company or Affiliate that both: (a) directly employs such Participant (as the case may be), and (b) the Committee has designated as eligible to cover its employees under the Plan.

2.11. "Entry Deadline" means, as to any Award Period, the first business day in the last Company fiscal quarter of such Award Period, or such other date as the Committee may determine for the applicable Award Period. For avoidance of doubt, the Committee may extend an Entry Deadline for an Award Period at any time during or following such Award Period (but prior to payment of any Payable Awards for such Award Period).

2.12. "HRCC" means the Human Resources and Compensation Committee of the board of directors of the Company, or, if Applied Materials, Inc. is not the highest level (ultimate parent) entity among it and its Affiliates, the compensation committee of the Board of the ultimate parent entity of the Company.

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

2.14. "Participant" means, as to any Award Period, any employee of an Employer who is at a job level grade of B4, B5, B6, B7, E4, E5, E6, E7, M4, M5, M6, M7, V1 V2, V3, or V4, subject to Section 3.1 or other job grade level or other employee of an Employer selected by the Committee. Except as provided in Section 3.1, a Participant for a given Award Period does not include any employee that first commences employment at the Company or an Affiliate after the Entry Deadline for the applicable Award Period. Further, unless determined otherwise by the Committee, a Participant for a given Award Period does not include any officer selected by the HRCC to participate in the Applied Materials, Inc. Senior Executive Bonus Plan for any portion of such Award Period. Notwithstanding the foregoing, the Committee, in its sole discretion, may determine that an otherwise eligible employee or group of employees (including all or a portion of employees in an otherwise eligible job level grade) will not be a Participant in the Plan for a given Award Period.

2.15. "Payable Award" means the award, if any, payable to a Participant under the Plan for an Award Period.

2.16. "Payout Formula" or "Payout Formulae" means, as to any Award Period, the formula, or formulae or payout matrix established pursuant to Section 3.3 below to guide the determination of any Payable Awards to be paid to Participants for that Award Period. The formula or matrix may differ from Participant to Participant and may differ from Award Period to Award Period.

2.17. "Performance Goals" means the financial and/or operational goals applicable to a Participant for an Award Period. Performance Goals may differ from Participant to Participant and may differ from Award Period to Award Period and may be modified during an Award Period by the Committee in its sole discretion.

2.18. "Plan" means the Applied Materials, Inc. Applied Incentive Plan as set forth in this instrument and as hereafter amended from time to time.

2.19. "Retirement" means, with respect to any Participant, a termination of his or her employment with the Company and all of its Affiliates after: (a) obtaining at least sixty (60) years of age and whose age plus Years of Service with the Company is not less than seventy (70) or (b) obtaining at least sixty-five (65) years of age.

2.20. "Section 16 Officer" means an employee of the Company or its Affiliate who is subject to Section 16 of the Securities Exchange Act of 1934, as amended.

2.21. "Section 409A" means Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations and guidance thereunder, as they may be amended or modified from time to time.

2.22. "Section 457A" means Section 457A of the Code and the regulations and guidance thereunder, as they may be amended or modified from time to time.

2.23. "Years of Service" means the number of months (or a fraction thereof) from a Participant's latest hire date with the Company or its Affiliate to the date in question, divided by twelve (12). The Participant's latest hire date will 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, revised or superseded from time to time.

3. PARTICIPATION AND DETERMINATION OF AWARDS

3.1. Participation. All eligible Participants will be automatically enrolled in the Plan for each Award Period on the first day of such Award Period or, if later (or again), on the first full business day during such Award Period that the individual first meets the definition of "Participant" (as defined in Section 2.14) for such Award Period (e.g., the individual moves to an eligible job level grade as provided in Section 2.14 or to an Employer (and provided the individual has an eligible job level grade)). Unless otherwise determined by the Committee, a Participant enrolled in the Plan during an Award Period will cease to be enrolled for the portion of such Award Period in which he or she no longer meets the definition of "Participant"; provided, however, that he or she may remain eligible to receive a Payable Award for the portion of such Award Period in which he or she met the definition of "Participant" in accordance with and subject to Sections 3.4 and Section 3.5, and provided he or she meets the other terms and conditions for eligibility for a Payable Award. Notwithstanding the foregoing, the Committee, in its sole discretion, may determine that an otherwise eligible employee will not be a Participant in the Plan for a given Award Period (or a portion thereof). Accordingly, a Participant who participates in the Plan in a given Award Period is not in any way guaranteed or assured of participation in the Plan in any subsequent Award Period. Unless otherwise determined by the Committee, a Participant in this Plan is not eligible to participate concurrently in any other incentive plan of the Company or its Affiliates, including, but not limited to, milestone plans, profit sharing plans, the Discretionary Bonus Incentive Plan, sales incentive plans, other incentive plans, etc. Notwithstanding the foregoing, in determining whether an otherwise eligible employee shall become a Participant with respect to an Award Period (or portion thereof), the Committee , in its sole discretion, may provide that an individual will be deemed to have become a Participant on the first day of the Award Period, if, as of the Entry Deadline for such Award Period, (a) he or she was an employee of an entity or its predecessor that, by virtue of an acquisition or similar transaction by the Company, first became an Affiliate after the Entry Deadline for Award Period, and (b) he or she otherwise meets the definition of a "Participant" in Section 2.14 of the Plan.

3.2. Determination of Performance Goals. The Committee, in its sole discretion, will establish written Performance Goals for each Participant for the Award Period. The Committee, in its sole discretion, may modify the Performance Goals for any Award Period, including determining that if an Award Period will end earlier than originally scheduled, that the Performance Goals applicable to such Award Period will be adjusted.

3.3. Determination of Payout Formula or Formulae. The Committee, in its sole discretion, will establish a Payout Formula or Payout Formulae for purposes of serving as a guide for determining any Payable Awards. Each Payout Formula will (a) be in writing, (b) be based on a comparison of actual performance against the Performance Goals, (c) suggest a target Payable Award based on the assumption that the Performance Goals are met, and (d) set a maximum Payable Award. The Committee, in its sole discretion, may modify the Payout Formula serving as a guide for determining Payable Awards for one or more Participants for any Award Period, including determining that if an Award Period will end earlier than originally scheduled, that the Payout Formula guiding the determination of Payable Awards for such Award Period will be adjusted.

3.4. Determination of Payable Awards.

3.4.1. In General. In connection with each Award Period, the Committee will determine the extent to which each Participant exceeded, achieved, or missed his or her Performance Goals for the Award Period. The Payable Award for each Participant, if any, will be determined by the Committee, in its sole discretion, with reference to the applicable Payout Formula. Notwithstanding any contrary provision of the Plan, (a) the Committee, in its sole discretion, may increase, reduce, pro-rate or eliminate a Participant's Payable Award based on any factors it deems relevant, including but not limited to in connection with the early termination of an Award Period, a Participant's termination of employment as described in Section 3.5 or an individual's eligibility as a Participant for only a portion of the Award Period, as described in Section 3.1 and Section 3.4.2, and (b) the Board, in its sole discretion, may require a Participant to forfeit, return or reimburse the Company all or a portion of his or her Payable Award in accordance with Section 4.7 of the Plan. The fact that a Participant achieved or exceeded his or her Performance Goals will not, in any respect, guarantee that the Participant will receive any Payable Award or any specific amount of Payable Award. As a result, a Participant has no right or entitlement to any Payable Award unless and until the Committee, in its sole discretion, has determined the Payable Award with respect to the Participant.

3.4.2. Pro-Ration of Target Payable Award; Pro-Rata Payable Awards. The Committee may, in its sole discretion, pro-rate the target Payable Award for Participants that meet the definition of "Participant" for a portion of the Award Period, but remain eligible for consideration for a Payable Award in accordance with Section 3.1 and Section 3.5 and in its sole discretion, may pro-rate the target Payable Award for Participants in connection with the early termination of an Award Period. A pro-rata Payable Award, in the sole discretion of the Committee, may be made to a Participant who remains an employee of the Company or an Affiliate through the last day of the Award Period for the portion of such Award Period in which the Participant met the definition of "Participant" in accordance with and subject to Sections 3.4 and Section 3.5, and provided he or she meets the other terms and conditions for eligibility for a

Payable Award. A pro-rata Payable Award, in the sole discretion of the Committee, may be made to a Participant for an Award Period that is terminated earlier than originally scheduled. The amount, if any, of an actual Payable Award to any such Participant remains in sole discretion of the Committee.

3.5. Eligibility for Payable Awards. Except as provided in this Section, a Participant will be eligible for consideration for a Payable Award only if he or she remains an employee of the Company or an Affiliate through the last day of the Award Period. Notwithstanding the foregoing, the Committee, in its discretion, may determine that a Participant (or Participant's estate) will be eligible for consideration for a Payable Award (which may be pro-rated and is subject to the Committee's authority under Section 3.4) if, during the Award Period, the Participant's employment with the Company or an Affiliate is terminated on account of Retirement, Disability, death, or involuntary termination by the Company or an Affiliate for a reason other than Cause or under circumstances determined by the Committee to warrant continued eligibility for consideration for a Payable Award. The Committee, in its sole discretion, may determine whether a Participant who has received any form of disciplinary action, including but not limited to a written or final warning or is placed on a Performance Improvement Plan or similar program during the Award Period is entitled to a Payable Award for that Award Period.

4. PAYMENT OF AWARDS

4.1. Right to Receive Payment. Any Payable Award will be paid solely from the Company's general assets. Nothing in this Plan will 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. Form of Payment. Any Payable Award under the Plan will be paid in cash, or its equivalent, in a single lump sum.

4.3. Timing of Payment. Any Payable Award under the Plan will be paid as soon as administratively practicable after such Payable Award has been determined by the Committee, but in no event will such payment be made later than the fifteenth (15th) day of the third (3rd) month immediately following the end of the fiscal year of the Company in which the Payable Award was earned. However, in the case of any Participant who is on a Company-approved personal leave of absence on the last day of the Award Period, the Payable Award, if any, will not be paid until the Participant has returned to work for at least 90 consecutive days following his or her return from the leave of absence (the "90-Day Service Period"), in which case, the Payable Award, if any, will be paid as soon as administratively practicable after the completion of the 90-Day Service Period, but in no event will such payment be made later than the fifteenth (15th) day of the third (3rd) month immediately following the later of (a) the end of the fiscal year of the Company in which the 90-Day Service Period is completed; or (b) the end of the Participant's taxable year in which the 90-Day Service Period is completed. Notwithstanding the foregoing, the Committee in its sole discretion, may determine that the 90-Day Service Period will be waived for any reason, including, but not limited to, with respect to a Participant whose employment with the Company or an Affiliate terminates during such 90-Day Service Period by reason of such Participant's Retirement, Disability, death or involuntary termination by the Company or an Affiliate for a reason other than Cause. If the 90-Day Service Period is waived with respect to any Participant, the Payable Award, if any, will be paid as soon as administratively practicable after such waiver, but in no event will such payment be made later than the fifteenth (15^{th}) day of the third (3^{rd}) month immediately following the later of (a) the end of the fiscal year of the Company in which the 90-Day Service Period is waived; or (b) the end of the Participant's taxable year in which the 90-Day Service Period is waived. For purposes of clarity, a Participant who both is on a Company-approved non-personal leave of absence and whose employment status is protected by applicable law as a result of such leave of absence will not be subject to any 90-Day Service Period requirement.

4.4. Taxes. Each Payable Award will be paid net of all applicable tax withholding and deductions.

4.5. Payment in Event of Participant's Death. If the Committee has determined, in its sole discretion, that a Participant will receive a Payable Award, but the Participant is deceased at the time such award is payable, then such Payable Award will be paid to the Participant's estate or to the beneficiary or beneficiaries entitled thereto under the intestacy laws governing the disposition of the Participant's estate.

4.6. Payment Through Affiliate. Payable Awards may be paid, in the Committee's discretion, through the Company or any of its Affiliates.

4.7. Clawback in Connection with a Material Negative Financial Restatement. Pursuant to the clawback policy of the Company or its ultimate parent entity, the Board, in its sole discretion, may require a Participant to forfeit, return or reimburse the Company all or a portion of his or her Payable Award that is paid on or after December 7, 2009, if (i) the Participant is or was a Section 16 Officer during the applicable Award Period, and (ii) the Participant deliberately engaged in Intentional Misconduct that was determined by the Board, in its sole discretion, to be the primary cause of a material negative restatement of a Company financial statement that was filed with the U.S. Securities and Exchange Commission and such financial statement, as originally filed, is one of the Company's three (3) most recently filed annual financial statements. The portion of the Payable Award, if any, that a Participant may be required to forfeit, return or reimburse will be determined by the Board, in its sole discretion, but will be no more than the after-tax portion of the Payable Award that was: (1) in excess of the Payable Award he or she would have received had the Company's financial results been calculated under the restated financial statements, and (2) paid within the period beginning on the date the Committee determines the Payable Award (in accordance with Section 3.4 of the Plan) and ending on the date that is twelve (12) months after the original filing of the financial statement that subsequently was restated. Further, the Board, in its sole discretion, may require a Participant to forfeit, return and/or reimburse the Company for all or a portion of his or her Payable Award ("**Clawback Amount**"), in accordance with the clawback policy of the Company or its ultimate parent entity as may be established and/or amended from time to time or as necessary or appropriate to comply with Applicable Laws. To the extent tax obligations on such

Clawback Amount were paid or due, the forfeiture, return or reimbursement shall be limited to the after-tax portion of the Clawback Amount, unless otherwise required by Applicable Laws.

5. ADMINISTRATION

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

5.2. Committee Authority. The Committee has all powers and discretion to administer the Plan and to control its operation, including, but not limited to, the power and discretion to (a) select Participants and make other determinations under Section 3; (b) make Plan rules and regulations to address any situation or condition not specifically provided for by the Plan; and (c) interpret the provisions of the Plan and any Payable Awards. Any determination, decision or action of the Committee (or any delegate of the Committee) in connection with the construction, interpretation, administration or application of the Plan will be final, conclusive, and binding upon all persons, and will be given the maximum possible deference permitted by law.

5.3. Delegation by the Committee. The Committee, in its sole discretion and on such terms and conditions as it may provide, may delegate all or part of its authority and/or powers under the Plan to one or more officers or other employees of the Company or its Affiliates; provided, however, that any decision, action or determination under the Plan by any such delegate of the Committee will be subject to review and change by the Committee, in its sole discretion. Notwithstanding the foregoing, the Committee may not delegate its authority and/or powers under the Plan with respect to Section 16 Officers.

6. GENERAL PROVISIONS

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

6.2. Section 409A; Section 457A. It is intended that any Payable Awards under this Plan will be exempt from the requirements of Section 409A pursuant to the "short-term deferral" exemption or, in the alternative, will comply with the requirements of Section 409A so that none of the payments to be provided under the Plan will be subject to the additional tax imposed under Section 409A, and any ambiguities and ambiguous terms herein shall be interpreted to so comply or be exempt. It is also intended that all bonuses payable under this Plan be exempt from Section 457A of the Code so that none of the payments and benefits to be provided under this Plan will be subject to the additional tax imposed under Section 457A, and any ambiguities herein shall be interpreted to be exempt. Each payment payable under this Plan is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations. The Company, in good faith and without the consent of any Participant, may make any amendments to this Plan and take such reasonable actions which it deems necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition under Section 409A and/or Section 457A prior to actual payment to any Participant.

6.3. No Effect on Employment. The Plan, participation in the Plan, and administration of the Plan do not confer any right upon any Participant for the continuation of his or her employment with the Company or its Affiliates for any Award Period or any other period. A Participant's employment with the Company or its Affiliates is fully terminable at will. The Company and its Affiliates expressly reserve the right, which may be exercised at any time and without regard to when during an Award Period such exercise occurs, to terminate any Participant's employment with or without cause, and to treat him or her without regard to the effect that such treatment might have upon him or her as a Participant.

6.4. No Individual Liability. Neither the Committee, nor any member of the Committee, nor any delegate of the Committee, nor any member of the HRCC, nor any member of the Board will be liable for any determination, decision or action made or taken in good faith with respect to the Plan or any Payable Award under the Plan.

6.5. Integration. The Plan as stated in this document is the complete embodiment of the terms and conditions of the Plan and supersedes any prior versions of the Plan and any prior or contemporaneous agreements, promises, or representations concerning the subject matter of the Plan.

6.6. Amendment or Termination. The Committee or the HRCC may amend or terminate the Plan at any time and for any reason by a written amendment. No individual director, officer, or employee, regardless of his or her position at the Company or its Affiliates, otherwise has the power to amend or alter the terms and conditions of the Plan, whether he or she purports to do so verbally or in writing.

6.7. Arbitration. Any dispute arising from, or related to, this Plan will be settled pursuant to the Applied Materials, Inc. Arbitration Policy, where such an arbitration policy is in effect.

6.8. Severability; Governing Law. If any provision of the Plan is found to be invalid or unenforceable, such provision will not affect the other provisions of the Plan, and the Plan will be construed in all respects as if such invalid provision had been omitted. The provisions of the Plan will 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.

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

APPLIED MATERIALS, INC.

PERFORMANCE SHARES AGREEMENT

NOTICE OF GRANT

Applied Materials, Inc. (the "**Company**") hereby grants you, **[EMPL_NAME]** (the "**Employee**"), an award of Performance Shares under the Company's Employee Stock Incentive Plan (the "**Plan**"). The date of this Performance Shares Agreement (the "**Agreement**") is December 8, 2014 (the "**Grant Date**"). Subject to the Terms and Conditions of Performance Shares Agreement (the "**Terms and Conditions**") and Exhibit A (attached) and of the Plan, the principal features of this Award are as follows:

Number of Performance Shares:	**[MAX_SHARES]** (which equals the sum of **[NUMBER]** Initial Performance Shares and **[NUMBER]** Additional Performance Shares (both terms as defined in Exhibit A))*
Vesting of Performance Shares:	The Performance Shares may vest if the specified performance goal and the additional time-based requirements, each as described in detail in Exhibit A, are satisfied.**

* For purposes of this Agreement, the term "Performance Shares" hereinafter will be references to the Performance Shares that have been granted under this Agreement.

** Except as otherwise provided in the Terms and Conditions, Employee will not vest in the Performance Shares unless he or she is employed by the Company or one of its Affiliates through the applicable vesting date.

***IMPORTANT**:*

Your electronic or written signature below indicates your agreement and understanding that this Award is subject to all of the Terms and Conditions (including Exhibit A) and the Plan. For example, important additional information on vesting and forfeiture of this Award is contained in paragraphs 3 through 5, 7 and 11 of the Terms and Conditions, as well as in Exhibit A, and in Sections 4.5 and 13.10 of the Plan. **PLEASE BE SURE TO READ ALL OF THE TERMS AND CONDITIONS AND EXHIBIT A.**

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

EMPLOYEE

____
[EMPL_NAME]

Date: ___________, 2015

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

TERMS AND CONDITIONS OF PERFORMANCE SHARES AGREEMENT

1. Grant. Applied Materials, Inc. (the "**Company**") hereby grants to the Employee the number of Performance Shares set forth on the first page of the Notice of Grant of this Agreement, subject to all the terms and conditions of this Agreement (including the Notice of Grant, Terms and Conditions, and Exhibit A) and the Plan. When Shares are delivered to the Employee as payment for the Performance Shares, the par value of each Share will be deemed paid by the Employee by past services rendered by him or her to the Company. Payment of Shares shall be subject to the applicable tax withholdings. Unless otherwise defined herein, capitalized terms used herein will have the meanings ascribed to them in the Plan.

2. Company's Obligation to Pay. Each Performance Share has a value equal to the Fair Market Value of a Share on the Grant Date. Unless and until the Performance Shares have vested in the manner set forth in paragraphs 3 through 5, or paragraph 11, or Sections 4.5 or 13.10 of the Plan, the Employee will have no right to payment of such Performance Shares. Prior to actual payment of any vested Performance Shares, such Performance Shares will represent an unsecured obligation of the Company. Payment of any vested Performance Shares will be made in whole Shares only, provided, however, that if the Company determines that it is necessary or advisable, the Shares subject to the Performance Shares shall be sold immediately upon settlement of the Performance Shares, and the Employee shall receive the proceeds from the sale, less any applicable fees and taxes or other required withholding.

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

4. Modifications to Vesting Schedule**.**

(a) *Vesting upon Personal Leave of Absence.* In the event that the Employee takes a personal leave of absence ("**PLOA**"), the following terms will apply to the Performance Shares:

(i) if the duration of the Employee's PLOA is six (6) months or fewer, the vesting schedule set forth in Exhibit A will not be affected by the Employee's PLOA.

(ii) if the duration of the Employee's PLOA is greater than six (6) months but not more than twelve (12) months, the scheduled vesting of any Performance Shares that are not vested by the date six (6) months after the Employee's PLOA start date will be deferred for a period of time equal to the difference between (A) the duration of the Employee's PLOA, minus (B) six (6) months.

(iii) if the duration of the Employee's PLOA is greater than twelve (12) months, any Performance Shares that are not vested by the date twelve (12) months after the Employee's PLOA start date (including any unvested Performance Shares that were deferred under subsection (ii) above) will immediately terminate.

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

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

(vi) Example 3. Employee's Performance Shares are scheduled to vest on January 1 of the next calendar year. On May 1 of the current calendar year, Employee begins a 13-month PLOA. On January 1 of the next calendar year, no Performance Shares vest. Employee's Performance Shares will terminate on May 2 of the next calendar year.

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

(b) *Death of Employee*. In the event that the Employee incurs a Termination of Service due to his or her death, one hundred percent (100%) of the Performance Shares will vest on the date of the Employee's death. In the event that any Applicable Law limits the Company's ability to accelerate the vesting of the Performance Shares, this paragraph 4(b) will be limited to the extent required to comply with Applicable Law.

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

5. Committee Discretion. The Committee, in its discretion, may at any time accelerate the vesting of all or a portion of any unvested Performance Shares, subject to the terms of the Plan, but only with respect to Performance Shares that are Eligible OPM Shares, as defined in Exhibit A. If so accelerated, such Performance Shares will be considered as having vested as of the date specified by the Committee. Subject to the provisions of this paragraph 5, if the Committee, in its discretion, accelerates the vesting of all or a portion of any unvested Performance Shares, the payment of such accelerated Performance Shares shall be made as soon as practicable upon or following the accelerated

vesting date, but in no event later than 60 days following the vesting date of such accelerated Performance Shares.

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

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

7. Forfeiture. Notwithstanding any contrary provision of this Agreement and except in the event of Employee's death (see Paragraph 4(b)), any Performance Shares that have not vested pursuant to paragraphs 3 through 5 or paragraph 11 of this Agreement or Sections 4.5 or 13.10 of the Plan at the time of the Employee's Termination of Service for any or no reason will be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Board, in its sole discretion, may require the Employee to forfeit, return or reimburse the Company all or a portion of the Performance Shares subject to this Award in accordance with paragraph 16 of the Agreement.

8. Withholding of Taxes; Section 4985 Tax Assistance.

(a) *Withholding of Taxes.* When Shares are issued as payment for vested Performance Shares or, in the discretion of the Company, at such earlier time as the Tax Obligations (defined below) are due, the Company (or the employing Affiliate) will withhold a portion of the Shares that has an aggregate market value sufficient to pay all taxes and social insurance liability and other requirements in connection with the Shares, including, without limitation, (a) all federal, state and local income, employment and any other applicable taxes that are required to be withheld by the Company or the employing Affiliate, (b) the Employee's and, to the extent required by the Company (or the employing Affiliate), the Company's (or the employing Affiliate's) fringe benefit tax liability, if any, associated with the grant, vesting, or sale of the Performance Shares and the Shares issued thereunder, and (c) all other taxes or social insurance liabilities with respect to which the Employee has agreed to bear responsibility (collectively, the "**Tax Obligations**"). The number of Shares withheld pursuant to the prior sentence will be rounded up to the nearest whole Share, with no refund provided in the U.S. for any value of the Shares withheld in excess of the Tax Obligations as a result of such rounding. Notwithstanding the foregoing, the Company, in its sole discretion, may require the Employee to make alternate arrangements satisfactory to the Company for such Tax Obligations in advance of the arising of any Tax Obligations.

Notwithstanding any contrary provision of this Agreement, no Shares will be issued unless and until satisfactory arrangements (as determined by the Company) have been made by the Employee with respect to the payment of any Tax Obligations that the Company determines must be withheld or collected with respect to such Shares. In addition and to the maximum extent permitted by law, the Company (or the employing Affiliate) has the right to retain without notice from salary or other amounts payable to the Employee, cash having a sufficient value to satisfy any Tax Obligations that the Company determines cannot be satisfied through the withholding of otherwise deliverable Shares or that are due prior to the issuance of Shares under the Performance Shares. All Tax Obligations related to the Performance Shares and any Shares delivered in payment thereof are the sole responsibility of the Employee, except as provided in paragraph 7(b) of this Agreement. Further, Employee shall be bound by any additional withholding requirements included in the Notice of Grant and/or Exhibit A of this Agreement.

(b) *[If Gross-Up is Applicable, add:] Section 4985 Tax Assistance.* Section 4985 (as defined below) generally imposes a 15% excise tax (the "**15% Tax**") on equity awards held by a disqualified individual (within the meaning of Section 4985) that are outstanding at any time within the six-month periods before and after the closing of the Transaction (as defined below), unless income is recognized in full on those equity awards before the closing of the Transaction. The Performance Shares hereunder are expected to be subject to taxation under Section 4985 upon the closing of the Transaction. In order to relieve the Employee from the impact of the Section 4985 tax, the Company will provide the Employee with funds to pay the Section 4985 tax, if any, on the Performance Shares hereunder plus a gross-up for the taxes payable on the Company's payment of these funds. These amounts, if applicable, will be [paid to the Employee in a lump sum within 60 days following the closing of the Transaction] OR [paid directly to the appropriate taxing authorities on Employee's behalf], provided the Employee has not incurred a Termination of Service prior to the closing of the Transaction. The amount of the gross-up payment will be determined in the Company's good faith discretion and will be final and binding.

For purposes of this Agreement, "**Section 4985**" means Section 4985 of the Code, and any Treasury Regulations and Internal Revenue Service guidance thereunder, as each may be amended from time to time. For purposes of this Agreement, "**Transaction**" means the proposed strategic combination of the respective businesses of the Company and Tokyo Electron Limited ("**TEL**") into a new combined company, Eteris N.V. ("Eteris"), pursuant to the Business Combination Agreement dated as of

September 24, 2013, between the Company and TEL (as amended February 14, 2014, and as may be further amended, supplemented or otherwise modified from time to time).

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

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

11. Changes in Performance Shares. If as a result of a stock or extraordinary cash dividend, stock split, distribution, reclassification, recapitalization, combination of Shares or the adjustment in capital stock of the Company or otherwise, or as a result of a merger, consolidation, spin-off or other corporate transaction or event, the Performance Shares will be increased, reduced or otherwise affected, and by virtue of any such event, the Employee will, as the owner of unvested Performance Shares (the "**Prior Performance Shares**"), be entitled to new or additional or different shares of stock, cash or other securities or property (other than rights or warrants to purchase securities); such new or additional or different shares, cash or securities or property will thereupon be considered to be unvested Performance Shares and will be subject to all of the conditions and restrictions that were applicable to the Prior Performance Shares pursuant to this Agreement and the Plan. If the Employee receives rights or warrants with respect to any Prior Performance Shares, such rights or warrants may be held or exercised by the Employee, provided that until such exercise, any such rights or warrants and after such exercise any shares or other securities acquired by the exercise of such rights or warrants will be considered to be unvested Performance Shares and will be subject to all of the conditions and restrictions that were applicable to the Prior Performance Shares pursuant to the Plan and this Agreement. The Committee, in its sole discretion, at any time may (subject to paragraph 5) accelerate the vesting of all or a portion of such new or additional shares of stock, cash or securities, rights or warrants to purchase

securities or shares or other securities acquired by the exercise of such rights or warrants; provided, however, that the payment of such accelerated new or additional awards will be made in accordance with the provisions of paragraph 5.

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

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

14. Restrictions on Sale of Securities. The Employee's sale of the Shares issued as payment for vested Performance Shares will be subject to any market blackout period that may be imposed by the Company and must comply with the Company's insider trading policies, and all applicable securities and other laws.

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

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

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

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

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

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

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

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

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

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

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

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

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

24. Labor Law. By accepting this Performance Shares award, the Employee acknowledges that: (a) the grant of these Performance Shares is a one-time benefit which does not create any contractual or other right of the Employee to receive future grants of Performance Shares, or benefits in lieu of Performance Shares; (b) all determinations with respect to any future grants, including, but not limited to, when the Performance Shares will be granted, the number of Performance Shares subject to each award and when the Performance Shares will vest, shall be at the sole discretion of the Company; (c) the Employee's participation in the Plan is voluntary; (d) the value of these Performance Shares is an extraordinary item of compensation that is outside the scope of the Employee's employment contract, if any; (e) these Performance Shares are not part of the Employee's normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; (f) the vesting of these Performance Shares shall cease upon Termination of Service for any reason, except as may otherwise be explicitly provided in the Plan or this Agreement; (g) the future value of the underlying Shares is unknown and cannot be predicted with certainty; (h) these Performance Shares have been granted to

the Employee in the Employee's status as an employee of the Company or its Affiliates; and (i) there shall be no additional obligations for any Affiliate employing the Employee as a result of these Performance Shares.

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

The Employee further understands that the Company and/or its Affiliates will transfer Data among themselves as necessary for the purpose of implementation, administration and management of his or her participation in the Plan, and that the Company and/or any of its Affiliates may each further transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan. The Employee understands that these recipients may be located in the European Economic Area, or elsewhere, such as in the U.S. or Asia.

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

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

* * *

Exhibit A

PERFORMANCE SHARES VESTING SCHEDULE

[*Insert vesting schedule*]

EXHIBIT 31.1

CERTIFICATION

I, Gary E. Dickerson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 19, 2015

/s/ GARY E. DICKERSON

Gary E. Dickerson
President, Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Robert J. Halliday, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: February 19, 2015

/s/ ROBERT J. HALLIDAY

Robert J. Halliday
Senior Vice President, Chief Financial Officer

EXHIBIT 32.1

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

In connection with this Quarterly Report on Form 10-Q of Applied Materials, Inc. for the period ended January 25, 2015, I, Gary E. Dickerson, President, Chief Executive Officer of Applied Materials, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-Q for the period ended January 25, 2015 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in this Form 10-Q for the period ended January 25, 2015 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: February 19, 2015

/s/ GARY E. DICKERSON

Gary E. Dickerson
President, Chief Executive Officer

EXHIBIT 32.2

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

In connection with this Quarterly Report on Form 10-Q of Applied Materials, Inc. for the period ended January 25, 2015, I, Robert J. Halliday, Senior Vice President, Chief Financial Officer of Applied Materials, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-Q for the period ended January 25, 2015 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in this Form 10-Q for the period ended January 25, 2015 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: February 19, 2015

/s/ ROBERT J. HALLIDAY

Robert J. Halliday
Senior Vice President, Chief Financial Officer