
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

Mark one

For the fiscal year ended October 31, 1999

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

For the transition period from

to

.

Commission file number 0-6920

APPLIED MATERIALS, INC.

(Exact name of registrant as specified in its
charter)

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

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

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

**3050 Bowers Avenue, Santa Clara, California
(Address of principal executive offices)**

**94-1655526
(I.R.S. Employer
Identification No.)**

**95054
(Zip Code)**

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

Common Stock, \$.01 par value

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 [X] No [].

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

Aggregate market value of the voting stock held by nonaffiliates of the registrant as of January 2, 2000: **\$48,488,897,603**

Number of shares outstanding of the issuer's Common Stock, \$.01 par value, as of January 2, 2000: **385,753,585**

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Applied Materials 1999 Annual Report for the year ended October 31, 1999 are incorporated by reference into Parts I, II and IV of this Form 10-K.

Portions of the definitive Proxy Statement for Applied Materials' Annual Meeting of Stockholders to be held on March 21, 2000 are incorporated by reference into Part III of this Form 10-K.

Certain of the information contained or incorporated by reference in this Annual Report on Form 10-K is forward-looking in nature. All statements included or incorporated by reference in this Annual Report on Form 10-K or made by management of Applied Materials, Inc. and its subsidiaries (Applied Materials), other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding Applied Materials' future financial results, operating results, product successes, business strategies, projected costs, future products, competitive positions and plans and objectives of management for future operations. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "would," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in the section entitled "Management's Discussion and Analysis - Trends, Risks and Uncertainties" in the Applied Materials 1999 Annual Report, which section is incorporated herein by reference. These and many other factors could affect the future financial and operating results of Applied Materials, and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by or on behalf of Applied Materials. All references to fiscal year apply to Applied Materials' fiscal year, which ends on the last Sunday in October.

PART I

Item 1: *Business*

Organized in 1967, Applied Materials develops, manufactures, markets and services semiconductor wafer fabrication equipment and related spare parts for the worldwide semiconductor industry.

Customers for these products include semiconductor wafer manufacturers and semiconductor integrated circuit (IC or chip) manufacturers, who either use the ICs they manufacture in their own products or sell them to other companies. These ICs are the key components in most advanced electronic products such as computers, telecommunications devices, automotive engine management systems and electronic games.

Building a chip requires the deposition of a series of film layers. The deposition of these film layers is interspersed with numerous other processes that create circuit patterns, remove portions of the film layers, and perform other functions such as heat treatment, measurement and inspection. Advanced chip designs require well over 300 individual steps, and many of these processes are performed multiple times. Most chips are built on a base of silicon, called a wafer, and consist of two main structures. The lower structure is made up of components, typically transistors or capacitors, and the upper structure consists of the "interconnect" circuitry that connects the components. Applied Materials currently manufactures equipment that performs most of the primary steps in the chip fabrication process, including: physical and chemical deposition, electroplating, etch, ion implantation, rapid thermal processing (RTP), chemical mechanical polishing (CMP), metrology and wafer/reticle inspection.

The architecture of most semiconductor manufacturing equipment is either batch type, which processes many wafers at once, or single-wafer type, which processes each wafer individually. Many of Applied Materials' single-wafer systems are designed to

accept multiple (two or more) individual processing chambers on a platform and process wafers in each of the chambers simultaneously. Single-wafer, multi-chamber systems provide precision and control, as well as productivity and integration capabilities. Applied Materials has four major single-wafer, multi-chamber platforms: the Precision 5000®, the Centura®, the Endura® and the Producer™. These platforms currently support physical and chemical deposition, etch and RTP technologies.

In fiscal 1999, Applied Materials began developing integrated processing capabilities for its customers in the form of a Process Module™ approach, to optimize sets of two to four systems to work together as a unit. Applied Materials expects this concept to save customers critical development and fab start-up time, enabling them to more quickly bring new chip technologies to market.

During fiscal 1999, Applied Materials purchased the remaining 50 percent of Applied Komatsu Technology, Inc. (AKT) that it did not previously own. AKT supplies equipment for fabricating flat panel displays (FPDs) that are used in notebook PCs, desktop monitors, TVs and other applications. Applied Materials also acquired Consilium, Inc. (Consilium), a provider of manufacturing facility (fab) management software to the semiconductor and FPD industries. For further details, see the section below entitled "Acquisitions."

Products

Deposition

Deposition is a fundamental step in fabricating an IC. During deposition, a layer of either electrically conductive (material used to carry current) or dielectric (material used as insulation between conductors) film is deposited or grown on a wafer. Applied Materials currently provides equipment to perform the three main types of deposition: chemical vapor deposition, physical vapor deposition and electroplating. Applied Materials also offers certain types of dielectric deposition processes using its RTP systems.

Chemical Vapor Deposition (CVD)

CVD is used by chipmakers to deposit dielectric films (insulators) and metal films (conductors) on a wafer. During the CVD process, gases that contain atoms of the material to be deposited react on the wafer surface, forming a thin film of solid material. The most common films deposited by CVD are silicon dioxide (often called oxide), silicon nitride, polysilicon and tungsten. Applied Materials offers the following products and technologies to address CVD steps typically used in chipmaking:

Producer – The Producer CVD platform was launched in June 1998 and features Twin-Chamber™ modules that have two single-wafer process chambers per unit. Up to three Twin-Chamber modules can be mounted on each Producer platform, giving it a maximum capacity of six wafers at a time for high throughput manufacturing. Many of Applied Materials' dielectric CVD film processes can be performed on this platform.

Ultima HDP-CVD™ Centura –

High-density plasma CVD (HDP-CVD) is used to fill very small, deep spaces with dielectric film. One of the processes offered on the system is fluorinated silicate glass (FSG), a material that has better insulating capability than conventional oxide materials. These types of films are referred to as low dielectric constant ("low k") materials, an electrical characteristic whereby a reduced "k" value indicates greater insulating efficiency. These low k films absorb less electric charge and allow higher current to flow through more closely spaced metal wires, thus enabling denser and faster IC performance. In fiscal 1999, a number of major customers used FSG deposition for manufacturing, making it the first low k dielectric film to be used for production chipmaking.

Other Low k Dielectric Films – Throughout

fiscal 1999, Applied Materials accelerated its programs for developing dielectric films with lower "k" values to complement the trend of using copper material for even faster chip speeds. Applied Materials has introduced several low k dielectric materials using its established CVD technologies. Black Diamond™, a silicon-based low k dielectric film launched in early fiscal 1999, is designed for copper-based interconnect structures. A second low k dielectric introduced in July 1999, called BLOK™ (Barrier Low k), provides a low k solution for critical barrier layers in semiconductor devices, enabling the complete, multi-layer dielectric chip structure to benefit from low k technology.

Epitaxial Deposition – Epitaxial silicon

(epitaxy or epi), used in some semiconductor devices, is a layer of pure silicon grown in a uniform crystalline structure on the wafer to form a high quality base for the device circuitry. Applied Materials has manufactured epitaxial deposition systems for more than 30 years. In addition to silicon applications, Applied Materials offers an Epi Centura system for silicon-germanium (SiGe) epi process technology, which can reduce power usage and increase speed in certain kinds of advanced ICs.

Polysilicon Deposition – Polysilicon is a type

of silicon used to form portions of the transistor structure within the semiconductor device. Applied Materials' Poly Centura is a single-wafer, multi-chamber system that deposits thin polysilicon films at high temperatures. A variant of the system, the Polycide Centura, combines chambers for polysilicon and tungsten silicide deposition on the Centura platform in an integrated process to create the polycide structures found in advanced semiconductors. The process control provided by the single-wafer approach is superior to batch processing, and is expected to become increasingly important as transistor structures shrink to smaller dimensions and as chipmakers move to larger wafer diameters.

Applied Materials introduced a new high-temperature system to deposit silicon nitride film in July 1999 called the SiNgen™ Centura. This system operates at a lower deposition temperature than conventional methods to minimize the amount of time the wafer is exposed to high temperatures and to reduce particles while improving many areas of operating cost and productivity in critical transistor nitride layers for sub-0.18 micron devices.

PVD, also called sputtering, is a physical process in which atoms of a heavy gas such as argon are accelerated at a target of pure metal. The metal atoms chip off, or sputter away, and are then deposited on the wafer. The Endura PVD platform offers a broad range of advanced deposition processes, including aluminum, titanium/titanium nitride (Ti/TiN), tantalum/tantalum nitride and copper (Cu). The Endura's highly flexible, multi-chamber architecture allows the integration of multiple PVD processes or combinations of metal CVD and PVD technologies on the same system. The Endura's PVD Ti technology can be coupled with either CVD TiN or PVD TiN processes to form the critical lining layers of interconnect structures. These structures are subsequently bulk-filled with tungsten, aluminum or other film materials.

Copper-Based Devices – A majority of process steps used in chipmaking are performed to build the interconnect, a complex matrix of microscopic wires that carry electrical signals to connect the transistor and capacitor components of the IC. Chipmakers have traditionally used aluminum as the main conducting material for the interconnect circuitry. However, the trend of fabricating smaller and denser ICs requires a new material that can carry more current in a smaller area. After years of development, copper is beginning to be used as a new circuit material in semiconductors. Copper has lower resistance than aluminum and allows chipmakers to continue making faster and more powerful chips.

Applied Materials is a leading supplier of systems for copper-based chipmaking, with systems that perform deposition of the barrier and seed layers (Endura Electra Cu™ Barrier & Seed), copper bulk-fill by electroplating (Electra Cu ECP), and copper planarization by CMP (Mirra® CMP). In addition, Applied Materials makes a full line of systems for depositing and etching the dielectric layers used in the copper interconnect, and for inspection and metrology.

The Endura Electra Cu Barrier & Seed system, launched at the end of 1997, continues to be used by chipmakers for fabricating copper-based ICs. Using PVD technology, the system sequentially deposits the critical layers that prevent copper material from entering other areas of the device and prime the structure for subsequent deposition of bulk copper material by electroplating.

Electroplating

Electroplating is a process by which metal atoms are removed from a chemical fluid (the electrolyte) and deposited on the surface of an object immersed in the electrolyte. Electroplating is one of the newest technologies used in chipmaking. Its main application is to deposit copper in circuit wiring structures following the deposition of barrier and seed layers.

Launched in April 1999, the Electra Cu ECP (ElectroChemical Plating) is Applied Materials' first system to use electroplating technology. The Electra Cu ECP system offers the first completely automated ECP chemical management technology to the industry and provides process control and productivity not available in manually controlled systems. The Electra Cu ECP's high-throughput system architecture features two twin-cell modules that allow the simultaneous processing of four wafers.

Etch

Etching is used many times throughout the semiconductor manufacturing process to selectively remove material from the

surface of a wafer. Before etching begins, the wafer is coated with a light-sensitive film called photoresist and exposed to a circuit pattern during a photolithography process step, which projects the circuit pattern onto the wafer. Etching removes material only from areas dictated by the photoresist pattern.

Applied Materials offers systems for etching three basic types of materials: metal, silicon and dielectric. Applied Materials' Dielectric Etch IPS™ Centura is used for etching the dielectric films used in many critical chip structures, especially in the formation of copper interconnects. Applied Materials also continued to extend an established etch technology, called reactive ion etch, into the 0.18 micron generation of semiconductors, in which it operates with high productivity and low cost of ownership in high-volume production environments. The Dielectric Etch Super e Centura was introduced in mid-1999 as an extension of Applied Materials' MxP+ process chamber. Applied Materials' Metal Etch and Silicon Etch DPS™ Plus Centura systems have been enhanced in fiscal 1999 with new features for greater productivity and increased technical capability in etching smaller metal and silicon structures on the chip.

Ion Implantation

During ion implantation, silicon wafers are bombarded by a high-velocity beam of ions, called dopants, that penetrate ("implant") the film surface to a desired depth. Implantation, which occurs in the transistor structure, changes the properties of the material in which the dopants are implanted to achieve a particular electrical performance.

Fiscal 1999 saw an acceleration of an industry trend toward a type of implant technology called low-energy implantation, which enables the fabrication of smaller structures and thus contributes to faster transistor performance. Applied Materials' 1996 introduction of an implant system called the xR LEAP (low-energy advanced processing) made commercial production of low-energy implantation possible, enabling the throughput necessary for manufacturing. Using an enhanced system called the Quantum™ LEAP, introduced in fiscal 1999, this technology has found growing acceptance by many chipmakers to create thinner transistor structures. The Quantum LEAP has also been optimized to be used with Applied Materials' RTP technology for high technical performance and productivity.

Rapid Thermal Processing (RTP)

RTP subjects a wafer to a very brief burst of intense heat that can take the wafer from room temperature to more than 1,000 degrees Celsius in less than 10 seconds. RTP is used mainly for modifying the properties of deposited films, using processes such as annealing, which activates dopant atoms in the device after implantation. Applied Materials' RTP systems, which include the RTP Xepius™ and Radiance™ Centura products, offer advances in temperature and ramp rate control as well as other features aimed at providing leading-edge capability for sub-0.18 micron generations. Recently, these single-wafer systems have also gained increasing acceptance for growing high quality oxide and oxynitride films, deposition steps that have traditionally been assigned to furnaces. This trend to single-wafer processing versus batch furnaces is expected to continue as the industry transitions to larger 300mm wafers.

Chemical Mechanical Polishing (CMP)

CMP removes material from uneven topography on a wafer surface until a flat (planarized) surface is created. This allows subsequent photolithography patterning steps to take place with greater accuracy and enables film layers to build up with minimal height variations. CMP is performed primarily in the interconnect structure of the chip, where it is used multiple times, and is especially crucial to fabricating copper-based ICs to define the circuit wires that create the interconnect.

Throughout fiscal 1999, the Mirra CMP system continued to expand its portfolio of technologies and added a polysilicon film process that is used in the transistor portion of the device. The requirement to use polysilicon CMP has been increasing due to the growing need to control the topography of the transistor and capacitor structures as chip dimensions shrink. During fiscal 1999, another process was introduced to polish copper that enabled Applied Materials to complete its set of systems for building copper interconnects.

In June 1999, the Mirra CMP was enhanced with a cleaning capability that is integrated into the system to act in a fully automated CMP/cleaning mode. This system, called the Mirra Mesa™, can be used with all of the Mirra's CMP process technologies.

In October 1999, Applied Materials acquired Obsidian, Inc. (Obsidian), a developer of slurry-free (i.e., does not use wet abrasive material) CMP technology. This developing technology may be attractive to customers because it offers potentially lower operating costs and enhanced precision processing.

Metrology and Wafer/ Reticle Inspection

Applied Materials produces several types of products that are used to inspect the wafer during various stages of the fabrication process. Applied Materials also supplies a system to photomask manufacturers that is used to detect defects on quartz plates, called reticles. These reticles (also called masks) are used by photolithography systems to transfer microscopic circuit designs onto wafers. The reticle must be defect-free with perfect image fidelity because any imperfection will be replicated on the wafer.

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

Scanning electron microscopes (SEMs) use an electron beam to form images of microscopic features on a semiconductor wafer at extremely high magnification. Applied Materials provides chipmakers with operator-free automation, along with the high accuracy and sensitivity needed for measuring advanced-generation feature sizes. Introduced in February 1999, the new VeraSEM™ extends CD-SEM technology beyond critical dimension measurement to also enable the monitoring of multiple process parameters.

DR-SEMs review defects on the wafer (i.e., particles, scratches or residues) that are first located by other detection systems and then classify the defects to identify their source. The high-throughput, fully automatic technology of Applied Materials' SEMVision™ DR-SEM, launched in May 1998, marked a major advance over conventional, manually operated systems. With the SEMVision, customers are using DR-SEM technology as an integral part of their production lines, rather

sample wafers. The enhanced SEMVision cX model introduced in fiscal 1999 added higher throughput, automatic material classification and color imaging to its list of features.

Patterned Wafer Inspection

Using laser-based technology, Applied Materials' WF-736 system detects defects on patterned wafers (wafers with circuit images printed on them) as they move between processing steps. Defects may include particles, open circuit lines, shorts between lines or other problems. In fiscal 1999, Applied Materials introduced the enhanced WF-736 XS system, offering greater sensitivity for 0.15 micron and below devices.

Reticle Inspection

Introduced in early fiscal 1999, the ARIS-i™ system is an automated, ultraviolet wavelength-based advanced inspection system for reticles used in 0.18 micron and below generation devices. The system features enhanced image acquisition technology, data handling capabilities and sensitivity for the most advanced mask designs.

Flat Panel Displays (FPDs)

The most advanced FPDs are manufactured using technologies similar to those for making semiconductors. One difference is the vastly larger area of the substrate (panel). Compared to today's largest wafers (300mm diameter), the panels can be up to seven times larger. Applied Materials began development of FPD process technology in 1990, beginning with a CVD process. In September 1993, Applied Materials and Komatsu, Ltd. (Komatsu) formed a joint venture company, Applied Komatsu Technology, Inc. (AKT), to develop, market and manufacture FPD systems for the global market. In October 1999, Applied Materials acquired Komatsu's 50 percent ownership interest in AKT, making AKT a wholly-owned subsidiary. For further details, see Note 4 of Notes to Consolidated Financial Statements contained in the Applied Materials 1999 Annual Report, which note is incorporated herein by reference.

Factory Management Software

In December 1998, Applied Materials acquired Consilium, a provider of manufacturing execution systems software and services to the global semiconductor industry. Consilium's software products, WorkStream™ and FAB300™, are designed for semiconductor and FPD manufacturers to control and optimize their facility operations.

Transition to 300mm Wafers

Throughout its history, the semiconductor industry has migrated to increasingly larger wafer sizes, from one-inch wafers to the 200mm (eight inches) standard predominant today. To gain the economic advantages of a larger surface area, the industry has

begun using 300mm (12 inches) wafers as the next wafer size.

The surface area of a 300mm wafer is more than two times that of a 200mm wafer. Entirely new hardware is needed to process 300mm wafers, although some recently introduced systems, called bridge tools, have dual 200mm-300mm capabilities.

Applied Materials has been actively developing a complete line of 300mm systems in its core process technologies, covering more than 60 applications. Applied Materials has shipped several 300mm systems to customers and to industry consortia, including Semiconductor 300 in Dresden, Germany. All of Applied Materials' mainstream process technologies are being readied for 300mm wafer sizes. To meet the increased interest in 300mm process technology, Applied Materials significantly expanded its demonstration and development capability for these systems in fiscal 1999.

Customer Service and Support

Applied Materials' customer service organization plays a unique and critical role in Applied Materials' ability to satisfy its customers' production requirements. Over 2,500 highly trained customer engineers and process support engineers are deployed in more than a dozen countries. These engineers are usually located at or near the customers' fab sites and service more than 11,000 Applied Materials' systems.

In fiscal 1999, Applied Materials introduced a new line of service products, called Total Service Solutions™ (TSS), which offers a novel approach to maintaining and servicing Applied Materials' equipment in the fab. In one part of the TSS program, called Total Parts Management™ (TPM), Applied Materials is responsible for the spare parts used in its equipment at a customer's fab site. Under TPM, chipmakers no longer need to own or manage Applied Materials' inventory. A second product, called Total Support Package™

(TSP), is a comprehensive equipment service solution that includes parts inventory management and maintenance, with operating cost reduction and system performance improvement guarantees for Applied Materials' equipment.

Backlog

Applied Materials' backlog increased from \$917 million at October 25, 1998 to \$1.7 billion at October 31, 1999. Applied Materials schedules production of its systems based on order backlog and customer commitments. Backlog includes only orders for which written authorizations have been accepted and shipment dates within 12 months have been assigned. However, customers may delay delivery of products or cancel orders suddenly and without sufficient notice, subject to cancellation penalties. Due to possible customer changes in delivery schedules and cancellations of orders, Applied Materials' backlog at any particular date is not necessarily indicative of actual sales for any succeeding period. Delays in delivery schedules and/or a reduction of backlog during any particular period could have, and in the past have had, a material adverse effect on Applied Materials' business and results of operations.

Manufacturing, Raw Materials and Supplies

Applied Materials' manufacturing activities consist primarily of assembling various commercial and proprietary components into finished systems, principally in the United States, with additional operations in Taiwan, Japan, Israel and the United Kingdom. Production requires some raw materials and a wide variety of mechanical and electrical components that are manufactured to Applied Materials' specifications. Applied Materials uses numerous vendors to supply parts, components and subassemblies (collectively, "parts") for the manufacture and support of its products. Although Applied Materials makes reasonable efforts to ensure that parts are available from multiple suppliers, this is not always possible; accordingly, some key parts may be obtained only from a single supplier or a limited group of suppliers. Applied Materials has sought, and will continue to seek, to minimize the risk of production and service interruptions and/or shortages of key parts by: 1) selecting and qualifying alternative suppliers for key parts; 2) monitoring the financial stability of key suppliers; and 3) maintaining appropriate inventories of key parts. There can be no assurance that Applied Materials' results of operations will not be materially and adversely affected if, in the future, Applied Materials does not receive in a timely and cost-effective manner a sufficient quantity of parts to meet its production requirements.

Research, Development and Engineering (RD&E)

Applied Materials' long-term growth strategy requires continued development of new semiconductor and flat panel display manufacturing technology. Applied Materials' significant investment in RD&E has generally enabled it to deliver new products and technologies before the emergence of strong demand, thus allowing customers to incorporate these products into their manufacturing plans at an early stage in the technology selection cycle. Applied Materials works closely with its global customers to design systems that meet their planned technical and production requirements. Engineering organizations are located in the United States, the United Kingdom, Israel and Japan, with process support and customer demonstration laboratories in the United States, the United Kingdom, Israel, Japan, Korea and Taiwan.

In fiscal 1999, Applied Materials invested \$682 million, or 14 percent of net sales, in RD&E for product development and engineering programs to improve or sustain existing product lines. During fiscal 1997 and 1998, RD&E expenses were \$568 million (14 percent of net sales) and \$644 million (16 percent of net sales), respectively. Applied Materials has spent an average of 13 percent of net sales on RD&E over the last five years. In addition to RD&E for specific product technologies, Applied Materials maintains ongoing programs in software, automation control systems, materials research, microcontamination and environmental control that have applications to its products. Key activities during fiscal 1999 involved development of wafer fabrication equipment for smaller feature sizes, copper-based devices and 300mm wafers.

Marketing and Sales

Because of the highly technical nature of its products, Applied Materials markets its products worldwide through a direct sales force, with sales and service offices in the United States, Taiwan, Japan, Europe, Korea, and Asia-Pacific. For the fiscal year ended October 31, 1999, net sales to customers in North America (primarily the United States), Taiwan, Japan, Europe, Korea, and Asia-Pacific were 34 percent, 20 percent, 17 percent, 16 percent, 7 percent and 6 percent, respectively, of Applied Materials' total net sales. Applied Materials' business is usually not

semiconductor manufacturers. These expenditure patterns are based on many factors, including anticipated market demand for integrated circuits, the development of new technologies and global and regional economic conditions.

Applied Materials has operations and sites located throughout the world to support its sales and services to the global semiconductor industry. Managing global operations and sites located throughout the world presents challenges associated with, among other things, cultural diversities and organizational alignment. Moreover, each region in the global semiconductor equipment market exhibits unique characteristics that can cause, and in the past have caused, capital equipment investment patterns to vary significantly from period to period. Periodic economic downturns, trade balance issues, political instability and fluctuations in interest and foreign currency exchange rates are among the many risks associated with operating a global business that could materially and adversely affect demand for Applied Materials' products (including systems and related services).

Information on net sales to unaffiliated customers and long-lived assets attributable to Applied Materials' geographic regions is included in Note 12 of Notes to Consolidated Financial Statements contained in the Applied Materials 1999 Annual Report, which note is incorporated herein by reference. For fiscal 1997 and 1998, no individual customer accounted for more than 10 percent of Applied Materials' net sales. For fiscal 1999, Intel Corporation accounted for more than 10 percent of Applied Materials' net sales.

Competition

The global semiconductor equipment industry is highly competitive and is characterized by increasingly rapid technological advancements and demanding worldwide service requirements. Applied Materials' ability to compete depends on its ability to continually improve its products, processes and services, as well as its ability to develop new products that meet constantly evolving customer requirements. Significant competitive factors for succeeding in the semiconductor manufacturing equipment market include the equipment's technical capability, productivity and cost-effectiveness, overall reliability, ease of use and maintenance, contamination and defect control, and the level of technical service and support provided by the vendor. The importance of each of these factors varies depending on the specific customer's needs and criteria, including considerations such as the customer's process application, product requirements, timing of the purchase and particular circumstances of the purchasing decision. The pace of technological change is rapid, with customers continually moving to smaller critical dimensions and larger wafer sizes and adopting new materials for use in semiconductor manufacturing. Sometimes, existing technology can be adapted to the new requirements; however, the new requirements sometimes create the need for an entirely new technical approach. The rapid pace of technological change continually creates new opportunities for existing competitors and start-ups, and can quickly diminish the value of existing technologies.

Substantial competition exists for each of Applied Materials' products. Competitors range from small, agile companies that compete with a single innovative product, to companies with a large and diverse line of semiconductor processing products, and to large multinationals. Many of Applied Materials' competitors compete with Applied Materials for sales of more than one product. For example, one competitor sells CVD, electroplating and PVD equipment, while another competitor sells etch and CMP equipment. Competitors in a given technology tend to have different degrees of market presence in the various regional markets. Management believes that Applied Materials' competitive position is based on the ability of its products and services to continue to address customer requirements. Success for Applied Materials will require a continued high level of investment in research, development and engineering and in sales and marketing. Management believes that Applied Materials is a strong competitor with respect to its products and services. However, new products, pricing pressures, rapid changes in technology and other competitive actions from both new and existing competitors could materially and adversely affect Applied Materials' market position.

Acquisitions

On December 11, 1998, Applied Materials acquired Consilium, a supplier of integrated semiconductor and electronics manufacturing execution systems and services, in a stock-for-stock merger accounted for as a pooling of interests. Due to the immateriality of Consilium's financial position and results of operations in relation to those of Applied Materials, Applied Materials' prior period financial statements have not been restated. Applied Materials issued 1.7 million shares of its common stock to complete this transaction, and recorded \$5 million of transaction costs as a one-time operating expense. The Consilium acquisition did not have a material effect on Applied Materials' financial condition or results of operations for fiscal 1999. For further details, see Note 14 of Notes to Consolidated Financial Statements contained in the Applied Materials 1999 Annual Report, which note is incorporated herein by reference.

On October 5, 1999, Applied Materials acquired Obsidian, a developer of fixed-abrasive chemical mechanical polishing solutions for the semiconductor industry, by issuing shares of common stock having a market value of \$150 million. The Obsidian acquisition was accounted for as a purchase business combination. The purchase price in excess of the fair value of Obsidian's net tangible assets was allocated to intangible assets and in-process research and development expense. Except for in-process research and development expense of \$35 million, the Obsidian acquisition did not have a material effect on Applied Materials' financial condition or results of operations. For further details, see Note 14 of Notes to Consolidated Financial Statements contained in the Applied Materials 1999 Annual Report, which note is incorporated herein by reference.

In September 1993, Applied Materials and Komatsu formed AKT, a joint venture corporation that developed, manufactured, marketed and serviced thin film transistor manufacturing systems for FPDs. Because Applied Materials and Komatsu each owned 50 percent of the AKT joint venture, Applied Materials accounted for its interest in the joint venture using the equity method. During the fourth fiscal quarter of 1998, Applied Materials decided to discontinue the operations of AKT over a 12-month period. As a result of this decision, Applied Materials recorded a

\$40 million provision for discontinued operations, consisting of \$19 million primarily for immediate headcount reductions and lease terminations, and \$21 million for net expenses and other obligations expected to be incurred during, or at completion of, the 12-month wind-down period. In addition to the above amounts, Applied Materials also recorded its \$18 million share of AKT's operating losses as a component of discontinued operations. In late fiscal 1999, an overall improvement in demand for FPDs enhanced AKT's financial condition and improved its business outlook. This change caused Applied Materials to reassess its decision to discontinue AKT's operations. Based on this reassessment, Applied Materials reversed its decision to discontinue the operations of AKT and acquired Komatsu's 50 percent interest in AKT for \$87 million in cash on October 29, 1999. As a result, the \$21 million provision established in fiscal 1998 for net expenses and other obligations expected to be incurred during the wind-down of AKT's operations was reversed into income in fiscal 1999, and all prior period amounts relating to AKT's continuing operations were reclassified from discontinued operations to continuing operations. These reclassifications had no effect on Applied Materials' net income for any period affected, and were recorded in accordance with Emerging Issues Task Force Issue No. 90-16, "Accounting for Discontinued Operations Subsequently Retained." The acquisition of AKT was accounted for as a purchase business combination. The purchase price in excess of the fair value of AKT's net tangible assets was allocated to intangible assets and in-process research and development expense. For further details, see Note 4 of Notes to Consolidated Financial Statements contained in the Applied Materials 1999 Annual Report, which note is incorporated herein by reference.

Subsequent Events

On January 12, 2000, Applied Materials announced that it entered into an agreement to acquire Etec Systems, Inc. (Etec), a supplier of mask patterning generating equipment for the worldwide semiconductor and electronics industries, in a stock-for-stock merger that will be accounted for as a pooling of interests. The closing of the transaction is subject to approval from Etec's shareholders and clearance by regulatory authorities. Each share of Etec's stock will be exchanged for 0.649 of a share of Applied Materials' common stock. Applied Materials expects to issue approximately 14 million shares of its common stock to complete this transaction.

Patents and Licenses

Management believes that Applied Materials' competitive position is significantly dependent upon skills in engineering, production and marketing, rather than its patent position. However, protection of Applied Materials' technology assets by obtaining and enforcing patents is important. Therefore, Applied Materials has an active program to file patent applications in the United States and other countries for inventions that Applied Materials considers significant. Applied Materials has a number of patents in the United States and other countries and additional applications are pending for new developments in its equipment and processes. In addition to patents, Applied Materials also possesses other proprietary intellectual property, including trademarks, know-how, trade secrets and copyrights.

Applied Materials enters into patent and technology licensing agreements with other companies when management determines that it is in Applied Materials' best interest to do so. Applied Materials pays royalties under existing patent license agreements for the use, in several of its products, of certain patented technologies that are licensed to Applied Materials for the life of the patents. Applied Materials also receives royalties from licenses granted to third parties. Royalties received from third parties have not been, and are not expected to be, material.

In the normal course of business, Applied Materials from time to time receives and makes inquiries regarding possible patent infringement. In dealing with such inquiries, it may become necessary or useful for Applied Materials to obtain or grant licenses or other rights. However, there can be no assurance that such licenses or rights will be available to Applied Materials on commercially reasonable terms. Although there can be no assurance about the outcome of patent infringement inquiries, Applied Materials believes it is unlikely that their resolution will have a material adverse effect on its financial condition or results of operations.

Environmental Matters

Two of Applied Materials' locations have been designated as Superfund sites by the United States Environmental Protection Agency since 1987. Applied Materials has been designated a "Responsible Party" by the U.S. Environmental Protection Agency with respect to one site and a "Potentially Responsible Party" with respect to the other site. However, neither compliance with federal, state and local provisions regulating discharge of materials into the environment, nor remedial agreements or other actions relating to the environment, has had, or is expected to have, a material effect on Applied Materials' capital expenditures, financial condition, results of operations or competitive position.

Employees

At October 31, 1999, Applied Materials employed 12,755 regular employees. In the high-technology industry, competition for highly-skilled employees is intense. Applied Materials believes that its future success is highly dependent upon its continued ability to attract and retain qualified employees. There can be no assurance that Applied Materials will be able to attract, hire, assimilate and retain a sufficient number of qualified people. None of Applied Materials' employees are represented by a trade union, and management considers its relations with employees to be good.

Item 2: *Properties*

Information concerning Applied Materials' principal properties at October 31, 1999 is set forth below:

Title of class

None

Name of each exchange on which registered

None

Location

Type

Principal Use

Square
Footage

Ownership

Santa Clara, CA	Office, plant & warehouse	Headquarters, Marketing, Manufacturing, Distribution, Research and Engineering	1,047,000 2,928,000 (1)	owned leased
Austin, TX	Office, plant & warehouse	Manufacturing	1,154,000 228,000	owned leased
Horsham, England	Office, plant & warehouse	Manufacturing, Research and Engineering	122,000	leased
Narita, Japan	Office, plant & warehouse	Manufacturing, Research and Engineering	222,000 (2)	owned
Chunan, Korea	Office, plant & warehouse	Research and Engineering	107,000	owned
Hsinchu, Taiwan	Office, plant & warehouse	Manufacturing, Research and Engineering	89,000 114,000	owned leased
Rehovot, Israel	Office, plant & warehouse	Manufacturing, Research and Engineering	271,000	owned
Nes Ziona, Israel	Office, plant & warehouse	Manufacturing, Research and Engineering	72,000	leased
Yavne, Israel	Office, plant & warehouse	Manufacturing, Research and Engineering	68,000	leased

Applied Materials also leases office space for sales and service offices in 70 locations throughout the world: 22 in North America (primarily the United States), 2 in Taiwan, 23 in Japan, 12 in Europe, 6 in Korea and 5 in Asia-Pacific.

Applied Materials currently owns 167,000 square feet of manufacturing and other operating facilities in California that have not yet been completed and placed in service. An 80,000 square foot owned facility is currently under construction in Taiwan.

Applied Materials also owns 121 acres of buildable land in Austin, Texas, 43 acres of buildable land in Santa Clara, California and 9 acres of buildable land in Narita, Japan. The Austin, Santa Clara and Narita land can accommodate approximately 1,845,000, 1,247,000 and 766,000 square feet, respectively, of additional building space to help satisfy Applied Materials' current and future needs.

Applied Materials considers the above facilities suitable and adequate to meet its requirements.

Item 3: Legal Proceedings

AST and AG

In April 1997, Applied Materials initiated separate lawsuits in the Northern District of California against AST Elektronik GmbH and AST Elektronik USA, Inc. (collectively "AST") and AG Associates, Inc. (AG), alleging infringement of certain patents concerning rapid thermal processing technology (case no. C-97-20375-RMW). In October 1997, AST and AG each filed counterclaims alleging infringement by Applied Materials of patents concerning related technology. In addition, on August 5, 1998, AG filed a lawsuit in California against Applied Materials alleging infringement of another patent relating to rapid thermal processing technology (case no. C-98-20833-RMW), and, on August 13, 1998, AG filed a lawsuit in Delaware against Applied Materials alleging infringement of two other patents concerning related technology. The Delaware case was subsequently transferred to California (case no. C-99-20432). In February 1999, Applied Materials and AST resolved their dispute on mutually acceptable terms and conditions. In addition, in December 1999, all disputes between Applied Materials and AG were resolved on mutually acceptable terms and conditions, and each of the three cases has been dismissed.

KLA

As a result of Applied Materials' acquisition of Orbot Instruments, Ltd. (Orbot), Applied Materials is involved in a lawsuit captioned KLA Instruments Corporation (KLA) v. Orbot (case no. C-93-20886-JW) in the United States District Court for the Northern District of California. KLA alleges that Orbot infringes a patent regarding equipment for the inspection of masks and reticles, and seeks an injunction, damages and such other relief as the Court may find appropriate. There has been limited discovery, but no trial date has been set. Management believes it has meritorious defenses and intends to pursue them vigorously.

Varian and Novellus

On June 13, 1997, Applied Materials filed a lawsuit against Varian Associates, Inc. (Varian) captioned Applied Materials, Inc. v. Varian Associates, Inc. (case no. C-97-20523-RMW), alleging infringement of several of Applied Materials' patents concerning physical vapor deposition (PVD) technology. The complaint was later amended on July 7, 1997 to include Novellus Systems, Inc. (Novellus) as a defendant as a result of Novellus' acquisition of Varian's thin film systems PVD business. Applied Materials seeks damages for past infringement, a permanent injunction, treble damages for willful infringement, pre-judgment interest and attorneys' fees. Varian answered the complaint by denying all allegations, counterclaiming for declaratory judgment of invalidity and unenforceability and alleging conduct by Applied Materials in violation of antitrust laws. On June 23, 1997, Novellus filed a separate lawsuit against Applied Materials captioned Novellus Systems, Inc. v. Applied Materials, Inc. (case no. C-97-20551-EAI), alleging infringement by Applied Materials of three patents concerning PVD technology that were formerly owned by Varian. On July 8, 1997, Varian filed a separate lawsuit against Applied Materials captioned Varian Associates, Inc. v. Applied Materials, Inc. (case no. C-97-20597-PVT) alleging a broad range of conduct in violation of federal antitrust laws and state unfair competition and business practice laws. On July 16, 1999, Varian was granted permission to file a First Amended Complaint in that action. On November 8, 1999, the Court granted in part Applied Materials' partial motion to dismiss the First Amended Complaint. On December 10, 1999, Varian filed its Second Amended Complaint and Applied Materials has answered. Discovery has commenced in these actions. The Court has scheduled trial of all patent claims for April 2001. No other trial dates have been set. Management believes it has meritorious claims and defenses and intends to pursue them vigorously.

OKI

In November 1997, OKI Electric Industry, Co., Ltd. (OKI) filed suit against Applied Materials' subsidiary, Applied Materials Japan (AMJ), in Tokyo District Court in Japan, alleging that AMJ is obligated to indemnify OKI for patent license payments OKI made to a third party. Several hearings have been held, but no trial date has been set. Applied Materials does not expect the final case resolution to have a material effect on its financial condition or results of operations.

Applied Materials is subject to various other legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. Although the outcome of these claims cannot be predicted with certainty, management does not believe that any of these other legal matters will have a material adverse effect on Applied Materials' financial condition or results of operations.

(2) Subject to loans of \$41 million, secured by property and equipment having an approximate net book value of \$64 million at October 31, 1999.

None.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The following table and notes thereto identify and set forth information about Applied Materials' five executive officers:

Item 4: *Submission of Matters to a Vote of Security Holders in Fourth Fiscal Quarter of 1999*

Name of Individual	Capacities in which Served
James C. Morgan(1)	Chairman of the Board of Directors and Chief Executive Officer
Dan Maydan(2)	Director and President
Joseph R. Bronson(3)	Senior Vice President, Office of the President, Chief Financial Officer and Chief Administrative Officer
Sasson Somekh(4)	Senior Vice President, Office of the President
David N.K. Wang(5)	Senior Vice President, Office of the President

PART II

Item 5: *Market for Registrant's Common Equity and Related Stockholder Matters*

"Stock Price History" on page 54 of the Applied Materials 1999 Annual Report is incorporated herein by reference.

Applied Materials' common stock is traded on the Nasdaq over-the-counter market. As of January 2, 2000, there were approximately 5,347 holders of record of the common stock.

To date, Applied Materials has not declared or paid cash dividends to its stockholders. Applied Materials has no plans to declare and pay cash dividends in the near future.

Item 6: *Selected Consolidated Financial Data*

The selected consolidated financial data for the five years ended October 31, 1999, which appears on page 21 of the Applied Materials 1999 Annual Report, is incorporated herein by reference.

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(1) Mr. Morgan, age 61, has been Chief Executive Officer since 1977 and Chairman of the Board of Directors since 1987. Mr. Morgan also served as President of Applied Materials from 1976 to 1987.

- (2) Dr. Maydan, age 64, was appointed President of Applied Materials in December 1993 and has been a member of the Board of Directors since 1992. Dr. Maydan served as Executive Vice President from 1990 to December 1993. Prior to that, Dr. Maydan had been Group Vice President since February 1989. Dr. Maydan joined Applied Materials in 1980 as a Director of Technology.
- (3) Mr. Bronson, age 51, was appointed Senior Vice President, Office of the President, Chief Financial Officer and Chief Administrative Officer in January 1998. Mr. Bronson served as Group Vice President from April 1994 to January 1998. Prior to that, Mr. Bronson had been Vice President since November 1990. Mr. Bronson joined Applied Materials in September 1984 as Corporate Controller.
- (4) Dr. Somekh, age 53, was appointed to the Office of the President in January 1998, and was appointed Senior Vice President of Applied Materials in December 1993. Dr. Somekh served as Group Vice President from 1990 to 1993. Prior to that, Dr. Somekh had been a divisional Vice President. Dr. Somekh joined Applied Materials in 1980 as a Project Manager.
- (5) Dr. Wang, age 53, was appointed to the Office of the President in January 1998, and was appointed Senior Vice President of Applied Materials in December 1993. Dr. Wang served as Group Vice President from 1990 to 1993. Prior to that, Dr. Wang had been a divisional Vice President. Dr. Wang joined Applied Materials in 1980 as a Manager, Process Engineering and Applications.

"Management's Discussion and Analysis" on pages 22 through 32 of the Applied Materials 1999 Annual Report is incorporated herein by reference.

Item 7a: Quantitative and Qualitative Disclosures about Market Risk

"Market Risk Disclosure" on pages 31 through 32 of the Applied Materials 1999 Annual Report is incorporated herein by reference.

Item 8: Financial Statements and Supplementary Data

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP dated November 17, 1999, and appearing on pages 33 through 52 and page 54 of the Applied Materials 1999 Annual Report, are incorporated herein by reference.

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

None.

PART III

Pursuant to Paragraph G(3) of the General Instructions to Form 10-K, portions of the information required by Part III of Form 10-K are incorporated by reference from Applied Materials' Proxy Statement to be filed with the Commission in connection with the 2000 Annual Meeting of Stockholders ("the Proxy Statement").

Item 10: Directors and Executive Officers of the Registrant

(a) Information concerning directors of Applied Materials appears in Applied Materials' Proxy Statement, under Item 1 - "Election of Directors." This portion of the Proxy Statement is incorporated herein by reference.

(b) For information with respect to Executive Officers, see

Item 11: Executive Compensation

Information concerning executive compensation appears in Applied Materials' Proxy Statement, under Item 1 - "Election of Directors." This portion of the Proxy Statement is incorporated herein by reference.

Item 12: Security Ownership of Certain Beneficial Owners and Management

Information concerning the security ownership of certain beneficial owners and management appears in Applied Materials' Proxy Statement, under Item 1 - "Election of Directors." This portion of the Proxy Statement is incorporated herein by reference.

Item 13: Certain Relationships and Related Transactions

Information concerning certain relationships and related transactions appears in Applied Materials' Proxy Statement, under Item 1 - "Election of Directors." This portion of the Proxy Statement is incorporated herein by reference.

PART IV

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

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

Item 14: Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(1) *Financial Statements:*

	Annual Report Page Number*
Consolidated Statements of Operations for each of the three years in the period ended October 31, 1999	33
Consolidated Balance Sheets at October 25, 1998 and October 31, 1999	34
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended October 31, 1999	35
Consolidated Statements of Cash Flows for each of the three years in the period ended October 31, 1999	36
Notes to Consolidated Financial Statements	37-52
Report of Independent Accountants	54

* Incorporated herein by reference from the indicated pages of the Applied Materials 1999 Annual Report. With the exception of the pages listed above and the portion of such report referred to in items 1, 5, 6, 7, 7a and 8 of this Annual Report on Form 10-K, the Applied Materials 1999 Annual Report is not to be deemed filed as part of this report.

Report of Independent Accountants on Financial Statement Schedule
Schedule II - Valuation and Qualifying Accounts

Form 10-K
Page Number

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(b) Applied Materials did not file a report on Form 8-K during its fourth fiscal quarter of 1999.

Schedules not listed above have been omitted because they are not applicable or the required information is included in the consolidated financial statements or notes thereto.

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INDEX TO EXHIBITS

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

(3) *Exhibits:*

The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Annual Report on Form 10-K.

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Exhibit No.	Description
2.1	Agreement and Plan of Merger, by and among Applied Materials, Inc., Orion Corp. I, and Opal, Inc. dated as of November 24, 1996, previously filed with Applied Materials' Annual Report on Form 10-K for the year ended October 27, 1996, and incorporated herein by reference.
2.2	Stock Purchase Agreement dated as of November 24, 1996 by and among Applied Materials, Inc., Orbot Instruments, Ltd. and the Stockholders of Orbot Instruments, Ltd., previously filed with Applied Materials' Annual Report on Form 10-K for the year ended October 27, 1996, and incorporated herein by reference.
2.3	Agreement and Plan of Merger And Reorganization between Applied Materials, Inc. and Consilium, Inc., previously filed with Applied Materials' Form S-4A dated November 6, 1998, and incorporated herein by reference.
2.4	Agreement and Plan of Reorganization, dated as of January 12, 2000, by and among Applied Materials, Inc., Boston Acquisition Sub Inc. and Etec Systems, Inc., previously filed with Applied Materials' Schedule 13D on January 24, 2000, and incorporated herein by reference.
3(i)	Certificate of Incorporation of Applied Materials, Inc., a Delaware corporation, as amended to March 18, 1996, previously filed with Applied Materials' Annual Report on Form 10-K for the year ended October 27, 1996, and incorporated herein by reference.
3(i)(a)	Amendment to Articles of Incorporation dated March 27, 1998, previously filed with Applied Materials' Form 10-Q for the quarter ended July 26, 1998, and incorporated herein by reference.
3(i)(b)	Articles of Incorporation (as amended to March 27, 1998), previously filed with Applied Materials' Form 10-Q for the quarter ended July 26, 1998, and incorporated herein by reference.
3(i)(c)	Certificate of Designation, Preferences and Rights of the Terms of the Series A Junior Participating Preferred Stock of Applied Materials, Inc., dated as of July 7, 1999, previously filed with Applied Materials' Form 10-Q for the quarter ended August 1, 1999, and incorporated herein by reference.
3(ii)	Bylaws of Applied Materials, Inc., as amended and restated through December 7, 1999.
4.1	Rights Agreement, dated as of June 14, 1989, between Applied Materials, Inc. and Bank of America NT&SA, as Rights Agent, including Form of Rights Certificate and Form of Summary of Rights to Purchase Common Stock, previously filed with Applied Materials' report on Form 8-K dated June 14, 1989, and incorporated herein by reference.
4.2	Form of Indenture (including form of debt security) dated as of August 24, 1994 between Applied Materials, Inc. and Harris Trust Company of California, as Trustee, previously filed with Applied Materials' Form 8-K on August 17, 1994, and incorporated herein by reference.
4.3	Rights Agreement, dated as of July 7, 1999, between Applied Materials, Inc. and Harris Trust and Savings Bank, as Rights Agent, previously filed as Exhibit 1 with Applied Materials' Registration Statement on Form 8-A dated July 9, 1999, and incorporated herein by reference.
10.1*	The 1976 Management Stock Option Plan, as amended to October 5, 1993, previously filed with Applied Materials' Form 10-K for fiscal year 1993, and incorporated herein by reference.
10.2*	Applied Materials, Inc., Supplemental Income Plan, as amended, including Participation Agreements with James C. Morgan, Walter Benzing, and Robert Graham, previously filed with Applied Materials' Form 10-K

Exhibit No.	Description
10.3*	Amendment to Supplemental Income Plan, dated July 20, 1984, previously filed with Applied Materials' Form 10-K for fiscal year 1984, and incorporated herein by reference.
10.4*	The Applied Materials Employee Financial Assistance Plan, previously filed with Applied Materials' definitive Proxy Statement in connection with the Annual Meeting of Shareholders held on March 5, 1981, and incorporated herein by reference.
10.5*	The 1985 Stock Option Plan for Non-Employee Directors, previously filed with Applied Materials' Form 10-K for fiscal year 1985, and incorporated herein by reference.
10.6*	Amendment 1 to the 1985 Stock Option Plan for Non-Employee Directors dated June 14, 1989, previously filed with Applied Materials' Form 10-K for fiscal year 1989, and incorporated herein by reference.
10.7*	Applied Materials, Inc. Supplemental Income Plan as amended to December 15, 1988, including the Participation Agreement with James C. Morgan, previously filed with Applied Materials' Form 10-K for fiscal year 1988, and incorporated herein by reference.
10.8	License Agreement dated January 1, 1992 between Applied Materials and Varian Associates, Inc., previously filed with Applied Materials' Form 10-K for fiscal year 1992, and incorporated herein by reference.
10.9*	Amendment dated December 9, 1992 to Applied Materials, Inc. Supplemental Income Plan dated June 4, 1981 (as amended to December 15, 1988), previously filed with Applied Materials' Form 10-K for fiscal year 1993, and incorporated herein by reference.
10.10*	The Applied Materials, Inc. Executive Deferred Compensation Plan dated July 1, 1993 and as amended on September 2, 1993, previously filed with Applied Materials' Form 10-Q for the quarter ended August 1, 1993, and incorporated herein by reference.
10.11	Joint Venture Agreement between Applied Materials, Inc. and Komatsu, Ltd. dated September 14, 1993 and exhibits thereto, previously filed with Applied Materials' Form 10-K for fiscal year 1993, and incorporated herein by reference. (Confidential treatment has been granted for certain portions of the agreement).
10.12*	Amendment No. 2 to Applied Materials, Inc. 1985 Stock Option Plan for Non-Employee Directors, dated September 10, 1992, previously filed with Applied Materials' Form 10-K for fiscal year 1993, and incorporated herein by reference.
10.13*	Amendment No. 3 to Applied Materials, Inc. 1985 Stock Option Plan for Non-Employee Directors, dated October 5, 1993, previously filed with Applied Materials' Form 10-K for fiscal year 1993, and incorporated herein by reference.
10.14*	Amendment No. 2 to the Applied Materials, Inc. Executive Deferred Compensation Plan, dated May 9, 1994, previously filed with Applied Materials' Form 10-Q for the quarter ended May 1, 1994, and incorporated herein by reference.
10.15*	Amendment No. 4 to Applied Materials, Inc. 1985 Stock Option Plan for Non-Employee Directors, dated December 8, 1993, previously filed with Applied Materials' Form 10-Q for the quarter ended May 1, 1994, and incorporated herein by reference.
10.16*	Applied Komatsu Technology, Inc. 1994 Executive Incentive Stock Purchase Plan, together with forms of Promissory Note, 1994 Executive Incentive Stock Purchase Agreement, and Loan and Security Agreement, previously filed with Applied Materials' Form 10-Q for the quarter ended July 31, 1994, and incorporated herein by reference.
10.17*	The Applied Materials, Inc. 1995 Equity Incentive Plan, dated April 5, 1995, previously filed with Applied Materials' Form 10-Q for the quarter ended April 30, 1995, and incorporated herein by reference.
10.18*	The Applied Materials, Inc. Senior Executive Bonus Plan, dated September 23, 1994, previously filed with Applied Materials' Form 10-Q for the quarter ended April 30, 1995, and incorporated herein by reference.
10.19*	The Applied Materials, Inc. Executive Deferred Compensation Plan, as amended and restated on April 1, 1995, previously filed with Applied Materials' Form 10-Q for the quarter ended April 30, 1995, and incorporated herein by reference.
10.20	Applied Materials, Inc. Medium-Term Notes, Series A Distribution Agreement, dated August 24, 1995, previously filed with Applied Materials' Form 10-K for fiscal year 1995, and incorporated herein by reference.

Exhibit No.	Description
10.21*	Resolution pertaining to the Amendment of the Applied Materials, Inc. 1995 Equity Incentive Plan, adopted by the Stock Option and Compensation Committee of the Board of Directors of Applied Materials on December 12, 1996, previously filed with Applied Materials' Form 10-Q for the quarter ended April 27, 1997, and incorporated herein by reference.
10.22	Participation Agreement dated as of April 30, 1997 among Applied Materials, Inc. (as Lessee and Construction Agent), Credit Suisse Leasing 92A, L.P., (as Lessor and Borrower), Greenwich Funding Corporation (as CP Lender), The Persons Named on Schedule I (as Eurodollar Lenders) and Credit Suisse First Boston (acting through its New York Branch, as Agent), previously filed with Applied Materials' Form 10-Q for the quarter ended April 27, 1997, and incorporated herein by reference.
10.23	Appendix 1 to Participation Agreement, Master Lease Agreement and Loan Agreement, dated as of April 30, 1997 (Definitions and Interpretation) for Applied Materials, Inc., previously filed with Applied Materials' Form 10-Q for the quarter ended April 27, 1997, and incorporated herein by reference.
10.24	Loan Agreement dated as of April 30, 1997 among Credit Suisse Leasing 92A, L.P. (as Borrower), Greenwich Funding Corporation (as CP Lender), The Persons Named on Schedule I (as Eurodollar Lenders) and Credit Suisse First Boston (acting through its New York Branch, as Agent) for Revolving Commercial Paper, Eurodollar Credit and Base Rate Program, previously filed with Applied Materials' Form 10-Q for the quarter ended April 27, 1997, and incorporated herein by reference.
10.25	Real Estate and Equipment Facility Master Lease dated as of April 30, 1997 between Credit Suisse Leasing 92A, L.P. (as Lessor), and Applied Materials, Inc. (as Lessee), previously filed with Applied Materials' Form 10-Q for the quarter ended April 27, 1997, and incorporated herein by reference.
10.26	Underwriting Agreement between Applied Materials, Inc. and Morgan Stanley & Co. Incorporated dated October 9, 1997, previously filed with Applied Materials' Form S-3 dated October 9, 1997, and incorporated herein by reference.
10.27	Prospectus Supplement for Applied Materials' \$400 million Senior Notes dated October 9, 1997, previously filed with Applied Materials' Form S-3 dated October 9, 1997, and incorporated herein by reference.
10.28	\$250,000 Five Year Credit Agreement and \$250,000 364-Day Credit Agreement, each dated as of March 13, 1998 among Applied Materials, Inc., Morgan Guaranty Trust Company of New York, as Documentation Agent and

10.29*	Administrative Agent, and Citicorp Securities, Inc., as Syndication Agent, previously filed with Applied Materials' Form 10-Q for the quarter ended April 26, 1998, and incorporated herein by reference.
10.30*	Amendment No. 1 to the Applied Materials, Inc. Executive Deferred Compensation Plan dated August 1, 1997, previously filed with Applied Materials' Form 10-Q for the quarter ended July 26, 1998, and incorporated herein by reference.
10.31*	Amendment No. 2 to the Applied Materials, Inc. Executive Deferred Compensation Plan dated December 1, 1997, previously filed with Applied Materials' Form 10-Q for the quarter ended July 26, 1998, and incorporated herein by reference.
10.32	Applied Materials, Inc. 1995 Equity Incentive Plan, as amended on March 17, 1998, previously filed with Applied Materials' Preliminary Proxy Statement dated January 27, 1998, and incorporated herein by reference.
10.33	Letters of Guarantee dated October 28, 1998 between Applied Materials, Inc. and Bank of Tokyo-Mitsubishi, Ltd., Sanwa Bank, Ltd., Sakura Bank, Ltd. and Sumitomo Bank, Ltd. on behalf of Applied Komatsu Technology, Inc.
10.34	Promissory Note dated December 15, 1998 between Applied Materials, Inc. and Applied Komatsu Technology America, Inc.
10.35*	Receivables Purchase Agreement dated October 22, 1998 between Applied Materials, Inc. and Deutsche Financial Services Corporation.
	Amendment No. 1 to the Applied Materials, Inc. Senior Executive Bonus Plan dated September 2, 1998.

Exhibit No.

Description

10.36*	Applied Materials, Inc. Employees' Stock Purchase Plan (as amended and restated December 10, 1998), previously filed as Appendix A to Applied Materials' Definitive Proxy Statement dated February 22, 1999, and incorporated herein by reference.
10.37	Amendment dated January 26, 1999 to Receivables Purchase Agreement dated October 22, 1998 between Applied Materials, Inc. and Deutsche Financial Services Corporation, previously filed with Applied Materials' Form 10-Q for the quarter ended January 31, 1999, and incorporated herein by reference.
10.38	Receivables Purchase Agreement dated January 26, 1999 between Applied Materials, Inc. and Deutsche Financial Services (UK) Limited, previously filed with Applied Materials' Form 10-Q for the quarter ended January 31, 1999, and incorporated herein by reference.
10.39	Second Amendment dated April 28, 1999 to Receivables Purchase Agreement dated October 22, 1998 between Applied Materials, Inc. and Deutsche Financial Services Corporation, previously filed with Applied Materials' Form 10-Q for the quarter ended May 2, 1999, and incorporated herein by reference. (Confidential treatment has been granted for certain portions of the agreement).
10.40	Amendment dated April 28, 1999 to Receivables Purchase Agreement dated January 26, 1999 between Applied Materials, Inc. and Deutsche Financial Services Corporation (UK) Limited, previously filed with Applied Materials' Form 10-Q for the quarter ended May 2, 1999, and incorporated herein by reference. (Confidential treatment has been granted for certain portions of the agreement).
10.41	\$250,000,000 364-Day Credit agreement dated March 12, 1999 among Applied Materials, Inc., Citicorp USA, Inc. as Agent, and Bank of America NT&SA as Co-Agent, previously filed with Applied Materials' Form 10-Q for the quarter ended May 2, 1999, and incorporated herein by reference.
10.42*	Amendment No. 2 to the Applied Materials, Inc. 1995 Equity Incentive Plan, dated June 9, 1999, previously filed with Applied Materials' Form 10-Q for the quarter ended May 2, 1999, and incorporated herein by reference.
10.43*	Applied Materials, Inc. Nonqualified Stock Option Agreement related to the 1995 Equity Incentive Plan, previously filed with Applied Materials' Form 10-Q for the quarter ended May 2, 1999, and incorporated herein by reference.
10.44	Form of Indemnification Agreement between Applied Materials, Inc. and Non-Employee Directors, dated June 11, 1999.
10.45	Form of Indemnification Agreement between Applied Materials, Inc. and James C. Morgan and Dan Maydan, dated June 11, 1999.
10.46	Form of Indemnification Agreement between Applied Materials, Inc. and Joseph R. Bronson, Sasson Somekh and David N.K. Wang, dated November 2, 1999.
12.1	Ratio of Earnings to Fixed Charges.
13	Applied Materials 1999 Annual Report for the fiscal year ended October 31, 1999 (to the extent expressly incorporated by reference).
21	Subsidiaries of Applied Materials, Inc.
23	Consent of Independent Accountants.
24	Power of Attorney.
27	Financial Data Schedule: filed electronically.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

* Indicates, as required by Item 14(a)3, a management contract or compensatory plan or arrangement.

APPLIED MATERIALS, INC.
By /s/ JAMES C. MORGAN

Dated: January 31, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons

on behalf of the registrant and in the capacities and on the dates indicated.

James C. Morgan
Chairman of the Board and Chief Executive Officer

Representing a majority of the members of the Board of Directors.

	<u>Title</u>	<u>Date</u>
<hr/> <p>/s/ JAMES C. MORGAN James C. Morgan</p>	Chairman of the Board and Chief Executive Officer	January 28, 2000
<hr/> <p>/s/ JOSEPH R. BRONSON Joseph R. Bronson</p>	Senior Vice President, Office of the President Chief Financial Officer and Chief Administrative Officer (Principal Financial Officer)	January 28, 2000
<hr/> <p>/s/ PATRICK CROM Patrick Crom</p>	Vice President, Global Controller and Chief Accounting Officer (Principal Accounting Officer)	January 28, 2000
Directors:		
<hr/> <p style="text-align: center;">*</p>	Director	January 28, 2000
<hr/> <p style="text-align: center;">Dan Maydan *</p>	Director	January 28, 2000
<hr/> <p style="text-align: center;">Michael H. Armacost *</p>	Director	January 28, 2000
<hr/> <p style="text-align: center;">Deborah A. Coleman *</p>	Director	January 28, 2000
<hr/> <p style="text-align: center;">Herbert M. Dwight, Jr. *</p>	Director	January 28, 2000
<hr/> <p style="text-align: center;">Philip V. Gerdine *</p>	Director	January 28, 2000
<hr/> <p style="text-align: center;">Tsuyoshi Kawanishi *</p>	Director	January 28, 2000
<hr/> <p style="text-align: center;">Paul R. Low *</p>	Director	January 28, 2000
<hr/> <p style="text-align: center;">Alfred J. Stein</p>		

*By /s/ JAMES C. MORGAN

James C. Morgan
Attorney-in-Fact**

REPORT OF INDEPENDENT ACCOUNTANTS ON

FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of Applied Materials, Inc.

Our audits of the consolidated financial statements referred to in our report dated November 17, 1999, appearing in the 1999 Annual Report to Stockholders of Applied Materials, Inc. (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K), also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in

conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP

San Jose, California

November 17, 1999

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SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

ALLOWANCE FOR DOUBTFUL ACCOUNTS

(Dollars in thousands)

** By authority of the power of attorney filed herewith.

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BYLAWS

OF

APPLIED MATERIALS, INC.

(a Delaware corporation)

(As amended to December 7, 1999)

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Fiscal Year	Balance at Beginning of Year	Additions - Charged to Income	Deductions	Balance at End of Year
1997	\$4,169	\$2,433	\$ (1,024)	\$5,578
1998	\$5,578	\$ -	\$ (4,948)	\$ 630
1999	\$ 630	\$2,112	\$ (868)	\$1,874

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BYLAWS

OF

APPLIED MATERIALS, INC.

ARTICLE I

OFFICES

1.1 *Registered Office.* The registered office of the corporation in the State of Delaware shall be Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of the registered agent of the corporation at such location is The Corporation Trust Company.

1.2 *Other Offices.* The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the corporation may require.

ARTICLE II

STOCKHOLDERS

2.1 *Place of Meetings.* Meetings of stockholders shall be held at such place, either, within or without the State of Delaware, as may be designated by the board of directors. In the absence of any such designation, stockholders' meetings shall be held at the corporation's principal executive offices.

2.2 *Annual Meeting.* The annual meeting of stockholders shall be held each year on a date and at a time designated by the board of directors. At the meeting, directors shall be elected and any other proper business may be transacted.

2.3 *Special Meeting.* Special meetings of the stockholders may be called at any time by the board of directors, or by the chairman of the board, or by the president of the corporation.

If a special meeting is called by any person or persons other than the board of directors, the request shall be in writing, specifying the time of such meeting and the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail or by telegraphic or other

facsimile transmission to the chairman of the board, the president, any vice president, or the secretary of the corporation. No business may be transacted at such special meeting otherwise than specified in such notice. The officer receiving the request shall cause notice to be promptly given to the stockholders entitled to vote, in accordance with the provisions of Sections 4 and 5 of this Article II, that a meeting will be held at the time requested by the person or persons calling the meeting, not less than 35 nor more than 60 days after the receipt of the request. If the notice is not given within 20 days after the receipt of the request, the person or persons requesting the meeting may give the notice. Nothing contained in this paragraph of this Section 3 shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the board of directors may be held.

2.4 Notice of Stockholders' Meetings. All notices of meetings with stockholders shall be in writing and shall be sent or otherwise given in accordance with Section 2.5 of these bylaws not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. The notice shall specify the place, date, and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

2.5 Advance Notice of Stockholder Nominees. No nominations for director of the corporation by any person other than the board of directors shall be presented to any meeting of stockholders unless the person making the nomination is a record stockholder and shall have delivered a written notice to the secretary of the corporation no later than the close of business forty-five days prior to the month and day of mailing the prior year's proxy statement. Such notice shall (i) set forth the name and address of the person advancing such nomination and the nominee, together with such information concerning the person making the nomination

and the nominee as would be required by the appropriate Rules and Regulations of the Securities and Exchange Commission to be included in a proxy statement soliciting proxies for the election of such nominee, and (ii) shall include the duly executed written consent of such nominee to serve as director if elected.

No proposal by any person other than the board of directors shall be submitted for the approval of the stockholders at any regular or special meeting of the stockholders of the corporation unless the person advancing such proposal shall have delivered a written notice to the secretary of the corporation no later than the close of business forty-five days prior to the month and day of mailing the prior year's proxy statement. Such notice shall set forth the name and address of the person advancing the proposal, any material interest of such person in the proposal, and such other information concerning the person making such proposal and the proposal itself as would be required by the appropriate Rules and Regulations of the Securities and Exchange Commission to be included in a proxy statement soliciting proxies for the proposal.

2.6 Manner of Giving Notice; Affidavit of Notice.

Written notice of any meeting of stockholders, if mailed, is given when deposited in the United States mail, postage prepaid, directed to the stockholder at his address as it appears on the records of the corporation. An affidavit of the secretary or an

assistant secretary or of the transfer agent of the corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

2.7 *Quorum.* The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute or by the certificate of incorporation. Except as otherwise required by law, the certificate of incorporation or these bylaws, the affirmative vote of the majority of such quorum shall be deemed the act of the stockholders. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the chairman of the meeting or (ii) the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

2.8 *Adjourned Meeting; Notice.* When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business that might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

2.9 *Conduct of Business.* The chairman of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of business.

2.10 *Voting.* Except as may be otherwise provided in the certificate of incorporation, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder. Voting may be by voice or by ballot as the presiding officer of the meeting of the stockholders shall determine. On a vote by ballot, each ballot shall be signed by the stockholder voting, or by such stockholder's proxy, and shall state the number of shares voted.

2.11 *Waiver of Notice.* Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

2.12 *Record Date for Stockholder Notice; Voting; Giving Consents.* In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action.

If the board of directors does not so fix a record date:

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A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

2.13 *Proxies.* Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him by a written proxy, signed by the stockholder and filed with the secretary of the corporation, but no such proxy shall be voted or acted upon after one year from its date, unless the proxy provides for a longer period. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the stockholder or the stockholder's attorney-in-fact. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the corporation generally.

ARTICLE III

DIRECTORS

3.1 *Powers.* The business and affairs of the corporation shall be managed by or under the direction of the

board of directors, except as otherwise provided in the General Corporation Law of the State of Delaware or in the certificate of incorporation.

3.2 *Number of Directors.* The board of directors shall consist of ten (10) persons until changed by a proper amendment of this Section 3.2.

No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

3.3 *Election, Qualification and Term of Office of Directors.* Except as provided in Section 3.4 of these bylaws, directors shall be elected at each annual meeting of stockholders. Directors need not be stockholders. Each director, including a director elected to fill a vacancy, shall hold office until his successor is elected and qualified or until his earlier resignation or removal.

Elections of directors need not be by written ballot.

3.4 *Resignation and Vacancies.* Any director may resign at any time upon written notice to the attention of the secretary of the corporation. When one or more directors so resigns and the resignation is effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this section in the filling of other vacancies.

Vacancies and newly created directorships resulting from any increase in the authorized number of directors elected by all of the stockholders having the right to vote as a single class may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

Whenever the holders of any class or classes of stock or series thereof are entitled to elect one or more directors by the provisions of the certificate of incorporation, vacancies and newly created directorships of such class or classes or series may be filled by a majority of the directors elected by such class or classes or series thereof then in office, or by a sole remaining director so elected.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the certificate of incorporation or these bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the General Corporation Law of Delaware.

If, at the time of filling any vacancy or any newly created directorship, the directors then in office constitute less than a majority of the whole board (as constituted immediately prior to any such increase), then the Court of Chancery may, upon application of any stockholder or stockholders holding at least ten percent (10%) of the total number of the shares at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office as aforesaid, which election shall be governed by the provisions of Section 211 of the General Corporation Law of Delaware as far as applicable.

The stockholders may elect a director at any time to fill any vacancy not filled by the directors.

If a vacancy is the result of action taken by the shareholders under Section 3.13 of these bylaws, then the vacancy shall be filled by the holders of a majority of the shares then entitled to vote at an election of directors.

3.5 *Place of Meetings; Meetings by Telephone.*

The board of directors of the corporation may hold meetings, both regular and special, either within or outside the State of Delaware.

Members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this bylaw shall constitute presence in person at the meeting.

3.6 *Regular Meetings.* Regular meetings of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by the board.

3.7 *Special Meetings; Notice.* Special meetings of the board of directors for any purpose or purposes may be called at any time by the chairman of the board, the president, any vice president, the secretary or any two directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each director or sent by first-class mail or telegram, charges prepaid, addressed to each director at that director's address as it is shown on the records of the corporation. If the notice is mailed, it shall be deposited in the United States mail at least four days before the time of the holding of the meeting. If the notice is delivered personally or by telephone or by telegram, it shall be delivered personally or by telephone or to the telegraph company at least 48 hours before the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated either to the director or to a person at the office of the director who the person giving the notice has reason to believe will promptly communicate it to the director. The notice need not specify the purpose or the place of the meeting, if the meeting is to be held at the principal executive office of the corporation.

3.8 *Quorum.* At all meetings of the board of directors, a majority of the authorized number of directors shall constitute a quorum for the transaction of business and the act

of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise

specifically provided by statute or by the certificate of incorporation. If a quorum is not present at any meeting of the board of directors, then the directors present thereat may adjourn the meeting from time to time, without notice other than the announcement at the meeting, until a quorum is present.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

3.9 *Waiver of Notice.* Whenever notice is required to be given under any provision of the General Corporation Law of Delaware or of the certificate of incorporation or these bylaws, a written waiver thereof, signed by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the directors, or members of a committee of directors, need be specified in any written waiver of notice unless so required by the certificate of incorporation or these bylaws.

3.10 *Board Action by Written Consent Without a Meeting.* Any action required or permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the board or committee.

3.11 *Fees and Compensation of Directors.* The board of directors shall have the authority to fix the compensation of directors.

3.12 *Approval of Loans to Officers.* The corporation may lend money to, or guarantee any obligations of, or otherwise assist any officer or other employee of the corporation or any of its subsidiaries, including any officer or employee who is a director of the corporation or any of its subsidiaries, whenever, in the judgment of the directors, such loan, guaranty or assistance, or an employee benefit or employee financial assistance plan adopted by the board of directors or any committee thereof authorizing any such loan, guaranty or assistance, may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest and may be unsecured, or secured in such a manner as the board of directors shall approve, including, without limitation, a pledge of shares of stock of the corporation. Nothing in this section contained shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the corporation at common law or under any statute.

3.13 *Removal of Directors.* Any director or the

entire board of directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

3.14 *Chairman of the Board of Directors.* The corporation may also have, at the discretion of the board of directors, a chairman of the board of directors who may be considered an officer of the corporation.

3.15 *Retirement of Directors.* No member of the board of directors shall stand for reelection to membership on the board of directors after attaining age 70. The provisions of Section 3.15 of these bylaws may be waived under extraordinary circumstances as to specific members by action of the board of directors.

ARTICLE IV

COMMITTEES

4.1 *Committees of Directors.* The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or

disqualification of a member of a committee, the member or members present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors, or in the bylaws of the corporation, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the certificate of incorporation (except that a committee may, to the extent authorized in the resolution or resolutions providing for the issuance of shares of stock adopted by the board of directors as provided in Section 151(a) of the General Corporation Law of Delaware, fix the designations and any of the preferences or rights of such shares relating to dividends, redemption, dissolution, any distribution of assets of the corporation or the conversion into, or the exchange of such shares for, shares of any other class or classes or any other series of the same or any other class or classes of stock of the corporation, or fix the number of shares of any series of stock or authorize the increase or decrease of the shares of any series), adopting an agreement of merger or consolidation under Sections 251 or 252 of the General Corporation Law of Delaware, recommending to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution,

or amending the bylaws of the corporation; and, unless the resolution, bylaws or certificate of incorporation expressly so provides, no such committee shall have the power or authority to declare a dividend, to authorize the issuance of stock, or to adopt a certificate of ownership and merger pursuant to Section 253 of the General Corporation Law of Delaware.

4.2 *Committee Minutes.* Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

4.3 *Meetings and Action of Committees.* Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of Article III of these bylaws, Section 3.5 (place of meetings and meetings by telephone), Section 3.6 (regular meetings), Section 3.7 (special meetings and notice), Section 3.8 (quorum), Section 3.9 (waiver of notice), and Section 3.10 (action without a meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the board of directors and its members; provided, however, that the time of regular meetings of committees may be determined either by resolution of the board of directors or by resolution of the committee, that special meetings of committees may also be called by resolution of the board of directors and that notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The board of directors may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws.

ARTICLE V

OFFICERS

5.1 *Officers.* The officers of the corporation shall be a president, a chief financial officer (who may be a vice president or treasurer of the corporation) and a secretary. The corporation may also have, at the discretion of the board of directors, a chairman of the board of directors, one or more senior vice presidents and one or more other officers. One or more officers may be appointed in accordance with the provisions of Section 5.3 of these bylaws. Any number of offices may be held by the same person.

5.2 *Election of Officers.* The officers of the corporation, except such officers as may be appointed in accordance with the provisions of Sections 5.3 or 5.5 of these bylaws, shall be elected by the board of directors.

5.3 *Appointed Officers.* The chief executive officer of the corporation, or such other officer as the board of directors shall select, may appoint, or the board of directors may appoint, such officers and agents of the corporation as, in his or their judgment, are necessary to conduct the business of the corporation. Each such officer shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the board of directors or the chief executive officer may from time to time determine.

5.4 *Removal and Resignation of Officers.* Any

officer may be removed, either with or without cause, by an affirmative vote of the majority of the board of directors at any regular or special meeting of the board or, except in the case of an officer elected by the board of directors, by the chief executive officer or such other officer upon whom such power of removal may be conferred by the board of directors.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice; and, unless otherwise specified in that notice, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

5.5 *Vacancies in Offices.* Any vacancy occurring in any office of the corporation shall be filled by the board of directors, except for vacancies in the offices of subordinate officers which may be filled pursuant to Section 5.3 hereof.

5.6 *Chairman of the Board.* The chairman of the board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and the stockholders and exercise and perform such other powers and duties as may be from time to time assigned by the board of directors or prescribed by the bylaws.

5.7 *President.* Subject to such supervisory powers, if any, as may be given by the board of directors to the chairman of the board, the president shall be the chief executive officer of the corporation and shall, subject to the control of the board of directors, have general supervision, direction, and control of the business and the officers of the corporation. In the absence or nonexistence of a chairman of the board, he shall preside at all meetings of the stockholders and at all meetings of the board of directors. He shall have the general powers and duties of management usually vested in the office of president of a corporation and shall have such other powers and duties as may be prescribed by the board of directors or these bylaws.

5.8 *Senior Vice Presidents and Vice Presidents.* In the absence or disability of the president, the vice presidents, if any, in order of their rank as fixed by the board of directors or, if not ranked, a vice president designated by the board of directors, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the board of directors, these bylaws, the president or the chairman of the board.

5.9 *Secretary.* The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the board of directors may direct, a book of minutes of all meetings and actions of directors, committees of directors, and stockholders. The minutes shall show the time and place of each meeting, the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings, and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the board of directors, a share register, or a duplicate shareregister, showing the names of all stockholders

and their addresses, the number and classes of shares held by each, the number and date of certificates evidencing such shares, and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the board of directors required to be given by law or by these bylaws. He shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the board of directors or by these bylaws.

5.10 *Chief Financial Officer.* The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital retained earnings, and shares. The books of account shall at all reasonable times be open to inspection by any director.

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The chief financial officer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the board of directors.

He shall disburse the funds of the corporation as may be ordered by the board of directors, shall render to the president and directors, whenever they request it, an account of all his transactions as chief financial officer and of the financial condition of the corporation, and shall have other powers and perform such other duties as may be prescribed by the board of directors or the bylaws.

5.11 *Representation of Shares of Other Corporations.* The chairman of the board, the president, any vice president, the treasurer, the secretary or assistant secretary of this corporation, or any other person authorized by the board of directors or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

5.12 *Authority and Duties of Officers.* In addition to the foregoing authority and duties, all officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be designated from time to time by the board of directors.

ARTICLE VI

RECORDS AND REPORTS

6.1 *Maintenance and Inspection of Records.* The corporation shall, either at its principal executive offices or at such place or places as designated by the board of directors, keep a record of its stockholders listing their names and

addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books, and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal place of business.

6.2 *Inspection by Directors.* Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders, and its other books and records for a purpose reasonably related to his position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

ARTICLE VII

GENERAL MATTERS

7.1 *Execution of Corporate Contracts and Instruments.* The board of directors, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the board of directors or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

7.2 *Stock Certificates; Partly Paid Shares.* The shares of a corporation shall be represented by certificates, provided that the board of directors of the corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the board of directors, every holder of stock represented by certificates and upon request every holder of uncertificated shares shall be entitled to have a certificate signed by, or in the name of the corporation by the chairman or vice-chairman of the board of directors, or the president or vice president, and

by the chief financial officer, the treasurer, or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, or upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

7.3 Special Designation on Certificates. If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

7.4 Lost Certificates. The corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or his legal representative to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertified shares.

7.5 Construction; Definitions. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the Delaware General Corporation Law shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

7.6 Dividends. The directors of the corporation, subject to any restrictions contained in the General Corporation Law of Delaware or the certificate of incorporation, may declare and pay dividends upon the shares of its capital stock. Dividends may be paid in cash, in property, or in shares of the corporation's capital stock.

The directors of the corporation may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve.

7.7 *Fiscal Year.* The fiscal year of the corporation shall be fixed by resolution of the board of directors and may be changed by the board of directors.

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7.8 *Seal.* The board of directors may adopt a corporate seal, and may use the same by causing it or a facsimile thereof, to be impressed or affixed or in any other manner reproduced.

ARTICLE VIII

AMENDMENTS

8.1 *Amendments.* The bylaws of the corporation may be altered, amended or repealed or new bylaws may be adopted by either the (i) board of directors or (ii) stockholders upon the affirmative vote of the holders of not less than a majority of the total voting power of all issued and outstanding shares of stock in this corporation entitled to vote thereon.

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INDEMNIFICATION AGREEMENT

INDEMNIFICATION AGREEMENT (this "Agreement"), made as of this

_____ day of

_____, 1999, by and between Applied Materials, Inc., a Delaware corporation (the "Company"), and

_____ (the "Indemnitee"), a director of the Company.

WHEREAS, the Indemnitee is currently serving as a director of the Company and in such capacity has rendered and will render valuable services to the Company;

WHEREAS, the Company has investigated the availability and sufficiency of directors' and officers' liability insurance and Delaware statutory indemnification provisions to provide its directors and officers with adequate protection against various legal risks and potential liabilities to which such individuals are subject due to their positions with the Company and the Company has concluded that such insurance and statutory provisions may provide inadequate and unacceptable protection to certain individuals requested to serve as its directors and officers; and

WHEREAS, in order to induce and encourage highly experienced and capable persons such as the Indemnitee to continue to serve as directors of the Company, the Board of Directors has determined, after due consideration and investigation of the terms and provisions of this Agreement and the various other alternatives available to the Company and the Indemnitee in lieu hereof, that this Agreement is not only reasonable and prudent, but necessary to promote and ensure the best interests of the Company and its stockholders;

NOW, THEREFORE, in consideration of the premises and mutual agreements hereinafter set forth, and other good and valuable consideration, including, without limitation, the continued service of the Indemnitee, the receipt of which hereby is acknowledged, and in order to induce the Indemnitee to continue to serve as a director of the Company, the Company and the Indemnitee hereby agree as follows:

1. *Definitions.* As used in this Agreement:

(i) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(ii) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

(a) "Change in Control" shall mean a change in control of the Company of a nature that would be required to be reported in response to Item 5(f) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar or successor schedule or form) promulgated under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (collectively, the "Act"), whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred (irrespective of the applicability of the initial clause of this definition) if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Act, but excluding any trustee or other fiduciary holding securities pursuant to an employee benefit or welfare plan or employee stock plan of the Company or any subsidiary of the Company, or any entity organized, appointed, established or holding securities of the Company with voting power for or pursuant to the terms of any such plan) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities without the prior approval of at least two-thirds of the Continuing Directors (as defined below) in office immediately prior to such person's attaining such interest; (ii) the Company is a party to a merger, consolidation, sale of assets or other reorganization, or a proxy contest, as a consequence of which Continuing Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors of the Company (or any successor entity) thereafter; or (iii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Company (including for this purpose any new director whose election or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period) (such directors being referred to herein as "Continuing Directors") cease for any reason to constitute at least a majority of the Board of Directors of the Company.

(b) "Disinterested Director" with respect to any request by the Indemnitee for indemnification or advancement of expenses hereunder shall mean a director of the Company who neither is nor was a party to the Proceeding (as defined below) in respect of which indemnification or advancement is being sought by the Indemnitee.

(c) The term "Expenses" shall mean, without limitation, expenses of Proceedings, including attorneys' fees, disbursements and retainers, accounting and witness fees, expenses related to the preparation or service as a witness, travel and deposition costs, expenses of investigations, judicial or administrative proceedings and appeals, amounts paid in settlement of a Proceeding by or on behalf of the Indemnitee, costs of attachment or similar bonds, any expenses of attempting to establish or establishing a right to indemnification or advancement of expenses, under this Agreement, the Company's Certificate of Incorporation or Bylaws, applicable law or otherwise, and reasonable compensation for time spent by the Indemnitee in connection with the investigation, defense or appeal of a Proceeding or action for indemnification for which the Indemnitee is not otherwise compensated by the Company or any third party. The term "Expenses" shall not include the amount of judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, which are actually levied against or sustained by the Indemnitee to the extent sustained after final adjudication.

(d) The term "Independent Legal Counsel" shall mean any firm of attorneys selected by lot from a list consisting of firms which meet minimum size criteria and other reasonable criteria established by the Board of Directors of the Company, so long as such firm has not represented the Company, the Indemnitee, any entity controlled by the Indemnitee, or any party adverse to the Company, within the preceding five years. Notwithstanding the foregoing, the term "Independent Legal Counsel" shall not include any person who, under applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or the Indemnitee in an action to determine the Indemnitee's right to indemnification or advancement of expenses under this Agreement, the Company's Certificate of Incorporation or Bylaws, applicable law or otherwise.

(e) The term "Proceeding" shall mean any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, or any other proceeding (including, without limitation, an appeal therefrom), formal or informal, whether brought in the name of the Company or otherwise, whether of a civil, criminal, administrative or investigative nature, and whether by, in or involving a court or an administrative, other governmental or private entity or body (including, without limitation, an investigation by the Company or its Board of Directors), by reason of (i) the fact that the Indemnitee is or was a director of the Company, or is or was serving at the request of the Company as an agent of another enterprise, whether or not the Indemnitee is serving in such capacity at the time any liability or expense is incurred for which indemnification or reimbursement is to be provided under this Agreement, (ii) any actual or alleged act or omission or neglect or breach of duty, including, without limitation, any actual or alleged error or misstatement or misleading statement, which the Indemnitee commits or suffers while acting in any such capacity, or (iii) the

Indemnitee attempting to establish or establishing a right to indemnification or advancement of expenses pursuant to this Agreement, the Company's Certificate of Incorporation or Bylaws, applicable law or otherwise.

(f) The phrase "serving at the request of the Company as an agent of another enterprise" or any similar terminology shall mean, unless the context otherwise requires, (i) serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, limited liability company, trust, employee benefit or welfare plan or other enterprise, foreign or domestic, and (ii) serving as a director, officer, employee or agent of a corporation which was a predecessor corporation of the Company or of another enterprise at the request of such predecessor corporation. The phrase "serving at the request of the Company" shall include, without limitation, any service as a director or officer of the Company which imposes duties on, or involves services by, such director or officer with respect to the Company or any of the Company's subsidiaries, affiliates, employee benefit or welfare plans, such plan's participants or beneficiaries or any other enterprise, foreign or domestic. In the event that the Indemnitee shall be a director, officer, employee or agent of another corporation, partnership, joint venture, limited liability company, trust, employee benefit or welfare plan or other enterprise, foreign

2. *Services by the Indemnitee.* The Indemnitee agrees to continue to serve as a director of the Company at the will of the Company for so long as the Indemnitee is duly elected and qualified, appointed or until such time as the Indemnitee tenders a resignation in writing or is removed as a director; provided, however, that the Indemnitee may at any time and for any reason resign from such position (subject to any other contractual obligation or other obligation imposed by operation of the law).

3. *Proceeding Other Than a Proceeding By or In the Right of the Company.* The Company shall indemnify the Indemnitee if the Indemnitee is a party to or threatened to be made a party to or is otherwise involved in any Proceeding (other than a Proceeding by or in the right of the Company to procure a judgment in its favor), by reason of the fact that the Indemnitee is or was a director of the Company, or is or was serving at the request of the Company as an agent of another enterprise, against all Expenses, judgments, fines, interest or penalties, and excise taxes assessed with respect to any employee benefit or welfare plan, which are actually and reasonably incurred by the Indemnitee in connection with such a Proceeding, to the fullest extent permitted by applicable law; provided, however, that any settlement of a Proceeding must be approved in advance in writing by the Company.

4. *Proceedings By or In the Right of the Company.* The Company shall indemnify the Indemnitee if the Indemnitee is a party to or threatened to be made a party to or is otherwise involved in any Proceeding by or in the right of the Company to procure a judgment in its favor by reason of the fact that the Indemnitee is or was a director of the Company, or is or was serving at the request of the Company as an agent of another enterprise, against all Expenses, judgments, fines, interest or penalties, and excise taxes assessed with respect to any employee benefit or welfare plan, which are actually and reasonably incurred by the Indemnitee in connection with the defense or settlement of such a Proceeding, to the fullest extent permitted by applicable law.

5. *Indemnification for Costs, Charges and Expenses of Witness or Successful Party.* Notwithstanding any other provision of this Agreement (except as set forth in subparagraph 9(a) hereof), and without a requirement for determination as required by Paragraph 8 hereof, to the extent that the Indemnitee (a) has prepared to serve or has served as a witness in any Proceeding in any way relating to the Company or any of the Company's subsidiaries, affiliates, employee benefit or welfare plans, such plan's participants or beneficiaries or any other enterprise, foreign or domestic, or anything done or not done by the Indemnitee as a director of the Company, as a director, officer, employee or agent of another corporation, partnership, joint venture, limited liability company, trust, employee benefit or welfare plan or other enterprise, foreign or domestic, or as a director, officer, employee or agent of a corporation which was a predecessor corporation of the Company or of another enterprise, at the request of such predecessor

corporation, or (b) has been successful in defense of any Proceeding or in defense of any claim, issue or matter therein, on the merits or otherwise, including the dismissal of a Proceeding without prejudice or the settlement of a Proceeding without an admission of liability, the Indemnatee shall be indemnified against all Expenses actually and reasonably incurred by the Indemnatee in connection therewith to the fullest extent permitted by applicable law.

6. *Partial Indemnification.* If the Indemnatee is entitled under any provision of this Agreement to indemnification by the Company for a portion of the Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, which are actually and reasonably incurred by the Indemnatee in the investigation, defense, appeal or settlement of any Proceeding, but not, however, for the total amount of the Indemnatee's Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, then the Company shall nevertheless indemnify the Indemnatee for the portion of such Expenses, judgments, fines, interest penalties or excise taxes to which the Indemnatee is entitled.

7. *Advancement of Expenses.* The Expenses incurred by the Indemnatee in any Proceeding shall be paid promptly by the Company in advance of the final disposition of the Proceeding at the written request of the Indemnatee to the fullest extent permitted by applicable law; *provided, however,* that the Indemnatee shall

set forth in such request reasonable evidence that such Expenses have been incurred by the Indemnatee in connection with such Proceeding, a statement that such Expenses do not relate to any matter described in subparagraph 9(a) of this Agreement, and an undertaking in writing to repay any advances if it is ultimately determined as provided in subparagraph 8(b) of this Agreement that the Indemnatee is not entitled to indemnification under this Agreement.

8. *Indemnification Procedure; Determination of Right to Indemnification.*

(a) Promptly after receipt by the Indemnatee of notice of the commencement of any Proceeding, the Indemnatee shall, if a claim for indemnification or advancement of Expenses in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof in writing. The omission to so notify the Company will not relieve the Company from any liability which the Company may have to the Indemnatee under this Agreement unless the Company shall have lost significant substantive or procedural rights with respect to the defense of any Proceeding as a result of such omission to so notify.

(b) The Indemnatee shall be conclusively presumed to have met the relevant standards of conduct, if any, as defined by applicable law, for indemnification pursuant to this Agreement and shall be absolutely entitled to such indemnification, unless a determination by clear and convincing evidence is made that the Indemnatee has not met such standards by (i) the Board of Directors by a majority vote of a quorum thereof consisting of Disinterested Directors, (ii) the stockholders of the Company by majority vote of a quorum thereof consisting of

stockholders who are not parties to the Proceeding due to which a claim for indemnification is made under this Agreement, (iii) Independent Legal Counsel as set forth in a written opinion (it being understood that such Independent Legal Counsel shall make such determination only if the quorum of Disinterested Directors referred to in clause (i) of this subparagraph 8(b) is not obtainable or if the Board of Directors of the Company by a majority vote of a quorum thereof consisting of Disinterested Directors so directs), or (iv) a court of competent jurisdiction; *provided, however*, that if a Change of Control shall have occurred and the Indemnitee so requests in writing, such determination shall be made only by a court of competent jurisdiction.

(c) If a claim for indemnification or advancement of Expenses under this Agreement is not paid by the Company within 30 days after receipt by the Company of written notice thereof, the rights provided by this Agreement shall be enforceable by the Indemnitee in any court of competent jurisdiction. Such judicial proceeding shall be made *de novo*. The burden of proving by clear and convincing evidence that indemnification or advances are not appropriate shall be on the Company. Neither the failure of the directors or stockholders of the Company or Independent Legal Counsel to have made a determination prior to the commencement of such action that indemnification or advancement of Expenses is proper in the circumstances because the Indemnitee has met the applicable standard of conduct, if any, nor an actual determination by the directors or stockholders of the Company or Independent Legal Counsel that the Indemnitee has not met the applicable standard of conduct shall be a defense to an action by the Indemnitee or create a presumption for the purpose of such an action that the Indemnitee has not met the applicable standard of conduct. The termination of any Proceeding by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself (i) create a presumption that the Indemnitee did not act in good faith and in a manner which he reasonably believed to be in the best interests of the Company and/or its stockholders, and, with respect to any criminal Proceeding, that the Indemnitee had reasonable cause to believe that his conduct was unlawful or (ii) otherwise adversely affect the rights of the Indemnitee to indemnification or advancement of Expenses under this Agreement, except as may be provided herein. The Company shall not oppose the Indemnitee's right or entitlement to indemnification or advancement of Expenses in any such judicial proceeding or appeal therefrom. The Company further agrees to stipulate in any such judicial proceeding that the Company is bound by all the provisions of this Agreement and is precluded from making any assertion to the contrary.

(d) If a court of competent jurisdiction shall determine that the indemnitee is entitled to any indemnification or advancement of Expenses hereunder, the Company shall pay all Expenses actually and reasonably incurred by the Indemnitee in connection with such adjudication (including, but not limited to, any appellate proceedings). The Indemnitee's Expenses incurred in connection with any Proceeding concerning

the Indemnitee's right to indemnification or advancement of Expenses in whole or in part pursuant to this Agreement shall also be indemnified by the Company, regardless of the outcome of such a Proceeding, to the fullest extent permitted by applicable law and the Company's Certificate of Incorporation, as amended.

(e) With respect to any Proceeding for which

indemnification or advancement of Expenses is requested, the Company will be entitled to participate therein at its own expense and, except as otherwise provided below, to the extent that it may wish, the Company may assume the defense thereof, with counsel reasonably satisfactory to the Indemnitee. After notice from the Company to the Indemnitee of its election to assume the defense of a Proceeding, the Company will not be liable to the Indemnitee under this Agreement for any Expenses subsequently incurred by the Indemnitee in connection with the defense thereof, other than as provided below. The Company shall not settle any Proceeding in any manner which would impose any penalty or limitation on the Indemnitee without the Indemnitee's written consent. The Indemnitee shall have the right to employ his own counsel in any Proceeding, but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense of the Proceeding shall be at the expense of the Indemnitee, unless (i) the employment of counsel by the Indemnitee has been authorized by the Company, (ii) the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and the Indemnitee in the conduct of the defense of a Proceeding, or (iii) the Company shall not in fact have employed counsel to assume the defense of a proceeding, in each of which cases the fees and expenses of the Indemnitee's counsel shall be advanced by the Company. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or as to which the Indemnitee has concluded that there may be a conflict of interest between the Company and the Indemnitee.

9. *Limitations on Indemnification.* No payments pursuant to this Agreement shall be made by the Company:

or domestic, 40% or more of the common stock, combined voting power or total equity interest of which is owned by the Company or any subsidiary or affiliate thereof, then it shall be presumed conclusively that the Indemnitee is so acting at the request of the Company.

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10. *Continuation of Indemnification.* All agreements and obligations of the Company contained herein shall continue during the period that the Indemnitee is a director of the Company (or is or was serving at the request of the Company as an agent of another enterprise, foreign or domestic) and shall continue thereafter so long as the Indemnitee shall be subject to any possible Proceeding by reason of the fact that the Indemnitee was a director of the Company or serving in any other capacity referred to in this Paragraph 10.

11. *Indemnification Hereunder Not Exclusive.* The indemnification provided by this Agreement shall not be deemed to be exclusive of any other rights to which the Indemnitee may be entitled under the Company's Certificate of Incorporation, as amended, the Company's Bylaws, as amended, any agreement, vote of stockholders or vote of Disinterested Directors, provisions of applicable law, or otherwise, both as to action or omission in the Indemnitee's official capacity and as to action or omission in another capacity on behalf of the Company while holding such office.

12. *Extension of Indemnification Rights to Indemnitee's Associates.* If the Indemnitee is a party to or threatened to be made a party to or is otherwise involved in any Proceeding by reason of the fact that the Indemnitee is or was a director of the Company, and if any Associate of the "Indemnitee" (as defined in Rule 12b-2 under the Act) is also involved in

such Proceeding primarily as a result of actions taken or omitted by the Indemnatee as a director of the Company or while serving at the request of the Company as an agent of another enterprise, foreign or domestic, such Associate of the Indemnatee shall also be entitled to indemnification under this Agreement in the same manner as the Indemnatee, but only to the extent that the claims against such Associate are based upon or directly attributable to actions taken or omitted by the Indemnatee.

13. *Successors and Assigns.*

(a) This Agreement shall be binding upon, and shall inure to the benefit of, the Indemnatee and the Indemnatee's heirs, executors, administrators and assigns, whether or not the Indemnatee has ceased to be a director, and the Company and its successors and assigns. Upon the sale of all or substantially all of the business, assets or capital stock of the Company to, or upon the merger of the Company into or with, any corporation, partnership, joint venture, trust or other person, this Agreement shall inure to the benefit of and be binding upon both the Indemnatee and such purchaser or successor person. Subject to the foregoing, this Agreement may not be assigned by either party without the prior written consent of the other party hereto.

(b) If the Indemnatee is deceased and is entitled to indemnification under any provision of this Agreement, the Company shall indemnify the Indemnatee's estate and the Indemnatee's spouse, heirs, executors, administrators and assigns against, and the Company shall, and does hereby agree to assume, any and all Expenses actually and reasonably incurred by or for the Indemnatee or the Indemnatee's estate, in connection with the investigation, defense, appeal or settlement of any Proceeding. Further, when requested in writing by the spouse of the Indemnatee, and/or the Indemnatee's heirs, executors, administrators and assigns, the Company shall provide appropriate evidence of the Company's agreement set out herein to indemnify the Indemnatee against and to itself assume such Expenses.

14. *Subrogation.* In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnatee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

15. *Severability.* Each and every paragraph, sentence, term and provision of this Agreement is separate and distinct so that if any paragraph, sentence, term or provision thereof shall be held to be invalid, unlawful or unenforceable for any reason, such invalidity, unlawfulness or unenforceability shall not affect the validity, unlawfulness or enforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this Agreement may be modified by a court of competent jurisdiction to preserve its validity and to provide the Indemnatee with the broadest possible indemnification permitted under applicable law.

16. *Savings Clause.* If this Agreement or any paragraph, sentence, term or provision hereof is invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify the Indemnatee as to any Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect

to any employee benefit or welfare plan, which are incurred with respect to any Proceeding to the fullest extent permitted by any (a) applicable paragraph, sentence, term or provision of this Agreement that has not been invalidated or (b) applicable provision of Delaware law.

17. *Interpretation; Governing Law.* This Agreement shall be construed as a whole and in accordance with its fair meaning. Headings are for convenience only and shall not be used in construing meaning. This Agreement shall be governed and interpreted in accordance with the laws of the State of Delaware without regard to the conflict of laws principles thereof.

18. *Amendments.* No amendment, waiver, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by the party against whom enforcement is sought. The indemnification rights afforded to the Indemnitee hereby are contract rights and may not be diminished, eliminated or otherwise affected by amendments to the Certificate of Incorporation, Bylaws or by other agreements, including directors' and officers' liability insurance policies, of the Company.

19. *Counterparts.* This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each party and delivered to the other.

20. *Notices.* Any notice required to be given under this Agreement shall be directed to Applied Materials, Inc., 2881 Scott Boulevard M/ S 2064, Santa Clara, California 95050, Attention: Vice President, Legal Affairs and Intellectual Property, and to the Indemnitee at Applied Materials, Inc., 3050 Bowers Avenue M/ S 2064, Santa Clara, California 95054 or to such other address as either shall designate to the other in writing.

IN WITNESS WHEREOF, the parties have executed this Indemnification Agreement as of the date first written above.

(a) To indemnify or advance funds to the Indemnitee for Expenses with respect to (i) Proceedings initiated or brought voluntarily by the Indemnitee and not by way of defense, except with respect to Proceedings brought to establish or enforce a right to indemnification under this Agreement or any other statute or law or otherwise as required under applicable law or (ii) Expenses incurred by the Indemnitee in connection with preparing to serve or serving, prior to a Change in Control, as a witness in cooperation with any party or entity who or which has threatened or commenced any action or proceeding against the Company, or any director, officer, employee, trustee, agent, representative, subsidiary, parent corporation or affiliate of the Company, but such indemnification or advancement of Expenses in each such case may be provided by the Company if the Board of Directors finds it to be appropriate;

(b) To indemnify the Indemnitee for any Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, and sustained in any Proceeding for which payment is actually made to the Indemnitee under a valid and collectible insurance policy, except in respect of any excess beyond the amount of payment under such insurance;

(c) To indemnify the Indemnitee for any Expenses, judgments, fines, expenses or penalties sustained in any Proceeding for an accounting of profits made from the purchase or sale by the Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Act or similar provisions of any federal, state or local statute or regulation;

(d) To indemnify the Indemnitee for any Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, for which the Indemnitee is indemnified by the Company otherwise than pursuant to this Agreement;

(e) To indemnify the Indemnitee for any Expenses, judgments, fines, interest or penalties, or

excise taxes assessed with respect to any employee benefit or welfare plan, on account of the Indemnitee's conduct if such conduct shall be finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct, including, without limitation, breach of the duty of loyalty; or

(f) If a court of competent jurisdiction finally determines that any indemnification hereunder is unlawful.

INDEMNITEE

Name:

APPLIED MATERIALS, INC.

INDEMNIFICATION AGREEMENT

INDEMNIFICATION AGREEMENT (this "Agreement"), made as of this

_____ day of

_____, 1999, by and between Applied Materials, Inc., a Delaware corporation (the "Company"), and

_____ (the "Indemnitee"), a director and officer of the Company.

WHEREAS, the Indemnitee is currently serving as a director and officer of the Company and in such capacity has rendered and will render valuable services to the Company;

WHEREAS, the Company has investigated the availability and sufficiency of directors' and officers' liability insurance and Delaware statutory indemnification provisions to provide its directors and officers with adequate protection against various legal risks and potential liabilities to which such individuals are subject due to their positions with the Company and the Company has concluded that such insurance and statutory provisions may provide inadequate and unacceptable protection to certain individuals requested to serve as its directors and officers; and

WHEREAS, in order to induce and encourage highly experienced and capable persons such as the Indemnitee to continue to serve as directors and officers of the Company, the Board of Directors has determined, after due consideration and investigation of the terms and provisions of this Agreement and the various other alternatives available to the Company and the Indemnitee in lieu hereof, that this Agreement is not only reasonable and prudent, but necessary to promote and ensure the best interests of the Company and its stockholders;

NOW, THEREFORE, in consideration of the premises and mutual agreements hereinafter set forth, and other good and valuable consideration, including, without limitation, the continued service of the Indemnitee, the receipt of which hereby is acknowledged, and in order to induce the Indemnitee to continue to serve as a director and officer of the Company, the Company and the Indemnitee hereby agree as follows:

1. *Definitions.* As used in this Agreement:

By:

Name:
Title:

(a) "Change in Control" shall mean a change in control of the Company of a nature that would be required to be reported in response to Item 5(f) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar or successor schedule or form) promulgated under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (collectively, the "Act"), whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred (irrespective of the applicability of the initial clause of this definition) if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Act, but excluding any trustee or other fiduciary holding securities pursuant to an employee benefit or welfare plan or employee stock plan of the Company or any subsidiary of the Company, or any entity organized, appointed, established or holding securities of the Company with voting power for or pursuant to the terms of any such plan) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities without the prior approval of at least two-thirds of the Continuing Directors (as defined below) in office immediately prior to such person's attaining such interest; (ii) the Company is a party to a merger, consolidation, sale of assets or other reorganization, or a proxy contest, as a consequence of which Continuing Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors of the Company (or any successor entity) thereafter; or (iii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Company (including for this purpose any new director whose election or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period) (such directors being referred to herein as "Continuing Directors") cease for any reason to constitute at least a majority of the Board of Directors of the Company.

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(b) "Disinterested Director" with respect to any request by the Indemnitee for indemnification or advancement of expenses hereunder shall mean a director of the Company who neither is nor was a party to the Proceeding (as defined below) in respect of which indemnification or advancement is being sought by the Indemnitee.

(c) The term "Expenses" shall mean, without limitation, expenses of Proceedings, including attorneys' fees, disbursements and retainers, accounting and witness fees, expenses related to the preparation or service as a witness, travel and deposition costs, expenses of investigations, judicial or administrative proceedings and appeals, amounts paid in settlement of a Proceeding by or on behalf of the Indemnitee, costs of attachment or similar bonds, any expenses of attempting to establish or establishing a right to indemnification or advancement of expenses, under this Agreement, the Company's Certificate of Incorporation or Bylaws, applicable law or otherwise, and reasonable compensation for time spent by the Indemnitee in connection with the investigation, defense or appeal of a Proceeding or action for indemnification for which the Indemnitee is not otherwise compensated by the Company or any third party. The term "Expenses" shall not include the amount of judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, which are actually levied against or sustained by the Indemnitee to the extent sustained after final adjudication.

(d) The term "Independent Legal Counsel" shall mean any firm of attorneys selected by lot from a list consisting of firms which meet minimum size criteria and other reasonable criteria established by the Board of Directors of the Company, so long as such firm has not represented the Company, the Indemnitee, any entity controlled by the Indemnitee, or any party adverse to the Company, within the preceding five years. Notwithstanding the foregoing, the term "Independent Legal Counsel" shall not include any person who, under applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or the Indemnitee in an action to determine the Indemnitee's right to indemnification or advancement of expenses under this Agreement, the Company's Certificate of Incorporation or Bylaws, applicable law or otherwise.

(e) The term "Proceeding" shall mean any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, or any other proceeding (including, without limitation, an appeal therefrom), formal or informal, whether brought in the name of the Company or otherwise, whether of a civil, criminal, administrative or investigative nature, and whether by, in or involving a court or an administrative, other governmental or private entity or body (including, without limitation, an investigation by the Company or its Board of Directors), by reason of (i) the fact that the Indemnitee is or was a director or officer of the Company, or is or was serving at the request of the Company as an agent of another enterprise, whether or not the Indemnitee is serving in such capacity at the time any liability or expense is incurred for which indemnification or reimbursement is to be provided under this Agreement, (ii) any actual or alleged act or omission or neglect or breach of duty, including, without limitation, any actual or alleged error or misstatement or misleading statement, which the Indemnitee commits or suffers while acting in any such capacity, or (iii) the Indemnitee attempting to establish or establishing a right to indemnification or advancement

of expenses pursuant to this Agreement, the Company's Certificate of Incorporation or Bylaws, applicable law or otherwise.

(f) The phrase "serving at the request of the Company as an agent of another enterprise" or any similar terminology shall mean, unless the context otherwise requires, (i) serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, limited liability company, trust, employee benefit or welfare plan or other enterprise, foreign or domestic, and (ii) serving as a director, officer, employee or agent of a corporation which was a predecessor corporation of the Company or of another enterprise at the request of such predecessor corporation. The phrase "serving at the request of the Company" shall include, without limitation, any service as a director or officer of the Company which imposes duties on, or involves services by, such director or officer with respect to the Company or any of the Company's subsidiaries, affiliates, employee benefit or welfare plans, such plan's participants or beneficiaries or any other enterprise, foreign or domestic. In the event that the Indemnitee shall be a director, officer, employee or agent of another corporation, partnership, joint venture, limited liability company, trust, employee benefit or welfare plan or other enterprise, foreign

2. *Services by the Indemnitee.* The Indemnitee agrees to continue to serve as a director and officer of the Company at the will of the Company for so long as the Indemnitee is duly elected and qualified, appointed or until such time as the Indemnitee tenders a resignation in writing or is removed as a director or officer; *provided, however,* that the Indemnitee may at any time and for any reason resign from either or both of such positions (subject to any other contractual obligation or other obligation imposed by operation of law).

3. *Proceeding Other Than a Proceeding By or In the Right of the Company.* The Company shall indemnify the Indemnitee if the Indemnitee is a party to or threatened to be made a party to or is otherwise involved in any Proceeding (other than a Proceeding by or in the right of the Company to procure a judgment in its favor), by reason of the fact that the Indemnitee is or was a director or officer of the Company, or is or was serving at the request of the Company as an agent of another enterprise, against all Expenses, judgments, fines, interest or penalties, and excise taxes assessed with respect to any employee benefit or welfare plan, which are actually and reasonably incurred by the Indemnitee in connection with such a Proceeding, to the fullest extent permitted by applicable law; *provided, however,* that any settlement of a Proceeding must be approved in advance in writing by the Company.

4. *Proceedings By or In the Right of the Company.* The Company shall indemnify the Indemnitee if the Indemnitee is a party to or threatened to be made a party to or is otherwise involved in any Proceeding by or in the right of the Company to procure a judgment in its favor by reason of the fact that the Indemnitee is or was a director or officer of the Company, or is or was serving at the request of the Company as an agent of another enterprise, against all Expenses, judgments, fines, interest or penalties, and excise taxes assessed with respect to any employee benefit or welfare plan, which are actually and reasonably incurred by the Indemnitee in connection with the defense or settlement of such a Proceeding, to the fullest extent permitted by applicable law.

5. *Indemnification for Costs, Charges and Expenses of Witness or Successful Party.* Notwithstanding any other provision of this Agreement (except as set forth in subparagraph 9(a) hereof), and without a requirement for determination as required by Paragraph 8 hereof, to the extent that the Indemnitee (a) has prepared to serve or has served as a witness in any Proceeding in any way relating to the Company or any of the Company's subsidiaries, affiliates, employee benefit or welfare plans, such plan's participants or beneficiaries or any other enterprise, foreign or domestic, or anything done or not done by the Indemnitee as a director or officer of the Company, as a director, officer, employee or agent of another corporation, partnership, joint venture, limited liability company, trust, employee benefit or welfare plan or other enterprise, foreign or domestic, or as a director, officer, employee or agent of a corporation which was a predecessor corporation of the Company or of another enterprise, at the request of such predecessor corporation, or (b) has been

successful in defense of any Proceeding or in defense of any claim, issue or matter therein, on the merits or otherwise, including the dismissal of a Proceeding without prejudice or the settlement of a Proceeding without an admission of liability, the Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by the Indemnitee in connection therewith to the fullest extent permitted by applicable law.

6. *Partial Indemnification.* If the Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for a portion of the Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, which are actually and reasonably incurred by the Indemnitee in the investigation, defense, appeal or settlement of any Proceeding, but not, however, for the total amount of the Indemnitee's Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, then the Company shall nevertheless indemnify the Indemnitee for the portion of such Expenses, judgments, fines, interest penalties or excise taxes to which the Indemnitee is entitled.

7. *Advancement of Expenses.* The Expenses incurred by the Indemnitee in any Proceeding shall be paid promptly by the Company in advance of the final disposition of the Proceeding at the written request of the Indemnitee to the fullest extent permitted by applicable law; *provided, however,* that the Indemnitee shall

set forth in such request reasonable evidence that such Expenses have been incurred by the Indemnitee in connection with such Proceeding, a statement that such Expenses do not relate to any matter described in subparagraph 9(a) of this Agreement, and an undertaking in writing to repay any advances if it is ultimately determined as provided in subparagraph 8(b) of this Agreement that the Indemnitee is not entitled to indemnification under this Agreement.

8. *Indemnification Procedure; Determination of Right to Indemnification.*

(a) Promptly after receipt by the Indemnitee of notice of the commencement of any Proceeding, the Indemnitee shall, if a claim for indemnification or advancement of Expenses in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof in writing. The omission to so notify the Company will not relieve the Company from any liability which the Company may have to the Indemnitee under this Agreement unless the Company shall have lost significant substantive or procedural rights with respect to the defense of any Proceeding as a result of such omission to so notify.

(b) The Indemnitee shall be conclusively presumed to have met the relevant standards of conduct, if any, as defined by applicable law, for indemnification pursuant to this Agreement and shall be absolutely entitled to such indemnification, unless a determination by clear and convincing evidence is made that the Indemnitee has not met such standards by (i) the Board of Directors by a majority vote of a quorum thereof consisting of Disinterested Directors, (ii) the stockholders of the Company by majority vote of a quorum thereof consisting of stockholders who are not parties to the Proceeding due to which a

claim for indemnification is made under this Agreement, (iii) Independent Legal Counsel as set forth in a written opinion (it being understood that such Independent Legal Counsel shall make such determination only if the quorum of Disinterested Directors referred to in clause (i) of this subparagraph 8(b) is not obtainable or if the Board of Directors of the Company by a majority vote of a quorum thereof consisting of Disinterested Directors so directs), or (iv) a court of competent jurisdiction; provided, however, that if a Change of Control shall have occurred and the Indemnitee so requests in writing, such determination shall be made only by a court of competent jurisdiction.

(c) If a claim for indemnification or advancement of Expenses under this Agreement is not paid by the Company within 30 days after receipt by the Company of written notice thereof, the rights provided by this Agreement shall be enforceable by the Indemnitee in any court of competent jurisdiction. Such judicial proceeding shall be made *de novo*. The burden of proving by clear and convincing evidence that indemnification or advances are not appropriate shall be on the Company. Neither the failure of the directors or stockholders of the Company or Independent Legal Counsel to have made a determination prior to the commencement of such action that indemnification or advancement of Expenses is proper in the circumstances because the Indemnitee has met the applicable standard of conduct, if any, nor an actual determination by the directors or stockholders of the Company or Independent Legal Counsel that the Indemnitee has not met the applicable standard of conduct shall be a defense to an action by the Indemnitee or create a presumption for the purpose of such an action that the Indemnitee has not met the applicable standard of conduct. The termination of any Proceeding by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself (i) create a presumption that the Indemnitee did not act in good faith and in a manner which he reasonably believed to be in the best interests of the Company and/or its stockholders, and, with respect to any criminal Proceeding, that the Indemnitee had reasonable cause to believe that his conduct was unlawful or (ii) otherwise adversely affect the rights of the Indemnitee to indemnification or advancement of Expenses under this Agreement, except as may be provided herein. The Company shall not oppose the Indemnitee's right or entitlement to indemnification or advancement of Expenses in any such judicial proceeding or appeal therefrom. The Company further agrees to stipulate in any such judicial proceeding that the Company is bound by all the provisions of this Agreement and is precluded from making any assertion to the contrary.

(d) If a court of competent jurisdiction shall determine that the Indemnitee is entitled to any indemnification or advancement of Expenses hereunder, the Company shall pay all Expenses actually and reasonably incurred by the Indemnitee in connection with such adjudication (including, but not limited to, any appellate proceedings). The Indemnitee's Expenses incurred in connection with any Proceeding concerning

the Indemnitee's right to indemnification or advancement of Expenses in whole or in part pursuant to this Agreement shall also be indemnified by the Company, regardless of the outcome of such a Proceeding, to the fullest extent permitted by applicable law and the Company's Certificate of Incorporation, as amended.

(e) With respect to any Proceeding for which indemnification or advancement of Expenses is requested, the

Company will be entitled to participate therein at its own expense and, except as otherwise provided below, to the extent that it may wish, the Company may assume the defense thereof, with counsel reasonably satisfactory to the Indemnitee. After notice from the Company to the Indemnitee of its election to assume the defense of a Proceeding, the Company will not be liable to the Indemnitee under this Agreement for any Expenses subsequently incurred by the Indemnitee in connection with the defense thereof, other than as provided below. The Company shall not settle any Proceeding in any manner which would impose any penalty or limitation on the Indemnitee without the Indemnitee's written consent. The Indemnitee shall have the right to employ his own counsel in any Proceeding, but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense of the Proceeding shall be at the expense of the Indemnitee, unless (i) the employment of counsel by the Indemnitee has been authorized by the Company, (ii) the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and the Indemnitee in the conduct of the defense of a Proceeding, or (iii) the Company shall not in fact have employed counsel to assume the defense of a proceeding, in each of which cases the fees and expenses of the Indemnitee's counsel shall be advanced by the Company. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or as to which the Indemnitee has concluded that there may be a conflict of interest between the Company and the Indemnitee.

9. *Limitations on Indemnification.* No payments pursuant to this Agreement shall be made by the Company:

or domestic, 40% or more of the common stock, combined voting power or total equity interest of which is owned by the Company or any subsidiary or affiliate thereof, then it shall be presumed conclusively that the Indemnitee is so acting at the request of the Company.

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10. *Continuation of Indemnification.* All agreements and obligations of the Company contained herein shall continue during the period that the Indemnitee is a director or officer of the Company (or is or was serving at the request of the Company as an agent of another enterprise, foreign or domestic) and shall continue thereafter so long as the Indemnitee shall be subject to any possible Proceeding by reason of the fact that the Indemnitee was a director or officer of the Company or serving in any other capacity referred to in this Paragraph 10.

11. *Indemnification Hereunder Not Exclusive.* The indemnification provided by this Agreement shall not be deemed to be exclusive of any other rights to which the Indemnitee may be entitled under the Company's Certificate of Incorporation, as amended, the Company's Bylaws, as amended, any agreement, vote of stockholders or vote of Disinterested Directors, provisions of applicable law, or otherwise, both as to action or omission in the Indemnitee's official capacity and as to action or omission in another capacity on behalf of the Company while holding such office.

12. *Extension of Indemnification Rights to Indemnitee's Associates.* If the Indemnitee is a party to or threatened to be made a party to or is otherwise involved in any Proceeding by reason of the fact that the Indemnitee is or was a director or officer of the Company, and if any Associate of the "Indemnitee" (as defined in Rule 12b-2 under the Act) is also involved in such Proceeding primarily as a result of

actions taken or omitted by the Indemnitee as a director or officer of the Company or while serving at the request of the Company as an agent of another enterprise, foreign or domestic, such Associate of the Indemnitee shall also be entitled to indemnification under this Agreement in the same manner as the Indemnitee, but only to the extent that the claims against such Associate are based upon or directly attributable to actions taken or omitted by the Indemnitee.

13. *Successors and Assigns.*

(a) This Agreement shall be binding upon, and shall inure to the benefit of, the Indemnitee and the Indemnitee's heirs, executors, administrators and assigns, whether or not the Indemnitee has ceased to be a director and/ or officer, and the Company and its successors and assigns. Upon the sale of all or substantially all of the business, assets or capital stock of the Company to, or upon the merger of the Company into or with, any corporation, partnership, joint venture, trust or other person, this Agreement shall inure to the benefit of and be binding upon both the Indemnitee and such purchaser or successor person. Subject to the foregoing, this Agreement may not be assigned by either party without the prior written consent of the other party hereto.

(b) If the Indemnitee is deceased and is entitled to indemnification under any provision of this Agreement, the Company shall indemnify the Indemnitee's estate and the Indemnitee's spouse, heirs, executors, administrators and assigns against, and the Company shall, and does hereby agree to assume, any and all Expenses actually and reasonably incurred by or for the Indemnitee or the Indemnitee's estate, in connection with the investigation, defense, appeal or settlement of any Proceeding. Further, when requested in writing by the spouse of the Indemnitee, and/ or the Indemnitee's heirs, executors, administrators and assigns, the Company shall provide appropriate evidence of the Company's agreement set out herein to indemnify the Indemnitee against and to itself assume such Expenses.

14. *Subrogation.* In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

15. *Severability.* Each and every paragraph, sentence, term and provision of this Agreement is separate and distinct so that if any paragraph, sentence, term or provision thereof shall be held to be invalid, unlawful or unenforceable for any reason, such invalidity, unlawfulness or unenforceability shall not affect the validity, unlawfulness or enforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this Agreement may be modified by a court of competent jurisdiction to preserve its validity and to provide the Indemnitee with the broadest possible indemnification permitted under applicable law.

16. *Savings Clause.* If this Agreement or any paragraph, sentence, term or provision hereof is invalidated on any ground by any court of competent jurisdiction, the Company shall

nevertheless indemnify the Indemnitee as to any Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, which are incurred with respect to any Proceeding to the fullest extent permitted by any (a) applicable paragraph, sentence, term or provision of this Agreement that has not been invalidated or (b) applicable provision of Delaware law.

17. *Interpretation; Governing Law.* This Agreement shall be construed as a whole and in accordance with its fair meaning. Headings are for convenience only and shall not be used in construing meaning. This Agreement shall be governed and interpreted in accordance with the laws of the State of Delaware without regard to the conflict of laws principles thereof.

18. *Amendments.* No amendment, waiver, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by the party against whom enforcement is sought. The indemnification rights afforded to the Indemnitee hereby are contract rights and may not be diminished, eliminated or otherwise affected by amendments to the Certificate of Incorporation, Bylaws or by other agreements, including directors' and officers' liability insurance policies, of the Company.

19. *Counterparts.* This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each party and delivered to the other.

20. *Notices.* Any notice required to be given under this Agreement shall be directed to Applied Materials, Inc., 2881 Scott Boulevard M/ S 2064, Santa Clara, California 95050, Attention: Vice President, Legal Affairs and Intellectual Property, and to the Indemnitee at Applied Materials, Inc., 3050 Bowers Avenue M/ S 2064, Santa Clara, California 95054 or to such other address as either shall designate to the other in writing.

IN WITNESS WHEREOF, the parties have executed this Indemnification Agreement as of the date first written above.

(a) To indemnify or advance funds to the Indemnitee for Expenses with respect to (i) Proceedings initiated or brought voluntarily by the Indemnitee and not by way of defense, except with respect to Proceedings brought to establish or enforce a right to indemnification under this Agreement or any other statute or law or otherwise as required under applicable law or (ii) Expenses incurred by the Indemnitee in connection with preparing to serve or serving, prior to a Change in Control, as a witness in cooperation with any party or entity who or which has threatened or commenced any action or proceeding against the Company, or any director, officer, employee, trustee, agent, representative, subsidiary, parent corporation or affiliate of the Company, but such indemnification or advancement of Expenses in each such case may be provided by the Company if the Board of Directors finds it to be appropriate;

(b) To indemnify the Indemnitee for any Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, and sustained in any Proceeding for which payment is actually made to the Indemnitee under a valid and collectible insurance policy, except in respect of any excess beyond the amount of payment under such insurance;

(c) To indemnify the Indemnitee for any Expenses, judgments, fines, expenses or penalties sustained in any Proceeding for an accounting of profits made from the purchase or sale by the Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Act or similar provisions of any federal, state or local statute or regulation;

(d) To indemnify the Indemnitee for any Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, for which the Indemnitee is indemnified by the Company otherwise than pursuant to this Agreement;

(e) To indemnify the Indemnitee for any Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, on account of the

Indemnitee's conduct if such conduct shall be finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct, including, without limitation, breach of the duty of loyalty; or

(f) If a court of competent jurisdiction finally determines that any indemnification hereunder is unlawful.

INDEMNITEE

Name:

APPLIED MATERIALS, INC.

INDEMNIFICATION AGREEMENT

INDEMNIFICATION AGREEMENT (this "Agreement"), made as of this

_____ day of

_____, 1999, by and between Applied Materials, Inc., a Delaware corporation (the "Company"), and

_____ (the "Indemnitee"), an officer of the Company.

WHEREAS, the Indemnitee is currently serving as an officer of the Company and in such capacity has rendered and will render valuable services to the Company;

WHEREAS, the Company has investigated the availability and sufficiency of directors' and officers' liability insurance and Delaware statutory indemnification provisions to provide its directors and officers with adequate protection against various legal risks and potential liabilities to which such individuals are subject due to their positions with the Company and the Company has concluded that such insurance and statutory provisions may provide inadequate and unacceptable protection to certain individuals requested to serve as its directors and officers; and

WHEREAS, in order to induce and encourage highly experienced and capable persons such as the Indemnitee to continue to serve as officers of the Company, the Board of Directors has determined, after due consideration and investigation of the terms and provisions of this Agreement and the various other alternatives available to the Company and the Indemnitee in lieu hereof, that this Agreement is not only reasonable and prudent, but necessary to promote and ensure the best interests of the Company and its stockholders;

NOW, THEREFORE, in consideration of the premises and mutual agreements hereinafter set forth, and other good and valuable consideration, including, without limitation, the continued service of the Indemnitee, the receipt of which hereby is acknowledged, and in order to induce the Indemnitee to continue to serve as an officer of the Company, the Company and the Indemnitee hereby agree as follows:

1. *Definitions.* As used in this Agreement:

By:

Name:
Title:

(a) "Change in Control" shall mean a change in control of the Company of a nature that would be required to be reported in response to Item 5(f) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar or successor schedule or form) promulgated under the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (collectively, the "Act"), whether or not the Company is then subject to such reporting requirement; provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred (irrespective of the applicability of the initial clause of this definition) if (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Act, but excluding any trustee or other fiduciary holding securities pursuant to an employee benefit or welfare plan or employee stock plan of the Company or any subsidiary of the Company, or any entity organized, appointed, established or holding securities of the Company with voting power for or pursuant to the terms of any such plan) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 20% or more of the combined voting power of the Company's then outstanding securities without the prior approval of at least two-thirds of the Continuing Directors (as defined below) in office immediately prior to such person's attaining such interest; (ii) the Company is a party to a merger, consolidation, sale of assets or other reorganization, or a proxy contest, as a consequence of which Continuing Directors in office immediately prior to such transaction or event constitute less than a majority of the Board of Directors of the Company (or any successor entity) thereafter; or (iii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Company (including for this purpose any new director whose election or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period) (such directors being referred to herein as "Continuing Directors") cease for any reason to constitute at least a majority of the Board of Directors of the Company.

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(b) "Disinterested Director" with respect to any request by the Indemnitee for indemnification or advancement of expenses hereunder shall mean a director of the Company who neither is nor was a party to the Proceeding (as defined below) in respect of which indemnification or advancement is being sought by the Indemnitee.

(c) The term "Expenses" shall mean, without limitation, expenses of Proceedings, including attorneys' fees, disbursements and retainers, accounting and witness fees, expenses related to the preparation or service as a witness, travel and deposition costs, expenses of investigations, judicial or administrative proceedings and appeals, amounts paid in settlement of a Proceeding by or on behalf of the Indemnitee, costs of attachment or similar bonds, any expenses of attempting to establish or establishing a right to indemnification or advancement of expenses, under this Agreement, the Company's Certificate of Incorporation or Bylaws, applicable law or otherwise, and reasonable compensation for time spent by the Indemnitee in connection with the investigation, defense or appeal of a Proceeding or action for indemnification for which the Indemnitee is not otherwise compensated by the Company or any third party. The term "Expenses" shall not include the amount of judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, which are actually levied against or sustained by the Indemnitee to the extent sustained after final adjudication.

(d) The term "Independent Legal Counsel" shall mean any firm of attorneys selected by lot from a list consisting of firms which meet minimum size criteria and other reasonable criteria established by the Board of Directors of the Company, so long as such firm has not represented the Company, the Indemnitee, any entity controlled by the Indemnitee, or any party adverse to the Company, within the preceding five years. Notwithstanding the foregoing, the term "Independent Legal Counsel" shall not include any person who, under applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or the Indemnitee in an action to determine the Indemnitee's right to indemnification or advancement of expenses under this Agreement, the Company's Certificate of Incorporation or Bylaws, applicable law or otherwise.

(e) The term "Proceeding" shall mean any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, or any other proceeding (including, without limitation, an appeal therefrom), formal or informal, whether brought in the name of the Company or otherwise, whether of a civil, criminal, administrative or investigative nature, and whether by, in or involving a court or an administrative, other governmental or private entity or body (including, without limitation, an investigation by the Company or its Board of Directors), by reason of (i) the fact that the Indemnitee is or was an officer of the Company, or is or was serving at the request of the Company as an agent of another enterprise, whether or not the Indemnitee is serving in such capacity at the time any liability or expense is incurred for which indemnification or reimbursement is to be provided under this Agreement, (ii) any actual or alleged act or omission or neglect or breach of duty, including, without limitation, any actual or alleged error or misstatement or misleading statement, which the Indemnitee commits or suffers while acting in any such capacity, or (iii) the Indemnitee attempting to establish or establishing a right to indemnification or advancement of expenses pursuant to this Agreement, the Company's Certificate of Incorporation or Bylaws, applicable law or otherwise.

(f) The phrase "serving at the request of the Company as an agent of another enterprise" or any similar terminology shall mean, unless the context otherwise requires, (i) serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, limited liability company, trust, employee benefit or welfare plan or other enterprise, foreign or domestic, and (ii) serving as a director, officer, employee or agent of a corporation which was a predecessor corporation of the Company or of another enterprise at the request of such predecessor corporation. The phrase "serving at the request of the Company" shall include, without limitation, any service as an officer of the Company which imposes duties on, or involves services by, such officer with respect to the Company or any of the Company's subsidiaries, affiliates, employee benefit or welfare plans, such plan's participants or beneficiaries or any other enterprise, foreign or domestic. In the event that the Indemnitee shall be a director, officer, employee or agent of another corporation, partnership, joint venture, limited liability company, trust, employee benefit or welfare plan or other enterprise, foreign or domestic, 40% or

2. *Services by the Indemnitee.* The Indemnitee agrees to continue to serve as an officer of the Company at the will of the Company for so long as the Indemnitee is duly elected and qualified, appointed or until such time as the Indemnitee tenders a resignation in writing or is removed as an officer; *provided, however,* that the Indemnitee may at any time and for any reason resign from such position (subject to any other contractual obligation or other obligation imposed by operation of law).

3. *Proceeding Other Than a Proceeding By or In the Right of the Company.* The Company shall indemnify the Indemnitee if the Indemnitee is a party to or threatened to be made a party to or is otherwise involved in any Proceeding (other than a Proceeding by or in the right of the Company to procure a judgment in its favor), by reason of the fact that the Indemnitee is or was an officer of the Company, or is or was serving at the request of the Company as an agent of another enterprise, against all Expenses, judgments, fines, interest or penalties, and excise taxes assessed with respect to any employee benefit or welfare plan, which are actually and reasonably incurred by the Indemnitee in connection with such a Proceeding, to the fullest extent permitted by applicable law; *provided, however,* that any settlement of a Proceeding must be approved in advance in writing by the Company.

4. *Proceedings By or In the Right of the Company.* The Company shall indemnify the Indemnitee if the Indemnitee is a party to or threatened to be made a party to or is otherwise involved in any Proceeding by or in the right of the Company to procure a judgment in its favor by reason of the fact that the Indemnitee is or was an officer of the Company, or is or was serving at the request of the Company as an agent of another enterprise, against all Expenses, judgments, fines, interest or penalties, and excise taxes assessed with respect to any employee benefit or welfare plan, which are actually and reasonably incurred by the Indemnitee in connection with the defense or settlement of such a Proceeding, to the fullest extent permitted by applicable law.

5. *Indemnification for Costs, Charges and Expenses of Witness or Successful Party.* Notwithstanding any other provision of this Agreement (except as set forth in subparagraph 9(a) hereof), and without a requirement for determination as required by Paragraph 8 hereof, to the extent that the Indemnitee (a) has prepared to serve or has served as a witness in any Proceeding in any way relating to the Company or any of the Company's subsidiaries, affiliates, employee benefit or welfare plans, such plan's participants or beneficiaries or any other enterprise, foreign or domestic, or anything done or not done by the Indemnitee as an officer of the Company, as a director, officer, employee or agent of another corporation, partnership, joint venture, limited liability company, trust, employee benefit or welfare plan or other enterprise, foreign or domestic, or as a director, officer, employee or agent of a corporation which was a predecessor corporation of the Company or of another enterprise, at the request of such predecessor corporation, or (b) has been successful in defense of any Proceeding or in defense of any claim, issue or matter therein, on the merits or otherwise, including the dismissal of a

Proceeding without prejudice or the settlement of a Proceeding without an admission of liability, the Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by the Indemnitee in connection therewith to the fullest extent permitted by applicable law.

6. *Partial Indemnification.* If the Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for a portion of the Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, which are actually and reasonably incurred by the Indemnitee in the investigation, defense, appeal or settlement of any Proceeding, but not, however, for the total amount of the Indemnitee's Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, then the Company shall nevertheless indemnify the Indemnitee for the portion of such Expenses, judgments, fines, interest penalties or excise taxes to which the Indemnitee is entitled.

7. *Advancement of Expenses.* The Expenses incurred by the Indemnitee in any Proceeding shall be paid promptly by the Company in advance of the final disposition of the Proceeding at the written request of the Indemnitee to the fullest extent permitted by applicable law; *provided, however,* that the Indemnitee shall

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set forth in such request reasonable evidence that such Expenses have been incurred by the Indemnitee in connection with such Proceeding, a statement that such Expenses do not relate to any matter described in subparagraph 9(a) of this Agreement, and an undertaking in writing to repay any advances if it is ultimately determined as provided in subparagraph 8(b) of this Agreement that the Indemnitee is not entitled to indemnification under this Agreement.

8. *Indemnification Procedure; Determination of Right to Indemnification.*

(a) Promptly after receipt by the Indemnitee of notice of the commencement of any Proceeding, the Indemnitee shall, if a claim for indemnification or advancement of Expenses in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof in writing. The omission to so notify the Company will not relieve the Company from any liability which the Company may have to the Indemnitee under this Agreement unless the Company shall have lost significant substantive or procedural rights with respect to the defense of any Proceeding as a result of such omission to so notify.

(b) The Indemnitee shall be conclusively presumed to have met the relevant standards of conduct, if any, as defined by applicable law, for indemnification pursuant to this Agreement and shall be absolutely entitled to such indemnification, unless a determination by clear and convincing evidence is made that the Indemnitee has not met such standards by (i) the Board of Directors by a majority vote of a quorum thereof consisting of Disinterested Directors, (ii) the stockholders of the Company by majority vote of a quorum thereof consisting of stockholders who are not parties to the Proceeding due to which a claim for indemnification is made under this Agreement, (iii) Independent Legal Counsel as set forth in a written opinion (it

being understood that such Independent Legal Counsel shall make such determination only if the quorum of Disinterested Directors referred to in clause (i) of this subparagraph 8(b) is not obtainable or if the Board of Directors of the Company by a majority vote of a quorum thereof consisting of Disinterested Directors so directs), or (iv) a court of competent jurisdiction; *provided, however*, that if a Change of Control shall have occurred and the Indemnitee so requests in writing, such determination shall be made only by a court of competent jurisdiction.

(c) If a claim for indemnification or advancement of Expenses under this Agreement is not paid by the Company within 30 days after receipt by the Company of written notice thereof, the rights provided by this Agreement shall be enforceable by the Indemnitee in any court of competent jurisdiction. Such judicial proceeding shall be made *de novo*. The burden of proving by clear and convincing evidence that indemnification or advances are not appropriate shall be on the Company. Neither the failure of the directors or stockholders of the Company or Independent Legal Counsel to have made a determination prior to the commencement of such action that indemnification or advancement of Expenses is proper in the circumstances because the Indemnitee has met the applicable standard of conduct, if any, nor an actual determination by the directors or stockholders of the Company or Independent Legal Counsel that the Indemnitee has not met the applicable standard of conduct shall be a defense to an action by the Indemnitee or create a presumption for the purpose of such an action that the Indemnitee has not met the applicable standard of conduct. The termination of any Proceeding by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself (i) create a presumption that the Indemnitee did not act in good faith and in a manner which he reasonably believed to be in the best interests of the Company and/or its stockholders, and, with respect to any criminal Proceeding, that the Indemnitee had reasonable cause to believe that his conduct was unlawful or (ii) otherwise adversely affect the rights of the Indemnitee to indemnification or advancement of Expenses under this Agreement, except as may be provided herein. The Company shall not oppose the Indemnitee's right or entitlement to indemnification or advancement of Expenses in any such judicial proceeding or appeal therefrom. The Company further agrees to stipulate in any such judicial proceeding that the Company is bound by all the provisions of this Agreement and is precluded from making any assertion to the contrary.

(d) If a court of competent jurisdiction shall determine that the Indemnitee is entitled to any indemnification or advancement of Expenses hereunder, the Company shall pay all Expenses actually and reasonably incurred by the Indemnitee in connection with such adjudication (including, but not limited to, any appellate proceedings). The Indemnitee's Expenses incurred in connection with any Proceeding concerning

the Indemnitee's right to indemnification or advancement of Expenses in whole or in part pursuant to this Agreement shall also be indemnified by the Company, regardless of the outcome of such a Proceeding, to the fullest extent permitted by applicable law and the Company's Certificate of Incorporation, as amended.

(e) With respect to any Proceeding for which indemnification or advancement of Expenses is requested, the Company will be entitled to participate therein at its own expense and, except as otherwise provided below, to the extent

that it may wish, the Company may assume the defense thereof, with counsel reasonably satisfactory to the Indemnitee. After notice from the Company to the Indemnitee of its election to assume the defense of a Proceeding, the Company will not be liable to the Indemnitee under this Agreement for any Expenses subsequently incurred by the Indemnitee in connection with the defense thereof, other than as provided below. The Company shall not settle any Proceeding in any manner which would impose any penalty or limitation on the Indemnitee without the Indemnitee's written consent. The Indemnitee shall have the right to employ his own counsel in any Proceeding, but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense of the Proceeding shall be at the expense of the Indemnitee, unless (i) the employment of counsel by the Indemnitee has been authorized by the Company, (ii) the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and the Indemnitee in the conduct of the defense of a Proceeding, or (iii) the Company shall not in fact have employed counsel to assume the defense of a proceeding, in each of which cases the fees and expenses of the Indemnitee's counsel shall be advanced by the Company. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or as to which the Indemnitee has concluded that there may be a conflict of interest between the Company and the Indemnitee.

9. *Limitations on Indemnification.* No payments pursuant to this Agreement shall be made by the Company:

more of the common stock, combined voting power or total equity interest of which is owned by the Company or any subsidiary or affiliate thereof, then it shall be presumed conclusively that the Indemnitee is so acting at the request of the Company.

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10. *Continuation of Indemnification.* All agreements and obligations of the Company contained herein shall continue during the period that the Indemnitee is an officer of the Company (or is or was serving at the request of the Company as an agent of another enterprise, foreign or domestic) and shall continue thereafter so long as the Indemnitee shall be subject to any possible Proceeding by reason of the fact that the Indemnitee was an officer of the Company or serving in any other capacity referred to in this Paragraph 10.

11. *Indemnification Hereunder Not Exclusive.* The indemnification provided by this Agreement shall not be deemed to be exclusive of any other rights to which the Indemnitee may be entitled under the Company's Certificate of Incorporation, as amended, the Company's Bylaws, as amended, any agreement, vote of stockholders or vote of Disinterested Directors, provisions of applicable law, or otherwise, both as to action or omission in the Indemnitee's official capacity and as to action or omission in another capacity on behalf of the Company while holding such office.

12. *Extension of Indemnification Rights to Indemnitee's Associates.* If the Indemnitee is a party to or threatened to be made a party to or is otherwise involved in any Proceeding by reason of the fact that the Indemnitee is or was an officer of the Company, and if any Associate of the "Indemnitee" (as defined in Rule 12b-2 under the Act) is also involved in such Proceeding primarily as a result of actions taken or omitted by the Indemnitee as an officer of the Company or while serving at the request of the Company as an agent of another

enterprise, foreign or domestic, such Associate of the Indemnatee shall also be entitled to indemnification under this Agreement in the same manner as the Indemnatee, but only to the extent that the claims against such Associate are based upon or directly attributable to actions taken or omitted by the Indemnatee.

13. *Successors and Assigns.*

(a) This Agreement shall be binding upon, and shall inure to the benefit of, the Indemnatee and the Indemnatee's heirs, executors, administrators and assigns, whether or not the Indemnatee has ceased to be a director and/or officer, and the Company and its successors and assigns. Upon the sale of all or substantially all of the business, assets or capital stock of the Company to, or upon the merger of the Company into or with, any corporation, partnership, joint venture, trust or other person, this Agreement shall inure to the benefit of and be binding upon both the Indemnatee and such purchaser or successor person. Subject to the foregoing, this Agreement may not be assigned by either party without the prior written consent of the other party hereto.

(b) If the Indemnatee is deceased and is entitled to indemnification under any provision of this Agreement, the Company shall indemnify the Indemnatee's estate and the Indemnatee's spouse, heirs, executors, administrators and assigns against, and the Company shall, and does hereby agree to assume, any and all Expenses actually and reasonably incurred by or for the Indemnatee or the Indemnatee's estate, in connection with the investigation, defense, appeal or settlement of any Proceeding. Further, when requested in writing by the spouse of the Indemnatee, and/or the Indemnatee's heirs, executors, administrators and assigns, the Company shall provide appropriate evidence of the Company's agreement set out herein to indemnify the Indemnatee against and to itself assume such Expenses.

14. *Subrogation.* In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnatee, who shall execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights.

15. *Severability.* Each and every paragraph, sentence, term and provision of this Agreement is separate and distinct so that if any paragraph, sentence, term or provision thereof shall be held to be invalid, unlawful or unenforceable for any reason, such invalidity, unlawfulness or unenforceability shall not affect the validity, unlawfulness or enforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this Agreement may be modified by a court of competent jurisdiction to preserve its validity and to provide the Indemnatee with the broadest possible indemnification permitted under applicable law.

16. *Savings Clause.* If this Agreement or any paragraph, sentence, term or provision hereof is invalidated on any ground by any court of competent jurisdiction, the Company shall nevertheless indemnify the Indemnatee as to any Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect

to any employee benefit or welfare plan, which are incurred with respect to any Proceeding to the fullest extent permitted by any (a) applicable paragraph, sentence, term or provision of this Agreement that has not been invalidated or (b) applicable provision of Delaware law.

17. *Interpretation; Governing Law.* This Agreement shall be construed as a whole and in accordance with its fair meaning. Headings are for convenience only and shall not be used in construing meaning. This Agreement shall be governed and interpreted in accordance with the laws of the State of Delaware without regard to the conflict of laws principles thereof.

18. *Amendments.* No amendment, waiver, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by the party against whom enforcement is sought. The indemnification rights afforded to the Indemnitee hereby are contract rights and may not be diminished, eliminated or otherwise affected by amendments to the Certificate of Incorporation, Bylaws or by other agreements, including directors' and officers' liability insurance policies, of the Company.

19. *Counterparts.* This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each party and delivered to the other.

20. *Notices.* Any notice required to be given under this Agreement shall be directed to Applied Materials, Inc., 2881 Scott Boulevard M/S 2064, Santa Clara, California 95050, Attention: Vice President, Legal Affairs and Intellectual Property, and to the Indemnitee at Applied Materials, Inc., 3050 Bowers Avenue M/S 2064, Santa Clara, California 95054 or to such other address as either shall designate to the other in writing.

IN WITNESS WHEREOF, the parties have executed this Indemnification Agreement as of the date first written above.

(a) To indemnify or advance funds to the Indemnitee for Expenses with respect to (i) Proceedings initiated or brought voluntarily by the Indemnitee and not by way of defense, except with respect to Proceedings brought to establish or enforce a right to indemnification under this Agreement or any other statute or law or otherwise as required under applicable law or (ii) Expenses incurred by the Indemnitee in connection with preparing to serve or serving, prior to a Change in Control, as a witness in cooperation with any party or entity who or which has threatened or commenced any action or proceeding against the Company, or any director, officer, employee, trustee, agent, representative, subsidiary, parent corporation or affiliate of the Company, but such indemnification or advancement of Expenses in each such case may be provided by the Company if the Board of Directors finds it to be appropriate;

(b) To indemnify the Indemnitee for any Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, and sustained in any Proceeding for which payment is actually made to the Indemnitee under a valid and collectible insurance policy, except in respect of any excess beyond the amount of payment under such insurance;

(c) To indemnify the Indemnitee for any Expenses, judgments, fines, expenses or penalties sustained in any Proceeding for an accounting of profits made from the purchase or sale by the Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Act or similar provisions of any federal, state or local statute or regulation;

(d) To indemnify the Indemnitee for any Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, for which the Indemnitee is indemnified by the Company otherwise than pursuant to this Agreement;

(e) To indemnify the Indemnitee for any Expenses, judgments, fines, interest or penalties, or excise taxes assessed with respect to any employee benefit or welfare plan, on account of the Indemnitee's conduct if such conduct shall be finally adjudged to have been knowingly fraudulent, deliberately dishonest or willful misconduct, including, without limitation, breach of the duty of loyalty; or

(f) If a court of competent jurisdiction finally determines that any indemnification hereunder is unlawful.

INDEMNITEE

Name:

APPLIED MATERIALS, INC.

RATIO OF EARNINGS TO FIXED CHARGES

(Dollars in thousands)

By:

Name: _____

Title: _____

	Fiscal Year				
	1995	1996	1997	1998	1999
Income before taxes and fixed charges (net of capitalized interest):					
Income from continuing operations before taxes and equity in net income/(loss) of joint venture	\$ 698,543	\$ 922,436	\$ 798,921	\$ 437,833	\$ 1,021,790
Add fixed charges net of capitalized interest(1)	34,504	42,819	44,161	69,543	68,425
Total income before taxes and fixed charges	\$ 733,047	\$ 965,255	\$ 843,082	\$ 507,376	\$ 1,090,215
Fixed charges:					
Interest expense	\$ 21,401	\$ 20,733	\$ 20,705	\$ 45,309	\$ 47,093
Capitalized interest	—	5,108	750	4,268	6,000
Interest component of rent expense(2)	13,103	22,086	23,013	23,720	20,752
Total fixed charges	\$ 34,504	\$ 47,927	\$ 44,468	\$ 73,297	\$ 73,845
Ratio of earnings to fixed charges	21.25x	20.14x	18.96x	6.92x	14.76x

** Certain amounts have been reclassified. See Note 4 of Notes to Consolidated Financial Statements.

Income from continuing operations included net one-time expenses, on an after-tax basis, of: \$16,315 for fiscal 1996, \$25,257 for fiscal 1997, \$165,093 for fiscal 1998 and \$22,194 for fiscal 1999. In addition to the net one-time expenses included in income from continuing operations, net income also included an after-tax expense of \$20,996 from discontinued operations in fiscal 1998 and after-tax income from discontinued operations of \$20,996 in fiscal 1999.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

In addition to historical statements, this Annual Report, including this Management's Discussion and Analysis, contains forward-looking statements. Forward-looking statements contain words such as "expects," "anticipates," "believes," "may," "will," "estimates," or similar expressions.

These forward-looking statements represent the opinions of the management of Applied Materials, Inc. and its subsidiaries (Applied Materials) only as of the date hereof, and Applied Materials assumes no obligation to update this information. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those stated or implied. Risks and uncertainties include, but are not limited to, those discussed below, particularly in the section entitled "Trends, Risks and Uncertainties."

Results of Operations

Applied Materials is the world's largest supplier of semiconductor manufacturing equipment to the global semiconductor industry. Demand for Applied Materials' products can change significantly from period to period as a result of numerous factors, including, but not limited to, changes in: 1) global economic conditions; 2) supply and demand for semiconductors; 3) the profitability of semiconductor manufacturers resulting from memory device price fluctuations; and 4) advanced technology and/or capacity requirements of semiconductor manufacturers. For this and other reasons, Applied Materials' results of operations for fiscal 1997, 1998 and 1999 may not necessarily be indicative of future operating results.

Net Sales

Applied Materials' business was subject to cyclical industry conditions in fiscal 1997, 1998 and 1999. As a result of these conditions, there were significant fluctuations in Applied Materials' quarterly new orders and net sales, both within and across fiscal years. Demand for semiconductor manufacturing equipment has historically been volatile as a result of sudden changes in semiconductor supply and demand, as well as rapid technological advances in both semiconductor devices and wafer fabrication processes. Information with respect to quarterly new orders and net sales is as follows:

**** Based on income from continuing operations.

Each region in the global semiconductor equipment market exhibits unique characteristics that can cause, and in the past have caused, capital equipment investment patterns to vary significantly from period to period. Information with respect to net sales by geographic region is as follows:

	Quarter				Fiscal Year
	First	Second	Third	Fourth	
	(In millions)				
1997:					
New orders	\$ 905	\$1,014	\$1,240	\$1,374	\$4,533
Net sales	\$ 836	\$ 901	\$1,057	\$1,280	\$4,074
1998:					
New orders	\$1,290	\$1,027	\$ 608	\$ 684	\$3,609
Net sales	\$1,308	\$1,176	\$ 885	\$ 673	\$4,042
1999:					
New orders	\$1,029	\$1,389	\$1,459	\$1,645	\$5,522
Net sales	\$ 742	\$1,118	\$1,434	\$1,565	\$4,859

	1997	1998	1999
		(In millions)	
North America*	\$1,501	\$1,549	\$1,666
Taiwan	696	817	997
Japan	750	678	818
Europe	600	645	765
Korea	333	167	317
Asia-Pacific	194	186	296
Total	\$4,074	\$4,042	\$4,859

During 1996, the semiconductor industry experienced a slowdown as a result of excess production capacity and sharply decreasing memory device prices. This slowdown caused semiconductor manufacturers to reduce and delay their investments in semiconductor manufacturing equipment, thus negatively affecting Applied Materials' results of operations for the second half of fiscal 1996 and first half of fiscal 1997.

During Applied Materials' third fiscal quarter of 1997, the semiconductor industry began to recover from this slowdown, and Applied Materials was able to achieve higher levels of quarterly new orders and net sales for its fourth fiscal quarter of 1997. These new orders and net sales levels were driven by strengthening demand for leading-edge technology from logic and microprocessor device manufacturers, increased manufacturing capacity requirements of foundry customers located primarily in Taiwan, and selected strategic investments in 0.25 micron technology by Dynamic Random Access Memory (DRAM) manufacturers.

A semiconductor industry downturn began during the first half of Applied Materials' fiscal 1998. This downturn was much more sudden and severe than the industry slowdown in 1996, and resulted from the convergence of several factors: an economic crisis in Asia; semiconductor industry overcapacity (particularly for DRAM devices); and reduced profitability for semiconductor manufacturers resulting from declining semiconductor prices and a movement among end users to sub-\$1,000 PCs. This downturn caused a rapid decline in quarterly net sales throughout fiscal 1998 as semiconductor manufacturers significantly reduced and delayed their purchases of semiconductor manufacturing equipment during the last three fiscal quarters of 1998.

For fiscal 1999, Applied Materials was able to achieve record levels of new orders, net sales and net income as a result of a semiconductor industry recovery. During Applied Materials' fiscal 1999, the semiconductor industry rapidly recovered from the 1998 downturn and transitioned to a period of capacity expansion and advanced technology investment. This industry recovery and expansion in customer investment levels was driven primarily by strong demand for communications and electronic products, improved economic conditions in Asia, better pricing for memory chips and tightening supply of key semiconductor products. Applied Materials was able to benefit from the increased volume generated by the industry recovery and transition.

Gross Margin

Gross margin as a percentage of net sales was 46.7 percent for fiscal 1997, 46.1 percent for fiscal 1998 and 47.8 percent for fiscal 1999. The decrease in gross margin as a percentage of net sales from fiscal 1997 to fiscal 1998 was the result of lower overall business volume, combined with underutilization of manufacturing resources during the second half of fiscal 1998, as business volume dropped significantly. The increase in gross margin as a percentage of net sales from fiscal 1998 to fiscal 1999 was due primarily to higher business volume, reduced manufacturing cycle times and the favorable effects of operational programs emphasizing productivity improvements and cost reduction.

Research, Development and Engineering

Applied Materials' future operating results depend, to a considerable extent, on its ability to maintain a competitive advantage in the products and services it provides. Applied Materials believes that it is critical to continue to make substantial investments in research and development to ensure the availability of innovative technology that meets the current and projected requirements of its customers'

* Primarily the United States.

most advanced chip designs. Research, development and engineering (RD&E) expenses increased for each of the last three years, from \$568 million for fiscal 1997, to \$644 million for fiscal 1998 and to \$682 million for fiscal 1999. As a percentage of net sales, RD&E expenses increased from 13.9 percent for fiscal 1997 to 15.9 percent for fiscal 1998, and then decreased to 14.0 percent for fiscal 1999. The decrease as a percentage of net sales in fiscal 1999 was due to higher net sales for fiscal 1999.

Applied Materials increased its absolute spending from fiscal 1997 to fiscal 1998 to address the shrinking of semiconductor device feature sizes, the beginning of a shift to the use of new materials, such as copper, and the expected transition from 200mm wafer processing to 300mm wafer processing. Applied Materials was able to offer, or achieve advanced stages of development for, numerous significant new products in fiscal 1998 for fabricating smaller design features and copper-based semiconductor devices. The accelerated shrinking of design features can be demonstrated by the fact that orders for systems capable of fabricating devices with design feature sizes at or below 0.25 micron, more advanced than the previous industry production standard of 0.35

micron, increased from fiscal 1997 to fiscal 1998. Applied Materials' 300mm product development efforts were reduced significantly during the course of fiscal 1998 as a result of the semiconductor industry's decision to delay migration to 300mm wafer processing.

During fiscal 1999, Applied Materials continued its extensive development of wafer fabrication equipment for smaller feature sizes and copper-based devices. For fiscal 1999, orders for systems capable of fabricating devices with design feature sizes at or below 0.25 micron continued to increase as a percentage of total systems orders. Applied Materials' investment in research and development for copper-based devices resulted in a broad line of copper-based products being available for sale by the end of fiscal 1999. Additionally, Applied Materials completed development of, and began to offer, numerous advances to its existing products and technologies in fiscal 1999. Development efforts for 300mm products increased significantly in the second half of fiscal 1999 in response to some early customer requests for evaluation systems and in anticipation of expected customer requirements for this capability in fiscal 2000.

Marketing, Selling, General and Administrative

Marketing, selling, general and administrative (MSG&A) expenses increased from \$567 million for fiscal 1997, to \$594 million for fiscal 1998 and to \$658 million for fiscal 1999. The increase from fiscal 1997 to fiscal 1998 was due to increased costs for regional infrastructure, information systems, advertising and protection of intellectual property rights. The increase from fiscal 1998 to fiscal 1999 was primarily caused by higher costs of incentive and benefit programs, increased investments in various information technology programs, including the implementation of a new enterprise resource planning system and Year 2000 compliance, and increased costs to support higher net sales. As a percentage of net sales, MSG&A expenses increased from 13.9 percent for fiscal 1997 to 14.7 percent for fiscal 1998, because net sales declined rapidly in fiscal 1998 before MSG&A expenses could be reduced accordingly. MSG&A expenses as a percentage of net sales decreased to 13.5 percent for fiscal 1999 due primarily to higher net sales during fiscal 1999.

Non-recurring Items

Non-recurring operating expense items for fiscal 1997 consisted of \$60 million of acquired in-process research and development expense incurred in connection with two acquisitions and \$16 million of bad debt expense. Non-recurring items for fiscal 1998 consisted of \$32 million of acquired in-process research and development expense for the acquisition of licensed technology, an expense of \$70 million for impairment in the value of purchased technology from a prior period acquisition, and restructuring charges of \$135 million for costs associated with headcount reductions and consolidation of facilities. Non-recurring items for fiscal 1999 consisted of \$5 million of merger expenses and \$43 million of acquired in-process research and development expense incurred in connection with the acquisitions discussed below. For further details, see Note 7 of Notes to Consolidated Financial Statements.

Non-recurring Income, Net

Net non-recurring income of \$69 million for fiscal 1997 resulted from litigation settlements with Novellus Systems, Inc. (\$80 million of income) and General Signal Corporation (\$11 million of expense). Net non-

recurring income of \$15 million for fiscal 1998 was from a litigation settlement with ASM International, N.V. (ASMI). Net non-recurring income of \$30 million for fiscal 1999 was from payments received from ASMI associated with the 1998 litigation settlement. For further details, see Note 8 of Notes to Consolidated Financial Statements.

Interest Expense

Interest expense was \$21 million for fiscal 1997, \$45 million for fiscal 1998 and \$47 million for fiscal 1999. The increase from fiscal 1997 to fiscal 1998 was primarily the result of interest expense associated with \$400 million of debt issued by Applied Materials during the fourth fiscal quarter of 1997. There was no significant change in interest expense from fiscal 1998 to fiscal 1999 because Applied Materials' outstanding interest-bearing obligations and their respective interest rates did not change significantly during these periods.

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Interest Income

Interest income was \$60 million for fiscal 1997, \$80 million for fiscal 1998 and \$105 million for fiscal 1999. The increases from year to year can be attributed primarily to increasing cash and investment balances over the three-year period.

Provision for Income Taxes

Applied Materials' effective income tax rate was 37.6 percent for fiscal 1997, 34 percent for fiscal 1998 and 32.3 percent for fiscal 1999. The 37.6 percent effective income tax rate for fiscal 1997 was higher than Applied Materials' expected rate of 35 percent due to the non-tax deductible nature of \$60 million of acquired in-process research and development expense. The reduction to a 34 percent effective income tax rate for fiscal 1998 was attributable to several factors, including reduced state income taxes, reinstatement or enactment of U.S.-based income tax credits and a shift in the geographic composition of Applied Materials' pre-tax income to entities operating in countries with lower tax rates. Applied Materials expected an effective income tax rate of 31 percent for fiscal 1999, which decreased from the fiscal 1998 effective rate due primarily to the reinstatement of the U.S. federal research and development (R&D) tax credit and favorable California income tax legislation with respect to R&D and manufacturers investment tax credits. However, Applied Materials' actual effective income tax rate for fiscal 1999 was 32.3 percent due to the non-tax deductible nature of \$43 million of acquired in-process research and development expense. Applied Materials' future effective income tax rate depends on various factors, such as tax legislation, the geographic composition of Applied Materials' pre-tax income, non-tax deductible expenses incurred in connection with acquisitions and the effectiveness of its tax planning strategies.

In September 1993, Applied Materials and Komatsu, Ltd. (Komatsu) formed Applied Komatsu Technology, Inc. (AKT), a joint venture corporation that developed, manufactured and marketed thin film transistor manufacturing systems for Flat Panel Displays (FPDs). Because Applied Materials and Komatsu each owned 50 percent of the AKT joint venture, Applied Materials accounted for its interest in the joint venture using the equity method. During the fourth fiscal quarter of 1998, Applied Materials decided to discontinue the operations of AKT over a 12-month period. As a result of this decision, Applied Materials recorded a \$40 million provision for discontinued operations, consisting of \$19 million primarily for immediate headcount reductions and lease terminations, and \$21 million for net expenses and other obligations expected to be incurred during, or at completion of, the 12-month wind-down period. In addition to the above amounts, Applied Materials also recorded its \$18 million share of AKT's operating losses as a component of discontinued operations. In late fiscal 1999, an overall improvement in demand for FPDs enhanced AKT's financial condition and improved its business outlook. This change caused Applied Materials to reassess its decision to discontinue AKT's operations. Based on this reassessment, Applied Materials reversed its decision to discontinue the operations of AKT and acquired Komatsu's 50 percent interest in AKT for \$87 million in cash. As a result, the \$21 million provision established in fiscal 1998 for net expenses and other obligations expected to be incurred during the wind-down of AKT's operations was reversed into income in fiscal 1999, and all prior period amounts relating to AKT's continuing operations were reclassified from discontinued operations to continuing operations. These reclassifications had no effect on Applied Materials' net income for any period affected, and were recorded in accordance with Emerging Issues Task Force Issue No. 90-16, "Accounting for Discontinued Operations Subsequently Retained." The acquisition of AKT was accounted for as a purchase business combination. The purchase price in excess of the fair value of AKT's net tangible assets was allocated to intangible assets and in-process research and development expense. For further details, see Note 4 of Notes to Consolidated Financial Statements.

Acquisitions

On December 11, 1998, Applied Materials acquired Consilium, Inc. (Consilium), a supplier of integrated semiconductor and electronics manufacturing execution systems and services, in a stock-for-stock merger accounted for as a pooling of interests. Due to the immateriality of Consilium's financial position and

results of operations in relation to those of Applied Materials, Applied Materials' prior period financial statements have not been restated. Applied Materials issued 1.7 million shares of its common stock to complete this transaction, and recorded \$5 million of transaction costs as a one-time operating expense. The Consilium acquisition did not have a material effect on Applied Materials' financial condition or results of operations for fiscal 1999. On October 5, 1999, Applied Materials acquired Obsidian, Inc. (Obsidian), a developer of fixed-abrasive chemical mechanical polishing solutions for the semiconductor industry, by issuing shares of common stock having a market value of \$150 million. The Obsidian acquisition was accounted for as a purchase business combination. The purchase price in excess of the fair value of Obsidian's net tangible assets was allocated to intangible assets and in-process research and development expense. Except for in-process research and development expense of \$35 million, the Obsidian acquisition did not have a material effect on Applied Materials' financial condition or results of

discussed above, Applied Materials acquired the remaining 50 percent of AKT on October 29, 1999. For further details, see Note 14 of Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements

In June 1999, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 137 (SFAS 137), "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." SFAS 133 establishes new standards of accounting and reporting for derivative instruments and hedging activities, and SFAS 137 defers its effective date to all fiscal quarters of all fiscal years beginning after June 15, 2000. Applied Materials will adopt SFAS 133 in the first fiscal quarter of 2001, and does not expect the adoption to have a material effect on its financial condition or results of operations.

Financial Condition, Liquidity and Capital Resources

Applied Materials increased its cash, cash equivalents and short-term investments from \$1.8 billion at October 25, 1998 to \$2.8 billion at October 31, 1999. Applied Materials' financial condition remained strong, with a ratio of current assets to current liabilities of 3.1:1 and 3.0:1 at October 25, 1998 and October 31, 1999, respectively.

Applied Materials has been able to generate cash from continuing operations in each of the last three fiscal years. The primary source of cash from continuing operations has been income from continuing operations, as adjusted to exclude the effect of non-cash items such as depreciation and amortization, intangible asset write-downs, and acquired in-process research and development expense. Income from continuing operations, adjusted to exclude the effect of non-cash items, for each of the last three fiscal years was: \$741 million for 1997; \$626 million for 1998; and \$1.0 billion for 1999. The other source or use of cash from continuing operations has been changes in assets and liabilities other than those assets and liabilities resulting from investing and financing activities. Net changes in assets and liabilities tend to represent a use of cash during periods of revenue growth because Applied Materials generally incurs costs and expends cash in advance of receiving cash from its customers. Likewise, during periods of declining revenue, net changes in assets and liabilities tend to represent a source of cash because expenditures for inventory and other purchases decrease while receivables from prior periods, which were higher revenue periods, are collected. The cash effect of changes in assets and liabilities for each of the last three fiscal years was: a \$39 million use in 1997; a \$190 million source in 1998; and an \$88 million use in 1999.

In addition to being a function of revenue performance, the cash effect of changes in assets and liabilities is subject to operational efficiency and productivity. For example, earlier collection of accounts receivable and increased inventory turnover both have a positive effect on cash flow. Applied Materials steadily improved its collection of accounts receivable

and inventory turnover over the three-year period from fiscal 1997 through fiscal 1999. In addition to earlier collection of accounts receivable, Applied Materials also utilized programs to sell accounts receivable of \$303 million in fiscal 1997, \$488 million in fiscal 1998 and \$945 million in fiscal 1999. These receivable sales had the effect of increasing cash and reducing accounts receivable and days sales outstanding. For further details regarding accounts receivable sales, see Note 13 of Notes to Consolidated Financial Statements.

Graphical information:

	1997	1998	1999
Graphical information:			
Sales by geographic region		See page 22	
RD&E expenses (in millions)	568	644	682

Applied Materials used \$1.0 billion of cash for investing activities in fiscal 1997, \$574 million in fiscal 1998 and \$989 million in fiscal 1999. Investing activities typically consist of purchases of short-term investments, purchases of capital assets to support long-term growth and acquisitions of technology or other companies to allow access to new market segments or emerging technology.

Applied Materials generated \$391 million of cash from financing activities in fiscal 1997, used \$123 million in fiscal 1998 and generated \$301 million in fiscal 1999. Financing activities typically include sales and repurchases of Applied Materials' common stock, as well as borrowings and repayments of debt. Net debt activity contributed \$318 million of cash in fiscal 1997, and required \$64 million of cash in fiscal 1998 and \$17 million of cash in fiscal 1999. During fiscal 1997, net common stock activity contributed \$72 million of cash as sales of common stock to Applied Materials' employees through stock option and stock purchase plans exceeded Applied Materials' open market repurchases of its own common stock. During fiscal 1998, net common stock activity required \$59 million of cash as stock repurchases increased and sales to employees decreased significantly, reflecting Applied Materials' lower average stock price in fiscal 1998. During fiscal 1999, net common stock activity generated \$317 million of cash as a result of a significant decrease in stock repurchases and a significant increase in stock sales to employees, reflecting Applied Materials' higher average stock price in 1999. Since March 1996, Applied Materials has systematically repurchased shares of its common stock in the open market to partially fund its stock-based employee benefit and incentive plans.

At October 31, 1999, Applied Materials' principal sources of liquidity consisted of \$2.8 billion of cash, cash equivalents and short-term investments, and approximately \$650 million of available credit facilities. Applied Materials has a \$250 million revolving line of credit agreement that expires in March 2000, but is expected to be renewed, and a \$250 million credit agreement that expires in March 2003; no amounts were outstanding under these agreements at the end of any fiscal year presented. The remaining credit facilities of \$150 million are primarily with Japanese banks at rates indexed to their prime reference rate. No material amounts were outstanding under these credit facilities at the end of any fiscal year presented. In addition to cash and available credit facilities, Applied Materials may from time to time raise additional capital in the debt and equity markets. Applied

Materials' liquidity is affected by many factors, some of which are based on the normal ongoing operations of the business, and others of which relate to the uncertainties of global economies and the semiconductor and semiconductor equipment industries. Although cash requirements will fluctuate based on the timing and extent of these factors, Applied Materials' 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 Materials' liquidity requirements for the next 12 months.

Trends, Risks and Uncertainties

The industry that Applied Materials serves is highly volatile and unpredictable.

The semiconductor industry has historically been cyclical because of sudden changes in supply and demand for semiconductors. Although semiconductors are used in many different products, the markets for those products are interrelated to various degrees. The timing, length and severity of these cycles are difficult to predict. The health of the semiconductor manufacturing equipment industry is affected by these semiconductor industry cycles. During periods of declining demand for semiconductor manufacturing equipment, Applied Materials must be able to quickly and effectively align its cost structure with prevailing market conditions, to manage its inventory levels in order to reduce the possibility of future inventory write-downs resulting from obsolescence, and to motivate and retain key employees. During periods of rapid growth, Applied Materials must be able to acquire and/or develop sufficient manufacturing capacity and inventory to meet customer demand, and to attract, hire, assimilate and retain a sufficient number of qualified people. The inability of Applied Materials to achieve its objectives in a timely manner during these industry cycles could have a material adverse effect on its financial condition and results of operations.

	1997	1998	1999
Capital expenditures, net (in millions)			
Land, buildings and improvements	158	172	174
Other	181	277	30
Total	339	449	204
Working capital (in millions)	2,368	2,401	3,391

Applied Materials' competitive advantage and future success depend on its ability to successfully develop new products and technologies, develop new markets in the semiconductor industry for its products and services, introduce new products to the marketplace in a timely manner, qualify new products with its customers, and commence and adjust production to meet customer demands. There can be no assurance that Applied Materials will be able to conduct these activities as successfully in the future as it has in the past.

New products and technologies include those for new materials, including copper and low-k dielectrics, 300mm wafers and 0.18 micron and below devices. The introduction of new products and technologies grows increasingly complex over time. If Applied Materials does not develop and introduce new products and technologies in a timely manner in response to changing market conditions or customer requirements, its financial condition and results of operations could be materially and

adversely affected.

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

Applied Materials has operations and sites located throughout the world to support its sales and services to the global semiconductor industry. Managing global operations and sites located throughout the world presents challenges associated with, among other things, cultural diversities and organizational alignment. Moreover, each region in the global semiconductor equipment market exhibits unique characteristics that can cause, and in the past have caused, capital equipment investment patterns to vary significantly from period to period. Periodic economic downturns, trade balance issues, political instability and fluctuations in interest and currency exchange rates are among the many risks associated with operating a global business that could materially and adversely affect demand for Applied Materials' products (systems and related services).

Deterioration in the health of Asian economies could negatively affect Applied Materials' business.

Applied Materials generates a significant portion of its revenue from customers in Asian countries. Although Asian economies have stabilized to some degree since early to mid-fiscal 1998, Applied Materials remains cautious about general macroeconomic developments in Asia, particularly in Japan and Taiwan. The economies of Japan and Taiwan are important to the overall financial health of the Asian region, and if they deteriorate, the economies of other countries, particularly those in Asia, could also be negatively affected. Negative economic developments in Asia could have, and in the past have had, a material adverse effect on demand for Applied Materials' products.

Shifting or lower overall demand for PCs may result in decreased demand for Applied Materials' products.

Further shifts in demand from more expensive, high-performance products to lower-priced products (sub-\$1,000 PCs), or lower overall demand for PCs, could result in reduced profitability for, and lower capital spending by, semiconductor manufacturers. This could have, and in the past has had, a material and adverse effect on demand for Applied Materials' products.

Applied Materials operates in a highly competitive industry characterized by increasingly rapid technological changes.

If DRAM prices decline to levels that do not allow manufacturers to operate profitably, these manufacturers may cancel or delay orders for Applied Materials' products, which could have, and in the past has had, a material and adverse effect on Applied Materials' financial condition and results of operations.

Applied Materials is exposed to risks associated with acquisitions.

Applied Materials may make acquisitions of, or significant investments in, businesses with complementary products, services and/or technologies. Acquisitions involve numerous risks, including, but not limited to: 1) difficulties and increased costs in connection with integration of the personnel, operations, technologies and products of acquired companies; 2) diversion of management's attention from other operational matters;

3) the potential loss of key employees of acquired companies; 4) lack of synergy, or inability to realize expected synergies, resulting from the acquisition; and 5) acquired assets becoming impaired as a result of technological advancements or worse-than-expected performance of the acquired company. For example, in fiscal 1998, Applied Materials recorded a \$70 million pre-tax expense for the write-down of purchased technology acquired in a previous year that became impaired because of rapid changes in technology and deteriorating business conditions. The inability to effectively manage acquisition risks could materially and adversely affect Applied Materials' business, financial condition and results of operations.

DRAM prices are volatile, and a decrease in DRAM prices may result in customers canceling orders for, or delaying delivery of, Applied Materials' products.

Applied Materials uses numerous vendors to supply parts, components and subassemblies (collectively "parts") for the manufacture and support of its products. Although Applied Materials makes reasonable efforts to ensure that parts are available from multiple suppliers, this is not always possible; accordingly, some key parts may be obtained only from a single supplier or a limited group of suppliers. Applied Materials has sought, and will continue to seek, to minimize the risk of production and service interruptions and/or shortages of key parts by: 1) selecting and qualifying alternative suppliers for key parts; 2) monitoring the financial stability of key suppliers; and 3) maintaining appropriate inventories of key parts. There can be no assurance that Applied Materials' results of operations will not be materially and adversely affected if, in the future, Applied Materials does not receive in a timely and cost-effective manner a sufficient quantity of parts to meet its production requirements.

Failure of critical suppliers to deliver sufficient quantities of product in a timely and cost-effective manner could negatively affect Applied Materials' business.

Applied Materials' backlog increased from \$917 million at October 25, 1998 to \$1.7 billion at October 31, 1999. Applied Materials schedules production of its systems based upon order backlog and customer commitments. Backlog includes only orders for which written authorizations have been accepted and shipment dates within 12 months have been assigned. However, customers may delay delivery of products or cancel orders, subject to penalties. Due to possible customer changes in delivery schedules and cancellations of orders, Applied Materials' backlog at any particular date is not necessarily indicative of actual sales for any succeeding period. Delays in delivery schedules and/or a reduction of backlog during any particular period could have, and in the past has had, a material adverse effect on Applied Materials' business and results of operations.

Applied Materials' order backlog may be reduced by customer cancellations or delays, which could have a negative effect on Applied Materials' future sales.

Applied Materials recently implemented a new enterprise resource planning system that replaced substantially all order fulfillment and manufacturing applications. Significant interruption of Applied Materials' business resulting from

post-implementation issues such as system response time, vendor software application code errors, or system design and configuration problems could result in delayed product deliveries or manufacturing inefficiencies, which could materially and adversely affect Applied Materials' financial condition and results of operations.

Applied Materials' business is subject to the risk of interruptions from natural disasters such as earthquakes.

Business interruptions can be caused by natural disasters or other unplanned catastrophic events. Several offices and facilities of Applied Materials and its customers and suppliers are located near major earthquake faults in the United States and in certain foreign countries. In the event of significant interruption to Applied Materials' business, or the businesses of its customers or suppliers, resulting from a natural disaster or other catastrophic event, Applied Materials' financial condition and results of operations could be materially and adversely affected.

Applied Materials is subject to risks associated with non-compliance of environmental regulations.

Applied Materials is subject to environmental regulations related to the disposal of hazardous wastes used in the development, manufacturing and demonstration of its products. Applied Materials strives to exceed the requirements of applicable environmental regulations and believes it is in full compliance with such regulations. However, failure or inability to comply with existing or future environmental regulations could result in significant remediation liabilities, the imposition of fines and/or the suspension or termination of production, each of which could have a material adverse effect on Applied Materials' financial condition and results of operations.

Applied Materials is subject to the risk of business interruptions from implementing a new enterprise resource planning system.

Applied Materials' success is dependent upon the protection of its proprietary rights. In the high-tech industry, intellectual property is an important asset that is always at risk of infringement. Applied Materials incurs costs to file for patents and defend its intellectual property and relies upon the laws of the United States and of foreign countries in which Applied Materials develops, manufactures or sells its products to protect its proprietary rights. However, there can be no assurance that these proprietary rights will provide competitive advantages, or that other parties will not challenge, invalidate or circumvent these rights. Infringement upon Applied Materials' proprietary rights by a third party could result in uncompensated lost market and revenue opportunities for Applied Materials.

Other parties may assert that Applied Materials' products, systems, processes or other technology infringe upon their patents or other intellectual property rights. In such cases, Applied Materials evaluates its position and considers the

available alternatives, which may include seeking licenses to use the technology in question on commercially reasonable terms or defending its position. However, if Applied Materials is not able to negotiate the necessary licenses on commercially reasonable terms or successfully defend its position, Applied Materials' financial condition and results of operations could be materially and adversely affected.

Applied Materials is exposed to various litigation risks.

Applied Materials is currently involved in litigation regarding patent infringement, intellectual property rights, antitrust and other matters (see Note 13 of Notes to Consolidated Financial Statements), and could become involved in additional legal proceedings or claims in the future. These proceedings and claims, whether with or without merit, could be time-consuming and expensive to defend, and could divert management's attention and resources. There can be no assurance regarding the outcome of current or future legal proceedings or claims.

Applied Materials is exposed to exchange rate fluctuations.

Significant operations of Applied Materials are conducted in foreign currencies, primarily Japanese yen. Applied Materials actively manages its exposure to changes in currency exchange rates, but there can be no assurance that future changes in currency exchange rates will not have a material and adverse effect on Applied Materials' financial condition or results of operations.

Applied Materials is subject to risks from Year 2000 issues.

The information provided herein is a "Year 2000 Readiness Disclosure" for purposes of the Year 2000 Information and Readiness Disclosure Act.

Applied Materials established a Year 2000 Program Office to address Year 2000 issues through four key readiness programs. A brief description of the activities under these programs is as follows:

Internal Infrastructure Readiness Program This program encompassed all major categories of applications and hardware in use by Applied Materials. Under this program, Applied Materials completed an inventory of applications and information technology and non-information technology hardware, and categorized them as either "mission critical" or "non-mission critical" based upon certain factors, such as whether a failure of the application or hardware could cause personal injury or significant disruption to any portion of Applied Materials' business. All mission critical applications and hardware were tested and remediated as appropriate. Applied Materials has not experienced any significant Year 2000 issues associated with its mission critical systems.

Supplier Readiness Program This program focused on minimizing two areas of risk associated with suppliers: 1) a supplier's product integrity; and 2) a supplier's ability to continue providing products and services in accordance with Applied Materials' standards and requirements. In addition to products and services from key suppliers that are used in manufacturing its products, Applied Materials relies on commercial or governmental suppliers for infrastructure-related services, including utilities, transportation, financial, governmental, communications and other

services. As of January 10, 2000, Applied Materials has not been affected by the Year 2000 issue associated with these suppliers.

Product Readiness Program This program focused on identifying and resolving Year 2000 issues existing in Applied Materials' products. Among other activities, Applied Materials completed a Year 2000 readiness evaluation of its current generation of released products based on a series of industry-recognized testing scenarios and, as appropriate, addressed the Year 2000 issues associated with any component of its products. Unless otherwise requested by a customer, all products that shipped on or after January 1, 1999 were Year 2000 ready. As of January 10, 2000, Applied Materials was not aware of any significant Year 2000 issues directly related to a failure of its products to be Year 2000 ready.

Customer Readiness Program This program focused on customer support issues, including the coordination of retrofit activities for older generation products, testing existing customer electronic transaction capability and providing other services to Applied Materials' customers. This program also included establishing a Year 2000 Customer Response Center to support customers on and around January 1, 2000. This program will continue to make customer support teams available through Applied Materials' second fiscal quarter of 2000 to assist customers who have chosen not to upgrade Applied Materials' products or who experience any Year 2000 issues, including those associated with the leap year.

Year 2000 Issues of Acquired Companies During fiscal 1999, Applied Materials acquired Consilium, Obsidian and AKT. For the most part, the Year 2000 programs of these companies were modeled after, or fully integrated into, Applied Materials' four key readiness programs. As of January 10, 2000, Applied Materials was not aware of any significant Year 2000 issues associated with any of these companies or their products. However, as a software company, Consilium is assisting customers in evaluating Year 2000 issues that may relate to Consilium's products, and will continue to assist its customers in their Year 2000 efforts after January 1, 2000.

Estimated Costs Applied Materials estimates that total Year 2000 costs will range from \$30 million to \$40 million, with \$27 million spent as of October 31, 1999. This amount includes costs to support customer satisfaction programs and services and other internal costs, but does not include the cost of internal hardware and software that was to be replaced in the normal course of business but was accelerated because of Year 2000 capability concerns. The remaining costs are for customer support programs and program office management, which are planned to continue through Applied Materials' second fiscal quarter of 2000.

Most Likely Worst-Case Scenario and Risks Associated with the Year 2000 Issue The year 2000 is a leap year, and February 29, 2000 is a date frequently associated with the Year 2000 issue. In addition, some Year 2000 issues may not be discovered until well after January 1, 2000. Therefore,

Applied Materials believes risks associated with the Year 2000 issue may continue to exist after January 1, 2000. Applied Materials believes its most likely worst-case scenarios after January 1, 2000 will relate to undiscovered problems associated with its products, due to the inability to anticipate every possible Year 2000 problem, or due to problems associated with the interaction between Applied Materials' products and its customers' applications. A failure in Applied Materials' products could result in claims against Applied Materials, increased warranty or service costs, or a delay or loss of revenue, any of which could materially and adversely affect Applied Materials' financial condition and results of operations. Finally, Applied Materials believes it has taken steps to identify and remediate Year 2000 issues under its various readiness programs. However, if efforts to identify and address Year 2000 issues in Applied Materials' products, customer and supply base, or infrastructure were not successful, including those issues associated with the leap year, Applied Materials may experience unanticipated problems that could materially and adversely affect its financial condition and results of operations.

Market Risk Disclosure

Interest Rate Risk

At October 31, 1999, Applied Materials' investment portfolio includes fixed-income securities with a fair value of approximately \$2.2 billion. These securities are subject to interest rate risk, and will decline in value if interest rates increase. Due to the short duration of Applied Materials' investment portfolio, an immediate 10 percent increase in interest rates is not expected to have a material effect on Applied Materials' near-term financial condition or results of operations.

Applied Materials' long-term debt bears interest at fixed rates; therefore, Applied Materials' results of operations would only be affected by interest rate changes to the extent that variable rate short-term notes payable are outstanding. Due to the short-term nature and insignificant amount of Applied Materials' short-term notes payable, an immediate 10 percent change in interest rates is not expected to have a material effect on Applied Materials' near-term results of operations.

Foreign Currency Exchange Rate Risk

Significant operations of Applied Materials are conducted in foreign currencies, primarily Japanese yen. Forward exchange and currency option contracts are purchased to hedge a portion of, but not all, existing firm commitments and foreign currency denominated transactions expected to occur within 12 months.

Gains and losses on these contracts are recognized in the Consolidated Statements of Operations at the time that the related transactions being hedged are recognized. Because the effect of movements in currency exchange rates on forward exchange and currency option contracts generally offsets the related effect on the underlying items being hedged, these financial instruments are not expected to subject Applied Materials to risks that would otherwise result from changes in currency exchange rates. Applied Materials does not use derivative financial instruments for trading or speculative purposes. Net foreign currency gains and losses did not have a material effect on Applied Materials' results of operations for fiscal 1997, 1998 or 1999.

Forward exchange contracts are denominated in the same currency as the underlying transactions (primarily Japanese yen and British pounds), and the terms of the forward foreign exchange contracts generally match the terms of the underlying transactions. At October 31, 1999, the majority of Applied Materials' outstanding forward exchange contracts are marked to market (see Note 2 of Notes to Consolidated Financial Statements), as are the related underlying transactions being hedged; therefore, the effect of exchange rate changes on forward contracts is expected to be substantially offset by the effect of these changes on the underlying transactions. The effect of an immediate 10 percent change in exchange rates on forward exchange contracts and the underlying hedged transactions denominated in Japanese yen and British pounds is not expected to be material to Applied Materials' near-term financial condition or results of operations. Applied Materials' downside risk with respect to currency option contracts (Japanese yen) is limited to the premium paid for the right to exercise the option. Premiums paid for options outstanding at October 31, 1999 were not material.

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CONSOLIDATED STATEMENTS OF OPERATIONS

Applied Materials is exposed to the risk that third parties may violate its proprietary rights or accuse Applied Materials of infringing upon their proprietary rights.

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

	Fiscal year ended		
	1997	1998	1999
	(In thousands, except per share amounts)		
Net sales	\$4,074,275	\$4,041,687	\$4,859,136
Cost of products sold	2,173,350	2,178,531	2,537,293
Gross margin	1,900,925	1,863,156	2,321,843
Operating expenses:			
Research, development and engineering	567,612	643,852	681,797
Marketing and selling	314,381	321,606	325,498
General and administrative	252,214	272,109	332,487
Non-recurring items	75,818	237,227	48,400
Income from operations	690,900	388,362	933,661
Non-recurring income, net	69,000	15,000	30,000
Interest expense	20,705	45,309	47,093
Interest income	59,726	79,780	105,222
Income from continuing operations before taxes and equity in net income/(loss) of joint venture	798,921	437,833	1,021,790
Provision for income taxes	300,447	148,863	329,930
Income from continuing operations before equity in net income/(loss) of joint venture	498,474	288,970	691,860

Restructuring charges from joint venture	—	(18,423)	3,677
Equity in net income/(loss) of joint venture	—	(18,649)	30,116
Income from continuing operations	498,474	251,898	725,653
Provision for discontinuance of joint venture	—	(20,996)	20,996
Net income	\$ 498,474	\$ 230,902	\$ 746,649
Earnings per share:			
Basic — continuing operations	\$ 1.37	\$ 0.69	\$ 1.93
Basic — discontinued operations	—	(0.06)	0.06
Total basic	\$ 1.37	\$ 0.63	\$ 1.99
Diluted — continuing operations	\$ 1.32	\$ 0.67	\$ 1.84
Diluted — discontinued operations	—	(0.06)	0.05
Total diluted	\$ 1.32	\$ 0.61	\$ 1.89
Weighted average number of shares:			
Basic	363,542	366,849	375,393
Diluted	377,838	378,508	396,043

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Fiscal year ended	
	1998	1999
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 575,205	\$ 823,272
Short-term investments	1,188,351	1,937,179
Accounts receivable, less allowance for doubtful accounts of \$630 in 1998 and \$1,874 in 1999	764,472	1,198,069
Inventories	555,881	632,717
Deferred income taxes	337,906	324,024
Other current assets	97,140	145,200
Total current assets	3,518,955	5,060,461
Property, plant and equipment, net of accumulated depreciation	1,261,520	1,227,737
Other assets	149,217	418,306
Total assets	\$ 4,929,692	\$ 6,706,504
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 644	\$ 5,789
Current portion of long-term debt	7,367	36,484
Accounts payable and accrued expenses	1,041,341	1,388,806
Income taxes payable	68,974	238,314
Total current liabilities	1,118,326	1,669,393
Long-term debt	616,572	584,357
Deferred income taxes	11,341	33,172
Other liabilities	62,832	82,980
Total liabilities	1,809,071	2,369,902
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock; \$.01 par value per share; 1,000 shares authorized; no shares issued	—	—
Common stock; \$.01 par value per share; 1,100,000 shares authorized; 367,864 shares outstanding in 1998 and 382,666 shares outstanding in 1999	3,679	3,827
Additional paid-in capital	792,145	1,257,512
Retained earnings	2,328,940	3,075,589
Accumulated other comprehensive income/(loss)	(4,143)	(326)
Total stockholders' equity	3,120,621	4,336,602
Total liabilities and stockholders' equity	\$ 4,929,692	\$ 6,706,504

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (Loss)	Total
	Shares	Amount				
Balance at October 27, 1996	360,470	\$3,605	\$ 761,573	(In thousands) \$1,599,564	\$ 5,683	\$2,370,425
Components of comprehensive income:						
Net income	-	-	-	498,474	-	498,474
Translation adjustments	-	-	-	-	(16,124)	(16,124)
Comprehensive income						482,350
Net issuance under stock plans, including tax benefits of \$82,543	9,434	94	167,499	-	-	167,593
Stock repurchases	(2,654)	(27)	(78,170)	-	-	(78,197)
Balance at October 26, 1997	367,250	3,672	850,902	2,098,038	(10,441)	2,942,171
Components of comprehensive income:						
Net income	-	-	-	230,902	-	230,902
Translation adjustments	-	-	-	-	6,298	6,298
Comprehensive income						237,200
Net issuance under stock plans, including tax benefits of \$26,112	5,477	55	94,527	-	-	94,582
Stock repurchases	(4,863)	(48)	(153,284)	-	-	(153,332)
Balance at October 25, 1998	367,864	3,679	792,145	2,328,940	(4,143)	3,120,621
Components of comprehensive income:						
Net income	-	-	-	746,649	-	746,649
Translation adjustments	-	-	-	-	3,817	3,817
Comprehensive income						750,466
Net issuance under stock plans, including tax benefits of \$159,844	12,137	121	359,044	-	-	359,165
Issuance for acquisitions	3,215	32	148,408	-	-	148,440
Stock repurchases	(550)	(5)	(42,085)	-	-	(42,090)
Balance at October 31, 1999	382,666	\$3,827	\$1,257,512	\$3,075,589	\$ (326)	\$4,336,602

Cash payments for interest were \$18,802, \$46,296 and \$45,605 in 1997, 1998 and 1999, respectively. Cash payments for income taxes were \$130,247 and \$264,886 in 1997 and 1998, respectively, and net income tax refunds were \$13,925 for 1999.

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Note 1 – Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation The consolidated financial statements include the accounts of Applied Materials, Inc. and its subsidiaries (Applied Materials) after elimination of intercompany balances and transactions.

Applied Materials' fiscal year ends on the last Sunday in October of each year. Fiscal 1999 contained 53 weeks, whereas fiscal 1997 and 1998 contained 52 weeks. The inclusion of an additional week in fiscal 1999 did not have a material effect on Applied Materials' financial condition or results of operations.

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

Cash Equivalents and Short-Term Investments All highly-liquid investments with a remaining maturity of three months or less at the time of purchase are considered to be cash equivalents. All of Applied Materials' short-term investments are classified as available-for-sale at the balance sheet dates. Investments classified as available-for-sale are recorded at fair value and any material temporary difference between the cost and fair value of an investment is presented as a separate component of accumulated other comprehensive income/ (loss).

Inventories Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out (FIFO) basis.

Property, Plant and Equipment Property, plant and equipment is stated at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Estimated useful lives for financial reporting purposes are as follows: buildings and improvements, five to 33 years; demonstration and manufacturing equipment, three to five years; and furniture, fixtures and other equipment, three to 15 years. Land improvements are amortized over the shorter of 15 years or the useful life. Leasehold improvements are amortized over the shorter of five years or the lease term.

Intangible Assets Purchased technology and goodwill are presented at cost, net of accumulated amortization, and are amortized over their estimated useful lives of five to 10 years using the straight-line method.

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

Revenue Recognition Systems and spares revenue is generally recognized upon shipment. A provision for the estimated cost of system installation and warranty is recorded when revenue is recognized. Service revenue is generally recognized ratably over the period of the related contract.

Derivative Financial Instruments Applied Materials uses financial instruments such as forward exchange contracts to hedge a portion, but not all, of its firm commitments denominated in foreign currencies, and uses currency option contracts to hedge a portion, but not all, of its anticipated and uncommitted transactions expected to be denominated in foreign currencies. The terms of currency

instruments used for hedging purposes are generally consistent with the timing of the committed or anticipated transactions being hedged. The purpose of Applied Materials' foreign currency management is to minimize the effect of exchange rate changes on actual cash flows from foreign currency denominated transactions. Gains and losses on forward exchange and currency option contracts are deferred and recognized in the Consolidated Statements of Operations when the related transactions being hedged are recognized. If the underlying transaction being hedged fails to occur, or occurs prior to the maturity of the financial instrument, Applied Materials immediately recognizes the gain or loss on the associated financial instrument. Those forward exchange contracts that have been marked to market are included in accounts payable and accrued expenses

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

on Applied Materials' Consolidated Balance Sheets. To date, premiums paid for currency option contracts have not been material. Applied Materials does not use derivative financial instruments for trading or speculative purposes.

Foreign Currency Translation Applied

Materials' subsidiaries located in Japan and Europe operate primarily using local functional currencies. Accordingly, all assets and liabilities of these subsidiaries are translated using exchange rates in effect at the end of the period, and revenues and costs are translated using average exchange rates for the period. The resulting translation adjustments are presented as a separate component of accumulated other comprehensive income/ (loss).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Applied Materials' subsidiaries located in Ireland, Italy, Israel, Korea, Taiwan, Southeast Asia and China primarily use the U.S. dollar as their functional currency. Accordingly, assets and liabilities of these subsidiaries are translated using exchange rates in effect at the end of the period, except for non-monetary assets, such as inventories and property, plant and equipment, that are translated using historical exchange rates. Revenues and costs are translated using average exchange rates for the period, except for costs related to those balance sheet items that are translated using historical exchange rates. The resulting translation gains and losses are included in the Consolidated Statements of Operations as they are incurred.

Employee Stock Plans As permitted by Statement of Financial Accounting Standards No. 123 (SFAS 123), "Accounting for Stock-Based Compensation," Applied Materials elected to continue to apply the provisions of Accounting Principles Board's Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," and related interpretations in accounting for its employee stock option and stock purchase plans. Applied Materials is generally not required under APB 25 and related interpretations to recognize compensation expense in connection with its employee stock option and stock purchase plans. Applied Materials is required by SFAS 123 to present, in the notes to the consolidated financial statements, the pro forma effects

on reported net income and earnings per share as if compensation expense had been recognized based on the fair value method of accounting prescribed by SFAS 123.

Concentrations of Credit Risk Financial

instruments that potentially subject Applied Materials to significant concentrations of credit risk consist principally of cash equivalents, short-term investments, trade accounts receivable and derivative financial instruments used in hedging activities.

Applied Materials invests in a variety of financial instruments such as certificates of deposit, corporate and municipal bonds, and U.S. Treasury and agency securities, and, by policy, limits the amount of credit exposure with any one financial institution or commercial issuer.

Applied Materials' customers consist of semiconductor manufacturers located throughout the world. Applied Materials performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral to secure accounts receivable. Applied Materials maintains a reserve for potentially uncollectible accounts receivable based on an assessment of the collectibility of accounts receivable.

Applied Materials is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments, but does not expect any counterparties to fail to meet their obligations.

Earnings Per Share Basic earnings per share is determined using the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined using the weighted average number of common shares and equivalents (representing the dilutive effect of stock options) outstanding during the period. Net income has not been adjusted for any period presented for purposes of computing basic or diluted earnings per share.

For purposes of computing diluted earnings per share, weighted average common share equivalents do not include stock options with an exercise price that exceeds the average fair market value of Applied Materials' common stock for the period. For fiscal 1999, options to purchase approximately 10,041,000 shares of common stock at an average exercise price of \$74.34 were excluded from the computation, since this average exercise price exceeded the average fair market value of Applied Materials' common stock during fiscal 1999.

Reclassifications Certain prior year amounts have been reclassified to conform to the fiscal 1999 presentation or in accordance with applicable accounting requirements (see Note 4 of Notes to Consolidated Financial Statements).

Recent Accounting Pronouncements In June 1999, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 137 (SFAS 137), "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." SFAS 133 establishes new standards of accounting and reporting for derivative instruments and hedging activities, and SFAS 137 defers its effective date to all fiscal quarters of all fiscal years beginning after

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 15, 2000. Applied Materials will adopt SFAS 133 in the first fiscal quarter of 2001, and does not expect the adoption to have a material effect on its financial condition or results of operations.

Note 2 - Financial Instruments

Investments At October 25, 1998 and October 31, 1999, the fair value of Applied Materials' short-term investments approximated cost. Accordingly, temporary differences between the short-term investment portfolio's fair value and its cost have not been presented as a separate component of accumulated other comprehensive income/ (loss). Information about short-term investments is as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Fiscal Year Ended		
	1997	1998	1999
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 498,474	\$ 230,902	\$ 746,649
Provision for discontinuance of joint venture	-	20,996	(20,996)
Adjustments required to reconcile income from continuing operations to cash provided by continuing operations:			
Equity in net (income)/loss and restructuring charges of joint venture	-	37,072	(33,793)
Acquired in-process research and development expense	59,500	32,227	43,400
Write-down of intangible asset	-	70,000	-
Bad debt expense	16,318	-	-
Depreciation and amortization	219,435	284,500	275,364
Deferred income taxes	(52,543)	(49,400)	10,340
Changes in assets and liabilities, net of amounts acquired:			
Accounts receivable	(332,047)	332,249	(377,309)
Inventories	(171,201)	133,791	(48,436)
Other current assets	(29,041)	(9,478)	(38,094)
Other assets	(8,525)	(9,366)	(12,714)
Accounts payable and accrued expenses	352,540	(159,471)	212,845
Income taxes payable	137,560	(106,142)	164,607
Other liabilities	11,242	8,504	11,486
Cash provided by continuing operations	<u>701,712</u>	<u>816,384</u>	<u>933,349</u>
Cash flows from investing activities:			
Capital expenditures, net of retirements	(339,364)	(448,607)	(203,980)
Cash paid for acquisitions, net of cash acquired	(246,333)	-	(36,466)
Cash paid for licensed technology	-	(32,227)	-
Proceeds from sales of short-term investments	664,194	779,356	961,866
Purchases of short-term investments	(1,125,362)	(872,795)	(1,710,694)
Cash used for investing	<u>(1,046,865)</u>	<u>(574,273)</u>	<u>(989,274)</u>
Cash flows from financing activities:			
Short-term debt activity, net	(21,731)	(54,811)	4,849
Long-term debt borrowings	407,568	-	-
Long-term debt repayments	(67,372)	(9,422)	(21,380)
Issuance of common stock under stock plans	150,446	94,582	359,165
Repurchases of common stock	(78,197)	(153,332)	(42,090)
Cash provided by/(used for) financing	<u>390,714</u>	<u>(122,983)</u>	<u>300,544</u>
Effect of exchange rate changes on cash	<u>(1,406)</u>	<u>8,034</u>	<u>3,448</u>
Increase in cash and cash equivalents	44,155	127,162	248,067
Cash and cash equivalents - beginning of year	403,888	448,043	575,205
Cash and cash equivalents - end of year	<u>\$ 448,043</u>	<u>\$ 575,205</u>	<u>\$ 823,272</u>

Investments in debt and equity securities of \$183 million are included in cash and cash equivalents at both October 25, 1998 and October 31, 1999.

Information about the contractual maturities of short-term investments at October 31, 1999 is as follows:

	1998	1999
	(In thousands)	
Obligations of states and political subdivisions	\$ 253,709	\$ 293,720
U.S. commercial paper, corporate bonds and medium-term notes	473,654	882,405
Bank certificates of deposit	138,053	282,399
U.S. Treasury and agency securities	211,094	360,710
Other debt securities	111,841	117,945
	<u>\$1,188,351</u>	<u>\$1,937,179</u>

Gross unrealized holding gains and losses were not material at October 25, 1998 or October 31, 1999. Gross realized gains and losses on sales of short-term investments were not material for the years ended October 26, 1997, October 25, 1998 or October 31, 1999. Applied Materials manages its cash equivalents and short-term investments as a single portfolio of highly marketable securities that is intended to be available to meet Applied Materials' current cash requirements.

Derivative Financial Instruments The notional amounts of derivative financial instruments at October 25, 1998 and October 31, 1999 were as follows:

	Due in One Year or Less	Due After One Year Through Three Years	Due After Three Years	Total
	(In thousands)			
Obligations of states and political subdivisions	\$ 100,030	\$126,595	\$ 67,095	\$ 293,720
U.S. commercial paper, corporate bonds and medium-term notes	693,794	116,812	71,799	882,405
Bank certificates of deposit	282,399	-	-	282,399
U.S. Treasury and agency securities	231,405	22,711	106,594	360,710
Other debt securities	33,835	63,033	21,077	117,945
	<u>\$1,341,463</u>	<u>\$329,151</u>	<u>\$266,565</u>	<u>\$1,937,179</u>

All forward exchange and currency option contracts outstanding at October 31, 1999 have remaining maturities of less than one year. Management believes that these contracts should not subject Applied Materials to undue risk from foreign exchange movements because gains and losses on these contracts generally offset gains and losses on the underlying assets, liabilities and transactions being hedged.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value of Financial Instruments For Applied Materials' financial instruments, including cash, cash equivalents, short-term investments, accounts receivable, notes payable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to the short maturities of

these financial instruments. Consequently, these financial instruments are not contained in the following table that provides information about the carrying amounts and estimated fair values of other financial instruments, including those financial instruments that are not carried on Applied Materials' Consolidated Balance Sheets:

	1998	1999
	(In thousands)	
Forward exchange contracts to sell foreign currency (primarily Japanese yen) for U.S. dollars	\$274,326	\$564,465
Forward exchange contracts to sell U.S. dollars for foreign currency (primarily Japanese yen)	\$ 88,248	\$389,038
Currency option contracts to sell Japanese yen for U.S. dollars	\$189,380	\$227,037

The estimated fair value of long-term debt is based primarily on quoted market prices for the same or similar issues. The fair value of forward exchange and currency option contracts is based on quoted market prices for comparable instruments.

Note 3 - Balance Sheet Detail

	1998		1999	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In thousands)			
Long-term debt, including current portion	\$623,939	\$656,603	\$620,841	\$605,366
Forward exchange contracts:				
Sell foreign currency	\$241,517	\$239,827	\$545,313	\$546,804
Buy foreign currency	\$ 99,293	\$ 99,293	\$396,318	\$396,318
Currency option contracts:				
Sell foreign currency	\$ 3,892	\$ 202	\$ 2,601	\$ 302

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	1998	1999
	(In thousands)	
Inventories:		
Customer service spares	\$ 239,139	\$ 239,082
Raw materials	98,180	102,843
Work-in-process	126,533	202,312
Finished goods	92,029	88,480
	<u>\$ 555,881</u>	<u>\$ 632,717</u>
Property, Plant and Equipment:		
Land and improvements	\$ 125,467	\$ 188,313
Buildings and improvements	712,740	796,978
Demonstration and manufacturing equipment	501,648	498,532
Furniture, fixtures and other equipment	384,069	378,053
Construction in progress	274,220	297,082
	<u>1,998,144</u>	<u>2,158,958</u>
Gross property, plant and equipment	1,998,144	2,158,958
Accumulated depreciation	(736,624)	(931,221)
	<u>\$1,261,520</u>	<u>\$1,227,737</u>
Other Assets:		
Purchased technology, net	\$ 91,218	\$ 205,213
Goodwill, net	11,614	162,015
Other	46,385	51,078
	<u>\$ 149,217</u>	<u>\$ 418,306</u>

Note 4 - AKT

In September 1993, Applied Materials entered into an agreement with Komatsu, Ltd. (Komatsu) to form Applied Komatsu Technology,

Inc. (AKT), a joint venture corporation that developed, manufactured and marketed systems used to produce Flat Panel Displays (FPDs). The FPD market currently includes screens for laptop, notebook and palmtop computers, desktop monitors, digital/video cameras, portable televisions and instrument displays. Because Applied Materials and Komatsu each owned 50 percent of the AKT joint venture, Applied Materials accounted for its interest in the joint venture using the equity method.

During the fourth fiscal quarter of 1998, Applied Materials decided to discontinue the operations of AKT over a 12-month period. As a result of this decision, Applied Materials recorded a \$40 million provision for discontinued operations, consisting of \$19 million primarily for immediate headcount reductions and lease terminations, and \$21 million for net expenses and other obligations expected to be incurred during, or at completion of, the 12-month wind-down period. In addition to the above amounts, Applied Materials also recorded its \$18 million share of AKT's operating losses as a component of discontinued operations.

AKT began to wind down its operations by ceasing development efforts on new and next-generation systems and technology and by no longer offering physical vapor deposition and etch systems for sale. During the wind-down period, customer orders were accepted only for chemical vapor deposition systems. In late fiscal 1999, an overall improvement in the FPD industry enhanced AKT's financial condition and improved its business outlook. This change caused Applied Materials to reassess its decision to discontinue AKT's operations. Based on this reassessment, Applied Materials decided that AKT's operations should not be discontinued, and agreed to acquire Komatsu's 50 percent interest in AKT for \$87 million in cash.

The AKT acquisition was completed on October 29, 1999 and was accounted for as a purchase business combination. The allocation of the purchase price resulted in acquired in-process research and development expense of \$8 million, a purchased technology asset of \$75 million and a goodwill asset of \$35 million. Purchased technology and goodwill will be amortized to expense over five years and 10 years, respectively. Because of the decision to continue AKT's operations, Applied Materials reclassified AKT's prior period operating results from discontinued operations to continuing operations, and reversed into income in fiscal 1999 the \$21 million provision for discontinued operations recorded in fiscal 1998, which was no longer required. The reclassifications did not change Applied Materials' previously reported net income or earnings per share amounts, and were recorded in accordance with Emerging Issues Task Force Issue No. 90-16, "Accounting for Discontinued Operations Subsequently Retained." Because the acquisition was completed on the last business day of Applied Materials' fiscal year and was accounted for as a purchase business combination, AKT's balance sheet accounts at that date have been included in Applied Materials' Consolidated Balance Sheet at October 31, 1999. Beginning November 1, 1999, AKT will operate as a wholly-owned subsidiary of Applied Materials, and will be fully consolidated in Applied Materials' Balance Sheet and Statement of Operations.

Applied Materials has credit facilities for unsecured borrowings in various currencies up to approximately \$650 million, of which \$500 million is comprised of two revolving credit agreements in the United States with a group of banks. One agreement is a \$250 million line of credit that expires in March 2000, but is expected to be renewed, and the other is a \$250 million line of credit that expires in March 2003. The agreements provide for borrowings at various rates, including the lead bank's prime reference rate, and include financial and other covenants with which Applied Materials was in compliance at October 31, 1999. No amount was outstanding under these agreements at the end of any fiscal year presented. The remaining credit facilities of \$150 million are primarily with Japanese banks at rates indexed to their prime reference rate. Amounts outstanding under Japanese credit facilities at October 25, 1998 and October 31, 1999 were not material.

Note 6 - Long-Term Debt

Information with respect to Applied Materials' long-term debt outstanding at October 25, 1998 and October 31, 1999 is as follows:

	1998	1999
	(In thousands)	
Accounts Payable and Accrued Expenses:		
Accounts payable	\$ 182,616	\$ 363,179
Compensation and employee benefits	185,391	295,028
Installation and warranty	179,742	228,892
Restructuring	91,781	15,536
Other	401,811	486,171
	<u>\$1,041,341</u>	<u>\$1,388,806</u>

At October 31, 1999, \$41 million of Japanese debt was secured by property and equipment having a net book value of approximately \$64 million.

Applied Materials has debt agreements that contain financial and other covenants. These covenants place restrictions on additional borrowings by U.S. subsidiaries of Applied Materials, liens against Applied Materials' assets and certain sale and leaseback transactions. At October 31, 1999, Applied Materials was in compliance with all covenants.

At October 31, 1999, aggregate debt maturities were as follows: \$36 million in fiscal 2000; \$12 million in fiscal 2001; \$5 million in fiscal 2002; \$5 million in fiscal 2003; \$105 million in fiscal 2004; and \$458 million thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 7 - Non-Recurring Items

Non-recurring operating expense items do not include items associated with the fiscal 1998 decision by Applied Materials to discontinue the operations of AKT or non-recurring income (see

Note 4 and Note 8 of Notes to Consolidated Financial Statements). Non-recurring operating expense items for fiscal 1997, 1998 and 1999 included the following:

	1998	1999
	(In thousands)	
Japanese debt, 1.72% - 4.85%, maturing 1999-2011	\$ 50,939	\$ 47,841
6.65 - 7.00% medium-term notes due 2000 - 2005, interest payable March 15 and September 15	73,000	73,000
8% noncallable unsecured senior notes due 2004, interest payable March 1 and September 1	100,000	100,000
6.75% noncallable unsecured senior notes due 2007, interest payable April 15 and October 15	200,000	200,000
7.125% noncallable unsecured senior notes due 2017, interest payable April 15 and October 15	200,000	200,000
	623,939	620,841
Current portion	(7,367)	(36,484)
	\$616,572	\$584,357

Acquired In-Process Research and Development Expense During fiscal 1997, Applied Materials acquired two companies, Opal, Inc. (Opal) and Orbot Instruments, Ltd. (Orbot), in separate transactions that totaled \$293 million, consisting primarily of cash, and recognized \$60 million of acquired in-process research and development expense. With the exception of this charge, the transactions did not have a material effect on Applied Materials' results of operations for fiscal 1997. During fiscal 1998, Applied Materials determined that a purchased technology asset recorded in connection with these acquisitions was impaired (see "Write-Down of Impaired Asset" below).

During fiscal 1998, Applied Materials entered into an agreement with Trikon Technologies, Inc. for a non-exclusive, worldwide, perpetual license of MORI™ plasma source and Forcefill™ deposition technology. Because the development of this technology had not yet reached technological feasibility at the time of its acquisition and had no alternative future use for Applied Materials, Applied Materials recognized \$32 million, including transaction costs, of acquired in-process research and development expense at the time of its acquisition.

During the fourth fiscal quarter of 1999, Applied Materials recorded \$35 million of acquired in-process research and development expense in connection with its acquisition of Obsidian, Inc. (Obsidian). With the exception of this charge, the Obsidian acquisition did not have a material effect on Applied Materials' results of operations. For further details regarding this acquisition, see Note 14 of Notes to Consolidated Financial Statements. Also during the fourth fiscal quarter of 1999, Applied Materials recorded \$8 million of acquired in-process research and development expense in connection with its acquisition of AKT. For further details regarding this acquisition, see Note 4 of Notes to Consolidated Financial Statements.

Write-Down of Impaired Asset During the fourth fiscal quarter of 1998, Applied Materials determined that the carrying value of a certain purchased technology asset exceeded its net realizable value. This occurred because of rapid changes in technology and significant changes in business conditions, both of which resulted in a reduced demand outlook for products incorporating the purchased technology. Applied Materials' determination was supported by the results of an independent analysis prepared by a nationally-recognized valuation firm. In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," Applied Materials recorded a pre-tax charge of \$70 million for this impairment in asset value.

Restructuring Charges During fiscal 1998, Applied Materials recorded pre-tax restructuring charges of \$135 million, consisting of \$75 million for headcount reductions and \$60 million for consolidation of facilities and related fixed assets. These restructuring actions occurred in Applied Materials' third and fourth fiscal quarters, and were taken to align Applied Materials' cost structure with prevailing market conditions and to create a more flexible and efficient organization that would be better positioned for an industry recovery. Headcount reductions consisted of a voluntary separation plan during the third fiscal quarter of 1998 and a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reduction in force during the fourth fiscal quarter of 1998. The voluntary separation plan resulted in a headcount reduction of approximately 800 employees, or approximately six percent of Applied Materials' global workforce, for a cost of \$25 million. The reduction in force eliminated approximately 2,000 additional positions, or approximately 15 percent of Applied Materials' global workforce, for a cost

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of \$50 million. The majority of these positions were eliminated in California and Texas, with the remainder being eliminated from other locations worldwide.

Total cash outlays for fiscal 1998 restructuring activities are expected to be \$105 million. The remaining \$30 million of restructuring costs consisted of non-cash charges primarily for asset write-offs. During fiscal 1998 and 1999, \$42 million and \$47 million, respectively, of cash was used for restructuring costs. The majority of the remaining cash outlays of \$16 million are expected to occur in fiscal 2000.

Restructuring activity for fiscal 1998 and 1999 was as follows:

	1997	1998	1999
		(In thousands)	
Acquired in-process research and development expense	\$59,500	\$ 32,227	\$43,400
Write-down of impaired asset	—	70,000	—
Restructuring charges	—	135,000	—
Bad debt expense	16,318	—	—
Acquisition expenses	—	—	5,000
	\$75,818	\$237,227	\$48,400

Bad Debt Expense During fiscal 1997, Applied Materials determined that its outstanding accounts receivable balance from Thailand-based Submicron Technology PCL (SMT) was not collectible. Therefore, Applied Materials repossessed systems previously sold to SMT which had not been fully paid for, and recorded \$16 million of bad debt

expense.

Acquisition Expenses During the first fiscal quarter of 1999, Applied Materials recorded a \$5 million pre-tax, operating expense for costs incurred in connection with its acquisition of Consilium Inc. (Consilium). For further details regarding this acquisition, see Note 14 of Notes to Consolidated Financial Statements.

Note 8 — Non-Recurring Income, Net

During fiscal 1997, Applied Materials settled certain outstanding litigation with Novellus Systems, Inc. (Novellus) and General Signal Corporation (GSC). In connection with the Novellus settlement, Applied Materials received \$80 million in damages for past patent infringement, and was awarded the right to receive ongoing royalties for certain system shipments subsequent to the date of the settlement. Royalties from Novellus have not been, and are not expected to be, material. In connection with the GSC settlement, Applied Materials paid \$11 million and acquired ownership from GSC of certain patents and patent applications regarding "cluster tool" architecture. The net effect of the Novellus and GSC settlements was \$69 million of pre-tax, non-operating income.

During the first fiscal quarter of 1998, Applied Materials settled all outstanding litigation with ASM International N.V. (ASMI). As a result of this settlement, Applied Materials received a convertible note for \$80 million and recorded the amount as pre-tax, non-recurring income. Applied Materials collected \$15 million against the note in November 1997. During the fourth fiscal quarter of 1998, Applied Materials determined, based on facts and circumstances known at that time, that collection of the remaining note balance was doubtful, and recorded a \$65 million pre-tax, non-recurring charge to fully reserve the outstanding note balance. The net effect of the ASMI settlement for fiscal 1998 was \$15 million of pre-tax, non-recurring, non-operating income.

During the first fiscal quarter of 1999, subsequent to the original maturity date of the ASMI note and in accordance with a restructured agreement, Applied Materials received a \$20 million payment from ASMI and recorded the amount as non-recurring income. During the fourth fiscal quarter of 1999, Applied Materials received another payment from ASMI of \$10 million and also recorded the amount as non-recurring income. Pursuant to the restructured agreement, ASMI's remaining payment of \$35 million is due in the first fiscal quarter of 2001. Applied Materials will recognize non-recurring income related to the remaining balance of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the note receivable upon receipt of cash. Other obligations of ASMI, including royalty payments, were also modified under the restructured agreement and new provisions were added. Royalties received from ASMI pursuant to the settlement agreement have not been, and are not expected to be, material. Other modifications and provisions have not in the past had, but may in the future have, a material favorable effect on Applied Materials' results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 – Stockholders' Equity

Comprehensive Income Applied Materials adopted Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income," in the first fiscal quarter of 1999. SFAS 130 establishes new rules for the reporting and display of comprehensive income and its components, but does not impact net income or total stockholders' equity. See the Consolidated Statements of Stockholders' Equity for the components of comprehensive income, which are presented net of tax. Accumulated other comprehensive income/(loss) presented in the accompanying Consolidated Balance Sheets consists entirely of foreign currency translation adjustments.

Stock Repurchase Program Since March 1996, Applied Materials has systematically repurchased shares of its common stock in the open market to partially fund its stock-based employee benefit and incentive plans. In fiscal 1997, 2,654,000 shares were repurchased at an average price of \$29.46 per share. In fiscal 1998, 4,863,000 shares were repurchased at an average price of \$31.53 per share. In fiscal 1999, 550,000 shares were repurchased at an average price of \$76.53 per share.

Stockholder Rights Plan In July 1999, after expiration of Applied Materials' stockholder rights plan, the Board of Directors of Applied Materials (the Board) adopted a new stockholder rights plan. Under the new plan, the Board distributed one preferred stock purchase right (a "Right") for each share of Applied Materials' common stock outstanding on July 18, 1999, and authorized the distribution of one Right for each subsequently issued common share. Each Right entitles the holder to purchase one ten-thousandth of a share of a new series of preferred stock at a price of \$375. The Board authorized the issuance of 110,000 preferred shares under this plan, none of which have been issued. The Rights will be exercisable only if a person or group acquires 20 percent or more of Applied Materials' outstanding common stock, or announces a tender offer for 20 percent or more of Applied Materials' outstanding common stock. In the event that any such acquiring person or group triggers the exercise provisions (other than as a result of a tender offer or exchange offer for all outstanding common stock at a price determined by the Board to be fair and adequate to the stockholders, and otherwise in the best interests of Applied Materials and its stockholders), each Right will entitle its holder to purchase, for \$375, a number of shares of Applied Materials' common stock having a market value of \$750. In such event, any Rights held by the acquiring person or group will become null and void. A Board committee composed of independent directors will review the new rights plan at least every three years. This committee will communicate its conclusions, including any recommendation as to whether the plan should be modified or the Rights redeemed, to the full Board after each review. Unless earlier redeemed, the Rights will expire on July 6, 2009.

Note 10 – Employee Benefit Plans

Stock Options Applied Materials grants options to key employees and non-employee directors to purchase shares of its common stock, at future dates, at the fair market value on the date of grant. Options generally vest over one to four years, and generally expire no later than seven years from the date of

grant. There were 12,445,000, 12,762,000 and 1,758,000 shares available for grant at the end of fiscal 1997, 1998 and 1999, respectively. At the March 2000 Annual Meeting of Stockholders, Applied Materials will ask

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

stockholders to approve additional shares for issuance under its stock option plan. Stock option activity was as follows:

	Severance and Benefits	Facilities	Total
		(In thousands)	
Provision for fiscal 1998	\$ 74,812	\$ 60,188	\$135,000
Amount utilized in fiscal 1998	(39,526)	(3,693)	(43,219)
Balance, October 25, 1998	35,286	56,495	91,781
Amount utilized in fiscal 1999	(29,852)	(46,393)	(76,245)
Balance, October 31, 1999	\$ 5,434	\$ 10,102	\$ 15,536

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes information with respect to options outstanding and exercisable at October 31, 1999:

	1997	Weighted Average Exercise Price	1998	Weighted Average Exercise Price	1999	Weighted Average Exercise Price
	(In thousands, except per share amounts)					
Outstanding, beginning of year	30,564	\$10.05	34,057	\$15.16	52,633	\$22.10
Granted and assumed	13,324	21.21	26,848	29.14	13,458	67.37
Exercised	(7,744)	6.00	(4,041)	8.08	(10,726)	15.12
Canceled	(2,087)	12.82	(4,231)	24.29	(2,895)	26.42
Outstanding, end of year	34,057	\$15.16	52,633	\$22.10	52,470	\$34.50
Exercisable, end of year	8,298	\$ 8.51	12,772	\$13.46	11,724	\$19.14

During the first fiscal quarter of 1998, Applied Materials granted each employee (excluding officers) an option to purchase 200 shares of Applied Materials' common stock, for a total grant of approximately 2,900,000 shares. This grant was made in recognition of Applied Materials' 30th anniversary. Also, later in fiscal 1998, Applied Materials granted each employee (excluding officers and other executives) an option to purchase 200 shares of Applied Materials' common stock, for a total grant of approximately 2,500,000 shares. This grant was made to address employee morale and retention concerns in light of the industry downturn and necessary restructuring actions taken by Applied Materials. Neither of these grants required stockholder approval.

Employee Stock Purchase Plan Applied Materials sponsors two employee stock purchase plans (ESPP) for the benefit of U.S. and international employees. The U.S. plan is qualified under Section 423 of the Internal Revenue Code. Under the ESPP, substantially all employees may purchase Applied

Materials' common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value at the beginning or end of each six-month offering period. Stock purchases under the ESPP are limited to 10 percent of an employee's eligible compensation, up to a maximum of \$12,750, in any plan year. During fiscal 1997, 1998 and 1999, 1,697,000, 1,436,000 and 1,411,000 shares, respectively, were issued under the ESPP. In fiscal 1999, stockholders approved an additional 8,000,000 shares for issuance under the ESPP. At October 31, 1999, 10,684,000 shares were reserved for future issuance under the ESPP.

Stock-Based Compensation Applied Materials has adopted the disclosure-only provisions of SFAS 123. Accordingly, no compensation expense has been recognized for Applied Materials' stock option and purchase plan activity. If compensation expense had been determined based on the grant date fair value for awards in fiscal 1997, 1998 and 1999 in accordance with the provisions of SFAS 123, Applied Materials' net income and earnings per share would have been reduced to the pro forma amounts indicated below:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In years)	Number of Shares (In thousands)	Weighted Average Exercise Price
\$ 0.01 - \$ 9.96	948	\$ 7.37	3.2	871	\$ 7.35
\$ 9.97 - \$19.93	11,985	13.53	3.6	6,443	13.28
\$19.94 - \$29.89	14,857	25.71	5.5	2,059	23.67
\$29.90 - \$39.85	13,243	32.89	5.2	1,920	33.12
\$39.86 - \$49.81	746	45.91	4.8	404	46.07
\$49.82 - \$89.81	10,691	73.21	6.9	27	55.85
	<u>52,470</u>	<u>\$34.50</u>	<u>5.2</u>	<u>11,724</u>	<u>\$19.14</u>

The pro forma effects of applying SFAS 123 will not be fully reflected until fiscal 2000 since SFAS 123 is applicable only to stock options granted subsequent to December 15, 1995.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In calculating pro forma compensation, the fair value of each stock option grant and stock purchase right is estimated on the date of grant using the Black-Scholes option-pricing model and the following weighted average assumptions:

	1997	1998	1999
	(In thousands, except per share amounts)		
Net income as reported	\$498,474	\$230,902	\$746,649
Pro forma net income	\$466,395	\$146,094	\$635,252
Earnings per share as reported:			
Basic	\$ 1.37	\$ 0.63	\$ 1.99
Diluted	\$ 1.32	\$ 0.61	\$ 1.89
Pro forma earnings per share:			
Basic	\$ 1.28	\$ 0.40	\$ 1.69
Diluted	\$ 1.23	\$ 0.39	\$ 1.60

According to the Black-Scholes option-pricing model, the weighted average estimated fair value of employee stock option grants was \$10.96 for fiscal 1997, \$13.54 for fiscal 1998 and \$34.13 for fiscal 1999. The weighted average estimated fair value of purchase rights granted under the ESPP was \$7.31 for fiscal 1997,

\$9.61 for fiscal 1998 and \$10.16 for fiscal 1999.

Employee Bonus Plans Applied Materials has various employee bonus plans. A profit sharing plan provides for the distribution of a percentage of pre-tax profits to substantially all Applied Materials employees not eligible for other performance-based incentive plans, up to a maximum percentage of compensation. Other plans award annual bonuses to Applied Materials' executives and key contributors based on the achievement of profitability and other specific performance criteria. Applied Materials also has agreements with key technical employees that provide for additional compensation related to the success of new product development and achievement of specified profitability criteria. Charges to expense under these plans were \$126 million for fiscal 1997, \$111 million for fiscal 1998 and \$204 million for fiscal 1999.

Employee Savings and Retirement Plan The Employee Savings and Retirement Plan is qualified under Sections 401(a) and (k) of the Internal Revenue Code. Applied Materials contributes a percentage of each participating employee's salary deferral contributions. Company matching contributions are invested in Applied Materials' common stock and become 20 percent vested at the end of an employee's third year of service, and vest 20 percent per year of service thereafter until becoming fully vested at the end of seven years of service. Applied Materials' matching contributions under this plan were \$13 million in fiscal 1997, \$18 million in fiscal 1998 and \$15 million in fiscal 1999.

Defined Benefit Plans of Foreign Subsidiaries Several of Applied Materials' foreign subsidiaries have defined benefit pension plans covering substantially all of their eligible employees. Benefits under these plans are based on years of service and final average compensation levels. Funding is limited by the local statutory requirements of the countries in which the subsidiaries are located. Expenses under these plans, consisting principally of service cost, were \$7 million for both fiscal 1997 and 1998 and \$9 million for fiscal 1999. At October 31, 1999, the aggregate accumulated benefit obligation was \$35 million, the projected benefit obligation was \$59 million, and the fair value of plan assets was \$20 million.

Post-Retirement Benefits On January 1, 1999, Applied Materials adopted a plan that provides medical benefits (including vision) to retirees who are at least age 55, and whose age plus years of service is at least 65 at date of retirement. An eligible retiree may elect coverage for a spouse or domestic partner under the age of 65. Coverage under the plan generally ends for both the retiree and spouse or domestic partner no later than age 65. This plan has not had, and is not expected to have, a material effect on Applied Materials' financial condition or results of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 11 - Income Taxes

The components of income from continuing operations before taxes and equity in net income/(loss) of joint venture were as follows:

	1997	1998	1999	1997	1998	1999
Dividend yield	None	None	None	None	None	None
Expected volatility	55%	55%	59%	55%	55%	59%
Risk-free interest rate	6.27%	5.33%	5.48%	6.39%	5.93%	4.75%
Expected lives (in years)	3.6	3.7	4.0	0.5	0.5	0.5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	1997	1998	1999
		(In thousands)	
U.S.	\$ 678,049	\$ 383,210	\$ 965,775
Foreign	120,872	54,623	56,015
Income from continuing operations before taxes and equity in net income/(loss) of joint venture	\$ 798,921	\$ 437,833	\$ 1,021,790

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

	1997	1998	1999
		(In thousands)	
Current:			
U.S.	\$ 261,120	\$ 133,852	\$ 244,655
Foreign	60,594	44,267	62,440
State	31,276	20,144	12,495
	352,990	198,263	319,590
Deferred:			
U.S.	(51,939)	(34,277)	12,298
Foreign	1,207	(5,456)	(3,755)
State	(1,811)	(9,667)	1,797
	(52,543)	(49,400)	10,340
Provision for income taxes	\$ 300,447	\$ 148,863	\$ 329,930

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

	1997	1998	1999
Tax provision at U.S. statutory rate	35.0%	35.0%	35.0%
Non-tax deductible acquired in-process research and development expense	2.6	—	1.5
Effect of foreign operations taxed at various rates	0.8	1.3	0.8
State income taxes, net of federal benefit	2.4	1.6	0.9
Research tax credits	(0.8)	(1.9)	(1.4)
FSC benefit	(2.2)	(3.4)	(3.9)
Other	(0.2)	1.4	(0.6)
Provision for income taxes	37.6%	34.0%	32.3%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

U.S. income taxes have not been provided for approximately \$74 million of cumulative undistributed earnings of several non-U.S. subsidiaries. Applied Materials intends to reinvest these earnings indefinitely in operations outside of the United States.

Note 12 – Industry Segment and Foreign Operations

In fiscal 1999, Applied Materials adopted Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosures About Segments of an Enterprise and Related Information," which changes the way public companies report information about operating segments. SFAS 131, which is based on a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets and reports revenue. An operating segment is defined as a component that engages in business activities, whose operating results are reviewed by the chief operating decision maker, and for which discrete financial information is available. Applied Materials' chief operating decision maker has been identified as the Office of the President, which reviews operating results to make decisions about allocating resources and assessing performance for the entire company. Applied Materials operates in one segment for the manufacture, marketing and servicing of semiconductor wafer fabrication equipment. All material operating units qualify for aggregation under SFAS 131 due to their similar economic characteristics, nature of products and services, procurement, manufacturing and distribution processes, and identical customer base. Since Applied Materials operates in one segment, all financial segment information required by SFAS 131 can be found in the consolidated financial statements. For geographical reporting, revenues are attributed to the geographic location in which the customer is located. Long-lived assets consist primarily of property, plant and equipment, and are attributed to the geographic location in which they are located. During fiscal 1997 and 1998, no individual customer accounted for more than 10 percent of Applied Materials' net sales. During fiscal 1999, one customer accounted for more than 10 percent of net sales.

	1998	1999
	(In thousands)	
Deferred income tax assets:		
Inventory reserves and basis difference	\$ 86,296	\$ 81,284
Warranty and installation reserves	59,194	71,646
Accrued liabilities	153,923	140,301
Restructuring accrual	32,370	4,570
Other	6,123	26,223
Deferred income tax liabilities:		
Depreciation	(638)	8,324
Purchased technology	(19,159)	(54,476)
Other	8,456	12,980
Net deferred income tax assets	\$326,565	\$290,852

* Primarily the United States.

Note 13 - Commitments and Contingencies

Applied Materials leases some of its facilities and equipment under non-cancelable operating leases and has options to renew most leases, with rentals to be negotiated. Applied Materials also leases some office and general operating facilities in Santa Clara, California, under an agreement that provides for monthly payments based on LIBOR or the relevant commercial paper rate. In accordance with this agreement, Applied Materials must maintain compliance with covenants identical to those contained in its credit facilities. At the end of these leases, Applied Materials is required to acquire the properties at their original cost or arrange for these properties to be acquired by a third party. If the fair market value of the leased properties declines below original cost, Applied Materials will be contingently liable under 82 percent first-loss clauses for up to approximately \$53 million. At October 31, 1999, Applied Materials believed that the fair market value of the leased properties exceeded original cost. Management believes that these contingent liabilities will not have a material adverse effect on Applied Materials' financial condition or results of operations in the future.

Total rent expense for fiscal 1997, 1998 and 1999 was \$69 million, \$71 million and \$62 million, respectively. Future minimum lease payments at October 31, 1999 are: \$66 million for fiscal 2000; \$57 million for fiscal 2001; \$41 million for fiscal 2002; \$28 million for fiscal 2003; \$26 million for fiscal 2004; and \$85 million thereafter.

Applied Materials has several agreements that allow it to sell accounts receivable from selected customers at a discount to various financial institutions. Receivable sales have the effect of increasing cash and reducing accounts receivable and days sales outstanding. Discounting fees were recorded in interest expense and were not material for fiscal 1997, 1998 or 1999. During fiscal 1997, 1998 and 1999, Applied Materials sold \$303 million, \$488 million and \$945 million, respectively, of accounts receivable under these agreements. At October 31, 1999, \$327 million of these receivables remained outstanding and subject to limited recourse provisions. Applied Materials does not expect these recourse provisions to have a material effect on its financial condition or results of operations.

Legal Matters

In April 1997, Applied Materials initiated separate lawsuits in the Northern District of California against AST Electronik GmbH and AST Electronik USA, Inc. (collectively "AST") and AG Associates, Inc. (AG), alleging infringement of certain patents concerning rapid thermal processing technology. In October 1997, AST and AG each filed counterclaims alleging infringement by Applied Materials of patents concerning related technology. In February 1999, Applied Materials and AST resolved their dispute on mutually acceptable terms and conditions. In addition, on August 5, 1998, AG filed a lawsuit in California against Applied Materials alleging infringement of another patent relating to rapid thermal processing technology, and, on August 13, 1998, AG filed a lawsuit in Delaware against Applied Materials alleging infringement of two other patents concerning related technology. The Delaware case was subsequently transferred to California. In September 1999, the Court suspended each of these actions to allow the parties to engage in settlement discussions.

As a result of the acquisition of Orbot, Applied Materials is

defending a lawsuit brought by KLA Instruments Corp. (KLA) against Orbot. KLA alleges that Orbot infringes a patent for mask and reticle inspection equipment. Limited discovery has occurred and no trial date has been set.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On June 13, 1997, Applied Materials filed a lawsuit against Varian Associates, Inc. (Varian), alleging infringement of several of Applied Materials' patents concerning physical vapor deposition (PVD) technology. The complaint was later amended on July 7, 1997 to include Novellus Systems, Inc. (Novellus) as a defendant as a result of Novellus' acquisition of Varian's thin film systems PVD business. Applied Materials seeks damages for past infringement, a permanent injunction, treble damages for willful infringement, pre-judgment interest and attorneys' fees. Varian answered the complaint by denying all allegations, counterclaiming for declaratory judgment of invalidity and unenforceability and alleging conduct by Applied Materials in violation of antitrust laws. On June 23, 1997, Novellus filed a separate lawsuit against Applied Materials alleging infringement by Applied Materials of three patents concerning PVD technology that were formerly owned by Varian. Varian also has filed a separate lawsuit against Applied Materials alleging a broad range of conduct in violation of federal antitrust laws and state unfair competition and business practice laws. Discovery has commenced in these actions. The Court has scheduled trial of all patent claims for the first half of 2001. No other trial dates have been set.

During fiscal 1998, Applied Materials settled all outstanding litigation with ASM International N.V. (see Note 8 of Notes to Consolidated Financial Statements).

Applied Materials is subject to various other legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. Although the outcome of these claims cannot be predicted with certainty, management does not believe that any of these legal matters will have a material adverse effect on Applied Materials' financial condition or results of operations.

Note 14 - Acquisitions

On December 11, 1998, Applied Materials acquired Consilium, a supplier of integrated semiconductor and electronics manufacturing execution systems and services, in a stock-for-stock merger accounted for as a pooling of interests. Due to the immateriality of Consilium's historical financial position and results of operations in relation to those of Applied Materials, Applied Materials' prior period financial statements have not been restated. Applied Materials issued 1.7 million shares of its common stock to complete this transaction, and recorded \$5 million of transaction costs as a one-time operating expense. The Consilium acquisition did not have a material effect on Applied Materials' financial condition or results of operations for fiscal 1999.

On October 5, 1999, Applied Materials acquired Obsidian, a developer of fixed-abrasive chemical mechanical polishing solutions for the semiconductor industry, in a stock-for-stock merger accounted for as a purchase business combination. Applied

Materials issued shares of its common stock having a market value of \$150 million to complete this transaction. The allocation of the purchase price resulted in acquired in-process research and development expense of \$35 million, a purchased technology asset of \$36 million and a goodwill asset of \$117 million. Purchased technology and goodwill will be amortized to expense over 7 years. Except for in-process research and development expense, the Obsidian acquisition did not have a material effect on Applied Materials' financial condition or results of operations.

On October 29, 1999, Applied Materials acquired the remaining 50 percent of AKT, a company that develops, manufactures and markets systems used to produce Flat Panel Displays. For further details, see Note 4 of Notes to Consolidated Financial Statements.

If all of Applied Materials' fiscal 1999 acquisitions had occurred as of the beginning of fiscal 1998, pro forma net sales, pro forma income from continuing operations, excluding net one-time expenses, and pro forma income from continuing operations per diluted share, excluding net one-time expenses, for fiscal 1998 and 1999 would not have been materially different from the amounts reported.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 15 - Unaudited Quarterly Consolidated Financial Data

	Net Sales	Long-lived Assets
	(In thousands)	
1997:		
North America*	\$1,500,926	\$ 811,539
Taiwan	696,312	41,536
Japan	749,706	125,299
Europe	600,227	65,575
Korea	333,380	52,020
Asia-Pacific	193,724	4,875
Total	\$4,074,275	\$1,100,844
1998:		
North America*	\$1,549,337	\$ 998,508
Taiwan	816,730	39,548
Japan	677,737	135,051
Europe	645,570	83,038
Korea	166,511	42,825
Asia-Pacific	185,802	8,935
Total	\$4,041,687	\$1,307,905
1999:		
North America*	\$1,665,974	\$ 965,238
Taiwan	997,206	34,444
Japan	817,919	142,074
Europe	765,354	103,218
Korea	316,937	26,983
Asia-Pacific	295,746	6,858
Total	\$4,859,136	\$1,278,815

	Quarter				Fiscal Year
	First	Second	Third	Fourth	
1998:	(In thousands, except per share amounts)				

Net sales	\$1,307,685	\$1,176,316	\$ 884,491	\$ 673,195	\$4,041,687
Gross margin	\$ 629,441	\$ 554,289	\$ 394,389	\$ 285,037	\$1,863,156
Income/(loss) from continuing operations*	\$ 228,893	\$ 141,221	\$ 47,517	\$ (165,733)	\$ 251,898
Discontinued operations**	—	—	—	(20,996)	(20,996)
Net income/(loss)	\$ 228,893	\$ 141,221	\$ 47,517	\$ (186,729)	\$ 230,902
Earnings/(loss) per diluted share:					
Continuing operations	\$ 0.60	\$ 0.37	\$ 0.13	\$ (0.45)	\$ 0.67
Discontinued operations	—	—	—	(0.06)	(0.06)
Total	\$ 0.60	\$ 0.37	\$ 0.13	\$ (0.51)	\$ 0.61
1999:					
Net sales	\$ 742,477	\$1,117,626	\$1,433,510	\$1,565,523	\$4,859,136
Gross margin	\$ 321,103	\$ 517,241	\$ 698,615	\$ 784,884	\$2,321,843
Income from continuing operations*	\$ 56,342	\$ 140,457	\$ 254,189	\$ 274,665	\$ 725,653
Discontinued operations**	(3,457)	1,182	(9,773)	33,044	20,996
Net income	\$ 52,885	\$ 141,639	\$ 244,416	\$ 307,709	\$ 746,649
Earnings/(loss) per diluted share:					
Continuing operations	\$ 0.15	\$ 0.36	\$ 0.64	\$ 0.69	\$ 1.84
Discontinued operations	(0.01)	—	(0.03)	0.08	0.05
Total	\$ 0.14	\$ 0.36	\$ 0.61	\$ 0.77	\$ 1.89

* Income/(loss) from continuing operations for fiscal 1998 includes one-time items, on an after-tax basis, of: \$31,530 of income for the first fiscal quarter, \$23,100 of expense for the third fiscal quarter and \$173,523 of expense for the fourth fiscal quarter. Income from continuing operations for fiscal 1999 includes one-time items, on an after-tax basis, of: \$10,350 of income for the first fiscal quarter and \$32,544 of expense for the fourth fiscal quarter.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors of Applied Materials, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Applied Materials, Inc. and its subsidiaries at October 25, 1998 and

October 31, 1999 and the results of their operations and their cash flows for each of the three years in the period ended October 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of Applied Materials' management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/S/ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP

November 17, 1999

STOCK PRICE HISTORY

** As discussed in Note 4 of Notes to Consolidated Financial Statements, in fiscal 1999, Applied Materials reversed its fiscal 1998 decision to discontinue the operations of AKT. As a result, Applied Materials reclassified the prior period operating results of AKT to continuing operations and reversed its charge for discontinuing AKT's operations. The reclassifications had no effect on Applied Materials' net income or total earnings per share amounts as previously reported.

The preceding table sets forth the high and low closing sale prices as reported on the Nasdaq National Market during the last two years.

SUBSIDIARIES OF APPLIED MATERIALS, INC.

	Fiscal year			
	1998		1999	
	High	Low	High	Low
First quarter	38 7/16	26 1/8	63 3/16	31 7/8
Second quarter	38 7/8	30 1/4	68 11/16	51 7/8
Third quarter	39 1/2	27 3/16	78 9/16	53 1/16
Fourth quarter	35 1/8	22 3/8	89 13/16	63 15/16

Legal Entity Name	Place of Incorporation
Applied Materials Japan, Inc.	Japan
Applied Materials Europe BV(1)	Netherlands
Applied Materials International BV	Netherlands
Applied Acquisition Subsidiary	California
Applied Materials (Holdings) (2)	California
Applied Materials Asia-Pacific, Ltd. (3)	Delaware
Applied Materials Israel, Ltd. (4)	Israel
Opal, Inc.	Delaware
Orbot Instruments, Inc.	Delaware
AM Japan LLC	Delaware
Consilium, Inc. (5)	Delaware
Applied Materials SPV1, Inc. (6)	Delaware
Parker Technologies, Inc.	California
AKT, Inc. (7)	Japan
Obsidian, Inc.	California
(1) Applied Materials Europe BV owns the following subsidiaries:	
Applied Materials GmbH	Germany
Applied Materials France SARL	France
Applied Materials Ltd.	United Kingdom
Applied Materials Ireland Ltd.	Ireland
Applied Materials Sweden AB	Sweden
Applied Materials Israel Services (1994) Ltd.	Israel
Applied Materials Italy Srl.	Italy
Applied Materials Belgium S.A.	Belgium
(2) Applied Materials (Holdings) owns the following subsidiary:	
Applied Implant Technology, Ltd.	California
(3) Applied Materials Asia-Pacific, Ltd. owns the following subsidiaries:	
Applied Materials Korea, Ltd.	Korea
Applied Materials Taiwan, Ltd.	Taiwan
Applied Materials South East Asia Pte. Ltd. (a)	Singapore
Applied Materials China, Ltd. (b)	Hong Kong
AMAT (Thailand) Limited	Thailand
(4) Applied Materials Israel, Ltd. owns the following subsidiary:	
Integrated Circuit Testing GmbH	Germany
(5) Consilium, Inc. owns the following subsidiaries:	
Consilium GmbH	Germany
Consilium France SARL	France
Consilium Foreign Sales Corporation	Virgin Islands
Nihon Consilium KK or Consilium Japan Corporation	Japan
Consilium Asia, Inc.	California
Consilium Taiwan, Inc.	Delaware

50-50 JOINT VENTURE OF APPLIED MATERIALS, INC.

Legal Entity Name	Place of Incorporation
(6) Applied Materials SPV1, Inc. owns the following subsidiary:	
Applied Materials SPV2, Inc.	Delaware
(7) AKT, Inc. owns the following subsidiary:	
AKT America, Inc.	California

(a) Applied Materials South East Asia Pte. Ltd. owns the following subsidiary:

Applied Materials (AMSEA) Sdn Bhd

Malaysia

(b) Applied Materials China, Ltd. owns the following subsidiary:

Applied Materials China Tianjin Co., Ltd.

P.R. China

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-8 (Nos. 2-69114; 2-77987; 2-77988; 2-85545; 2-94205; 33-24530; 33-52072; 33-52076; 33-63847; 33-64285; 333-21367; 333-31289; 333-31291; 333-45007; 333-45011; 333-69193; 333-88777; 333-88779; 333-71241; 333-71243; 333-71245) of Applied Materials, Inc. of our report dated November 17, 1999 relating to the consolidated financial statements, which appears in the 1999 Annual Report to Stockholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated November 17, 1999 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP

San Jose, California

January 27, 2000

POWER OF ATTORNEY

The undersigned directors and officers of Applied Materials, Inc., a Delaware corporation (the "Company") hereby constitute and appoint James C. Morgan and Joseph R. Bronson, and each of them with full power to act without the other, the undersigned's true and lawful attorney-in-fact, with full power of substitution and resubstitution, for the undersigned and in the undersigned's name, place and stead in the undersigned's capacity as an officer and/or director of the Company, to execute in the name and on behalf of the undersigned an annual report of the Company on Form 10-K for the fiscal year ended October 31, 1999 (the "Report"), under the Securities and Exchange Act of 1934, as amended, and to file such Report, with exhibits thereto and other documents in connection therewith and any and all amendments thereto, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing necessary or desirable to be done and to take any other action of any type whatsoever in connection with the foregoing which, in the opinion of such attorney-in-fact, may be of benefit to, in the best interest of, or legally required of, the undersigned, it being understood that the documents executed by such attorney-in-fact on behalf of the undersigned pursuant to this Power of Attorney shall be in such form and shall contain such terms and conditions as such attorney-in-fact may approve in such attorney-in-fact's discretion.

IN WITNESS WHEREOF, we have hereunto set our hands this 7th day of December, 1999.

Legal Entity Name

eLith LLC

Place of
Incorporation

Delaware

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED OCTOBER 31, 1999.

1,000

12-MOS
 OCT-31-1999
 OCT-26-1998
 OCT-31-1999
 823,272
 1,937,179
 1,199,943
 1,874
 632,717
 5,060,461
 2,158,958
 931,221
 6,706,504
 1,669,393
 584,357
 0
 0
 3,827
 4,332,775
 6,706,504
 4,859,136
 4,859,136
 2,537,293
 2,537,293
 681,797
 0
 47,093
 1,021,790
 329,930
 725,653
 20,996
 0
 0
 746,649
 1.99
 1.89

ITEM CONSISTS OF LONG TERM DEBT.
 ITEM CONSISTS OF RESEARCH, DEVELOPMENT AND ENGINEERING EXPENSES.
 ITEM CONSISTS OF BASIC EARNINGS PER SHARE.

/s/ JAMES C. MORGAN	Chairman, Chief Executive Officer and Director (Principal Executive Officer)
James C. Morgan	
/s/ DAN MAYDAN	President and Director
Dan Maydan	
/s/ MICHAEL H. ARMACOST	Director
Michael H. Armacost	
/s/ DEBORAH A. COLEMAN	Director
Deborah A. Coleman	
/s/ HERBERT M. DWIGHT, JR.	Director
Herbert M. Dwight, Jr.	
/s/ PHILIP V. GERDINE	Director
Philip V. Gerdine	
/s/ TSUYOSHI KAWANISHI	Director
Tsuyoshi Kawanishi	
/s/ PAUL R. LOW	Director
Paul R. Low	

Alfred J. Stein