UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

# FORM 10-Q

(MARK ONE)

[ X ] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended JULY 28, 1996 or

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

For the transition period from _______________ to _______________

Commission file number 0-6920

APPLIED MATERIALS, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE | 94-1655526 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 3050 BOWERS AVENUE, SANTA CLARA, CALIFORNIA | 95054-3299 |
| Address of principal executive offices | (Zip Code) |

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

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 .

Number of shares outstanding of the issuer's common stock as of July 28, 1996: 179,800,000

PART I. FINANCIAL INFORMATION

APPLIED MATERIALS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (In thousands, except per share data) | July 28, 1996 | July 30, 1995 | July 28, 1996 | July 30, 1995 |
| Net sales | $1,115,424 | $ 897,684 | $3,283,859 | $2,079,231 |
| Cost of products sold | 583,448 | 489,256 | 1,713,792 | 1,127,781 |
| Gross margin | 531,976 | 408,428 | 1,570,067 | 951,450 |
| Operating expenses: | | | | |
| Research, development and engineering | 128,262 | 85,789 | 363,532 | 219,178 |
| Marketing and selling | 82,882 | 62,520 | 240,751 | 158,566 |
| General and administrative | 64,758 | 46,742 | 169,133 | 113,382 |
| Income from operations | 256,074 | 213,377 | 796,651 | 460,324 |
| Interest expense | 4,812 | 5,527 | 14,897 | 17,161 |
| Interest income | 8,839 | 6,323 | 28,265 | 16,306 |
| Income from consolidated companies before taxes | 260,101 | 214,173 | 810,019 | 459,469 |
| Provision for income taxes | 91,035 | 74,961 | 283,506 | 160,814 |
| Income from consolidated companies | 169,066 | 139,212 | 526,513 | 298,655 |
| Equity in net income/loss of joint venture | -- | -- | -- | -- |
| Net income | $ 169,066 | $ 139,212 | $ 526,513 | $ 298,655 |
| Earnings per share | $ 0.92 | $ 0.78 | $ 2.86 | $ 1.71 |
| Average common shares and equivalents | 183,359 | 177,754 | 183,780 | 174,798 |

See accompanying notes to consolidated condensed financial statements.

APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS*

| | (In thousands) | July 28, 1996 | Oct. 29, 1995 |
|---|---|---|---|
| ASSETS | Current assets: | | |
| | Cash and cash equivalents | $ 238,848 | $ 285,845 |
| | Short-term investments | 548,736 | 483,487 |
| | Accounts receivable, net | 973,984 | 817,730 |
| | Inventories | 533,331 | 427,413 |
| | Deferred income taxes | 198,780 | 198,888 |
| | Other current assets | 84,654 | 98,250 |
| | Total current assets | 2,578,333 | 2,311,613 |
| | Property, plant and equipment, net | 881,318 | 630,746 |
| | Other assets | 25,602 | 23,020 |
| | Total assets | $3,485,253 | $2,965,379 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | Current liabilities: | | |
| | Notes payable | $ 24,611 | $ 61,748 |
| | Current portion of long-term debt | 22,710 | 21,064 |
| | Accounts payable and accrued expenses | 779,406 | 659,572 |
| | Income taxes payable | 32,687 | 119,347 |
| | Total current liabilities | 859,414 | 861,731 |
| | Long-term debt | 280,499 | 279,807 |
| | Deferred income taxes and other non-current obligations | 52,636 | 40,338 |
| | Total liabilities | 1,192,549 | 1,181,876 |
| | Stockholders' equity: | | |
| | Common stock | 1,798 | 1,792 |
| | Additional paid-in capital | 752,959 | 760,057 |
| | Retained earnings | 1,526,492 | 999,979 |
| | Cumulative translation adjustments | 11,455 | 21,675 |
| | Total stockholders' equity | 2,292,704 | 1,783,503 |
| | Total liabilities and stockholders' equity | $3,485,253 | $2,965,379 |

* Amounts as of July 28, 1996 are unaudited. Amounts as of October 29, 1995 were obtained from the October 29, 1995 audited financial statements.

See accompanying notes to consolidated condensed financial statements.

APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| (In thousands) | Nine Months Ended July 28, 1996 | July 30, 1995 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 526,513 | $ 298,655 |
| Adjustments required to reconcile net income to cash provided by operations: | | |
| Deferred taxes | (1,064) | (3,111) |
| Depreciation and amortization | 103,921 | 54,047 |
| Equity in net income/loss of joint venture | - | - |
| Changes in assets and liabilities: | | |
| Accounts receivable | (181,203) | (354,523) |
| Inventories | (112,282) | (136,241) |
| Other current assets | 12,671 | (26,282) |
| Other assets | (2,602) | (1,380) |
| Accounts payable and accrued expenses | 142,773 | 195,272 |
| Income taxes payable | (85,028) | 7,015 |
| Other long-term liabilities | 13,383 | 7,185 |
| Cash provided by operations | 417,082 | 40,637 |
| Cash flows from investing activities: | | |
| Capital expenditures, net | (364,835) | (144,569) |
| Proceeds from sales of short-term investments | 494,599 | 165,244 |
| Purchases of short-term investments | (559,848) | (340,620) |
| Cash used for investing | (430,084) | (319,945) |
| Cash flows from financing activities: | | |
| Short-term debt activity, net | (33,422) | 25,401 |
| Long-term debt activity, net | 7,062 | 27,910 |
| Common stock transactions, net | (7,092) | 330,041 |
| Cash provided by (used for) financing | (33,452) | 383,352 |
| Effect of exchange rate changes on cash | (543) | (2,001) |
| Increase (decrease) in cash and cash equivalents | (46,997) | 102,043 |
| Cash and cash equivalents at beginning of period | 285,845 | 160,320 |
| Cash and cash equivalents at end of period | $ 238,848 | $ 262,363 |

For the nine months ended July 28, 1996, cash payments for interest and income taxes were $12,053 and $345,779, respectively. For the nine months ended July 30, 1995, cash payments for interest and income taxes were $13,696 and $145,573, respectively.

See accompanying notes to consolidated condensed financial statements.

APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
NINE MONTHS ENDED JULY 28, 1996
(IN THOUSANDS)

1) Basis of Presentation

In the opinion of management, the unaudited consolidated condensed financial statements included herein have been prepared on a consistent basis with the October 29, 1995 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. Certain amounts in the consolidated condensed financial statements for the periods ended July 30, 1995 have been reclassified to conform to the current presentation.

2) Earnings Per Share

Earnings per share has been computed using the weighted average number of common shares outstanding and common equivalent shares from dilutive stock options.

3) Inventories

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

| | July 28, 1996 | October 29, 1995 |
|---|---|---|
| Customer service spares | $194,936 | $131,411 |
| Systems raw materials | 94,481 | 118,627 |
| Work-in-process | 175,241 | 139,537 |
| Finished goods | 68,673 | 37,838 |
| | $533,331 | $427,413 |

4) Accounts Payable and Accrued Expenses

The components of accounts payable and accrued expenses are as follows:

| | July 28, 1996 | October 29, 1995 |
|---|---|---|
| Accounts payable | $197,966 | $244,014 |
| Compensation and benefits | 140,592 | 109,388 |
| Installation and warranty | 194,837 | 133,035 |
| Other | 246,011 | 173,135 |
| | $779,406 | $659,572 |

5) Stockholders' Equity

During the nine month period ended July 28, 1996, the Company repurchased 730,000 shares of its common stock at an average price of $35.40 per share and reissued 434,000 shares to stock-based employee benefit plans.

6) Subsequent Event

On August 13, 1996, the Company announced a reduction in its global workforce that will result in an estimated $28-$32 million pre-tax restructuring charge during its fourth fiscal quarter ending October 27, 1996. The restructuring charge will cover employee severance costs and benefits, as well as certain costs incurred to consolidate facilities. The restructuring charge consists primarily of cash expenditures to be made prior to the end of the Company's first fiscal quarter of 1997, which ends January 26, 1997.

APPLIED MATERIALS, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

## RESULTS OF OPERATIONS

The Company's net sales for the three and nine month periods ended July 28, 1996 increased 24 and 58 percent, respectively, over the corresponding periods of fiscal 1995 as a result of increased demand for the Company's advanced wafer process technology, multi-chamber equipment and installed base support services. The increased demand for the Company's advanced equipment reflects the semiconductor industry's need for the technical capability to fabricate advanced device structures and the continued investment in systems capable of performing processes required for smaller device geometries. The increase in installed base support services revenue is attributable to a larger installed systems base and our global customers' requirements for high reliability and uptime.

Sales increased in the third quarter and first nine months of fiscal 1996 in all regions when compared to sales in the corresponding periods of fiscal 1995, with the exception of third quarter sales in Europe. Sales by region as a percentage of total sales were as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | July 28, 1996 | July 30, 1995 | July 28, 1996 | July 30, 1995 |
| North America | 29% | 30% | 33% | 34% |
| Europe | 9% | 16% | 15% | 14% |
| Japan | 26% | 28% | 23% | 24% |
| Korea | 21% | 19% | 15% | 18% |
| Asia-Pacific | 15% | 7% | 14% | 10% |

New orders of $931 million were received during the third quarter of fiscal 1996, versus $1,323 million in the second quarter of fiscal 1996. Orders decreased as our customers' investment decisions were negatively impacted by their declining profitability and excess capacity. The Company anticipates that this market downturn is likely to continue for some time. In response to this changing environment, the Company announced a reduction in workforce and related consolidation of facilities for which it will incur an estimated $28-$32 million pre-tax restructuring charge, or approximately $0.10-$0.11 per share after-tax, during its fourth quarter of fiscal 1996. Each region in the global semiconductor equipment market exhibits unique investment patterns which cause regional order growth rates to vary from quarter to quarter. North American orders increased to $338 million from $250 million; Europe increased to $214 million from $203 million; Japan decreased to $141 million from $319 million; Korea decreased to $67 million from $337 million; and Asia-Pacific decreased to $171 million from $214 million. Backlog at July 28, 1996 was $1,663 million, versus $1,901 million at April 28, 1996 and $1,509 million at October 29, 1995.

For the three and nine months ended July 28, 1996, the Company's gross margin as a percentage of sales was 47.7 and 47.8 percent, respectively, up from 45.5 and 45.8 percent for the corresponding periods of fiscal 1995. These improvements resulted primarily from reduced cycle times, improved manufacturing efficiencies and increased unit volume.

Operating expenses as a percentage of sales for the three and nine months ended July 28, 1996 were 24.7 and 23.6 percent, respectively, versus 21.7 and 23.6 percent for the three and nine months ended July 30, 1995. The increase for the three month period is primarily attributable to certain research and development programs, costs associated with the protection of intellectual property rights and the implementation of a worldwide communications software.

Significant operations of the Company are conducted in Japanese yen, British pounds and other foreign currencies. Forward exchange contracts and options are purchased to hedge certain existing firm commitments and foreign currency denominated transactions expected to occur during the next year. Gains and losses on hedge contracts are reported as a component of the related transaction. Because the impact of movements in currency exchange rates on foreign exchange contracts generally offsets the related impact on the underlying items being hedged, these financial instruments do not subject the Company to speculative risk that would otherwise result from changes in currency exchange rates. To date, exchange gains and losses have not had a significant effect on the Company's results of operations.

The Company's effective tax rate for the third quarter and first nine months of fiscal 1996 was 35 percent, consistent with the corresponding periods of fiscal 1995. Management anticipates that a 35 percent effective tax rate will continue throughout fiscal 1996.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's financial condition remained strong, with a ratio of current assets to current liabilities of 3.0:1 at July 28, 1996, compared to 2.7:1 at October 29, 1995. During the first nine months of fiscal 1996, cash, cash equivalents and short-term investments increased $18 million. Cash provided by operations of $417 million resulted primarily from net income (plus non-cash depreciation and amortization charges) of $630 million and an increase in accounts payable and accrued expenses of $143 million, offset by an increase of $293 million in accounts receivable and inventories and a decrease in income taxes payable of $85 million. The principal uses of cash were for net property, plant and equipment acquisitions of $365 million, the majority of which relate to facilities expansion, and net debt repayments of $26 million.

At July 28, 1996, the Company's principal sources of liquidity consisted of $788 million of cash, cash equivalents and short-term investments, $194 million of unissued notes registered under the Company's medium-term note program and $333 million of available credit facilities. The Company's liquidity is affected by many factors, some of which are based on the normal on-going operations of the business and others of which relate to the uncertainties of the industry and global economies. Although the Company's cash requirements will fluctuate based on the timing and extent of these factors, management believes that cash generated from operations, together with its existing sources of liquidity, will be sufficient to satisfy its liquidity requirements for the remainder of the fiscal year.

Capital expenditures are expected to approximate $500 million for fiscal 1996. This amount includes funds for the continuation and completion of facilities expansion and investments in demonstration and test equipment, information systems and other capital equipment.

As of July 28, 1996, the Company is authorized to repurchase 4,470,000 shares of its common stock in the open market. This authorization expires in March 1999.

DISCLOSURE PURSUANT TO THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

When used in this Management's Discussion and Analysis, the words "anticipate," "estimate," "expect" and similar expressions are intended to identify forward-looking statements. These statements are subject to certain risks and uncertainties, including, but not limited to, slowing growth in the demand for semiconductors and the Company's systems and services, challenges from the Company's competition, insufficient cost reduction programs, product pricing pressures, continuing semiconductor device price declines and semiconductor manufacturers' reduced capital spending, that could cause actual results to differ materially from those projected. For more details, refer to the Company's Form 8-K filed with the SEC on February 13, 1996. The Company undertakes no obligation to update the information, including the forward-looking statements, in this Form 10-Q.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In the first of two lawsuits filed by the Company, captioned Applied Materials, Inc. v. Advanced Semiconductor Materials America, Inc., Epsilon Technology, Inc. (doing business as ASM Epitaxy) and Advanced Semiconductor Materials International N.V. (collectively "ASM") (case no. C-91-20061-RMW), Judge William Ingram of the United States District Court for the Northern District of California ruled on April 26, 1994 that ASM's Epsilon I epitaxial reactor infringed three of the Company's United States patents and issued an injunction against ASM's use and sale of the ASM Epsilon I in the United States. ASM has appealed the decision and the injunction has been stayed pending the appeal only as to ASM products offered for sale as of April 1994. The Court recently ruled that ASM's announced redesign of its reduced pressure epitaxial reactors is not subject to this stay order. The stay order further requires that ASM pay a fee, as security for the Company's interest, for each Epsilon I system sold by ASM in the United States after the date of the injunction. Judge Ronald M. Whyte of the same Court ruled that proceedings to resolve the issues of damages, willful infringement and ASM's counterclaims, which had been bifurcated for separate trial, will also be stayed, pending the appeal of Judge Ingram's decision. Oral arguments regarding this appeal were completed on June 5, 1995 before the Court of Appeals for the Federal Circuit. The Company is awaiting the decision of the Court of Appeals. The trial of the Company's second patent infringement lawsuit against ASM, captioned Applied Materials, Inc. v. ASM (case no. C-92-20643-RMW), was concluded before Judge Whyte in May 1995. On November 1, 1995, the Court issued its judgment holding that two of the Company's United States patents were valid and infringed by ASM's reduced pressure epitaxial reactors. ASM has appealed this decision. A permanent injunction was entered on March 7, 1996 prohibiting ASM's use or sale of its ribbed quartz epitaxial reactors within the United States effective June 15, 1996. ASM is allowed to continue service and maintenance of the installed base, including the sale of replacement chambers upon payment of a fee to the Company. On June 14, 1996, the Court entered a stay of the permanent injunction, substantially increasing the fees paid to the Company on ASM's sale of reduced pressure reactors, and permitting ASM's continued sales of such reactors at an average of one (1) reactor per month, until a decision is reached in the Court of Appeals for the Federal Circuit.

In a separate lawsuit filed by ASM against the Company involving one patent relating to the Company's single wafer epitaxial product line, captioned ASM America, Inc. v. Applied Materials, Inc. (case no. C-93-20853-RMW), the Court granted three motions for summary judgment in favor of the Company which eliminate the Company's liability on this patent. The Company's counterclaims against ASM for inequitable conduct were tried by the Court in July 1996. No decision has been made yet. ASM has not indicated whether it intends to appeal this matter. A separate action severed from ASM's case, captioned ASM America, Inc. v. Applied Materials, Inc. (case no. C-95-20169-RMW), involves one United States patent which relates to the Company's Precision 5000 product line. Trial has been scheduled for December 9, 1996, and discovery is proceeding. In these cases, ASM seeks injunctive relief, damages and such other relief as the Court may find appropriate.

Further, the Company has filed a Declaratory Judgment action against ASM, captioned Applied Materials, Inc. v. ASM (case no. C-95-20003-RMW), requesting that an ASM United States patent be held invalid and not infringed by the Company's single wafer epitaxial product line. Discovery is proceeding, and no trial date has been set. On April 10, 1996, the Court denied ASM's motion for summary judgment and granted the Company's motion for summary judgment finding several independent grounds why the Company's reactors do not literally infringe ASM's patent. With this ruling, the Company's liability has been substantially eliminated on this patent. ASM has not indicated whether it intends to appeal this decision. On July 7, 1996, ASM filed a lawsuit, captioned ASM America, Inc. v. Applied Materials, Inc. (case no. C95-20586-RMW), concerning alleged infringement of a United States patent by susceptors in chemical vapor deposition chambers. Discovery has commenced and no trial date has been set.

In September 1994, General Signal Corporation filed a lawsuit against the Company (case no. 94-461-JJF) in the United States District Court, District of Delaware. General Signal alleges that the Company infringes five of General Signal's United States patents by making, using, selling or offering for sale multi-chamber wafer fabrication equipment, including for example, the Precision 5000 series machines. General Signal seeks an injunction, multiple damages and costs, including reasonable attorneys' fees and interest, and such other relief as the court may deem appropriate. This lawsuit is currently in active discovery, and a trial date has been set for January 20, 1997.

In January 1995, the Company filed a lawsuit against Novellus Systems, Inc. in the United States District Court, Northern District of California (case no. C-95-0243-MMC). This lawsuit alleges that Novellus' Concept One, Concept Two, and Maxxus F TEOS systems infringe the Company's United States patent relating to the TEOS-based, plasma enhanced CVD process for silicon oxide deposition. The lawsuit seeks an injunction, damages and costs, including reasonable attorneys' fees and interest, and such other relief as the court may deem appropriate. Damages and counterclaims have been bifurcated for separate trial. A jury trial has been scheduled for November 4, 1996, before Judge Charles A. Legge. On September 15, 1995, the Company filed another lawsuit against Novellus alleging that Novellus' newly announced blanket tungsten interconnect process infringes the Company's United States patent relating to a tungsten CVD process. The Company also sought a declaration that a Novellus United States patent for a gas purge mechanism is not infringed by the Company and/or is invalid. Novellus answered by denying the allegations and counterclaimed by alleging that the Company's plasma enhanced TEOS CVD systems infringe Novellus' United States patents concerning gas purge and gas debubbler mechanisms. Novellus also filed a separate lawsuit as a plaintiff before the same court which contains the same claims as those stated in Novellus' defense of the Company's lawsuit. Both cases have been assigned to Judge Legge. Discovery has commenced, and trial has been set for August 1997.

In the normal course of business, the Company from time to time receives and makes inquiries with regard to possible patent infringement. Management believes that it is unlikely that the outcome of these lawsuits or of the patent infringement inquiries will have a material adverse affect on the Company's financial position or results of operations.

Item 5. Other Information

The ratio of earnings to fixed charges for the nine months ended July 28, 1996 and July 30, 1995, and for each of the last five fiscal years, was as follows:

| Nine Months Ended | | Fiscal Year | | | | |
|---|---|---|---|---|---|---|
| July 28, 1996 | July 30, 1995 | 1995 | 1994 | 1993 | 1992 | 1991 |
| 23.68x | 16.43x | 21.25x | 13.37x | 7.61x | 3.63x | 3.02x |

Item 6. Exhibits and Reports on Form 8-K

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

10.23 Amendment to Employment Agreement with James Bagley, dated May 17, 1996.

27.0 Financial Data Schedule: filed electronically

b) Report on Form 8-K was filed on May 14, 1996. The report contains the Company's financial statements for the period ended April 28, 1996, as attached to its press release dated May 14, 1996.

SIGNATURE

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

APPLIED MATERIALS, INC.

September 10, 1996

By: \s\Gerald F. Taylor
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Gerald F. Taylor
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

By: \s\Michael K. O'Farrell
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Michael K. O'Farrell
Corporate Controller
(Principal Accounting Officer)

CONFIDENTIAL

# AMENDMENT TO EMPLOYMENT AGREEMENT

This Amendment (the "Amendment"), made effective as of May 17, 1996, to that certain Employment Agreement dated August 15, 1995 (the "Employment Agreement") between Applied Materials, Inc., a Delaware corporation (the "Company"), a corporation having its principal office at 3050 Bowers Avenue, Santa Clara, California, and James W. Bagley ("Executive").

## RECITALS

Executive resigned his positions as Vice Chairman of the Board of Directors and as a member of the Board of Directors effective May 17, 1996.

Executive is willing to continue employment by the Company on a part-time basis upon the terms and conditions hereinafter set forth.

The effectiveness of this Amendment is conditioned upon its being duly authorized and approved by the Board of Directors of the Company ("Board"), and the terms of compensation contained herein being approved by the Stock Option and Compensation Committee ("Committee") of the Board.

Capitalized terms used throughout this Amendment will have the same meanings as such terms are defined in the Employment Agreement except as may be modified herein.

This Amendment refers to and should be read in conjunction with the Employment Agreement.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants herein contained, the parties hereto agree as follows:

1. Paragraph 1 of the Employment Agreement (Employment) shall be unchanged.

2. Paragraph 2 of the Employment Agreement (Position and Responsibilities) is amended to read in full as follows:

Position and Responsibilities. Effective immediately, Executive shall serve the Company and the Company shall employ Executive as an advisor to the Company's Chairman of the Board on business, management and performance issues related to the Company, as requested by the Chief Executive Officer.

3. Paragraph 3 of the Employment Agreement (Terms and Duties) is amended to read in full as follows:

Terms and Duties. Executive shall continue as an employee of this Company on an "at will" status. The term of this Employment Agreement shall expire at the close of business on January 3, 1997. Either party hereto may terminate the Employment Agreement, as amended herein, at any time, by giving written notice of its or his election to do so not less than 30 days prior to the effective date of termination. Termination may be accomplished with or without Cause.

4. Paragraph 4 of the Employment Agreement (Compensation and Reimbursement of Expenses; Other Benefits) is hereby amended to read in full as follows:

Compensation and Reimbursement of Expenses: Other Benefits. The Company shall compensate Executive during the period of employment at an annualized base salary of $100. A bonus (not payable under the Senior Executive Bonus Plan) shall be awarded to Executive in December 1996 using the same formula and parameters as were used to compute the fiscal year OCEO bonuses. The bonus payment to Executive for fiscal year 1996 will be computed on the salary earned (both paid and deferred) for fiscal 1996 and, if the Executive elects in accordance with the Executive Deferred Compensation Plan, will be deferred in accordance with Executive's election. Executive will be permitted to defer compensation under the Company's Executive Deferred Compensation Plan and will retain stock options held by him, but Executive will not be eligible for any other Company-sponsored employee benefit plans or compensation arrangements.

5. Paragraph 5 of the Employment Agreement (Obligations of Executive During and After Employment) shall be unchanged.

6. Paragraph 6 of the Employment Agreement (Termination by Company) is superseded in its entirety by this Amendment.

7. Paragraph 7 of the Employment Agreement (Termination by Executive) is superseded in its entirety by this Amendment.

8. Paragraph 8 of the Employment Agreement (Arbitration) shall be unchanged.

9. Paragraph 9 of the Employment Agreement (Notice) shall be unchanged.

10. Paragraph 10 of the Employment Agreement (Non-Waiver. Complete Agreement, Governing Law.) shall be unchanged.

11. Paragraph 11 of the Employment Agreement (Severability) shall be unchanged.

12. Paragraph 12 (Counterparts) of the Employment Agreement shall be unchanged.

13. Paragraph 13 (Publicity) of the Employment Agreement is hereby terminated.

The Executive and the Company have executed this Amendment, effective as of the date first above written.

APPLIED MATERIALS, INC.
a Delaware Corporation

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

THE EXECUTIVE

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James W. Bagley

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTER ENDED JULY 28, 1996.

1,000

YEAR
OCT-27-1996
JUL-28-1996
238,848
548,736
973,984
0
533,331
2,578,333
1,190,632
309,314
3,485,253
859,414
280,499
0
0
1,798
2,290,906
3,485,253
1,115,424
1,115,424
583,448
583,448
128,262
0
4,812
260,101
91,035
169,066
0
0
0
169,066
0.92
0.92