

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended May 1, 1994 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 (I.R.S. Employer
of incorporation or organization) 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)
subject to such filing requirements for the past 90 days. Yes No

Number of shares outstanding of the issuer's common stock as of
May 1, 1994: 83,402,000

PART I. FINANCIAL INFORMATION

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

(In thousands, except per share data)	Three Months Ended		Six Months Ended	
	May 1, 1994	May 2, 1993	May 1, 1994	May 2, 1993
Net sales	\$ 411,332	\$ 255,692	\$ 751,781	\$ 471,266
Costs and expenses:				
Cost of products sold		221,941	145,176	406,411
Research, development and engineering		43,654	33,829	82,892
Marketing and selling		39,370		73,403
General and administrative		20,489	15,110	40,221
Other, net		(541)	1,175	114
				2,078
Income from operations	86,419		35,190	148,740
				58,869
Interest expense		3,472		3,347
Interest income	2,261		1,483	
				4,268
Income from consolidated companies before taxes and cumulative effect of accounting change		85,208		145,888
Provision for income taxes		29,823		10,998
				51,061
Income from consolidated companies before cumulative effect of accounting change		55,385		94,827
Equity in net loss of joint venture	314		-	2,365
				-
Income before cumulative effect of accounting change		55,071		92,462
Cumulative effect of a change in accounting for income taxes				7,000
				-
Net income	\$ 55,071	\$ 22,328	\$ 99,462	\$ 37,014
Earnings per share*				
Before cumulative effect of accounting change	\$ 0.65	\$ 0.27	\$ 1.10	\$ 0.45
Net income	\$ 0.65	\$ 0.27	\$ 1.18	\$ 0.45

Average common shares and equivalents*

84,761

82,034

83,979

81,814

* Retroactively restated for a two-for-one stock split in the form of a 100% stock dividend effective October 5, 1993.

See accompanying notes to consolidated condensed financial statements.

APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands)	May 1, 1994	Oct. 31, 1993
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 96,606	\$ 119,597
Short-term investments	232,517	146,583
Accounts receivable, net	337,291	256,020
Inventories	207,189	154,597
Deferred income taxes	66,674	62,413
Other current assets	47,748	36,706
Total current assets	988,025	775,916
Property, plant and equipment, net	357,495	327,704
Other assets	15,492	16,532
Total assets	\$ 1,361,012	\$ 1,120,152
LIABILITIES		
AND		
STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 35,671	\$ 41,645
Current portion of long-term debt	14,941	7,017
Accounts payable and accrued expenses	331,625	282,699
Income taxes payable	38,022	49,167
Total current liabilities	420,259	380,528
Long-term debt	110,730	121,076
Deferred income taxes and other non-current obligations	24,796	19,786
Total liabilities	555,785	521,390
Stockholders' equity:		
Common stock	834	804
Additional paid-in capital	362,720	256,429
Retained earnings	424,692	325,230
Cumulative translation adjustments	16,981	16,299
Total stockholders' equity	805,227	598,762
Total liabilities and stockholders' equity	\$ 1,361,012	\$ 1,120,152

Amounts as of May 1, 1994 are unaudited. Amounts as of October 31, 1993 were obtained from the October 31, 1993 audited financial statements.

See accompanying notes to consolidated condensed financial statements.

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

(In thousands)	Six Months Ended May 1, 1994	May 2, 1993
Cash flows from operating activities:		
Net income	\$ 99,462	\$ 37,014
Adjustments required to reconcile net income to cash flows provided by operations:		
Depreciation and amortization	23,878	18,011
Cumulative effect of a change in accounting for income taxes	(7,000)	-
Equity in net loss of joint venture	2,365	-
Changes in assets and liabilities:		
Accounts receivable	(79,577)	(13,779)
Inventories	(52,813)	(16,978)
Other current assets	(11,722)	(3,596)
Other assets	(1,541)	(761)
Accounts payable and accrued expenses	48,450	1,934
Income taxes payable	(8,054)	(77)
Other long-term liabilities	4,827	1,023

Cash provided by operations	(81,187)		(14,223)
	18,275	22,791	
Cash flows from investing activities:			
Capital expenditures	(59,592)	(33,912)	
Disposition of property, plant & equipment	7,365	1,742	
Proceeds from short-term investments	69,917	56,076	
Purchases of short-term investments	(155,851)		(109,469)
Cash used for investing	(138,161)	(85,563)	
Cash flows from financing activities:			
Short-term borrowing (repayments), net	(6,487)	4,677	
Long-term debt repayments	(2,850)	(2,848)	
Sales (repurchases) of common stock, net	106,321		(256)
Cash provided by financing	96,984	1,573	
Effect of exchange rate changes on cash	(89)	(215)	
Decrease in cash and cash equivalents	(22,991)		(61,414)
Cash and cash equivalents			
at beginning of period	119,597	159,453	
Cash and cash equivalents			
at end of period	\$ 96,606	\$ 98,039	

Cash payments for interest expense were \$6,759 and \$6,720 for the six months ended May 1, 1994 and May 2, 1993, respectively. Cash payments for income taxes were \$39,092 and \$17,116 for the six months ended May 1, 1994 and May 2, 1993, respectively.

See accompanying notes to consolidated condensed financial statements.

APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)
SIX MONTHS ENDED MAY 1, 1994
(In thousands)

1) Basis of Presentation

In the opinion of management, the unaudited consolidated condensed interim financial statements included herein have been prepared on the same basis as the October 31, 1993 audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary to fairly state the information set forth therein. Certain amounts in the consolidated statement of cash flows for the six months ended May 2, 1993 have been reclassified to conform with the current period's presentation.

2) Earnings Per Share

Earnings per share is computed on the basis of the weighted average number of common shares and common equivalent shares from dilutive stock options.

3) Inventories

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

The components of inventories are as follows:

	May 1, 1994		October 31, 1993	
Customer service spares	\$	53,345	\$	45,584
Systems raw materials		42,998		32,294
Work-in-process		68,768		57,526
Finished goods		42,078		19,193
	\$207,189		\$154,597	

4) Income Taxes

Effective November 1, 1993, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109 (SFAS 109), "Accounting for Income Taxes." The Company adopted SFAS 109 prospectively.

The adoption of SFAS 109 changes the Company's method of accounting for income taxes from the deferred method, pursuant to APB 11, to an asset and liability approach. Under APB 11, deferred taxes are recognized for income and expense items that are reported in different years for financial reporting purposes. Under the asset and liability approach of SFAS 109, deferred assets and liabilities are recognized for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their existing tax bases. The cumulative effect of adopting SFAS 109 resulted in a one-time credit of \$7,000, or \$0.08 per share, and is reported separately in the Consolidated Condensed Statement of Operations for the six month period ended May 1, 1994.

Deferred tax assets (liabilities) at November 1, 1993 relate to the following:

Deferred tax assets:

Financial accruals not currently tax deductible:			
Inventory	\$	13,454	
Warranty and installation		21,022	
Other		19,458	
State income taxes			8,135
Other		4,344	
Total deferred tax assets		66,413	

Deferred tax liabilities:

Net deferred tax assets \$ 59,220

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

During the second quarter of fiscal 1994 Applied Materials, Inc. reported record net sales of \$411.3 million. New orders of \$456.5 million were received during the quarter, driven by increased demand for the Company's Physical Vapor Deposition (PVD) systems, Ion Implant systems and customer support and spares and continued strong demand for Etch and Chemical Vapor Depositions (CVD) systems. Backlog at May 1, 1994 was \$498.8 million.

Results of Operations

The Company's worldwide net sales for the three and six month periods ended May 1, 1994 increased by 61 percent and 60 percent, respectively, from the corresponding periods in fiscal 1993. This growth can be primarily attributed to increased unit sales of the Company's single-wafer, multi-chamber systems and increases in customer support revenues for all of the regions served by the Company. Compared with the six months ended May 2, 1993, PVD, metal Chemical Vapor Deposition (MCVD), Etch and Ion Implant sales were all up significantly. Regionally, 66 percent of the Company's net sales for the second quarter of fiscal 1994 were to customers located outside North America compared to 57 percent in the first quarter of 1994 and 67 percent in the comparable 1993 period. Sales to customers located outside North America represented 62 percent in the first half of 1994 compared to 61 percent in the first half of 1993. Fiscal 1994 year to date sales to customers located in Asia/Pacific (excluding Japan) increased 82 percent from the prior year and accounted for 18 percent of the Company's fiscal 1994 year to date sales, an increase from 15 percent in the comparable fiscal period in 1993. This increase was driven primarily by revenue from systems shipped in the first half of fiscal 1994 in response to a \$80 million Hyundai Electronics Co., Ltd. order. Sales to customers in Japan during the three and six month periods ended May 1, 1994 showed significant increases over the comparable periods in fiscal 1993 as DRAM manufacturers began expansions of new eight-inch lines. Sales in Japan represented 27 percent of total 1994 year to date sales compared to 25 percent of fiscal 1993 year to date sales. Fiscal 1994 year to date sales to customers in Europe increased 36 percent over fiscal 1993 year to date sales due to increasing demand for capacity to produce advanced telecommunication devices. The bookings to net sales ratio in the second quarter of fiscal 1994 has declined from the first quarter of fiscal 1994, which was unusually high due to the \$80 million order from Hyundai. The Company anticipates that the bookings to net sales ratio will remain positive during the remainder of fiscal 1994.

Gross margin as a percentage of sales for the three and six month periods ended May 1, 1994 increased approximately three percentage points from the corresponding periods in fiscal 1993. The continued improvement in gross margin percentage primarily reflects economies of scale in manufacturing and service and support operations as net sales have reached record levels. Past margin trends are not necessarily indicative of future margin performance.

Operating expenses for the three and six month periods ended May 1, 1994 decreased 4.5 and 4.2 percentage points as a percentage of sales, respectively, compared to the corresponding periods in fiscal 1993. This improvement is driven primarily by the Company's record sales levels. The Company intends to invest significant funds for facilities expansion, information systems technology and personnel to support higher volumes of business and thus there can be no assurance that the Company will be successful in maintaining or improving future operating expenses as a percentage of sales.

The Company's effective tax rate for the first quarter and first half of fiscal 1994 was 35 percent, up from 33 percent in fiscal 1993. This increase is due to recently enacted U.S. tax legislation as well as variations in the Company's worldwide income mix and foreign taxes. Management anticipates the 35 percent effective tax rate will continue through the end of fiscal 1994.

Net income for the first half of fiscal 1994 of \$99.5 million includes the favorable impact of an accounting change of \$7.0 million, or \$0.08 per share, from the cumulative effect of the adoption of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). The Company adopted SFAS 109 prospectively and the cumulative accounting change is reported separately in the Consolidated Condensed Statement of Operations.

The market served by the Company is characterized by rapid technological change, increasingly precise customer specifications and global service requirements. The Company's future operating results may be affected inherent uncertainties characteristic of the worldwide semiconductor equipment include, but are not limited to, the development of new technologies, the anticipated transition to a new generation of microprocessors, competitive pricing pressures, global economic conditions, and the availability of needed components. Accordingly, recent historical operating results should be only one factor in evaluating the future financial performance of the Company.

Financial Condition, Liquidity and Capital Resources

The Company's financial condition at May 1, 1994 remained strong. Total current assets exceeded total current liabilities by 2.4 times, compared to 2.0 at October 31, 1993. During the first two quarters of fiscal 1994, cash, cash equivalents, and short-term investments increased \$62.9 million, due primarily to the Company's sale of 2.3 million shares of common stock in the second quarter of fiscal 1994. Cash provided by operations since October 31, 1993 totaled \$18.3 million, resulting primarily from net income and increases in accounts payable and accrued expenses, partially offset by increased inventory and accounts receivable levels. The increase in accounts receivable was due to increased net sales over the prior period. Inventory levels have increased in order to fulfill customer orders scheduled for delivery in the third quarter of fiscal 1994. Other uses of cash include investments in facilities and capital equipment of \$59.6 million and borrowing reductions of \$9.3 million. Capital expenditures are expected to be approximately \$180 million for fiscal year 1994. This amount has increased due to greater than anticipated growth requiring additional funds for facilities expansion, investments in demonstration and test equipment, information systems and other capital expenditures. The Company must continue to manage its manufacturing capacity to ensure that customer demands will be met.

At May 1, 1994, the Company's principal sources of liquidity consisted of \$329.1 million of cash and short-term investments and \$130.4 million in available U.S. and foreign credit facilities. In addition, the Company filed a shelf registration with the Securities and Exchange Commission during the second quarter of fiscal 1994 for the sale of common stock and issuance of debt securities. The sale of 2.3 million shares of common stock occurred in the second quarter of fiscal 1994 and no assurances can be given that the sale of debt securities will occur. The Company's liquidity is affected by many factors, some based on the typical on-going operations of the business and others related 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 the liquidity provided by existing cash balances and current borrowing arrangements, will be sufficient to support operations through fiscal year 1994.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In the first of two lawsuits filed by the Company against Advanced Semiconductor Materials, Inc., Epsilon Technology, Inc. (doing business as ASM Epitaxy) and Advanced Semiconductor Materials International N.V. (the defendants, together, hereafter referred to as "ASM"), described in the Company's Annual Report on Form 10-K for its fiscal year ended October 31, 1993, Judge William Ingram of the United States District Court for the Northern District of California in San Jose issued his decision from the trial which had concluded in August 1993. Judge Ingram found that, of the five patents which the Company had asserted against the ASM Epsilon One epitaxial reactor, three patents are infringed, one is not infringed, and one is invalid. Of the patents which the court found are infringed, two remain effective until 2002 and 2005, respectively, and one is expired. The Company is seeking an injunction against further sales of the Epsilon One by ASM. ASM is expected to appeal the Court's decision and seek a stay of any injunction which may be issued. The damages to which the Company is entitled as a result of ASM's infringement, as well as ASM's counterclaims, will be decided at a later date in separate proceedings. The Company believes that ASM's counterclaims are not meritorious in view of the Court's decision that the Company's patents are infringed.

In the second of the two suits filed by the Company against ASM described in the Company's 10-K for fiscal year 1993, the Company was successful in obtaining an order of the Court dismissing, striking, or eliminating from the suit, certain affirmative defenses and counterclaims asserted by ASM. The dismissed defenses and counter claims alleged that the Company obtained the patent which it is asserting against ASM in this suit by "inequitable conduct." The Court ruled as a matter of law that the Company did not engage in inequitable conduct.

Item 4. Submission of Matters to a Vote of Security-Holders.

The Annual Meeting of Stockholders was held March 3, 1994 in Santa Clara, California. All nine incumbent directors were re-elected without opposition to serve another one year term in office. In addition, Michael Armacost was elected to the Board of Directors. The result of this election was as follows:

Name of Director	Votes For	Votes Withheld
James C. Morgan	56,627,066	279,874
James W. Bagley	56,627,282	279,658
Dan Maydan	56,627,262	279,678
Michael Armacost	56,627,282	279,658
Herbert M. Dwight, Jr.	56,627,282	279,658
George B. Farnsworth	56,626,694	280,246

Philip V. Gardine	56,627,282	279,658
Paul R. Low	56,624,682	282,258
Alfred J. Stein	56,627,182	279,758
Hiroo Toyoda	56,627,282	279,658

On a proposal to amend the Company's Certificate of Incorporation to increase the number of authorized Common Shares to 200,000,000, there were 53,917,924 votes cast in favor of this measure and 2,725,660 votes cast against it. There were 263,356 abstentions and no broker non-votes.

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:

10.16	The 1985 Stock Option Plan for Non-Employee Directors, as amended to December 8, 1993.
10.17	Amendment No. 2 to the Applied Materials, Inc. Executive Deferred Compensation Plan, dated May 9, 1994.

b) No reports on Form 8-K were filed by the Company during the quarter ended May 1, 1994.

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.

June 2, 1994

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

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

INDEX TO EXHIBITS

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ARTICLE I
GENERAL

1. PURPOSE.

This 1985 Stock Option Plan for Non-Employee Directors (the "Plan") is intended to attract and retain the services of experienced and knowledgeable independent directors of Applied Materials, Inc., a California corporation (the "Company"), for the benefit of the Company and its shareholders and to provide additional incentive for such directors to continue to work for the best interests of the Company and its shareholders.

2. ADMINISTRATION.

The Plan shall be administered by the Board of Directors of the Company (the "Board"). The Board shall have the power to construe the Plan, to determine all questions arising thereunder and to adopt and amend such rules and regulations for the administration of the Plan as it may deem desirable.

The interpretation and construction by the Board of any provisions of the Plan or of any option granted under it shall be final. No member of the Board shall be liable for any action or determination made in good faith with respect to the Plan or any option granted under it.

3. ELIGIBILITY.

Only directors who are not employees of the Company or any subsidiary are eligible participants in the Plan. Each such person who shall have been elected or appointed a director of the Company shall automatically be granted options to purchase 20,000 shares of the Company's Common Stock (the "Appointment Grant") (subject to further adjustment as provided in Article III hereof) on the date that any such person is for the first time either appointed by the Board of Directors or elected by the shareholders of the Company to the Board of Directors.

In addition, each such director of the Company shall automatically be granted options to purchase 6,000¹/₁₀ shares of the Company's Common Stock (subject to further adjustment as provided in Article III hereof) on the last business day of fiscal years 1986 through and including 1994, provided, that such automatic option grants shall only be made if the recipient director (i) is not otherwise an employee of the Company or any subsidiary on the date of grant, (ii) has not been an employee of the Company or any subsidiary for all or any part of the preceding fiscal year, and (iii) has served on the Board of Directors for the entire preceding fiscal year.

The dates on which options are granted hereunder are referred to herein as the "Grant Date."

In the event that the number of shares of the Company's Common Stock subject to future grants under the Plan is insufficient to make all automatic grants required to be made on the Grant Date, then all non-employee directors entitled to a grant on such date shall share ratably in the number of options on shares of the Company's Common Stock available for grant under the Plan.

4. SHARES OF STOCK SUBJECT TO THE PLAN.

The shares that may be issued under the Plan shall be authorized and unissued or reacquired shares of the Company's common stock (the "Common Stock"). The aggregate number of shares which may be issued under the Plan shall not exceed 800,000 shares of Common Stock, unless an adjustment is required in accordance with Article III.

5. AMENDMENT OF THE PLAN.

The Board of Directors may, insofar as permitted by law, from time to time, suspend or discontinue the Plan or revise or amend it in any respect whatsoever, except that no such amendment shall alter or impair or diminish any rights or obligations under any option theretofore granted under the Plan without the consent of the person to whom such option was granted. In addition, without further shareholder approval, no such amendment shall increase the number of shares subject to the Plan (except as authorized by Article III), increase the number of shares for which an option may be granted to any optionee (except as authorized by Article III), change the designation in Section 3 of Article I of the class of persons eligible to receive options under the Plan, provide for the grant of options having an option price per share less than fair market value (as defined in Section 11 of this Article I) on the date of grant, extend the term during which options may be exercised, extend the final date upon which options under the Plan may be granted, or otherwise amend the Plan in a way that would require shareholder approval under Rule 16b-3.

The Company's shareholders shall approve amendments by the affirmative votes of the holders of a majority of the securities of the Company present, or represented, and entitled to vote at a meeting (with the shares held by the interested director or directors not being entitled to vote thereon), or any adjournment thereof, duly held in accordance with the applicable laws of the state or other jurisdiction in which the Company is incorporated.

6. APPROVAL OF SHAREHOLDERS.

The Plan is effective September 5, 1985, subject to approval by the affirmative votes of the holders of a majority of the securities of the Company present, or represented, and entitled to vote at the next annual meeting of shareholders (with the shares held by the interested director or directors not being

entitled to vote thereon), or any adjournment thereof, duly held in accordance with California law. No option granted hereunder may become exercisable unless and until such approval is obtained.

7. TERM OF PLAN.

Options may be granted under the Plan until October 30, 1994, the date of termination of the Plan. Notwithstanding the foregoing, each option granted under the Plan shall remain in effect until such option has been satisfied by the issuance of shares or terminated in accordance with its terms and the terms of the Plan.

8. RESTRICTIONS.

All options granted under the Plan shall be subject to the requirement that, if at any time the Board shall determine, in its discretion, that the listing, registration or qualification of the shares subject to options granted under the Plan upon any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such option or the issuance, if any, or purchase of shares in connection therewith, such option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board.

9. NONASSIGNABILITY.

No option shall be assignable or transferable by the grantee except by will or by the laws of descent and distribution. During the lifetime of the optionee, the option shall be exercisable only by him, and no other person shall acquire any rights therein.

10. WITHHOLDING TAXES.

Whenever shares of Common Stock are to be issued under the Plan, the Company shall have the right to require the optionee to remit to the Company an amount sufficient to satisfy federal, state and local withholding tax requirements prior to the delivery of any certificate or certificates for such shares.

11. DEFINITION OF "FAIR MARKET VALUE".

For the purposes of this Plan, the term "fair market value," when used in reference to the date of grant of an option or the date of surrender of Common Stock in payment for the purchase of shares pursuant to the exercise of an option, as the case may be, shall be the last reported sale price in the NASDAQ National Market System on such date as published in The Wall Street Journal or, if no report is available for such date, the next preceding date for which a report is available.

ARTICLE II
STOCK OPTIONS

1. AWARD OF STOCK OPTIONS.

Awards of stock options shall be made under the Plan under all the terms and conditions contained herein. Each option granted under the Plan shall be evidenced by an option agreement duly executed on behalf of the Company and by the director to whom such option is granted, which option agreements may but need not be identical and shall comply with and be subject to the terms and conditions of the Plan. Any option agreement may contain such other terms, provisions and conditions not inconsistent with the Plan as may be determined by the Board.

2. TERM OF OPTIONS AND EFFECT OF TERMINATION.

Notwithstanding any other provision of the Plan, no option granted under the Plan shall be exercisable after the expiration of five years from the date of its grant.

In the event that any outstanding option under the Plan expires by reason of lapse of time or otherwise is terminated for any reason, then the shares of Common Stock subject to any such option which have not been issued pursuant to the exercise of the option shall again become available in the pool of shares of Common Stock for which options may be granted under the Plan.

3. TERMS AND CONDITIONS OF OPTIONS.

Options granted pursuant to the Plan shall be evidenced by agreements in such form as the Board shall from time to time determine, which agreements shall comply with the following terms and conditions.

A. Number of Shares

Each option agreement shall state the number of shares to which the option pertains.

B. Option Price

Each option agreement shall state the option price per share (or the method by which such price shall be computed), which shall be equal to 100% of the fair market value of a share of the Common Stock on the date such option is granted.

C. Medium and Time of Payment

The option price shall be payable upon the exercise of an option in the legal tender of the United States or in shares of the Common Stock or in a combination of such legal tender and such shares. Upon receipt of payment, the Company shall deliver to the optionee (or person entitled to exercise the option) a certificate or certificates for the shares of Common Stock to which the option pertains.

D. Exercise of Options

Options granted to directors other than the Appointment Grant shall become exercisable in installments to the extent of one-fourth, excluding fractional shares, of the shares covered by the option on the date one year after the Grant Date, an additional one-fourth, excluding fractional shares, of the shares covered by the option on the date two years after the

Grant Date, an additional one-fourth, excluding fractional shares, of the shares covered by the option on the date three years after the Grant Date, and the remaining shares covered by the option on the date four years after the Grant Date.

Options granted pursuant to the Appointment Grant shall become exercisable with respect to 6,000 shares on the date one year after the Grant Date; an additional 5,5003/ shares on the date two years after the Grant Date; an additional 5,0003/ shares on the date three years after the Grant Date; and the final 3,5003/ shares on the date four years after the Grant Date.

To the extent that an option has become exercisable and subject to the restrictions and limitations set forth in this Plan and any option agreement, it may be exercised in whole or such lesser amount as may be authorized by the option agreement, provided, however, that no option shall be exercised for fewer than ten shares. If exercised in part, the unexercised portion of an option shall continue to be held by the optionee and may thereafter be exercised as provided herein.

E. Termination of Directorship Except by Death

In the event that an optionee shall cease to be a director of the Company for any reason other than his death, his option shall be exercisable, to the extent it was exercisable at the date he ceased to be a director, for a period of seven months after such date, and shall then terminate. Such option may be exercised at any time within such seven-month period and prior to the date on which the option expires by its terms.

F. Death of Optionee and Transfer of Option

If an optionee dies while a director of the Company, or within the seven-month period after termination of such status during which he is permitted to exercise an option in accordance with Subsection 3(E) of this Article II, such option may be exercised at any time within one year after the optionee's death, but only to the extent the option was exercisable at the time of death. Such option may be exercised at any time within such one year period and prior to the date on which the option expires by its terms. During such period, such option may be exercised by any person or persons designated by the optionee on a Beneficiary Designation Form adopted by the Board for such purpose, or, if there is no effective Beneficiary Designation Form on file with the Board, by the executors or administrators of the optionee's estate or by any person or persons who shall have acquired the option directly from the optionee by his will or the applicable law of descent and distribution.

ARTICLE III

RECAPITALIZATIONS AND REORGANIZATIONS

The number of shares of Common Stock covered by the Plan, the number of shares and price per share of each outstanding option, and the number of shares subject to each grant provided for in Article I, Section 3 hereof shall be proportionately adjusted for any increase or decrease in the number of issued and outstanding shares of Common Stock resulting from a subdivision or consolidation of shares or the payment of a stock dividend or any other increase or decrease in the number of issued and outstanding shares of Common Stock effected without receipt of consideration by the Company.

If the Company shall be the surviving corporation in any merger or consolidation, each outstanding option shall pertain to and apply to the securities to which a holder of the same number of shares of Common Stock that are subject to that option would have been entitled. A dissolution or liquidation of the Company, or a merger or consolidation in which the Company is not the surviving corporation, shall cause each outstanding option to terminate, unless the agreement of merger or consolidation shall otherwise provide; provided that, in the event such dissolution, liquidation, merger or consolidation will cause outstanding options to terminate, each optionee shall have the right immediately prior to such dissolution, liquidation, merger or consolidation to exercise his option in whole or in part without regard to any limitations on the exercisability of such option other than (i) the expiration date of the option, (ii) the limitation set forth in Section 9 of Article I, and (iii) the ten share limitation set forth in Section 3(D) of Article II.

To the extent that the foregoing adjustments relate to stock or securities of the Company, such adjustments shall be made by the Board, whose determination in that respect shall be final, binding and conclusive.

The grant of an option pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or to consolidate or to dissolve, liquidate or sell, or transfer all or any part of its business or assets.

ARTICLE IV

MISCELLANEOUS PROVISIONS

1. RIGHTS AS A SHAREHOLDER.

An optionee or a transferee of an option shall have no rights as a shareholder with respect to any shares covered by an option until the date of the receipt of payment (including any amounts required by the Company pursuant to Section 10 of Article I) by the Company. No adjustment shall be made as to any option for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to such date, except as provided in Article III.

2. PURCHASE FOR INVESTMENT.

Unless the shares of Common Stock to be issued upon exercise of an option granted under the Plan have been effectively registered under the Securities Act of 1933 as now in force or hereafter amended, the Company shall be under no obligation to issue any shares of Common Stock covered by any option unless the person who exercises such option, in whole or in part, shall give a written representation and undertaking to the Company which is satisfactory in form and scope to counsel to the Company and upon which, in the opinion of such counsel, the Company may reasonably rely, that he is acquiring the shares of Common Stock issued to him pursuant to such exercise of the option for his own account as an investment and not with a view to, or for sale in connection with, the distribution of any such shares of Common Stock, and that he will make no transfer of the same except in compliance with any rules and regulations in force at the time of such transfer under the Securities Act of 1933, or any other applicable law, and that if shares of Common Stock are issued without such registration, a legend to this effect may be endorsed upon the securities so issued.

3. OTHER PROVISIONS.

The option agreements authorized under the Plan shall contain such other provisions, including, without limitation, restrictions upon the exercise of the option or restrictions required by any applicable securities laws, as the Board shall deem advisable.

4. APPLICATION OF FUNDS.

The proceeds received by the Company from the sale of Common Stock pursuant to the exercise of options will be used for general corporate purposes.

5. NO OBLIGATION TO EXERCISE OPTION.

The granting of an option shall impose no obligation upon the optionee to exercise such option.

AMENDMENT NO. 2 TO THE
APPLIED MATERIALS, INC.
EXECUTIVE DEFERRED COMPENSATION PLAN

APPLIED MATERIALS, INC., having adopted the Applied Materials, Inc. Executive Deferred Compensation Plan effective as of July 1, 1993 (the "Plan"), hereby amends Section 2.1.2 of the Plan, effective as of January 1, 1994, to read in its entirety as follows:

2.1.2 Initial Elections by Other Employees. Each individual who becomes an Eligible Employee after July 1, 1993 (whether by hire or promotion) may elect to become a Participant in the Plan by electing, within thirty days of the date of his or her hire or promotion (as the case may be), to make Compensation Deferrals under the Plan. An election under this Section 2.1.2 to make Compensation Deferrals shall be effective only for the Plan Year with respect to which the election is made.

IN WITNESS WHEREOF, Applied Materials, Inc., by its duly authorized officer, has executed this Amendment No. 2 on the date indicated below.

APPLIED MATERIALS, INC.

Dated: _____ By _____
Title: