UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended May 2, 2021

or

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

For the transition period from to

Commission File Number 000-06920

Applied Materials, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**94-1655526**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

3050 Bowers Avenue
P.O. Box 58039
Santa Clara, California 95052-8039
(Address of principal executive offices)

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

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value $.01 per share	AMAT	The NASDAQ Stock Market LLC

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

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

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

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Number of shares outstanding of the issuer's common stock as of May 2, 2021: 913,980,756

APPLIED MATERIALS, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MAY 2, 2021

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(In millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
	(Unaudited)			
Net sales	$ 5,582	$ 3,957	$ 10,744	$ 8,119
Cost of products sold	2,929	2,208	5,742	4,512
Gross profit	2,653	1,749	5,002	3,607
Operating expenses:				
Research, development and engineering	617	550	1,223	1,102
Marketing and selling	148	130	295	265
General and administrative	149	137	310	266
Severance and related charges	6	—	158	—
Deal termination fee	154	—	154	—
Total operating expenses	1,074	817	2,140	1,633
Income from operations	1,579	932	2,862	1,974
Interest expense	61	61	122	120
Interest and other income, net	27	7	45	29
Income before income taxes	1,545	878	2,785	1,883
Provision for income taxes	215	123	325	236
Net income	$ 1,330	$ 755	$ 2,460	$ 1,647
Earnings per share:				
Basic	$ 1.45	$ 0.82	$ 2.68	$ 1.80
Diluted	$ 1.43	$ 0.82	$ 2.66	$ 1.78
Weighted average number of shares:				
Basic	918	917	917	917
Diluted	927	923	926	925

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
	(Unaudited)			
Net income	$ 1,330	$ 755	$ 2,460	$ 1,647
Other comprehensive income (loss), net of tax:				
Change in unrealized gain (loss) on available-for-sale investments	(8)	(1)	(10)	1
Change in unrealized net loss on derivative instruments	15	(126)	19	(136)
Other comprehensive income (loss), net of tax	7	(127)	9	(135)
Comprehensive income	$ 1,337	$ 628	$ 2,469	$ 1,512

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS
(In millions)

	May 2, 2021	October 25, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,305	$ 5,351
Short-term investments	460	387
Accounts receivable, net	3,375	2,963
Inventories	4,053	3,904
Other current assets	778	764
Total current assets	14,971	13,369
Long-term investments	1,569	1,538
Property, plant and equipment, net	1,768	1,604
Goodwill	3,479	3,466
Purchased technology and other intangible assets, net	127	153
Deferred income taxes and other assets	2,171	2,223
Total assets	$ 24,085	$ 22,353
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 3,116	$ 3,138
Contract liabilities	1,706	1,321
Total current liabilities	4,822	4,459
Long-term debt	5,450	5,448
Income taxes payable	1,138	1,206
Other liabilities	682	662
Total liabilities	12,092	11,775
Stockholders' equity:		
Common stock	9	9
Additional paid-in capital	8,022	7,904
Retained earnings	29,247	27,209
Treasury stock	(24,995)	(24,245)
Accumulated other comprehensive loss	(290)	(299)
Total stockholders' equity	11,993	10,578
Total liabilities and stockholders' equity	$ 24,085	$ 22,353

Amounts as of May 2, 2021 are unaudited. Amounts as of October 25, 2020 are derived from the October 25, 2020 audited consolidated financial statements.

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS’ EQUITY

(In millions)

Three Months Ended May 2, 2021	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income (Loss)	Total
				(Unaudited)				
Balance as of January 31, 2021	918	$ 9	$ 7,869	$ 28,137	1,091	$ (24,245)	$ (297)	$ 11,473
Net income	—	—	—	1,330	—	—	—	1,330
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	7	7
Dividends declared ($0.24 per common share)	—	—	—	(220)	—	—	—	(220)
Share-based compensation	—	—	84	—	—	—	—	84
Issuance under stock plans	2	—	69	—	—	—	—	69
Common stock repurchases	(6)	—	—	—	6	(750)	—	(750)
Balance as of May 2, 2021	914	$ 9	$ 8,022	$ 29,247	1,097	$ (24,995)	$ (290)	$ 11,993

Six Months Ended May 2, 2021	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income (Loss)	Total
				(Unaudited)				
Balance as of October 25, 2020	914	$ 9	$ 7,904	$ 27,209	1,091	$ (24,245)	$ (299)	$ 10,578
Net income	—	—	—	2,460	—	—	—	2,460
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	9	9
Dividends declared ($0.46 per common share)	—	—	—	(422)	—	—	—	(422)
Share-based compensation	—	—	191	—	—	—	—	191
Issuance under stock plans	6	—	(73)	—	—	—	—	(73)
Common stock repurchases	(6)	—	—	—	6	(750)	—	(750)
Balance as of May 2, 2021	914	$ 9	$ 8,022	$ 29,247	1,097	$ (24,995)	$ (290)	$ 11,993

APPLIED MATERIALS, INC

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY - (Continued)

(In millions)

Three Months Ended April 26, 2020	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income (Loss)	Total
				(Unaudited)				
Balance as of January 26, 2020	919	$ 9	$ 7,550	$ 25,085	1,082	$ (23,796)	$ (188)	$ 8,660
Net income	—	—	—	755	—	—	—	755
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(127)	(127)
Dividends declared ($0.22 per common share)	—	—	—	(202)	—	—	—	(202)
Share-based compensation	—	—	71	—	—	—	—	71
Issuance under stock plans	2	—	66	—	—	—	—	66
Common stock repurchases	(4)	—	—	—	4	(199)	—	(199)
Balance as of April 26, 2020	917	$ 9	$ 7,687	$ 25,638	1,086	$ (23,995)	$ (315)	$ 9,024

Six Months Ended April 26, 2020	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income (Loss)	Total
				(Unaudited)				
Balance as of October 27, 2019	916	$ 9	$ 7,595	$ 24,386	1,079	$ (23,596)	$ (180)	$ 8,214
Net income	—	—	—	1,647	—	—	—	1,647
Other comprehensive income (loss), net of tax	—	—	—	—	—	—	(135)	(135)
Dividends declared ($0.43 per common share)	—	—	—	(395)	—	—	—	(395)
Share-based compensation	—	—	164	—	—	—	—	164
Issuance under stock plans	8	—	(72)	—	—	—	—	(72)
Common stock repurchases	(7)	—	—	—	7	(399)	—	(399)
Balance as of April 26, 2020	917	$ 9	$ 7,687	$ 25,638	1,086	$ (23,995)	$ (315)	$ 9,024

See accompanying Notes to Consolidated Condensed Financial Statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(In millions)

	Six Months Ended	
	May 2, 2021	April 26, 2020
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 2,460	$ 1,647
Adjustments required to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	191	185
Severance and related charges	149	—
Share-based compensation	191	164
Deferred income taxes	24	19
Other	(15)	22
Changes in operating assets and liabilities:		
Accounts receivable	(411)	(92)
Inventories	(149)	(252)
Other current and non-current assets	3	(112)
Accounts payable and accrued expenses	(155)	82
Contract liabilities	385	(2)
Income taxes payable	(90)	(37)
Other liabilities	25	(2)
Cash provided by operating activities	2,608	1,622
Cash flows from investing activities:		
Capital expenditures	(325)	(173)
Cash paid for acquisitions, net of cash acquired	(12)	(27)
Proceeds from sales and maturities of investments	624	1,035
Purchases of investments	(722)	(832)
Cash provided by (used in) investing activities	(435)	3
Cash flows from financing activities:		
Debt borrowings, net of issuance costs	—	1,498
Proceeds from common stock issuances	86	91
Common stock repurchases	(750)	(399)
Tax withholding payments for vested equity awards	(159)	(163)
Payments of dividends to stockholders	(403)	(385)
Cash provided by (used in) financing activities	(1,226)	642
Increase in cash, cash equivalents and restricted cash equivalents	947	2,267
Cash, cash equivalents and restricted cash equivalents — beginning of period	5,466	3,129
Cash, cash equivalents and restricted cash equivalents — end of period	$ 6,413	$ 5,396
Reconciliation of cash, cash equivalents, and restricted cash equivalents		
Cash and cash equivalents	$ 6,305	$ 5,281
Restricted cash equivalents included in deferred income taxes and other assets	108	115
Total cash, cash equivalents, and restricted cash equivalents	$ 6,413	$ 5,396
Supplemental cash flow information:		
Cash payments for income taxes	$ 409	$ 281
Cash refunds from income taxes	$ 23	$ 5
Cash payments for interest	$ 103	$ 110

See accompanying Notes to Consolidated Condensed Financial Statements.

Note 1 Basis of Presentation

Basis of Presentation

In the opinion of management, the unaudited interim consolidated condensed financial statements of Applied Materials, Inc. and its subsidiaries (Applied or the Company) included herein have been prepared on a basis consistent with the October 25, 2020 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These unaudited interim consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Applied's Annual Report on Form 10-K for the fiscal year ended October 25, 2020 (2020 Form 10-K). Applied's results of operations for the three and six months ended May 2, 2021 are not necessarily indicative of future operating results. Applied's fiscal year ends on the last Sunday in October of each year. Fiscal 2021 and 2020 contain 53 weeks and 52 weeks, respectively, and the first six months of fiscal 2021 and 2020 contained 27 and 26 weeks, respectively.

Use of Estimates

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

As of May 2, 2021, the COVID-19 pandemic and worldwide response remains fluid. As a result, many of Applied's estimates and assumptions are subject to increased judgment and volatility. These estimates may differ materially in future periods as the pandemic continues to evolve and additional information becomes available.

Revenue Recognition from Contracts with Customers

Applied recognizes revenue when promised goods or services are transferred to a customer in an amount that reflects the consideration to which Applied expects to be entitled in exchange for those goods or services. Applied determines revenue recognition through the following five steps; (1) identification of the contract(s) with customers, (2) identification of the performance obligations in the contract, (3) determination of the transaction price, (4) allocation of the transaction price to the performance obligations in the contract, and (5) recognition of revenue when, or as, a performance obligation is satisfied.

Identifying the contract(s) with customers. Applied sells manufacturing equipment, services, and spare parts directly to its customers in the semiconductor, display, and related industries. The Company generally considers written documentation including, but not limited to, signed purchase orders, master agreements, and sales orders as contracts provided that collection is probable. Collectability is assessed based on the customer's creditworthiness determined by reviewing the customer's published credit and financial information, historical payment experience, as well as other relevant factors.

Identifying the performance obligations. Applied's performance obligations include delivery of manufacturing equipment, service agreements, spare parts, installation, extended warranty and training. Applied's service agreements are considered one performance obligation and may include multiple goods and services that Applied provides to the customer to deliver against a performance metric. Judgment is used to determine whether multiple promised goods or services in a contract should be accounted for separately or as a group.

Determine the transaction price. The transaction price for Applied's contracts with customers may include fixed and variable consideration. Applied includes variable consideration in the transaction price to the extent that it is probable that a significant reversal of revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

Allocate the transaction price to the performance obligations. A contract's transaction price is allocated to each distinct performance obligation identified within the contract. Applied generally estimates the standalone selling price of a distinct performance obligation based on historical cost plus an appropriate margin. For contracts with multiple performance obligations, Applied allocates the contract's transaction price to each performance obligation using the relative standalone selling price of each distinct good or service in the contract.

Recognizing the revenue as performance obligations are satisfied. Applied recognizes revenue from equipment and spares parts at a point in time when Applied has satisfied its performance obligation by transferring control of the goods to the customer which typically occurs at shipment or delivery. Revenue from service agreements is recognized over time, typically within 12 months, as customers receive the benefits of services.

The incremental costs to obtain a contract are not material.

Payment Terms. Payment terms vary by contract. Generally, the majority of payments are due within a certain number of days from shipment of goods or performance of service. The remainder is typically due upon customer technical acceptance. Applied typically receives deposits on future deliverables from customers in the Display and Adjacent Markets segment and, in certain instances, may also receive deposits from customers in the Applied Global Services segment. Applied's payment terms do not generally contain a significant financing component.

Recent Accounting Pronouncements

Accounting Standards Adopted

Retirement Benefits: Changes to the Disclosure Requirements for Defined Benefit and other Postretirement Plans. In August 2018, the Financial Accounting Standard Board (FASB) issued authoritative guidance that adds, removes, and clarifies disclosure requirements for defined benefit and other postretirement plans. Applied adopted this guidance in the first quarter of fiscal 2021 under the retrospective basis. The adoption of this guidance did not have a significant impact on Applied's defined benefit and other postretirement disclosures.

Goodwill Impairment. In January 2017, the FASB issued authoritative guidance that simplifies the process required to test goodwill for impairment. Applied adopted this guidance in the first quarter of fiscal 2021. The adoption of this guidance did not have a significant impact on Applied's consolidated condensed financial statements.

Financial Instruments: Credit Losses. In June 2016, the FASB issued authoritative guidance that modifies the impairment model for certain financial assets by requiring use of an expected loss methodology, which will result in more timely recognition of credit losses. Applied adopted this guidance in the first quarter of fiscal 2021 under the modified retrospective basis. The adoption of this guidance did not have a significant impact on Applied's consolidated condensed financial statements.

Accounting Standards Not Yet Adopted

Simplifying the Accounting for Income Taxes: In December 2019, the FASB issued an accounting standard update to simplify the accounting for income taxes (Topic 740). This amendment removes certain exceptions and improves consistent application of accounting principles for certain areas in Topic 740. This authoritative guidance will be effective for Applied in the first quarter of fiscal 2022, with early adoption permitted. Applied is currently evaluating the effect of this new guidance on Applied's consolidated financial statements.

Note 2 Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
	(In millions, except per share amounts)			
Numerator:				
Net income	$ 1,330	$ 755	$ 2,460	$ 1,647
Denominator:				
Weighted average common shares outstanding	918	917	917	917
Effect of weighted dilutive restricted stock units and employee stock purchase plan shares	9	6	9	8
Denominator for diluted earnings per share	927	923	926	925
Basic earnings per share	$ 1.45	$ 0.82	$ 2.68	$ 1.80
Diluted earnings per share	$ 1.43	$ 0.82	$ 2.66	$ 1.78
Potentially weighted dilutive securities	—	—	—	—

Potentially weighted dilutive securities attributable to outstanding restricted stock units are excluded from the calculation of diluted earnings per share where the combined exercise price and average unamortized fair value are greater than the average market price of Applied common stock, and therefore their inclusion would be anti-dilutive.

Note 3 Cash, Cash Equivalents and Investments

Summary of Cash, Cash Equivalents and Investments

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

May 2, 2021	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Cash	$ 1,257	$ —	$ —	$ 1,257
Cash equivalents:				
Money market funds	5,038	—	—	5,038
Municipal securities	—	—	—	—
Commercial paper, corporate bonds and medium-term notes	10	—	—	10
Total Cash equivalents	5,048	—	—	5,048
Total Cash and Cash equivalents	$ 6,305	$ —	$ —	$ 6,305
Short-term and long-term investments:				
Bank certificate of deposit	$ 2	$ —	$ —	$ 2
U.S. Treasury and agency securities	329	1	—	330
Non-U.S. government securities*	5	—	—	5
Municipal securities	359	5	—	364
Commercial paper, corporate bonds and medium-term notes	568	5	1	572
Asset-backed and mortgage-backed securities	518	7	1	524
Total fixed income securities	1,781	18	2	1,797
Publicly traded equity securities	12	42	—	54
Equity investments in privately-held companies	136	56	14	178
Total equity investments	148	98	14	232
Total short-term and long-term investments	$ 1,929	$ 116	$ 16	$ 2,029
Total Cash, Cash equivalents and Investments	$ 8,234	$ 116	$ 16	$ 8,334

* Includes agency debt securities guaranteed by Canada

October 25, 2020	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Cash	$ 1,136	$ —	$ —	$ 1,136
Cash equivalents:				
Money market funds	4,209	—	—	4,209
Municipal securities	6	—	—	6
Total Cash equivalents	4,215	—	—	4,215
Total Cash and Cash equivalents	$ 5,351	$ —	$ —	$ 5,351
Short-term and long-term investments:				
U.S. Treasury and agency securities	$ 394	$ 4	$ —	$ 398
Municipal securities	359	6	—	365
Commercial paper, corporate bonds and medium-term notes	492	8	1	499
Asset-backed and mortgage-backed securities	470	9	—	479
Total fixed income securities	1,715	27	1	1,741
Publicly traded equity securities	11	36	2	45
Equity investments in privately-held companies	121	25	7	139
Total equity investments	132	61	9	184
Total short-term and long-term investments	$ 1,847	$ 88	$ 10	$ 1,925
Total Cash, Cash equivalents and Investments	$ 7,198	$ 88	$ 10	$ 7,276

Maturities of Investments

The following table summarizes the contractual maturities of Applied’s investments as of May 2, 2021:

	Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	$ 417	$ 419
Due after one through five years	846	854
No single maturity date**	666	756
Total	$ 1,929	$ 2,029

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

Gains and Losses on Investments

During the three and six months ended May 2, 2021 and April 26, 2020 gross realized gains and losses on investments were not material.

As of May 2, 2021, and October 25, 2020, gross unrealized losses related to Applied’s debt investment portfolio were not material. Applied regularly reviews its debt investment portfolio to identify and evaluate investments that have indications of possible impairment from credit losses or other factors. Factors considered in determining whether an unrealized loss is considered to be a credit loss include: the significance of the decline in value compared to the cost basis; the financial condition; credit quality and near-term prospects of the investee; and whether it is more likely than not that Applied will be required to sell the security prior to recovery. Credit losses related to available-for-sale debt securities are recorded as an allowance for credit losses through interest and other income, net. Any additional changes in fair value that are not related to credit losses are recognized in accumulated other comprehensive income.

During the three and six months ended May 2, 2021, with the adoption of credit losses authoritative guidance, Applied did not recognize significant credit losses and the ending allowance for credit losses was not material. Applied determined that the gross unrealized losses on its marketable fixed-income securities as of April 26, 2020 were temporary in nature and therefore it did not recognize any impairment of its marketable fixed-income securities during the three and six months ended April 26, 2020. Impairment charges on equity investments in privately-held companies during the three and six months ended May 2, 2021 and April 26, 2020 were not material. These impairment charges are included in interest and other income, net in the Consolidated Condensed Statement of Operations.

The components of gain (loss) on equity investments for the three and six months ended May 2, 2021 and April 26, 2020 were as follows:

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
	(In millions)			
Publicly traded equity securities				
Unrealized gain	$ 3	$ 3	$ 11	$ 5
Unrealized loss	(2)	(12)	(2)	(15)
Equity investments in privately-held companies				
Unrealized gain	30	9	31	9
Unrealized loss	(5)	(2)	(8)	(3)
Realized gain on sales	1	1	3	1
Realized loss on sales or impairment	(7)	(6)	(7)	(8)
Total gain (loss) on equity investments, net	$ 20	$ (7)	$ 28	$ (11)

Note 4 Fair Value Measurements

Applied's financial assets are measured and recorded at fair value on a recurring basis, except for equity investments in privately-held companies. These equity investments are generally accounted for under the measurement alternative, defined as cost, less impairments, adjusted for subsequent observable price changes and are periodically assessed for impairment when events or circumstances indicate that a decline in value may have occurred. Applied's nonfinancial assets, such as goodwill, intangible assets, and property, plant and equipment, are recorded at cost and are assessed for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

Fair Value Hierarchy

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

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

Applied's investments consist primarily of debt securities that are classified as available-for-sale and recorded at their fair values. In determining the fair value of investments, Applied uses pricing information from pricing services that value securities based on quoted market prices and models that utilize observable market inputs. In the event a fair value estimate is unavailable from a pricing service, Applied generally obtains non-binding price quotes from brokers. Applied then reviews the information provided by the pricing services or brokers to determine the fair value of its short-term and long-term investments. In addition, to validate pricing information obtained from pricing services, Applied periodically performs supplemental analysis on a sample of securities. Applied reviews any significant unanticipated differences identified through this analysis to determine the appropriate fair value. As of May 2, 2021, substantially all of Applied's available-for-sale, short-term and long-term investments were recognized at fair value that was determined based upon observable inputs.

Applied's equity investments with readily determinable values consist of publicly traded equity securities. These investments are measured at fair value using quoted prices for identical assets in an active market and the changes in fair value of these equity investments are recognized in the consolidated statements of operations.

Investments with remaining effective maturities of 12 months or less from the balance sheet date are classified as short-term investments. Investments with remaining effective maturities of more than 12 months from the balance sheet date are classified as long-term investments.

Assets Measured at Fair Value on a Recurring Basis

Financial assets (excluding cash balances) measured at fair value on a recurring basis are summarized below:

	May 2, 2021			October 25, 2020		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	(In millions)					
Assets:						
Available-for-sale debt security investments						
Money market funds*	$ 5,146	$ —	$ 5,146	$ 4,324	$ —	$ 4,324
Bank certificate of deposit	—	2	2	—	—	—
U.S. Treasury and agency securities	304	26	330	375	23	398
Non-U.S. government securities	—	5	5	—	—	—
Municipal securities	—	364	364	—	371	371
Commercial paper, corporate bonds and medium-term notes	—	582	582	—	499	499
Asset-backed and mortgage-backed securities	—	524	524	—	479	479
Total available-for-sale debt security investments	$ 5,450	$ 1,503	$ 6,953	$ 4,699	$ 1,372	$ 6,071
Equity investments with readily determinable values						
Publicly traded equity securities	$ 54	$ —	$ 54	$ 45	$ —	$ 45
Total equity investments with readily determinable values	$ 54	$ —	$ 54	$ 45	$ —	$ 45
Total	$ 5,504	$ 1,503	$ 7,007	$ 4,744	$ 1,372	$ 6,116

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* Amounts as of May 2, 2021 and October 25, 2020, include $108 million and $115 million invested in money market funds related to deferred compensation plans, respectively. Due to restrictions on the distribution of these funds, they are classified as restricted cash equivalents and are included in deferred income taxes and other assets in the Consolidated Condensed Balance Sheets.

Applied did not have any financial assets measured at fair value on a recurring basis within Level 3 fair value measurements as of May 2, 2021 or October 25, 2020.

Assets and Liabilities without Readily Determinable Values Measured on a Non-recurring Basis

Applied's equity investments without readily determinable values consist of equity investments in privately-held companies. Applied elected the measurement alternative, defined as cost, less impairments, adjusted for subsequent observable price changes on a prospective basis for certain equity investments without readily determinable fair values and is required to account for any subsequent observable changes in fair value within the statements of operations. These investments are periodically assessed for impairment when an event or circumstance indicates that a decline in value may have occurred. Impairment charges on equity investments in privately-held companies during the three and six months ended May 2, 2021 and April 26, 2020 were not material.

Other

The carrying amounts of Applied's financial instruments, including cash and cash equivalents, restricted cash equivalents, accounts receivable, notes payable - short term, and accounts payable and accrued expenses, approximate fair value due to their short maturities. As of May 2, 2021, the aggregate principal amount of long-term senior notes was $5.5 billion and the estimated fair value was $6.3 billion. As of October 25, 2020, the aggregate principal amount of long-term senior notes was $5.5 billion and the estimated fair value was $6.6 billion. The estimated fair value of long-term senior unsecured notes is determined by Level 2 inputs and is based primarily on quoted market prices for the same or similar issues. See Note 11 of the Notes to the Consolidated Condensed Financial Statements for further detail of existing debt.

Note 5 Derivative Instruments and Hedging Activities

Derivative Financial Instruments

Applied conducts business in a number of foreign countries, with certain transactions denominated in local currencies, such as the Japanese yen, Israeli shekel, euro and Taiwanese dollar. Applied uses derivative financial instruments, such as forward exchange contracts and currency option contracts, to hedge certain forecasted foreign currency denominated transactions expected to occur typically within the next 24 months. The purpose of Applied's foreign currency management is to mitigate the effect of exchange rate fluctuations on certain foreign currency denominated revenues, costs and eventual cash flows. The terms of currency instruments used for hedging purposes are generally consistent with the timing of the transactions being hedged.

Applied does not use derivative financial instruments for trading or speculative purposes. Derivative instruments and hedging activities, including foreign currency exchange and interest rate contracts, are recognized on the balance sheet at fair value. Changes in the fair value of derivatives that do not qualify for hedge treatment are recognized currently in earnings. All of Applied's derivative financial instruments are recorded at their fair value in other current assets or in accounts payable and accrued expenses.

Hedges related to anticipated transactions are designated and documented at the inception of the hedge as cash flow hedges and foreign exchange derivatives are typically entered into once per month. Cash flow hedges are evaluated for effectiveness quarterly. The effective portion of the gain or loss on these hedges is reported as a component of AOCI in stockholders' equity and is reclassified into earnings when the hedged transaction affects earnings. The majority of the after-tax net income or loss related to foreign exchange derivative instruments included in AOCI as of May 2, 2021 is expected to be reclassified into earnings within 12 months. Changes in the fair value of option contracts due to changes in time value are excluded from the assessment of effectiveness. The initial value of this excluded component is amortized on a straight-line basis over the life of the hedging instrument and recognized in the financial statement line item to which the hedge relates. If the transaction being hedged is no longer probable to occur, Applied promptly recognizes the gain or loss on the associated financial instrument in the consolidated condensed statement of operations. The amount recognized due to discontinuance of cash flow hedges that were no longer probable of occurring by the end of the originally specified time period were not significant for the three and six months ended May 2, 2021 and April 26, 2020.

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

The fair values of foreign exchange derivative instruments as of May 2, 2021 and October 25, 2020 were not material.

Applied is also exposed to interest rate risk associated with its potential future borrowings. During the three and six months ended April 26, 2020, Applied entered into a series of interest rate contracts to hedge against the variability of cash flows due to changes in the benchmark interest rate of fixed rate debt. These instruments were designated as cash flow hedges at inception and were settled in conjunction with the issuance of debt in May 2020.

The gain (loss) on derivatives in cash flow hedging relationships recognized in AOCI for derivatives designated as hedging instruments for the indicated periods were as follows:

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
	(In millions)			
Derivatives in Cash Flow Hedging Relationships:				
Foreign exchange contracts	$ 14	$ (3)	$ 15	$ 4
Interest rate contracts	—	(162)	—	(180)
Total	$ 14	$ (165)	$ 15	$ (176)

The effects of derivative instruments and hedging activities on the Consolidated Condensed Statements of Operations were as follows:

	Three Months Ended					
	May 2, 2021			April 26, 2020		
		Derivatives in Cash Flow Hedging Relationships			Derivatives in Cash Flow Hedging Relationships	
	Total Amount Presented in the Consolidated Condensed Statement of Operations in which the Effects of Cash Flow Hedges are Recorded	Amount of Gain or (Loss) Reclassified from AOCI into Consolidated Condensed Statement of Operations	Amount of Gain (Loss) Excluded from Effectiveness Testing Recognized in Consolidated Condensed Statement of Operations	Total Amount Presented in the Consolidated Condensed Statement of Operations in which the Effects of Cash Flow Hedges are Recorded	Amount of Gain or (Loss) Reclassified from AOCI into Consolidated Condensed Statement of Operations	Amount of Gain (Loss) Excluded from Effectiveness Testing Recognized in Consolidated Condensed Statement of Operations
	(In millions)					
Foreign Exchange Contracts:						
Net Sales	$ 5,582	$ (1)	$ —	$ 3,957	$ 2	$ 1
Cost of products sold	$ 2,929	(2)	—	$ 2,208	(3)	(1)
Research, development and engineering	$ 617	1	—	$ 550	(1)	—
Interest Rate Contracts:						
Interest expense	$ 61	(3)	—	$ 61	—	—
		$ (5)	$ —		$ (2)	$ —

	Six Months Ended					
	May 2, 2021			April 26, 2020		
		Derivatives in Cash Flow Hedging Relationships			Derivatives in Cash Flow Hedging Relationships	
	Total Amount Presented in the Consolidated Condensed Statement of Operations in which the Effects of Cash Flow Hedges are Recorded	Amount of Gain or (Loss) Reclassified from AOCI into Consolidated Condensed Statement of Operations	Amount of Gain (Loss) Excluded from Effectiveness Testing Recognized in Consolidated Condensed Statement of Operations	Total Amount Presented in the Consolidated Condensed Statement of Operations in which the Effects of Cash Flow Hedges are Recorded	Amount of Gain or (Loss) Reclassified from AOCI into Consolidated Condensed Statement of Operations	Amount of Gain (Loss) Excluded from Effectiveness Testing Recognized in Consolidated Condensed Statement of Operations
	(In millions)					
Foreign Exchange Contracts:						
Net Sales	$ 10,744	$ (5)	$ —	$ 8,119	$ 1	$ 3
Cost of products sold	$ 5,742	—	(1)	$ 4,512	(1)	(1)
Research, development and engineering	$ 1,223	2	—	$ 1,102	—	—
Interest Rate Contracts:						
Interest expense	$ 122	(6)	—	$ 120	(1)	—
		$ (9)	$ (1)		$ (1)	$ 2

	Location of Gain or (Loss) Recognized in Consolidated Condensed Statement of Operations	Amount of Gain or (Loss) Recognized in Consolidated Condensed Statement of Operations			
		Three Months Ended		Six Months Ended	
		May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
		(In millions)			
Derivatives Not Designated as Hedging Instruments					
Foreign exchange contracts	Interest and other income, net	$ 16	$ (8)	$ 16	$ (4)
Total return swaps - deferred compensation	Cost of products sold	1	(1)	2	(1)
Total return swaps - deferred compensation	Operating expenses	11	(10)	18	(10)
Total return swaps - deferred compensation	Interest and other income, net	—	(1)	—	(1)
Total		$ 28	$ (20)	$ 36	$ (16)

Credit Risk Contingent Features

If Applied's credit rating were to fall below investment grade, it would be in violation of credit risk contingent provisions of the derivative instruments discussed above, and certain counterparties to the derivative instruments could request immediate payment on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk related contingent features that were in a net liability position was immaterial as of May 2, 2021.

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

Note 6 Accounts Receivable, Net

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

Applied sold $302 million and $671 million of account receivables during the three and six months ended May 2, 2021, respectively. Applied sold $158 million and $364 million of account receivables during the three and six months ended April 26, 2020, respectively. Applied did not discount letters of credit issued by customers or discount promissory notes during the three and six months ended May 2, 2021 and April 26, 2020. Financing charges on the sale of receivables and discounting of letters of credit are included in interest expense in the accompanying Consolidated Condensed Statements of Operations and were not material for all periods presented.

Accounts receivable are presented net of allowance for credit losses of $29 million as of May 2, 2021 and $30 million as of October 25, 2020. Applied sells its products principally to manufacturers within the semiconductor and display industries. While Applied believes that its allowance for credit losses is adequate and represents its best estimate as of May 2, 2021, it continues to closely monitor customer liquidity and industry and economic conditions, which may result in changes to Applied's estimates.

Note 7 Contract Balances

Contract assets primarily result from receivables for goods transferred to customers where payment is conditional upon technical sign off and not just the passage of time. Contract liabilities consist of unsatisfied performance obligations related to advance payments received and billings in excess of revenue recognized. Applied's contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period.

Contract assets are generally classified as current and are included in Other Current Assets in the Consolidated Condensed Balance Sheets. Contract liabilities are classified as current or non-current based on the timing of when performance obligations will be satisfied and associated revenue is expected to be recognized.

Contract balances at the end of each reporting period were as follows:

	May 2, 2021	October 25, 2020
	(In millions)	
Contract assets	$ 191	$ 148
Contract liabilities	$ 1,706	$ 1,321

The increase in contract assets during the six months ended May 2, 2021, was primarily due to goods transferred to customers where payment was conditional upon technical sign off, offset by the reclassification of contract assets to net accounts receivable upon meeting conditions to the right to payment.

During the six months ended May 2, 2021, Applied recognized revenue of approximately $871 million related to contract liabilities at October 25, 2020. This reduction in contract liabilities was offset by new billings for products and services for which there were unsatisfied performance obligations to customers and revenue had not yet been recognized as of May 2, 2021.

There were no credit losses recognized on Applied's accounts receivables and contract assets during both the three and six months ended May 2, 2021 and April 26, 2020.

As of May 2, 2021, the amount of remaining unsatisfied performance obligations on contracts with an original estimated duration of one year or more was approximately $644 million, of which approximately 53% is expected to be recognized within 12 months and the remainder is expected to recognized within the following 24 months thereafter.

Applied has elected the available practical expedient to exclude the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less.

Note 8 Balance Sheet Detail

	May 2, 2021	October 25, 2020
	(In millions)	
Inventories		
Customer service spares	$ 1,279	$ 1,270
Raw materials	908	870
Work-in-process	737	624
Finished goods	1,129	1,140
	$ 4,053	$ 3,904

Included in finished goods inventory are $17 million as of May 2, 2021, and $16 million as of October 25, 2020, of newly-introduced systems at customer locations where the sales transaction did not meet Applied's revenue recognition criteria as set forth in Note 1. Finished goods inventory includes $416 million and $416 million of evaluation inventory as of May 2, 2021 and October 25, 2020, respectively.

	May 2, 2021	October 25, 2020
	(In millions)	
Other Current Assets		
Prepaid income taxes and income taxes receivable	$ 158	$ 162
Prepaid expenses and other	620	602
	$ 778	$ 764

	Useful Life	May 2, 2021	October 25, 2020
	(In years)	(In millions)	
Property, Plant and Equipment, Net			
Land and improvements		$ 271	$ 256
Buildings and improvements	3-30	1,679	1,655
Demonstration and manufacturing equipment	3-5	1,722	1,586
Furniture, fixtures and other equipment	3-5	684	646
Construction in progress		347	237
Gross property, plant and equipment		4,703	4,380
Accumulated depreciation		(2,935)	(2,776)
		$ 1,768	$ 1,604

	May 2, 2021	October 25, 2020
	(In millions)	
Deferred Income Taxes and Other Assets		
Non-current deferred income taxes	$ 1,674	$ 1,711
Operating lease right-of-use assets	246	252
Income tax receivables and other assets	251	260
	$ 2,171	$ 2,223

	May 2, 2021	October 25, 2020
	(In millions)	
Accounts Payable and Accrued Expenses		
Accounts payable	$ 1,307	$ 1,124
Compensation and employee benefits	577	800
Warranty	216	201
Dividends payable	219	201
Income taxes payable	200	222
Other accrued taxes	10	33
Interest payable	40	36
Operating lease liabilities, current	65	64
Other	482	457
	$ 3,116	$ 3,138

	May 2, 2021	October 25, 2020
	(In millions)	
Other Liabilities		
Defined and postretirement benefit plans	$ 247	$ 241
Operating lease liabilities, non-current	188	195
Other	247	226
	$ 682	$ 662

Note 9 Business Combination

Kokusai Electric Corporation

On June 30, 2019, Applied entered into a Share Purchase Agreement (SPA) with Kokusai Electric Corporation (Kokusai Electric) and KKR HKE Investment L.P. (KKR) providing for Applied's acquisition of all outstanding shares of Kokusai Electric. The SPA, as subsequently amended, terminated as of March 19, 2021. Applied paid KKR a termination fee of $154 million during the three months ended May 2, 2021.

Note 10 Goodwill, Purchased Technology and Other Intangible Assets

Goodwill and Purchased Intangible Assets

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

Goodwill and purchased intangible assets with indefinite useful lives are not amortized but are reviewed for impairment annually during the fourth quarter of each fiscal year and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The process of evaluating the potential impairment of goodwill and intangible assets requires significant judgment, especially in emerging markets. When reviewing goodwill for impairment, Applied first performs a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value.

In performing a qualitative assessment, Applied considers business conditions and other factors including, but not limited to (i) adverse industry or economic trends, (ii) restructuring actions and lower projections that may impact future operating results, (iii) sustained decline in share price, and (iv) overall financial performance and other events affecting the reporting units. If Applied concludes that is more likely than not that the fair value of a reporting unit is less than its carrying amount, then a quantitative impairment test is performed by estimating the fair value of the reporting unit and comparing it to its carrying value. If the carrying value of a reporting unit exceeds its fair value, Applied would record an impairment charge equal to the excess of the carrying value of the reporting unit's goodwill over its fair value.

As of May 2, 2021, Applied's reporting units include Semiconductor Products Group and Imaging and Process Control Group, which combine to form the Semiconductor Systems reporting segment, Applied Global Services, Display and Adjacent Markets and other reporting units recorded under Corporate and Other.

Details of goodwill as of May 2, 2021 and October 25, 2020 were as follows:

	May 2, 2021	October 25, 2020
	(In millions)	
Semiconductor Systems	$ 2,207	$ 2,208
Applied Global Services	1,032	1,018
Display and Adjacent Markets	199	199
Corporate and Other	41	41
Carrying amount	$ 3,479	$ 3,466

From time to time, Applied makes acquisitions of companies related to existing or new markets for Applied. During the first half of fiscal 2021, goodwill increased by $13 million primarily due to the preliminary purchase accounting for an acquisition during the first quarter of fiscal 2021, which was not material to Applied's results of operations.

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

	May 2, 2021	October 25, 2020
	(In millions)	
Purchased technology, net	$ 60	$ 75
Intangible assets - finite-lived, net	67	78
Total	$ 127	$ 153

Finite-Lived Purchased Intangible Assets

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

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

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

Details of finite-lived intangible assets were as follows:

	May 2, 2021			October 25, 2020		
	Purchased Technology	Other Intangible Assets	Total	Purchased Technology	Other Intangible Assets	Total
	(In millions)					
Gross carrying amount:						
Semiconductor Systems	$ 1,476	$ 256	$ 1,732	$ 1,476	$ 256	$ 1,732
Applied Global Services	35	44	79	35	44	79
Display and Adjacent Markets	163	38	201	163	38	201
Corporate and Other	13	16	29	13	16	29
Gross carrying amount	$ 1,687	$ 354	$ 2,041	$ 1,687	$ 354	$ 2,041
Accumulated amortization:						
Semiconductor Systems	$ (1,436)	$ (194)	$ (1,630)	$ (1,423)	$ (185)	$ (1,608)
Applied Global Services	(31)	(44)	(75)	(31)	(44)	(75)
Display and Adjacent Markets	(159)	(38)	(197)	(157)	(37)	(194)
Corporate and Other	(1)	(11)	(12)	(1)	(10)	(11)
Accumulated amortization	$ (1,627)	$ (287)	$ (1,914)	$ (1,612)	$ (276)	$ (1,888)
Carrying amount	$ 60	$ 67	$ 127	$ 75	$ 78	$ 153

Details of amortization expense by segment were as follows:

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
	(In millions)			
Semiconductor Systems	$ 10	$ 9	$ 22	$ 19
Display and Adjacent Markets	2	3	3	7
Corporate & Other	1	—	1	—
Total	$ 13	$ 12	$ 26	$ 26

Amortization expense was charged to the following categories:

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
	(In millions)			
Cost of products sold	$ 7	$ 8	$ 15	$ 17
Research, development and engineering	1	—	1	—
Marketing and selling	5	4	10	9
Total	$ 13	$ 12	$ 26	$ 26

As of May 2, 2021, future estimated amortization expense is expected to be as follows:

	Amortization Expense
	(In millions)
2021 (remaining 6 months)	$ 23
2022	33
2023	20
2024	17
2025	15
Thereafter	19
Total	$ 127

Note 11 Borrowing Facilities and Debt

Revolving Credit Facilities

In February 2020, Applied entered into a five-year $1.5 billion committed unsecured revolving credit agreement (Revolving Credit Agreement) with a group of banks. The Revolving Credit Agreement includes a provision under which Applied may request an increase in the amount of the facility of up to $500 million for a total commitment of no more than $2.0 billion, subject to the receipt of commitments from one or more lenders for any such increase and other customary conditions. The Revolving Credit Agreement is scheduled to expire in February 2025, unless extended as permitted under the Revolving Credit Agreement. The Revolving Credit Agreement provides for borrowings that bear interest for each advance at one of two rates selected by Applied, plus an applicable margin, which varies according to Applied's public debt credit ratings.

No amounts were outstanding under the Revolving Credit Agreement as of May 2, 2021 and October 25, 2020.

In addition, Applied has revolving credit facilities with Japanese banks pursuant to which it may borrow up to approximately $74 million in aggregate at any time. Applied's ability to borrow under these facilities is subject to bank approval at the time of the borrowing request, and any advances will be at rates indexed to the banks' prime reference rate denominated in Japanese yen. As of May 2, 2021 and October 25, 2020, no amounts were outstanding under these revolving credit facilities.

Term Loan and Short-term Commercial Paper

In August 2019, Applied entered into a term loan credit agreement (Term Loan Credit Agreement) with a group of lenders under which the lenders committed to make an unsecured term loan to Applied of up to $2.0 billion to finance in part Applied's planned acquisition of all outstanding shares of Kokusai Electric, to pay related transaction fees and expenses and for general corporate purposes. In March 2021, the Term Loan Credit Agreement, as subsequently amended, terminated automatically in accordance with its terms upon the termination of the SPA. No amounts were borrowed under the Term Loan Credit Agreement at both May 2, 2021 and October 25, 2020.

Applied has a short-term commercial paper program under which Applied may issue unsecured commercial paper notes of up to a total amount of $1.5 billion. At May 2, 2021 and October 25, 2020, Applied did not have any commercial paper outstanding.

Senior Unsecured Notes

In May 2020, Applied issued $750 million aggregate principal amount of 1.750% senior unsecured notes due 2030 and $750 million aggregate principal amount of 2.750% senior unsecured notes due 2050, in a registered public offering. In June 2020, Applied used a portion of the net proceeds from the offering to redeem the outstanding $600 million in aggregate principal amount of its 2.625% senior unsecured notes due October 1, 2020 and $750 million in aggregate principal amount of its 4.300% senior unsecured notes due June 15, 2021, at a total aggregate redemption price of $1.4 billion. As a result, Applied recognized a $33 million loss on early extinguishment of these senior unsecured notes during the third quarter of fiscal 2020.

Debt outstanding as of May 2, 2021 and October 25, 2020 was as follows:

	Principal Amount			
	May 2, 2021	October 25, 2020	Effective Interest Rate	Interest Pay Dates
	(In millions)			
Long-term debt:				
3.900% Senior Notes Due 2025	$ 700	$ 700	3.944%	April 1, October 1
3.300% Senior Notes Due 2027	1,200	1,200	3.342%	April 1, October 1
1.750% Senior Notes Due 2030	750	750	1.792%	June 1, December 1
5.100% Senior Notes Due 2035	500	500	5.127%	April 1, October 1
5.850% Senior Notes Due 2041	600	600	5.879%	June 15, December 15
4.350% Senior Notes Due 2047	1,000	1,000	4.361%	April 1, October 1
2.750% Senior Notes Due 2050	750	750	2.773%	June 1, December 1
	5,500	5,500		
Total unamortized discount	(14)	(15)		
Total unamortized debt issuance costs	(36)	(37)		
Total long-term debt	$ 5,450	$ 5,448		

Note 12 Leases

A contract contains a lease when Applied has the right to control the use of an identified asset for a period of time in exchange for consideration. Applied leases certain facilities, vehicles and equipment under non-cancelable operating leases, many of which include options to renew. Options that are reasonably certain to be exercised are included in the calculation of the right-of-use asset and lease liability. Applied's leases do not contain residual value guarantees or significant restrictions that impact the accounting for leases. As implicit rates are not available for the leases, Applied uses the incremental borrowing rate as of the lease commencement date in order to measure the right-of-use asset and liability. Operating lease expense is generally recognized on a straight-line basis over the lease term.

Applied elected the practical expedient to account for lease and non-lease components as a single lease component for all leases. For leases with a term of one year or less, Applied elected not to record a right-of-use asset or lease liability and to account for the associated lease payments as they become due.

The components of lease expense and supplemental information were as follows:

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
	(In millions, except percentages)			
Operating lease cost	$19	$21	$38	$34
Weighted-average remaining lease term (in years)			4.8	5.4
Weighted-average discount rate			1.7%	2.0%

Supplemental cash flow information related to leases are as follows:

	Six Months Ended	
	May 2, 2021	April 26, 2020
	(In millions)	
Operating cash flows paid for operating leases	$ 39	$ 34
Right-of-use assets obtained in exchange for operating lease liabilities	$ 14	$ 113

As of May 2, 2021, the maturities of lease liabilities are as follows:

Fiscal	Operating Leases (In millions)
2021 (remaining 6 months)	$ 35
2022	63
2023	55
2024	47
2025	38
Thereafter	26
Total lease payments	$ 264
Less imputed interest	(11)
Total	$ 253

Note 13 Severance and Related Charges

Fiscal 2021 Severance Plan

In the first quarter of fiscal 2021, Applied enacted a severance plan to realign its workforce. Under this plan, Applied implemented a one-time voluntary retirement program and other workforce reduction actions. The voluntary retirement program was available to certain U.S. employees who met minimum age and length of service requirements, as well as other business-specific criteria. The payments under this plan are paid at the time of termination and the related costs were not allocated to the segments. In addition, Applied implemented other workforce reduction actions globally across the Display and Adjacent Markets business. These costs were recorded under the Display and Adjacent Markets segment.

During the six months ended May 2, 2021, Applied recognized $158 million of severance and related charges in connection with the Fiscal 2021 Severance Plan, of which $36 million remains outstanding as of May 2, 2021.

Severance and related charges by segment were as follows:

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
	(In millions)			
Display and Adjacent Markets	$ —	$ —	$ 8	$ —
Corporate and Other	6	—	150	—
Total	$ 6	$ —	$ 158	$ —

Changes in severance and related charges reserves related to the Fiscal 2021 Severance Plan described above for the six months ended May 2, 2021 were as follows:

	Severance and Related Charges Reserves
	(In millions)
Balance as of October 25, 2020	$ —
Provision for severance	152
Consumption of reserves	(5)
Balance as of January 31, 2021	147
Provision for severance	6
Consumption of reserves	(117)
Balance as of May 2, 2021	$ 36

Note 14 Stockholders' Equity, Comprehensive Income and Share-Based Compensation

Accumulated Other Comprehensive Income (Loss)

Changes in the components of accumulated other comprehensive income (AOCI), net of tax, were as follows:

	Unrealized Gain (Loss) on Investments, Net	Unrealized Gain (Loss) on Derivative Instruments Qualifying as Cash Flow Hedges	Defined and Postretirement Benefit Plans	Cumulative Translation Adjustments	Total
			(in millions)		
Balance as of October 25, 2020	$ 20	$ (133)	$ (199)	$ 13	$ (299)
Other comprehensive income (loss) before reclassifications	(6)	12	—	—	6
Amounts reclassified out of AOCI	(4)	7	—	—	3
Other comprehensive income (loss), net of tax	(10)	19	—	—	9
Balance as of May 2, 2021	$ 10	$ (114)	$ (199)	$ 13	$ (290)

	Unrealized Gain (Loss) on Investments, Net	Unrealized Gain (Loss) on Derivative Instruments Qualifying as Cash Flow Hedges	Defined and Postretirement Benefit Plans	Cumulative Translation Adjustments	Total
			(in millions)		
Balance as of October 27, 2019	$ 11	$ (16)	$ (188)	$ 13	$ (180)
Other comprehensive income (loss) before reclassifications	5	(137)	—	—	(132)
Amounts reclassified out of AOCI	(4)	1	—	—	(3)
Other comprehensive income (loss), net of tax	1	(136)	—	—	(135)
Balance as of April 26, 2020	$ 12	$ (152)	$ (188)	$ 13	$ (315)

The tax effects on the unrealized loss on derivative instruments qualifying as cash flow hedges for the six months ended May 2, 2021 was not material and was $39 million for the six months ended April 26, 2020. The tax effects on net income of amounts reclassified from AOCI for the three and six months ended May 2, 2021 and April 26, 2020 were not material.

Stock Repurchase Program

In March 2021, Applied's Board of Directors approved a common stock repurchase program authorizing $7.5 billion in repurchases. This authorized repurchase program supplemented the previously existing authorization, which had approximately $525 million remaining as of May 2, 2021. As of May 2, 2021, approximately $8.0 billion, in aggregate, remained available for future stock repurchases under these repurchase programs.

The following table summarizes Applied's stock repurchases for the three and six months ended May 2, 2021 and April 26, 2020:

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
	(in millions, except per share amount)			
Shares of common stock repurchased	6	4	6	7
Cost of stock repurchased	$ 750	$ 199	$ 750	$ 399
Average price paid per share	$ 135.30	$ 50.14	$ 135.30	$ 54.06

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

Dividends

In March 2021 and December 2020, Applied's Board of Directors declared quarterly cash dividends, in the amount of $0.24 and $0.22 per share, respectively. The dividend declared in March 2021 is payable in June 2021. Dividends paid during the six months ended May 2, 2021 and April 26, 2020 totaled $403 million and $385 million, respectively. Applied currently anticipates that cash dividends will continue to be paid on a quarterly basis, although the declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on Applied's financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination by the Board of Directors that cash dividends are in the best interests of Applied's stockholders.

Share-Based Compensation

Applied has a stockholder-approved equity plan, the Employee Stock Incentive Plan (ESIP), which permits grants to employees of share-based awards, including stock options, stock appreciation rights, restricted stock, restricted stock units, performance share units and performance units. In addition, the plan provides for the automatic grant of restricted stock units to non-employee directors and permits the grant of share-based awards to non-employee directors and consultants. Share-based awards made under the plan may be subject to accelerated vesting under certain circumstances in the event of a change in control of Applied. On March 11, 2021, Applied's shareholders approved an amendment and restatement of the ESIP to, among other changes, add 10 million shares to the number of shares of Applied common stock authorized for issuance.

In addition, Applied currently has two Employee Stock Purchase Plans, one generally for United States employees (U.S. ESPP) and a second for employees of international subsidiaries (Offshore ESPP, and together with the U.S. ESPP, the Existing ESPP), which enable eligible employees to purchase Applied common stock. On March 11, 2021, Applied's shareholders approved an amendment and restatement of the U.S. ESPP (as amended, the Omnibus ESPP). The Omnibus ESPP will become effective on September 1, 2021 (the Effective Date) in accordance with its terms, and amends the U.S. ESPP to, among other changes, (i) incorporate the Offshore ESPP as a sub-plan, and (ii) add 11.3 million shares to the number of shares of Applied common stock authorized for issuance. The Offshore ESPP will terminate as an independent plan on the Effective Date.

During the three and six months ended May 2, 2021 and April 26, 2020, Applied recognized share-based compensation expense related to equity awards and Existing ESPP shares. The effect of share-based compensation on the results of operations was as follows:

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
	(In millions)			
Cost of products sold	$ 29	$ 24	$ 65	$ 55
Research, development and engineering	31	27	71	62
Marketing and selling	10	8	23	19
General and administrative	14	12	32	28
Total share-based compensation	$ 84	$ 71	$ 191	$ 164

The cost associated with share-based awards that are subject solely to time-based vesting requirements, less expected forfeitures, is recognized over the awards' service period for the entire award on a straight-line basis. Share-based awards granted to certain executive officers allow partial accelerated vesting in the event of a qualifying retirement based on age and years of service. The cost associated with performance-based equity awards, which include both performance and market goals, is recognized for each tranche over the service period. The cost of equity awards related to performance goals is based on an assessment of the likelihood that the applicable performance goals will be achieved. For the equity awards based on market goals, the cost is recognized based upon the assumption of 100% achievement of the goal.

As of May 2, 2021, Applied had $592 million in total unrecognized compensation expense, net of estimated forfeitures, related to grants of share-based awards and shares issued under Applied's Existing ESPP, which will be recognized over a weighted average period of 2.8 years. As of May 2, 2021, there were 34 million shares available for grants of share-based awards under the ESIP, and an additional 8 million shares available for issuance under the Existing ESPP, which excludes the 11.3 million shares approved by shareholders in March 2021 to be added to the Omnibus ESPP, which will be effective on September 1, 2021.

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

A summary of the changes in any restricted stock units, restricted stock, performance shares and performance units outstanding under Applied's equity compensation plans during the six months ended May 2, 2021 is presented below:

	Shares	Weighted Average Grant Date Fair Value
	(In millions, except per share amounts)	
Outstanding as of October 25, 2020	15	$ 45.36
Granted	5	$ 88.05
Vested	(6)	$ 42.59
Canceled	(1)	$ 55.60
Outstanding as of May 2, 2021	13	$ 60.42

As of May 2, 2021, 1.3 million additional performance-based awards could be earned based upon achievement of certain levels of specified performance goals.

During the first quarter of fiscal 2021, certain executive officers were granted awards that are subject to the achievement of targeted levels of adjusted operating margin and targeted levels of total shareholder return (TSR) relative to a peer group, comprised of companies in the Standard & Poor's 500 Index. Each metric will be weighted 50% and will be measured over a three-year period.

The awards become eligible to vest only if performance goals are achieved and will vest only if the grantee remains employed by Applied through each applicable vesting date, subject to a qualifying retirement described below. The number of shares that may vest in full after three years ranges from 0% to 200% of the target amount. The awards provide for a partial payout based on actual performance at the conclusion of the three-year performance period in the event of a qualifying retirement based on age and years of service.

During the first quarter of fiscal 2021, certain executive officers were also granted non-recurring long-term performance-based awards that are subject to the achievement of targeted levels of Applied's absolute TSR. The awards become eligible to vest only if targeted levels of TSR are achieved during the five-year performance period and will vest only if the grantee remains employed by Applied through the vesting date in October 2025, except in the event of involuntary termination of employment without cause, death or following a change of control. The number of shares that may vest in full after five years ranges from 0% to 200% of the target amount.

The fair value of the portion of the awards subject to targeted levels of adjusted operating margin is estimated on the date of grant. If the performance goals are not met as of the end of the performance period, no compensation expense is recognized, and any previously recognized compensation expense is reversed. The expected cost is based on the portion of the awards that is probable to vest and is reflected over the service period and reduced for estimated forfeitures.

The fair value of the portion of the awards subject to targeted levels of relative TSR or absolute TSR is estimated on the date of grant using a Monte Carlo simulation model. Compensation expense is recognized based upon the assumption of 100% achievement of the TSR goal and will not be reversed even if the threshold level of TSR is never achieved, and is reflected over the service period and reduced for estimated forfeitures.

Employee Stock Purchase Plans

Under the Existing ESPP, substantially all employees may purchase Applied common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value of Applied common stock at the beginning or end of each 6-month purchase period, subject to certain limits. Applied issued a total of 2 million shares in the three and six months ended May 2, 2021 and a total of 2 million shares in the three and six months ended April 26, 2020. Compensation expense is calculated using the fair value of the employees' purchase rights under the Black-Scholes model.

	Three and Six Months Ended	
	May 2, 2021	April 26, 2020
Dividend yield	0.72%	1.40%
Expected volatility	44.6%	37.2%
Risk-free interest rate	0.53%	1.05%
Expected life (in years)	0.5	0.5
Weighted average estimated fair value	$18.34	$15.24

Note 15 Income Taxes

Applied's provision for income taxes and effective tax rate are affected by the geographical composition of pre-tax income which includes jurisdictions with differing tax rates, conditional reduced tax rates and other income tax incentives. It is also affected by events that are not consistent from period to period, such as changes in income tax laws and the resolution of prior years' income tax filings.

On December 27, 2020, the U.S. government enacted the Consolidated Appropriations Act and on March 11, 2021, it enacted the American Rescue Plan. The enactment of these Acts does not result in any material adjustments to Applied's provision for income taxes.

Applied's effective tax rates for the second quarter of fiscal 2021 and 2020 were 13.9 percent and 14.0 percent, respectively. The effective tax rate for the second quarter of fiscal 2021 included establishment of valuation allowance related to the Kokusai Electric termination fee. A valuation allowance of $19 million was recorded to recognize only the portion of the termination fee deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, could be adjusted in future quarters if estimates of future taxable income during the carryforward period change.

Applied's effective tax rates for the first half of fiscal 2021 and 2020 were 11.7 percent and 12.5 percent, respectively. The effective tax rate for the first half of fiscal 2021 was lower than the same period in the prior fiscal year primarily due to a tax benefit related to severance and related charges recorded in the first quarter of fiscal 2021. This tax benefit was partially offset by the reduction in excess tax benefits from stock-based compensation in the first quarter of fiscal 2021 and the valuation allowance noted above recorded in the second quarter of fiscal 2021.

Note 16 Warranty, Guarantees, Commitments and Contingencies

Warranty

Changes in the warranty reserves are presented below:

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
	(In millions)			
Beginning balance	$ 196	$ 196	$ 201	$ 196
Warranties issued	52	36	101	76
Change in reserves related to preexisting warranty	3	5	5	2
Consumption of reserves	(35)	(38)	(91)	(75)
Ending balance	$ 216	$ 199	$ 216	$ 199

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

Guarantees

In the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to third parties as required for certain transactions initiated by either Applied or its subsidiaries. As of May 2, 2021, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately $346 million. Applied has not recorded any liability in connection with these guarantee agreements beyond that required to appropriately account for the underlying transaction being guaranteed. Applied does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee agreements.

Applied also has agreements with various banks to facilitate subsidiary banking operations worldwide, including overdraft arrangements, issuance of bank guarantees, and letters of credit. As of May 2, 2021, Applied has provided parent guarantees to banks for approximately $146 million to cover these arrangements.

Legal Matters

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

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

Note 17 Industry Segment Operations

Applied's three reportable segments are: Semiconductor Systems, Applied Global Services, and Display and Adjacent Markets. As defined under the accounting literature, Applied's chief operating decision-maker has been identified as the President and Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Segment information is presented based upon Applied's management organization structure as of May 2, 2021 and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to Applied's reportable segments.

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

The Applied Global Services segment provides integrated solutions to optimize equipment and fab performance and productivity, including spares, upgrades, services, certain remanufactured earlier generation equipment and factory automation software for semiconductor, display and other products.

The Display and Adjacent Markets segment includes products for manufacturing liquid crystal displays (LCDs), organic light-emitting diodes (OLEDs), equipment upgrades and flexible coating systems and other display technologies for TVs, monitors, laptops, personal computers, smart phones, and other consumer-oriented devices.

Each operating segment is separately managed and has separate financial results that are reviewed by Applied's chief operating decision-maker. Each reportable segment contains closely related products that are unique to the particular segment. Segment operating income is determined based upon internal performance measures used by Applied's chief operating decision-maker. The chief operating decision-maker does not evaluate operating segments using total asset information.

Applied derives the segment results directly from its internal management reporting system. The accounting policies Applied uses to derive reportable segment results are substantially the same as those used for external reporting purposes. Management measures the performance of each reportable segment based upon several metrics including orders, net sales and operating income. Management uses these results to evaluate the performance of, and to assign resources to, each of the reportable segments.

The Corporate and Other category includes revenues from products, as well as costs of products sold, for fabricating solar photovoltaic cells and modules, and certain operating expenses that are not allocated to its reportable segments and are managed separately at the corporate level. These operating expenses include costs related to share-based compensation; certain management, finance, legal, human resources, and research, development and engineering functions provided at the corporate level; and unabsorbed information technology and occupancy. In addition, Applied does not allocate to its reportable segments restructuring, severance and asset impairment charges and any associated adjustments related to restructuring actions, unless these actions pertain to a specific reportable segment. Segment operating income also excludes interest income/expense and other financial charges and income taxes. Management does not consider the unallocated costs in measuring the performance of the reportable segments.

Net sales and operating income (loss) for each reportable segment were as follows:

	Three Months Ended		Six Months Ended	
	Net Sales	Operating Income (Loss)	Net Sales	Operating Income (Loss)
	(In millions)			
May 2, 2021:				
Semiconductor Systems	$ 3,972	$ 1,542	$ 7,525	$ 2,803
Applied Global Services	1,203	358	2,358	690
Display and Adjacent Markets	375	65	786	130
Corporate and Other	32	(386)	75	(761)
Total	$ 5,582	$ 1,579	$ 10,744	$ 2,862
April 26, 2020:				
Semiconductor Systems	$ 2,567	$ 782	$ 5,381	$ 1,697
Applied Global Services	1,018	256	2,015	534
Display and Adjacent Markets	365	75	697	113
Corporate and Other	7	(181)	26	(370)
Total	$ 3,957	$ 932	$ 8,119	$ 1,974

Semiconductor Systems and Display and Adjacent Markets revenues are recognized at a point in time. Applied Global Services revenue is recognized at a point in time for tangible goods such as spare parts and equipment, and over time for service agreements. The majority of revenue recognized over time is recognized within 12 months of the contract inception.

Operating income (loss) for the three and six months ended May 2, 2021 included severance and related charges as discussed in Note 13, Severance and Related Charges and a deal termination fee as discussed in Note 9, Business Combination.

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

	Three Months Ended					Six Months Ended				
	May 2, 2021		April 26, 2020		Change	May 2, 2021		April 26, 2020		Change
	(In millions, except percentages)									
China	$ 1,844	33 %	$ 1,138	29 %	62 %	$ 3,227	30 %	$ 2,410	30 %	34 %
Korea	1,428	25 %	753	19 %	90 %	2,717	25 %	1,261	16 %	115 %
Taiwan	1,041	19 %	1,029	26 %	1 %	2,241	21 %	2,394	29 %	(6)%
Japan	442	8 %	467	12 %	(5)%	900	8 %	818	10 %	10 %
Southeast Asia	109	2 %	58	1 %	88 %	299	3 %	130	1 %	130 %
Asia Pacific	4,864	87 %	3,445	87 %	41 %	9,384	87 %	7,013	86 %	34 %
United States	489	9 %	331	8 %	48 %	832	8 %	772	10 %	8 %
Europe	229	4 %	181	5 %	27 %	528	5 %	334	4 %	58 %
Total	$ 5,582	100 %	$ 3,957	100 %	41 %	$ 10,744	100 %	$ 8,119	100 %	32 %

Net sales for Semiconductor Systems by end use application for the periods indicated were as follows:

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
Foundry, logic and other	56 %	56 %	57 %	62 %
Dynamic random-access memory (DRAM)	14 %	22 %	16 %	18 %
Flash memory	30 %	22 %	27 %	20 %
	100 %	100 %	100 %	100 %

The reconciling items included in Corporate and Other were as follows:

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
	(In millions)			
Unallocated net sales	$ 32	$ 7	$ 75	$ 26
Unallocated cost of products sold and expenses	(174)	(117)	(341)	(232)
Share-based compensation	(84)	(71)	(191)	(164)
Severance and related charges	(6)	—	(150)	—
Deal termination fee	(154)	—	(154)	—
Total	$ (386)	$ (181)	$ (761)	$ (370)

The following customers accounted for at least 10 percent of Applied’s net sales for the six months ended May 2, 2021, and sales to these customers included products and services from multiple reportable segments.

	Percentage of Net Sales
Taiwan Semiconductor Manufacturing Company Limited	16 %
Samsung Electronics Co., Ltd.	24 %

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

The following management's discussion and analysis is provided in addition to the accompanying consolidated condensed financial statements and notes, and for a full understanding of Applied's results of operations and financial condition should be read in conjunction with the consolidated condensed financial statements and notes included in this Form 10-Q and the financial statements and notes for the fiscal year ended October 25, 2020 contained in the Company's Form 10-K filed on December 11, 2020.

This report contains forward-looking statements that involve a number of risks and uncertainties. Examples of forward-looking statements include those regarding Applied's future financial or operating results, customer demand and spending, end-user demand, Applied's and market and industry trends and outlooks, the impact of the ongoing COVID-19 pandemic and responses thereto on Applied's operations and financial results, cash flows and cash deployment strategies, declaration of dividends, share repurchases, business strategies and priorities, costs and cost controls, products, competitive positions, management's plans and objectives for future operations, research and development, strategic acquisitions and investments, growth opportunities, restructuring and severance activities, backlog, working capital, liquidity, investment portfolio and policies, taxes, supply chain, manufacturing, properties, legal proceedings and claims, and other statements that are not historical facts, as well as their underlying assumptions. Forward-looking statements may contain words such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "intend," "potential" and "continue," the negative of these terms, or other comparable terminology. All forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in Part II, Item 1A, "Risk Factors," below and elsewhere in this report. These and many other factors could affect Applied's future financial condition and operating results and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by Applied or on its behalf. Forward-looking statements are based on management's estimates, projections and expectations as of the date hereof, and Applied undertakes no obligation to revise or update any such statements.

Applied's Pandemic Response

Applied Materials' business has been identified by the U.S. Department of Homeland Security as part of the Critical Infrastructure Sectors that the Federal government deems "essential to ensure the continuity of functions critical to public health and safety, as well as economic and national security" and that have "a special responsibility in these times to continue operations."

Applied responded quickly to put in place precautionary measures to keep its workplaces healthy and safe, while ensuring compliance with orders and restrictions imposed by government authorities, everywhere Applied operates in the world.

Applied's top priority during the ongoing COVID-19 pandemic remains protecting the health and safety of its employees and their families, customers, suppliers and community. Applied continues to maintain workplace flexibility such as working remotely where possible to reduce the number of people who are on campus each day and following enhanced safety and health protocols—including screenings, social distancing, and use of personal protective equipment. Applied is keeping its labs and operations active and continuing to support customers.

Applied has a multi-phase plan to return to working on-site, which takes into consideration factors such as Applied's business needs, local government regulations, community case trends, and recommendations from public health officials. The plan involves multiple phases that gradually allow additional workers to return onsite while practicing social distancing and other safety measures.

Applied Materials is committed to helping those most impacted by the ongoing COVID-19 pandemic. In regions around the world, Applied and its Foundation are addressing immediate humanitarian needs while investing resources to combat the long-term effect of the virus on the nonprofit organizations in its communities. Applied has shared masks and equipment with medical facilities, provided blood analysis systems to medical professionals, helped secure oxygen concentrators for medical facilities and sent emergency support to food banks.

Applied will continue to monitor and evaluate the ongoing COVID-19 pandemic and will work to respond appropriately to the impact of COVID-19 on its business, its customers' and suppliers' businesses and its communities.

Kokusai Electric Corporation

On June 30, 2019, Applied entered into a Share Purchase Agreement (SPA) with Kokusai Electric Corporation (Kokusai Electric) and KKR HKE Investment L.P. (KKR) providing for Applied's acquisition of all outstanding shares of Kokusai Electric. The SPA, as subsequently amended, terminated as of March 19, 2021. Applied paid KKR a termination fee of $154 million during the three months ended May 2, 2021.

Overview

Applied provides manufacturing equipment, services and software to the semiconductor, display, and related industries. Applied's customers include manufacturers of semiconductor wafers and chips, liquid crystal and organic light-emitting diode (OLED) displays, and other electronic devices. These customers may use what they manufacture in their own end products or sell the items to other companies for use in advanced electronic components. Each of Applied's businesses is subject to variable industry conditions, as demand for manufacturing equipment and services can change depending on supply and demand for chips, display technologies, and other electronic devices, as well as other factors, such as global economic and market conditions, and the nature and timing of technological advances in fabrication processes.

Applied operates in three reportable segments: Semiconductor Systems, Applied Global Services, and Display and Adjacent Markets. A summary of financial information for each reportable segment is found in Note 17 of Notes to Consolidated Condensed Financial Statements. A discussion of factors that could affect Applied's operations is set forth under "Risk Factors" in Part II, Item 1A, which is incorporated herein by reference. Product development and manufacturing activities occur primarily in the United States, Europe, Israel, and Asia. Applied's broad range of equipment and service products are highly technical and are sold primarily through a direct sales force.

Applied's results are driven primarily by customer spending on capital equipment and services to support key technology transitions or to increase production volume in response to worldwide demand for semiconductors and displays. While certain existing technologies may be adapted to new requirements, some applications create the need for an entirely different technological approach. The timing of customer investment in manufacturing equipment is also affected by the timing of next-generation process development, and the timing of capacity expansion to meet end-market demand. In light of these conditions, Applied's results can vary significantly year-over-year, as well as quarter-over-quarter.

The following table presents certain significant measurements for the periods indicated:

	Three Months Ended			Six Months Ended		
	May 2, 2021	**April 26, 2020**	**Change**	**May 2, 2021**	**April 26, 2020**	**Change**
	(In millions, except per share amounts and percentages)					
Net sales	$ 5,582	$ 3,957	$ 1,625	$ 10,744	$ 8,119	$ 2,625
Gross margin	47.5 %	44.2 %	3.3 points	46.6 %	44.4 %	2.2 points
Operating income	$ 1,579	$ 932	$ 647	$ 2,862	$ 1,974	$ 888
Operating margin	28.3 %	23.6 %	4.7 points	26.6 %	24.3 %	2.3 points
Net income	$ 1,330	$ 755	$ 575	$ 2,460	$ 1,647	$ 813
Earnings per diluted share	$ 1.43	$ 0.82	$ 0.61	$ 2.66	$ 1.78	$ 0.88

Fiscal 2021 and 2020 contain 53 weeks and 52 weeks, respectively, and the first six months of fiscal 2021 and 2020 contained 27 and 26 weeks, respectively.

COVID-19 was designated a pandemic during fiscal 2020 and the resulting restrictions put in place worldwide impacted Applied's supply chains and manufacturing operations. The semiconductor industry was deemed to be part of a U.S. Critical Infrastructure Sector, allowing Applied to continue operations, while ensuring compliance with orders and restrictions imposed by government authorities by putting additional precautionary measures in place to keep its workplaces healthy and safe, everywhere Applied operates in the world.

Even with the ongoing challenges faced during the pandemic, semiconductor equipment customers continued to make strategic investments in new technology transitions during the three and six months ended May 2, 2021. Foundry and logic spending increased in the three and six months ended May 2, 2021 compared to the same periods in the prior year driven by customer investment in both advanced nodes and specialty devices. Spending by memory customers increased in the three and six months ended May 2, 2021 compared to the same periods in the prior year, as the industry continues to invest to maintain balance between supply and demand. Applied saw continued growth in its services business compared to the same period in the prior year driven by an increase in the installed base of equipment and in long-term service agreements. Applied's display and adjacent markets revenue increased in the three and six months ended May 2, 2021 compared to the same periods in the prior year due to increased investment in display manufacturing equipment for TVs.

In response to the ongoing COVID-19 pandemic and evolving conditions and worldwide response, Applied made adjustments to its global operations and continues to see recovery within its supply chain and strong demand from semiconductor customers. However, the situation remains fluid and uncertain. Applied is actively managing its responses in collaboration with its employees, customers and suppliers. For additional risks associated with the ongoing COVID-19 pandemic, see the risk factor entitled "*The ongoing COVID-19 pandemic and global measures taken in response thereto have adversely impacted, and may continue to adversely impact, Applied's operations and financial results*" in Part II, Item 1A, "Risk Factors."

Results of Operations

Net Sales

Net sales for the periods indicated were as follows:

	Three Months Ended					Six Months Ended				
	May 2, 2021		April 26, 2020		Change	May 2, 2021		April 26, 2020		Change
	(In millions, except percentages)									
Semiconductor Systems	$ 3,972	71 %	$ 2,567	65 %	55 %	$ 7,525	70 %	$ 5,381	66 %	40 %
Applied Global Services	1,203	22 %	1,018	26 %	18 %	2,358	22 %	2,015	25 %	17 %
Display and Adjacent Markets	375	7 %	365	9 %	3 %	786	7 %	697	9 %	13 %
Corporate and Other	32	— %	7	— %	357 %	75	1 %	26	— %	188 %
Total	$ 5,582	100 %	$ 3,957	100 %	41 %	$ 10,744	100 %	$ 8,119	100 %	32 %

For the three and six months ended May 2, 2021 compared to the same periods in the prior year, net sales increased primarily due to increased customer investments in semiconductor equipment. The Semiconductor Systems segment continued to represent the largest contributor of total net sales.

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

	Three Months Ended					Six Months Ended				
	May 2, 2021		April 26, 2020		Change	May 2, 2021		April 26, 2020		Change
	(In millions, except percentages)									
China	$ 1,844	33 %	$ 1,138	29 %	62 %	$ 3,227	30 %	$ 2,410	30 %	34 %
Korea	1,428	25 %	753	19 %	90 %	2,717	25 %	1,261	16 %	115 %
Taiwan	1,041	19 %	1,029	26 %	1 %	2,241	21 %	2,394	29 %	(6)%
Japan	442	8 %	467	12 %	(5)%	900	8 %	818	10 %	10 %
Southeast Asia	109	2 %	58	1 %	88 %	299	3 %	130	1 %	130 %
Asia Pacific	4,864	87 %	3,445	87 %	41 %	9,384	87 %	7,013	86 %	34 %
United States	489	9 %	331	8 %	48 %	832	8 %	772	10 %	8 %
Europe	229	4 %	181	5 %	27 %	528	5 %	334	4 %	58 %
Total	$ 5,582	100 %	$ 3,957	100 %	41 %	$ 10,744	100 %	$ 8,119	100 %	32 %

The changes in net sales in all regions in the three and six months ended May 2, 2021 compared to the same periods in the prior year primarily reflected changes in semiconductor equipment spending. In addition, the decrease in net sales to customers in Taiwan for the six months ended May 2, 2021 compared to the same period in the prior year were primarily due to decreases in investments in semiconductor equipment, partially offset by increases in customer spending for display manufacturing equipment and comprehensive service agreements.

Gross margins for the periods indicated were as follows:

	Three Months Ended			Six Months Ended		
	May 2, 2021	April 26, 2020	Change	May 2, 2021	April 26, 2020	Change
Gross margin	47.5 %	44.2 %	3.3 points	46.6 %	44.4 %	2.2 points

Gross margin in the three and six months ended May 2, 2021 increased compared to the same periods in the prior year primarily due to the increase in net sales and favorable changes in customer and product mix, partially offset by higher freight costs and higher personnel costs due to increase in headcount to provide manufacturing capacity and flexibility. Gross margin during the three months ended May 2, 2021 and April 26, 2020 included $29 million and $24 million of share-based compensation expense, respectively. Gross margin during the six months ended May 2, 2021 and April 26, 2020 included $65 million and $55 million of share-based compensation expense, respectively.

Research, Development and Engineering

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

	Three Months Ended			Six Months Ended		
	May 2, 2021	April 26, 2020	Change	May 2, 2021	April 26, 2020	Change
			(In millions)			
Research, development and engineering	$ 617	$ 550	$ 67	$ 1,223	$ 1,102	$ 121

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

Management believes that it is critical to continue to make substantial investments in RD&E to assure the availability of innovative technology that meets the current and projected requirements of its customers' most advanced designs. Applied has maintained and intends to continue its commitment to investing in RD&E in order to continue to offer new products and technologies.

The increases in RD&E expenses during the three and six months ended May 2, 2021 compared to the same periods in the prior year were primarily due to additional headcount. These increases reflect Applied's ongoing investments in product development initiatives, consistent with the Company's strategy. Applied continued to prioritize existing RD&E investments in technical capabilities and critical research and development programs in current and new markets, with a focus on semiconductor technologies. RD&E expenses during the three months ended May 2, 2021 and April 26, 2020 included $31 million and $27 million of share-based compensation expense, respectively. RD&E expense during the six months ended May 2, 2021 and April 26, 2020 included $71 million and $62 million of share-based compensation expense, respectively.

Marketing and Selling

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

	Three Months Ended			Six Months Ended		
	May 2, 2021	April 26, 2020	Change	May 2, 2021	April 26, 2020	Change
			(In millions)			
Marketing and selling	$ 148	$ 130	$ 18	$ 295	$ 265	$ 30

Marketing and selling expenses for the three and six months ended May 2, 2021 increased compared to the same periods in fiscal 2020 primarily due to additional headcount. Marketing and selling expenses during the three months ended May 2, 2021 and April 26, 2020 included $10 million and $8 million of share-based compensation expense, respectively. Marketing and selling expenses during the six months ended May 2, 2021 and April 26, 2020 included $23 million and $19 million of share-based compensation expense, respectively.

General and Administrative

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

	Three Months Ended			Six Months Ended		
	May 2, 2021	April 26, 2020	Change	May 2, 2021	April 26, 2020	Change
	(In millions)					
General and administrative	$ 149	$ 137	$ 12	$ 310	$ 266	$ 44

G&A expenses in the three and six months ended May 2, 2021 increased compared to the same periods in the prior year primarily due to additional headcount and higher expense associated with business combination activities. G&A expenses during the three months ended May 2, 2021 and April 26, 2020 included $14 million and $12 million of share-based compensation expense, respectively. G&A expenses during the six months ended May 2, 2021 and April 26, 2020 included $32 million and $28 million of share-based compensation expense, respectively.

Severance and Related Charges

Severance and related charges for the periods indicated were as follows:

	Three Months Ended			Six Months Ended		
	May 2, 2021	April 26, 2020	Change	May 2, 2021	April 26, 2020	Change
	(In millions)					
Severance and related charges	$ 6	$ —	$ 6	$ 158	$ —	$ 158

In the first quarter of fiscal 2021, Applied enacted a severance plan (Fiscal 2021 Severance Plan) to realign its workforce. Under this plan, Applied implemented a one-time voluntary retirement program and other workforce reduction actions. The voluntary retirement program was available to certain U.S. employees who met minimum age and length of service requirements, as well as other business-specific criteria. In addition, Applied implemented other workforce reduction actions globally across the Display and Adjacent Markets business.

Deal Termination Fee

Deal termination fee for the periods indicated were as follows:

	Three Months Ended			Six Months Ended		
	May 2, 2021	April 26, 2020	Change	May 2, 2021	April 26, 2020	Change
	(In millions)					
Deal termination fee	$ 154	$ —	$ 154	$ 154	$ —	$ 154

On June 30, 2019, Applied entered into a Share Purchase Agreement (SPA) with Kokusai Electric Corporation (Kokusai Electric) and KKR HKE Investment L.P. (KKR) providing for Applied's acquisition of all outstanding shares of Kokusai Electric. The SPA, as subsequently amended, terminated as of March 19, 2021. Applied paid KKR a termination fee of $154 million during the three months ended May 2, 2021.

Interest Expense and Interest and Other Income (Loss), net

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

	Three Months Ended			Six Months Ended		
	May 2, 2021	April 26, 2020	Change	May 2, 2021	April 26, 2020	Change
	(In millions)					
Interest expense	$ 61	$ 61	$ —	$ 122	$ 120	$ 2
Interest and other income (loss), net	$ 27	$ 7	$ 20	$ 45	$ 29	$ 16

Interest expense incurred was primarily associated with issued senior unsecured notes. Interest expense in the three and six months ended May 2, 2021 remained relatively flat compared to the same periods in the prior year.

Interest and other income, net in the three and six months ended May 2, 2021 increased compared to the same periods in the prior year, primarily driven by higher net gain from investments, partially offset by lower interest income during the three and six months ended May 2, 2021 compared to the same periods in the prior year.

Income Taxes

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

	Three Months Ended			Six Months Ended		
	May 2, 2021	April 26, 2020	Change	May 2, 2021	April 26, 2020	Change
	(In millions, except percentages)					
Provision for income taxes	$ 215	$ 123	$ 92	$ 325	$ 236	$ 89
Effective tax rate	13.9 %	14.0 %	(0.1) points	11.7 %	12.5 %	(0.8) points

Applied’s provision for income taxes and effective tax rate are affected by the geographical composition of pre-tax income which includes jurisdictions with differing tax rates, conditional reduced tax rates and other income tax incentives. It is also affected by events that are not consistent from period to period, such as changes in income tax laws and the resolution of prior years’ income tax filings.

On December 27, 2020, the U.S. government enacted the Consolidated Appropriations Act., and on March 11, 2021, it enacted the American Rescue Plan. The enactment of these Acts does not result in any material adjustments to Applied’s provision for income taxes.

Applied’s effective tax rates for the second quarter of fiscal 2021 and 2020 were 13.9 percent and 14.0 percent, respectively. The effective tax rate for the second quarter of fiscal 2021 included establishment of valuation allowance related to the Kokusai Electric termination fee. A valuation allowance of $19 million was recorded to recognize only the portion of the termination fee deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, could be adjusted in future quarters if estimates of future taxable income during the carryforward period change.

Applied’s effective tax rates for the first half of fiscal 2021 and 2020 were 11.7 percent and 12.5 percent, respectively. The effective tax rate for the first half of fiscal 2021 was lower than the same period in the prior fiscal year primarily due to a tax benefit related to severance and related charges recorded in the first quarter of fiscal 2021. This tax benefit was partially offset by the reduction in excess tax benefits from stock-based compensation in the first quarter of fiscal 2021 and the valuation allowance noted above recorded in the second quarter of fiscal 2021.

Segment Information

Applied reports financial results in three segments: Semiconductor Systems, Applied Global Services, and Display and Adjacent Markets. A description of the products and services, as well as financial data, for each reportable segment can be found in Note 17 of Notes to Consolidated Condensed Financial Statements.

The Corporate and Other category includes revenues from products, as well as costs of products sold, for fabricating solar photovoltaic cells and modules and certain operating expenses that are not allocated to its reportable segments and are managed separately at the corporate level. These operating expenses include costs for share-based compensation; certain management, finance, legal, human resource, and RD&E functions provided at the corporate level; and unabsorbed information technology and occupancy. In addition, Applied does not allocate to its reportable segments restructuring, severance and asset impairment charges and any associated adjustments related to restructuring actions, unless these actions pertain to a specific reportable segment.

The results for each reportable segment are discussed below.

Semiconductor Systems Segment

The Semiconductor Systems segment is comprised primarily of capital equipment used to fabricate semiconductor chips. Semiconductor industry spending on capital equipment is driven by demand for advanced electronic products, including smartphones and other mobile devices, servers, personal computers, automotive electronics, storage, and other products, and the nature and timing of technological advances in fabrication processes, and as a result is subject to variable industry conditions. Development efforts are focused on solving customers’ key technical challenges in transistor, interconnect, patterning and packaging performance as devices scale to advanced technology nodes.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended				Six Months Ended			
	May 2, 2021	April 26, 2020	Change		May 2, 2021	April 26, 2020	Change	
	(In millions, except percentages and ratios)							
Net sales	$ 3,972	$ 2,567	$ 1,405	55 %	$ 7,525	$ 5,381	$ 2,144	40 %
Operating income	$ 1,542	$ 782	$ 760	97 %	$ 2,803	$ 1,697	$ 1,106	65 %
Operating margin	38.8 %	30.5 %	8.3 points		37.2 %	31.5 %	5.7 points	

Net sales for Semiconductor Systems by end use application for the periods indicated were as follows:

	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
Foundry, logic and other	56 %	56 %	57 %	62 %
Dynamic random-access memory (DRAM)	14 %	22 %	16 %	18 %
Flash memory	30 %	22 %	27 %	20 %
	100 %	100 %	100 %	100 %

Net sales for the three and six months ended May 2, 2021 increased compared to the same periods in the prior year. Semiconductor equipment customers continued to make strategic investments in new technology transitions during the first six months of fiscal 2021. Foundry and logic spending increased, in absolute dollars, in the three and six months ended May 2, 2021 compared to the same periods in the prior year driven by customer investment in both advanced nodes and specialty devices. Spending by memory customers also increased in the three and six months ended May 2, 2021 compared to the same periods in the prior year.

Operating margin for the three and six months ended May 2, 2021 increased compared to the same periods in the prior year, primarily reflecting higher net sales and favorable changes in customer and product mix, partially offset by higher personnel costs due to the hiring of additional headcount to provide manufacturing capacity and flexibility and higher freight costs. In the three months ended May 2, 2021, two customers each accounted for at least 10 percent of this segment's net sales, and together they accounted for approximately 51 percent of this segment's total net sales, with one customer accounting for approximately 35 percent of net sales.

The following regions accounted for at least 30 percent of total net sales for the Semiconductor Systems segment for one or more of the periods presented.

	Three Months Ended					Six Months Ended				
	May 2, 2021		April 26, 2020		Change	May 2, 2021		April 26, 2020		Change
	(In millions, except percentages)									
Korea	$ 1,237	31%	$ 623	24%	99 %	$ 2,363	31%	$ 988	18%	139 %
Taiwan	$ 808	20%	$ 815	32%	(1)%	$ 1,779	24%	$ 1,993	37%	(11)%
China	$ 1,214	31%	$ 582	23%	109 %	$ 1,924	26%	$ 1,304	24%	48 %

Applied Global Services Segment

The Applied Global Services segment provides integrated solutions to optimize equipment and fab performance and productivity, including spares, upgrades, services, certain remanufactured earlier generation equipment and factory automation software for semiconductor, display and solar products.

Demand for Applied Global Services' service solutions are driven by Applied's large and growing installed base of manufacturing systems, and customers' needs to shorten ramp times, improve device performance and yield, and optimize factory output and operating costs. Industry conditions that affect Applied Global Services' sales of spares and services are primarily characterized by increases in semiconductor manufacturers' wafer starts and continued strong utilization rates, growth of the installed base of equipment, growing service intensity of newer tools, and the Company's ability to sell more comprehensive service agreements.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended				Six Months Ended			
	May 2, 2021	April 26, 2020	Change		May 2, 2021	April 26, 2020	Change	
	(In millions, except percentages and ratios)							
Net sales	$ 1,203	$ 1,018	$ 185	18 %	$ 2,358	$ 2,015	$ 343	17 %
Operating income	$ 358	$ 256	$ 102	40 %	$ 690	$ 534	$ 156	29 %
Operating margin	29.8 %	25.1 %	4.7 points		29.3 %	26.5 %	2.8 points	

Net sales for the three and six months ended May 2, 2021 increased compared to the same periods in the prior year primarily due to higher customer spending on comprehensive service agreements and spares, partially offset by lower customer spending on legacy systems. In addition, the increase in net sales for the six months ended May 2, 2021 compared to the same period in the prior year included the impact of an additional one week during the first quarter of fiscal 2021. Operating margin for the three and six months ended May 2, 2021 compared to the same periods in the prior year increased primarily due to higher net sales, partially offset by higher expense related to an increase in headcount to support business growth and higher freight costs. In the three months ended May 2, 2021, two customers accounted for more than 10 percent of this segment's total net sales.

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

Display and Adjacent Markets Segment

The Display and Adjacent Markets segment encompasses products for manufacturing liquid crystal and OLED displays, and other display technologies for TVs, monitors, laptops, personal computers, electronic tablets, smart phones, and other consumer-oriented devices, equipment upgrades and flexible coating systems. The segment is focused on expanding its presence through technologically-differentiated equipment for manufacturing large-scale LCD TVs, OLEDs, low temperature polysilicon (LTPS), metal oxide, and touch panel sectors; and development of products that provide customers with improved performance and yields.

Display industry growth depends primarily on consumer demand for increasingly larger and more advanced TVs as well as larger and higher resolution displays for next generation mobile devices. Uneven spending patterns by customers in the Display and Adjacent Markets segment can cause significant fluctuations quarter-over-quarter, as well as year-over-year.

Certain significant measures for the periods presented were as follows:

	Three Months Ended				Six Months Ended			
	May 2, 2021	April 26, 2020	Change		May 2, 2021	April 26, 2020	Change	
	(In millions, except percentages and ratios)							
Net sales	$ 375	$ 365	$ 10	3 %	$ 786	$ 697	$ 89	13 %
Operating income	$ 65	$ 75	$ (10)	(13)%	$ 130	$ 113	$ 17	15 %
Operating margin	17.3 %	20.5 %	(3.2) points		16.5 %	16.2 %	0.3 points	

Net sales for the three months ended May 2, 2021 increased slightly compared to the same period in the prior year primarily due to higher customer investment in display manufacturing equipment for TV's, partially offset by a decrease in customer investments in display manufacturing equipment for mobile products. Net sales for the six months ended May 2, 2021 increased compared to the same period in the prior year primarily due to higher customer investment in display manufacturing equipment for TVs. Operating margin for the three months ended May 2, 2021 decreased compared to the same period in the prior year primarily due to unfavorable product mix, partially offset by higher net sales. Operating margin for the six months ended May 2, 2021 increased compared to the same period in the prior year due to higher net sales. In the three months ended May 2, 2021, two customers each accounted for at least 30 percent of this segment’s net sales, and together they accounted for approximately 66 percent of this segment’s total net sales.

The following region accounted for at least 30 percent of total net sales for the Display and Adjacent Markets segment for one or more of the periods presented:

	Three Months Ended					Six Months Ended				
	May 2, 2021		April 26, 2020		Change	May 2, 2021		April 26, 2020		Change
	(In millions, except percentages)									
China	$ 315	84%	$ 312	85%	1%	$ 652	83%	$ 616	88%	6%

Financial Condition, Liquidity and Capital Resources

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

		May 2, 2021		October 25, 2020
		(In millions)		
Cash and cash equivalents	$	6,305	$	5,351
Short-term investments		460		387
Long-term investments		1,569		1,538
Total cash, cash-equivalents and investments	$	8,334	$	7,276

Sources and Uses of Cash

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

	Six Months Ended			
		May 2, 2021		April 26, 2020
		(In millions)		
Cash provided by operating activities	$	2,608	$	1,622
Cash provided by (used in) investing activities	$	(435)	$	3
Cash provided by (used in) financing activities	$	(1,226)	$	642

Kokusai Electric Corporation

On June 30, 2019, Applied entered into a Share Purchase Agreement (SPA) with Kokusai Electric Corporation (Kokusai Electric) and KKR HKE Investment L.P. (KKR) providing for Applied’s acquisition of all outstanding shares of Kokusai Electric. The SPA, as subsequently amended, terminated as of March 19, 2021. Applied paid KKR a termination fee of $154 million during the three months ended May 2, 2021.

Operating Activities

Cash from operating activities for the six months ended May 2, 2021 was $2.6 billion, which reflects net income adjusted for the effect of non-cash charges and changes in working capital components. Non-cash charges included depreciation, amortization, severance and related charges, share-based compensation and deferred income taxes. Cash provided by operating activities increased in the first six months of fiscal 2021 compared to the same period in the prior year primarily due to higher net income, partially offset by higher payments to suppliers and variable compensation.

Applied has agreements with various financial institutions to sell accounts receivable and discount promissory notes from selected customers. Applied sells its accounts receivable generally without recourse. Applied, from time to time, also discounts letters of credit issued by customers through various financial institutions. The discounting of letters of credit depends on many factors, including the willingness of financial institutions to discount the letters of credit and the cost of such arrangements. Applied sold $671 million and $364 million of accounts receivable during the six months ended May 2, 2021 and April 26, 2020, respectively. Applied did not discount letters of credit issued by customers or discount promissory notes during the six months ended May 2, 2021 and April 26, 2020.

Applied’s working capital was $10.1 billion as of May 2, 2021 and $8.9 billion as of October 25, 2020.

Days sales outstanding for the three months ended May 2, 2021 and April 26, 2020 were 55 days and 60 days, respectively. Days sales outstanding varies due to the timing of shipments and payment terms. The decrease in days sales outstanding was primarily due to higher revenue and accounts receivable factoring compared to the same period in the prior year, partially offset by unfavorable revenue linearity.

Investing Activities

Applied used $435 million of cash in investing activities during the six months ended May 2, 2021. Capital expenditures totaled $325 million, net cash paid for an immaterial acquisition was $12 million and purchases of investments, net of proceeds from sales and maturities of investments were $98 million during the six months ended May 2, 2021.

Applied's investment portfolio consists principally of investment grade money market mutual funds, U.S. Treasury and agency securities, municipal bonds, corporate bonds and mortgage-backed and asset-backed securities, as well as equity securities. Applied regularly monitors the credit risk in its investment portfolio and takes appropriate measures, which may include the sale of certain securities, to manage such risks prudently in accordance with its investment policies.

Financing Activities

Applied used $1,226 million of cash in financing activities during the six months ended May 2, 2021, consisting primarily of cash used for repurchases of common stock of $750 million, dividends to stockholders of $403 million and tax withholding payments for vested equity awards of $159 million, partially offset by proceeds from common stock issuance of $86 million.

In March 2021 and December 2020, Applied's Board of Directors declared quarterly cash dividends, in the amount of $0.24 and $0.22 per share, respectively. The dividend declared in March 2021 is payable in June 2021. Applied currently anticipates that cash dividends will continue to be paid on a quarterly basis, although the declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on Applied's financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination by the Board of Directors that cash dividends are in the best interests of Applied's stockholders.

In March 2021, Applied's Board of Directors approved a common stock repurchase program authorizing $7.5 billion in repurchases. This authorized repurchase program supplemented the previously existing authorization, which has approximately $525 million remaining as of May 2, 2021. As of May 2, 2021, approximately $8.0 billion, in aggregate, remained available for future stock repurchases under these repurchase programs.

Applied has credit facilities for unsecured borrowings in various currencies of up to $1.6 billion, of which $1.5 billion is comprised of a committed revolving credit agreement (Revolving Credit Agreement) with a group of banks. The Revolving Credit Agreement includes a provision under which Applied may request an increase in the amount of the facility of up to $500 million for a total commitment of no more than $2.0 billion, subject to the receipt of commitments from one or more lenders for any such increase and other customary conditions. The Revolving Credit Agreement is scheduled to expire in February 2025, unless extended as permitted under the Revolving Credit Agreement. The Revolving Credit Agreement provides for borrowings in United States dollars that bear interest for each advance at one of two rates selected by Applied, plus an applicable margin, which varies according to Applied's public debt credit ratings. The Revolving Credit Agreement includes financial and other covenants with which Applied was in compliance as of May 2, 2021.

Remaining credit facilities in the amount of approximately $74 million are with Japanese banks. Applied's ability to borrow under these facilities is subject to bank approval at the time of the borrowing request, and any advances will be at rates indexed to the banks' prime reference rate denominated in Japanese yen.

No amounts were outstanding under any of these facilities at both May 2, 2021 and October 25, 2020.

In August 2019, Applied entered into a term loan credit agreement (Term Loan Credit Agreement) with a group of lenders under which the lenders committed to make an unsecured term loan to Applied of up to $2.0 billion to finance in part Applied's planned acquisition of all outstanding shares of Kokusai Electric, to pay related transaction fees and expenses and for general corporate purposes. In March 2021, the Term Loan Credit Agreement, as subsequently amended, terminated automatically in accordance with its terms upon the termination of the SPA. No amounts were borrowed under the Term Loan Credit Agreement at both May 2, 2021 and October 25, 2020.

Applied has a short-term commercial paper program under which Applied may issue unsecured commercial paper notes of up to a total amount $1.5 billion. As of May 2, 2021, Applied did not have any commercial paper outstanding but may issue commercial paper notes under this program from time to time in the future. The commercial paper program is backstopped by the Revolving Credit Agreement and borrowings under the Revolving Credit Agreement reduce the amount of commercial paper notes Applied can issue.

In May 2020, Applied issued $750 million aggregate principal amount of 1.750% senior unsecured notes due 2030 and $750 million aggregate principal amount of 2.750% senior unsecured notes due 2050, in a registered public offering. In June 2020, Applied used a portion of the net proceeds from the offering to redeem the outstanding $600 million in aggregate principal amount of its 2.625% senior unsecured notes due October 1, 2020 and $750 million in aggregate principal amount of its 4.300% senior unsecured notes due June 15, 2021, at a total aggregate redemption price of $1.4 billion. As a result, Applied recognized a $33 million loss on early extinguishment of these senior unsecured notes during the third quarter of fiscal 2020.

Applied had senior unsecured notes in the aggregate principal amount of $5.5 billion outstanding as of May 2, 2021. See Note 11 of the Notes to the Consolidated Condensed Financial Statements for additional discussion of existing debt. Applied may seek to refinance its existing debt and may incur additional indebtedness depending on Applied’s capital requirements and the availability of financing.

In the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to third parties as required for certain transactions initiated by either Applied or its subsidiaries. As of May 2, 2021, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately $346 million. Applied has not recorded any liability in connection with these guarantee agreements beyond that required to appropriately account for the underlying transaction being guaranteed. Applied does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee agreements.

Applied also has agreements with various banks to facilitate subsidiary banking operations worldwide, including overdraft arrangements, issuance of bank guarantees, and letters of credit. As of May 2, 2021, Applied has provided parent guarantees to banks for approximately $146 million to cover these arrangements.

Others

On December 22, 2017, the U.S. government enacted the Tax Cuts and Jobs Act (Tax Act). The Tax Act requires a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries. The transition tax expense is payable in installments over eight years, with eight percent due in each of the first five years starting with fiscal 2018. As of May 2, 2021, Applied had $775 million of total payments remaining, payable in installments in the next five years. Before the Tax Act, U.S. income tax had not been provided for certain unrepatriated earnings that were considered indefinitely reinvested. Income tax is now provided for all unrepatriated earnings.

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

Critical Accounting Policies and Estimates

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

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

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

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

Revenue Recognition

Applied recognizes revenue when promised goods or services (performance obligations) are transferred to a customer in an amount that reflects the consideration to which Applied expects to be entitled in exchange for those goods or services. Applied performs the following five steps to determine when to recognize revenue: (1) identification of the contract(s) with customers, (2) identification of the performance obligations in the contract, (3) determination of the transaction price, (4) allocation of the transaction price to the performance obligations in the contract, and (5) recognition of revenue when, or as, a performance obligation is satisfied. Management uses judgment to identify performance obligations within a contract and to determine whether multiple promised goods or services in a contract should be accounted for separately or as a group. Judgment is also used in interpreting commercial terms and determining when transfer of control occurs. Moreover, judgment is used to estimate the contract's transaction price and allocate it to each performance obligation. Any material changes in the identification of performance obligations, determination and allocation of the transaction price to performance obligations, and determination of when transfer of control occurs to the customer, could impact the timing and amount of revenue recognition, which could have a material effect on Applied's financial condition and results of operations.

Warranty Costs

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

Allowance for Credit Losses

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

Inventory Valuation

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

Goodwill and Intangible Assets

Applied reviews goodwill and intangible assets for impairment annually during the fourth quarter of each fiscal year and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The process of evaluating the potential impairment of goodwill and intangible assets requires significant judgment, especially in emerging markets. When reviewing goodwill for impairment, Applied first performs a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value.

In performing a qualitative assessment, Applied considers business conditions and other factors including, but not limited to (i) adverse industry or economic trends, (ii) restructuring actions and lower projections that may impact future operating results, (iii) sustained decline in share price, and (iv) overall financial performance and other events affecting the reporting units. If Applied concludes that is more likely than not that the fair value of a reporting unit is less than its carrying amount, then a quantitative impairment test is performed by estimating the fair value of the reporting unit and comparing it to its carrying value. If the carrying value of a reporting unit exceeds its fair value, Applied would record an impairment charge equal to the excess of the carrying value of the reporting unit's goodwill over its fair value.

Applied determines the fair value of each reporting unit based on a weighting of an income and a market approach. Applied bases the fair value estimates on assumptions that it believes to be reasonable but that are unpredictable and inherently uncertain. Under the income approach, Applied estimates the fair value based on discounted cash flow method.

The estimates used in the impairment testing are consistent with the discrete forecasts that Applied uses to manage its business, and considers any significant developments during the period. Under the discounted cash flow method, cash flows beyond the discrete forecasts are estimated using a terminal growth rate, which considers the long-term earnings growth rate specific to the reporting units. The estimated future cash flows are discounted to present value using each reporting unit's weighted average cost of capital. The weighted average cost of capital measures a reporting unit's cost of debt and equity financing weighted by the percentage of debt and equity in a reporting unit's target capital structure. In addition, the weighted average cost of capital is derived using both known and estimated market metrics, and is adjusted to reflect both the timing and risks associated with the estimated cash flows. The tax rate used in the discounted cash flow method is the median tax rate of comparable companies and reflects Applied's current international structure, which is consistent with the market participant perspective. Under the market approach, Applied uses the guideline company method which applies market multiples to forecasted revenues and earnings before interest, taxes, depreciation and amortization. Applied uses market multiples that are consistent with comparable publicly-traded companies and considers each reporting unit's size, growth and profitability relative to its comparable companies.

Intangible assets, such as purchased technology, are generally recorded in connection with a business acquisition. The value assigned to intangible assets is usually based on estimates and judgments regarding expectations for the success and life cycle of products and technology acquired. If actual product acceptance differs significantly from the estimates, Applied may be required to record an impairment charge to reduce the carrying value of the reporting unit to its estimated fair value.

Income Taxes

Applied's provision for income taxes and effective tax rate are affected by the geographical composition of pre-tax income which includes jurisdictions with differing tax rates, conditional reduced tax rates and other income tax incentives. It is also affected by events that are not consistent from period to period, such as changes to income tax laws and the resolution of prior years' income tax filings. Applied recognizes a current tax liability for the estimated amount of income tax payable on tax returns for the current fiscal year. Deferred tax assets and liabilities are recognized for the estimated future tax effects of temporary differences between the book and tax bases of assets and liabilities. Deferred tax assets are also recognized for net operating loss and tax credit carryforwards. Deferred tax assets are offset by a valuation allowance to the extent it is more likely than not that they are not expected to be realized.

Applied recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized from such positions are estimated based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Any changes in judgment related to uncertain tax positions are recognized in Applied's provision for income taxes in the quarter in which such change occurs. Interest and penalties related to uncertain tax positions are recognized in Applied's provision for income taxes.

The calculation of Applied's provision for income taxes and effective tax rate involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with Applied's expectations could have an adverse material impact on Applied's results of operations and financial condition.

Non-GAAP Adjusted Financial Results

Management uses non-GAAP adjusted financial measures to evaluate the Company's operating and financial performance and for planning purposes, and as performance measures in its executive compensation program. Applied believes these measures enhance an overall understanding of its performance and investors' ability to review the Company's business from the same perspective as the Company's management and facilitate comparisons of this period's results with prior periods on a consistent basis by excluding items that management does not believe are indicative of Applied's ongoing operating performance.

The non-GAAP adjusted financial measures presented below are adjusted to exclude the impact of certain costs, expenses, gains and losses, including certain items related to mergers and acquisitions; restructuring and severance charges and any associated adjustments; certain incremental expenses related to COVID-19; impairments of assets; gain or loss on strategic investments; loss on early extinguishment of debt; certain income tax items and other discrete adjustments. On a non-GAAP basis, the tax effect related to share-based compensation is recognized ratably over the fiscal year. Additionally, non-GAAP results exclude estimated discrete income tax expense items associated with U.S. tax legislation. Reconciliations of these non-GAAP measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are provided in the financial tables presented below. There are limitations in using non-GAAP financial measures because the non-GAAP financial measures are not prepared in accordance with generally accepted accounting principles, may be different from non-GAAP financial measures used by other companies, and may exclude certain items that may have a material impact upon our reported financial results. The presentation of this additional information is not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with GAAP.

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

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

	Three Months Ended		Six Months Ended	
(In millions, except percentages)	**May 2, 2021**	**April 26, 2020**	**May 2, 2021**	**April 26, 2020**
Non-GAAP Adjusted Gross Profit				
Reported gross profit - GAAP basis	$ 2,653	$ 1,749	$ 5,002	$ 3,607
Certain items associated with acquisitions[1]	7	8	15	17
Certain incremental expenses related to COVID-19[2]	—	8	12	8
Other charges	2	—	2	—
Non-GAAP adjusted gross profit	$ 2,662	$ 1,765	$ 5,031	$ 3,632
Non-GAAP adjusted gross margin	47.7 %	44.6 %	46.8 %	44.7 %
Non-GAAP Adjusted Operating Income				
Reported operating income - GAAP basis	$ 1,579	$ 932	$ 2,862	$ 1,974
Certain items associated with acquisitions[1]	12	13	25	26
Acquisition integration and deal costs	11	21	35	34
Certain incremental expenses related to COVID-19[2]	—	10	24	10
Severance and related charges[3]	6	—	158	—
Deal termination fee	154	—	154	—
Other charges	6	—	6	—
Non-GAAP adjusted operating income	$ 1,768	$ 976	$ 3,264	$ 2,044
Non-GAAP adjusted operating margin	31.7 %	24.7 %	30.4 %	25.2 %
Non-GAAP Adjusted Net Income				
Reported net income - GAAP basis	$ 1,330	$ 755	$ 2,460	$ 1,647
Certain items associated with acquisitions[1]	12	13	25	26
Acquisition integration and deal costs	12	21	36	34
Certain incremental expenses related to COVID-19[2]	—	10	24	10
Severance and related charges[3]	6	—	158	—
Deal termination fee	154	—	154	—
Realized loss (gain) on strategic investments, net	6	5	4	7
Unrealized loss (gain) on strategic investments, net	(26)	2	(32)	4
Other charges	6	—	6	—
Income tax effect of share-based compensation[4]	6	8	(23)	(25)
Income tax effects related to intra-entity intangible asset transfers	17	16	37	37
Resolution of prior years' income tax filings and other tax items	(10)	(3)	(13)	(4)
Income tax effect of non-GAAP adjustments[5]	(4)	(10)	(45)	(15)
Non-GAAP adjusted net income	$ 1,509	$ 817	$ 2,791	$ 1,721

1 These items are incremental charges attributable to completed acquisitions, consisting of amortization of purchased intangible assets.
2 Temporary incremental employee compensation during the COVID-19 pandemic.
3 The severance and related charges primarily related to a one-time voluntary retirement program offered to certain eligible employees.
4 GAAP basis tax benefit related to share-based compensation is recognized ratably over the fiscal year on a non-GAAP basis.
5 Adjustment to provision for income taxes related to non-GAAP adjustments reflected in income before income taxes.

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

	Three Months Ended		Six Months Ended	
(In millions, except per share amounts)	**May 2, 2021**	**April 26, 2020**	**May 2, 2021**	**April 26, 2020**
Non-GAAP Adjusted Earnings Per Diluted Share				
Reported earnings per diluted share - GAAP basis	$ 1.43	$ 0.82	$ 2.66	$ 1.78
Certain items associated with acquisitions	0.01	0.01	0.02	0.02
Acquisition integration and deal costs	0.01	0.02	0.03	0.04
Certain incremental expenses related to COVID-19	—	0.01	0.02	0.01
Severance and related charges	0.01	—	0.13	—
Deal termination fee	0.17	—	0.17	—
Realized loss (gain) on strategic investments, net	0.01	0.01	—	0.01
Unrealized loss (gain) on strategic investments, net	(0.03)	—	(0.02)	—
Income tax effect of share-based compensation	0.01	0.01	(0.02)	(0.03)
Income tax effects related to intra-entity intangible asset transfers	0.02	0.02	0.04	0.04
Resolution of prior years' income tax filings and other tax items	(0.01)	(0.01)	(0.01)	(0.01)
Non-GAAP adjusted earnings per diluted share	$ 1.63	$ 0.89	$ 3.02	$ 1.86
Weighted average number of diluted shares	927	923	926	925

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

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

(In millions, except percentages)	Three Months Ended		Six Months Ended	
	May 2, 2021	April 26, 2020	May 2, 2021	April 26, 2020
Semiconductor Systems Non-GAAP Adjusted Operating Income				
Reported operating income - GAAP basis	$ 1,542	$ 782	$ 2,803	$ 1,697
Certain items associated with acquisitions[1]	10	10	20	20
Acquisition integration costs	—	—	(2)	—
Certain incremental expenses related to COVID-19[2]	—	6	12	6
Other charges	3	—	3	—
Non-GAAP adjusted operating income	$ 1,555	$ 798	$ 2,836	$ 1,723
Non-GAAP adjusted operating margin	39.1 %	31.1 %	37.7 %	32.0 %
AGS Non-GAAP Adjusted Operating Income				
Reported operating income - GAAP basis	$ 358	$ 256	$ 690	$ 534
Certain incremental expenses related to COVID-19[2]	—	4	8	4
Other charges	1	—	1	—
Non-GAAP adjusted operating income	$ 359	$ 260	$ 699	$ 538
Non-GAAP adjusted operating margin	29.8 %	25.5 %	29.6 %	26.7 %
Display and Adjacent Markets Non-GAAP Adjusted Operating Income				
Reported operating income - GAAP basis	$ 65	$ 75	$ 130	$ 113
Certain items associated with acquisitions[1]	1	3	2	6
Certain incremental expenses related to COVID-19[2]	—	—	1	—
Severance and related charges[3]	—	—	8	—
Non-GAAP adjusted operating income	$ 66	$ 78	$ 141	$ 119
Non-GAAP adjusted operating margin	17.6 %	21.4 %	17.9 %	17.1 %

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

2 Temporary incremental employee compensation during the COVID-19 pandemic.

3 The severance and related charges related to workforce reduction actions globally across the Display and Adjacent Markets business.

Note: The reconciliation of GAAP and non-GAAP adjusted segment results above does not include certain revenues, costs of products sold and operating expenses that are reported within corporate and other and included in consolidated operating income.

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

Applied is exposed to interest rate risk related to its investment portfolio and debt issuances. Applied's investment portfolio includes fixed-income securities with a fair value of approximately $1.8 billion as of May 2, 2021. These securities are subject to interest rate risk and will decline in value if interest rates increase. Based on Applied's investment portfolio as of May 2, 2021, an immediate 100 basis point increase in interest rates would result in a decrease in the fair value of the portfolio of approximately $26 million. While an increase in interest rates reduces the fair value of the investment portfolio, Applied will not realize the losses in the consolidated statement of operations unless the individual fixed-income securities are sold prior to recovery or the loss is determined to be other-than-temporary. As of May 2, 2021, the aggregate principal of long-term senior unsecured notes issued by Applied was $5.5 billion with an estimated fair value of $6.3 billion. A hypothetical decrease in interest rates of 100 basis points would result in an increase in the fair value of Applied's long-term senior notes issuances of approximately $723 million as of May 2, 2021.

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

Item 4. *Controls and Procedures*

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

Due to the ongoing COVID-19 pandemic, Applied continues to maintain workplace flexibility such as working remotely where possible to reduce the number of people who are on campus each day. Business continuity plans are in effect in order to mitigate potential impact on Applied's control environment and its operating and disclosure controls and procedures. The design of business continuity plans, which include remote access to secure data when needed, allow for remote and reliable execution of Applied's operating and disclosure controls and procedures.

Applied evaluated the impact of the ongoing COVID-19 pandemic on its internal control over financial reporting. During the second quarter of fiscal 2021, there were no changes in the internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act, that materially affected, or are reasonably likely to materially affect, Applied's internal control over financial reporting.

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

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

The information set forth under “Legal Matters” in Note 16 in Notes to Consolidated Condensed Financial Statements is incorporated herein by reference.

Item 1A: ***Risk Factors***

The risk factors set forth below include any material changes to, and supersede the description of, the risk factors disclosed in Part I, Item 1A of Applied's 2020 Form 10-K. These factors could materially and adversely affect Applied's business, financial condition or results of operations and cause reputational harm, and should be carefully considered in evaluating the Company and its business, in addition to other information presented elsewhere in this report. Many of the risk factors described below may be exacerbated by the ongoing COVID-19 pandemic and global measures taken in response thereto and any worsening of the global business and economic conditions as a result.

Risks Related to the COVID-19 Pandemic

The ongoing COVID-19 pandemic and global measures taken in response thereto have adversely impacted, and may continue to adversely impact, Applied's operations and financial results.

The ongoing COVID-19 pandemic and measures taken in response by governments and businesses worldwide to contain its spread, including quarantines, facility closures, travel and logistics restrictions, border controls, and shelter in place or stay at home and social distancing orders, have adversely impacted and are expected to continue to adversely impact Applied's supply chain, manufacturing, logistics, workforce and operations, as well as the operations of Applied's customers, suppliers and partners globally. There is considerable uncertainty regarding the duration, scope and severity of the pandemic and the impacts on our business and the global economy from the effects of the ongoing pandemic and response measures. While Applied continues to see progress in the recovery within its supply chain, travel and logistics restrictions, shelter-in-place orders and other measures, including working remotely, social distancing and other policies implemented in foreign and domestic sites to protect the health and safety of employees, have resulted in, and are expected to continue to result in, transportation disruptions (such as reduced availability of air transport, port closures, and increased border controls or closures), production delays and capacity limitations at Applied and some of its customers, suppliers and partners, as well as reduced workforce availability or productivity at Applied and customer sites, and additional data, information and cyber security risks associated with an extensive workforce now working remotely full-time. There can be no assurance that Applied or its suppliers will be able to maintain manufacturing operations at current levels. In addition, the pandemic and the impact of the foregoing measures in various forms and in varying degrees have had, and may continue to have a significant adverse impact on the global economic activity and could also result in a reduced demand for our products, delayed deliveries or installation, cancelled orders or increase in logistics and operating costs, and materially and adversely affect Applied's business, financial condition and results of operations.

The degree to which the pandemic ultimately impacts Applied's business, financial condition and results of operations and the global economy will depend on future developments beyond our control, which are highly uncertain and difficult to predict, including the severity and duration of the pandemic, the extent and effectiveness of containment actions, the availability, public adoption and efficacy of COVID vaccines, effectiveness of government stimulus programs, resurgence of COVID-19, how quickly and to what extent normal economic and operating activity can resume, and the severity and duration of the global economic downturn that results from the ongoing pandemic. Additionally, Applied has a multi-phase plan to return to working on-site, which takes into consideration factors such as Applied's business needs, local government regulations, community case trends, and recommendation from public health officials. The plan involves multiple phases that gradually allow additional workers to return onsite while practicing social distancing and other safety measures. However, there is no assurance that such plan and safety measures will be effective in preventing the inadvertent transmission of Covid-19 within the workplace. Further, implementation of such plan could adversely impact Applied's operations.

Risks Associated with Operating a Global Business

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

Applied has product development, engineering, manufacturing, sales and other operations distributed throughout many countries, and some of its business activities are concentrated in certain geographic areas. Moreover, in three months ended May 2, 2021, approximately 91% of Applied's net sales were to customers in regions outside the United States. As a result of the global nature of its operations, Applied's business performance and results of operations may be adversely affected by a number of factors, including:

- uncertain global economic and political business conditions and demands;
- political and social attitudes, laws, rules, regulations and policies within countries that favor domestic companies over non-domestic companies, including customer- or government-supported efforts to promote the development and growth of local competitors;

- direct and indirect global trade issues and changes in and uncertainties with respect to trade policies, trade sanctions, tariffs, and international trade disputes, including the recent rules and interpretations promulgated by the U.S. Department of Commerce expanding export license requirements for certain products sold to certain entities in China;
- customer- or government-supported efforts to influence Applied to conduct more of its operations and sourcing in a particular country, such as Korea and China;
- variations among, and changes in, local, regional, national or international laws and regulations, including contract, intellectual property, cybersecurity, data privacy, labor, tax, and import/export laws, and the interpretation and application of such laws and regulations;
- ineffective or inadequate legal protection of intellectual property rights in certain countries;
- positions taken by governmental agencies regarding possible national commercial and/or security issues posed by international business operations;
- fluctuating raw material, commodity, energy and shipping costs;
- delays or restrictions in shipping materials or finished products between and within countries;
- geographically diverse operations and projects, and our ability to maintain appropriate business processes, procedures and internal controls, and comply with environmental, health and safety, anti-corruption and other regulatory requirements;
- supply chain interruptions, and service interruptions from utilities, transportation, data hosting or telecommunications providers, or other events beyond our control;
- failure to effectively manage a diverse workforce with different experience levels, languages, cultures, customs, business practices and worker expectations, and differing employment practices and labor issues;
- variations in the ability to develop relationships with local customers, suppliers and governments;
- fluctuations in interest rates and currency exchange rates, including the relative strength or weakness of the U.S. dollar against the Japanese yen, Israeli shekel, euro, Taiwanese dollar, Singapore dollar, Chinese yuan or Korean won;
- the need to provide sufficient levels of technical support in different locations around the world;
- performance of third-party providers of outsourced functions, including certain engineering, software development, manufacturing, information technology and other activities;
- political instability, natural disasters, regional or global health epidemics, social unrest, terrorism or acts of war in locations where Applied has operations, suppliers or sales, or that may influence the value chain of the industries that Applied serves;
- challenges in hiring and integration of an increasing number of workers in new countries;
- the increasing need for a mobile workforce to work in or travel to different regions; and
- uncertainties with respect to economic growth rates in various countries, including for the manufacture and sale of semiconductors and displays in the developing economies of certain countries.

As more fully discussed in the risk factor “The ongoing COVID-19 pandemic and global measures taken in response thereto have adversely impacted, and may continue to adversely impact, Applied’s operations and financial results” above, the ongoing COVID-19 pandemic and measures taken in response by governments and businesses worldwide to contain its spread, including quarantines, facility closures, travel and logistics restrictions, border controls, and shelter in place or stay at home and social distancing orders, have adversely impacted and are expected to continue to adversely impact Applied’s supply chain, manufacturing, logistics, workforce and operations, as well as the operations of Applied’s customers, suppliers and partners globally.

International trade disputes could result in increases in tariffs and other trade restrictions and protectionist measures that could adversely impact our operations and reduce the competitiveness of our products relative to local and global competitors.

We sell a significant majority of our products into countries outside of the United States including China, Taiwan, Japan and Korea. We also purchase a significant portion of equipment and supplies from suppliers outside of the United States. There is inherent risk, based on the complex relationships among China, Taiwan, Japan, Korea and the United States, that political, diplomatic and national security influences might lead to trade disputes, impacts and/or disruptions, in particular, with respect to those affecting the semiconductor industry. The United States and other countries have imposed and may continue to impose trade restrictions, and have also levied tariffs and taxes on certain goods. Increases in tariffs, additional taxes or other trade restrictions and retaliatory measures may increasingly impact end-user demand and customer investment in manufacturing equipment, increase our manufacturing costs, decrease margins, reduce the competitiveness of our products, or inhibit our ability to sell products or purchase necessary equipment and supplies, which could have a material adverse effect on our business, results of operations, or financial condition.

For example, certain international sales depend on our ability to obtain export licenses, and our inability to obtain such licenses have limited and could further limit our markets and impact our business. Recently the U.S. Department of Commerce has promulgated several rules and interpretations expanding export license requirements for U.S. companies that sell certain products to entities in China whose actions or functions are intended to support military end uses, eliminated certain export license exceptions that applied to exports of certain items to China, and added certain Chinese companies, including one of the Company's customers, to its "entity list". These rules and interpretations require us to obtain additional export licenses to supply certain of our products to such customer in China. Obtaining export licenses may be difficult, costly and time-consuming, and our inability to obtain such licenses could limit our markets in China and adversely affect our results of operations. The implementation and interpretation of these rules are ongoing and their impact on our business is uncertain, and these rules and other regulatory changes that have occurred and may occur in the future could materially and adversely affect our results of operations. Additionally, on August 17, 2020, the U.S. Department of Commerce published a final rule that does not impose additional license requirements for the export of Applied's products but could require certain of Applied's customers to obtain licenses for the export of wafers, chipsets and certain related items to Huawei or its affiliates that are the direct product of US-origin semiconductor manufacturing equipment and thus could potentially limit the demand for certain of Applied's products from such customers. The U.S. and other governmental agencies may in the future promulgate new or additional export licensing or other requirements that have the effect of further limiting the Company's ability to provide certain of its products to customers outside the U.S., including China.

In addition, government authorities may impose conditions that require the use of local suppliers or partnerships with local companies, require the license or other transfer of intellectual property, or engage in other efforts to promote local businesses and local competitors, which could have a significant adverse impact on Applied's business. Many of these challenges are present in China and Korea, markets that represent a significant portion of Applied's current business as well as long-term growth opportunities.

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

Uncertain global economic and business conditions, along with uncertainties and volatility in the financial markets, national debt and fiscal concerns in various regions, pose challenges to the industries in which Applied operates. Markets for semiconductors and displays depend largely on business and consumer spending and demand for electronic products. Economic uncertainty and related factors exacerbate negative trends in business and consumer spending and may cause certain Applied customers to push out, cancel, or refrain from purchasing for equipment or services, which may have an adverse impact on Applied's revenues, results of operations and financial condition. Uncertain market conditions, difficulties in obtaining capital, or reduced profitability may also cause some customers to scale back operations, exit businesses, merge with other manufacturers, or file for bankruptcy protection and potentially cease operations, which can also result in lower sales, additional inventory or bad debt expense for Applied. Economic and industry uncertainty may similarly affect suppliers, which could impair their ability to deliver parts and negatively affect Applied's ability to manage operations and deliver its products. These conditions may also lead to consolidation or strategic alliances among other equipment manufacturers, which could adversely affect Applied's ability to compete effectively.

In particular, impacts of the ongoing COVID-19 pandemic have resulted in increased volatility in global financial markets, increases in levels of unemployment, and economic uncertainty, and may lead to significant negative impacts on customer spending, demand for our products, the ability of our customers to pay, our financial condition and the financial condition of our suppliers.

Uncertain economic and industry conditions also make it more challenging for Applied to forecast its operating results, make business decisions, and identify and prioritize the risks that may affect its businesses, sources and uses of cash, financial condition and results of operations. If Applied does not appropriately manage its business operations in response to changing economic and industry conditions, it could have a significant negative impact on its business performance and financial condition. Applied may be required to implement additional cost reduction efforts, including restructuring activities, which may adversely affect Applied's ability to capitalize on opportunities. Even during periods of economic uncertainty or lower revenues, Applied must continue to invest in research and development and maintain a global business infrastructure to compete effectively and support its customers, which can have a negative impact on its operating margins and earnings.

Applied maintains an investment portfolio that is subject to general credit, liquidity, market and interest rate risks. The risks to Applied's investment portfolio may be exacerbated if financial market conditions deteriorate (including from impacts of the ongoing COVID-19 pandemic) and, as a result, the value and liquidity of the investment portfolio, as well as returns on pension assets, could be negatively impacted and lead to impairment charges. Applied also maintains cash balances in various bank accounts globally in order to fund normal operations. If any of these financial institutions becomes insolvent, it could limit Applied's ability to access cash in the affected accounts, which could affect its ability to manage its operations.

Risks Associated with Applied's Industry

The industries that Applied serves can be volatile and difficult to predict.

As a supplier to the global semiconductor and display and related industries, Applied is subject to variable industry conditions, since demand for manufacturing equipment and services can change depending on several factors, including the nature and timing of technology inflections and advances in fabrication processes, the timing and requirements of new and emerging technologies and market drivers, production capacity relative to demand for chips and display technologies, end-user demand, customers' capacity utilization, production volumes, access to affordable capital, consumer buying patterns and general economic conditions. Applied's industries historically have been cyclical, and are subject to volatility and sudden changes in customer requirements for new manufacturing capacity and advanced technology. These changes can affect the timing and amounts of customer investments in technology and manufacturing equipment and can have a significant impact on Applied's net sales, operating expenses, gross margins and net income. The amount and mix of capital equipment spending between different products and technologies can have a significant impact on Applied's results of operations.

To meet rapidly changing demand in the industries it serves, Applied must accurately forecast demand and effectively manage its resources and production capacity across its businesses, and may incur unexpected or additional costs to align its business operations. During periods of increasing demand for its products, Applied must have sufficient manufacturing capacity and inventory to meet customer demand; effectively manage its supply chain; attract, retain and motivate a sufficient number of qualified employees; and continue to control costs. During periods of decreasing demand, Applied must reduce costs and align its cost structure with prevailing market conditions; effectively manage its supply chain; and motivate and retain key employees. If Applied does not effectively manage these challenges during periods of changing demand, including as a result of the ongoing COVID-19 pandemic and its effects, its business performance and results of operations may be adversely impacted. Even with effective allocation of resources and management of costs, during periods of decreasing demand, Applied's gross margins and earnings may be adversely impacted.

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

Applied's customer base is highly concentrated, and has become increasingly so as a result of continued consolidation. Applied's customer base is also geographically concentrated, particularly in China, Taiwan and Korea. A relatively limited number of manufacturers account for a substantial portion of Applied's business. As a result, the actions of even a single customer can expose Applied's business and results of operations to greater volatility. The mix and type of customers, and sales to any single customer, including as a result of changes in government policy, have varied and may vary significantly from quarter to quarter and from year to year, and have a significant impact on Applied's net sales, gross margins and net income. Applied's products are configured to customer specifications, and changing, rescheduling or canceling orders may result in significant, non-recoverable costs. If customers do not place orders, or they substantially reduce, delay or cancel orders (including as a result of the ongoing COVID-19 pandemic), Applied may not be able to replace the business, which may have a significant adverse impact on its results of operations and financial condition. The concentration of Applied's customer base increases its risks related to the financial condition of its customers, and the deterioration in financial condition of a single customer or the failure of a single customer to perform its obligations could have a material adverse effect on Applied's results of operations and cash flow. To the extent its customers experience liquidity constraints, Applied may incur additional bad debt expense, which may have a significant impact on its results of operations. Major customers may also seek pricing, payment, intellectual property-related, or other commercial terms that are less favorable to Applied, which may have a negative impact on Applied's business, cash flow, revenue and gross margins.

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

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

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

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

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

- the increasing frequency and complexity of technology transitions and inflections, and Applied's ability to timely and effectively anticipate and adapt to these changes;
- the increasing cost of research and development due to many factors, including shrinking geometries, the use of new materials, new and more complex device structures, more applications and process steps, increasing chip design costs, and the increasing cost and complexity of integrated manufacturing processes;
- the need to reduce product development time, despite the increasing difficulty of technical challenges;
- the growing number of types and varieties of semiconductors and number of applications across multiple substrate sizes;
- the increasing cost and complexity for semiconductor manufacturers to move more technically advanced capability and smaller geometries to volume manufacturing, and the resulting impact on the rates of technology transition and investment in capital equipment;

- challenges in generating organic growth given semiconductor manufacturers' levels of capital expenditures and the allocation of capital investment to market segments that Applied does not serve, such as lithography, or segments where Applied's products have lower relative market presence;
- the importance of increasing market positions in segments with growing demand;
- semiconductor manufacturer's ability to reconfigure and re-use equipment, and the resulting effect on their need to purchase new equipment and services;
- shorter cycle times between order placements by customers and product shipment require greater reliance on forecasting of customer investment, which may lead to inventory write-offs and manufacturing inefficiencies that decrease gross margin;
- competitive factors that make it difficult to enhance position, including challenges in securing development-tool-of-record (DTOR) and production-tool-of-record (PTOR) positions with customers;
- consolidation in the semiconductor industry, including among semiconductor manufacturers and among manufacturing equipment suppliers;
- shifts in sourcing strategies by computer and electronics companies, and manufacturing processes for advanced circuit technologies, that impact the equipment requirements of Applied's foundry customers;
- the concentration of new wafer starts in Korea and Taiwan, where Applied's service penetration and service-revenue-per-wafer-start have been lower than in other regions;
- investment in semiconductor manufacturing capabilities in China, which may be affected by changes in economic conditions and governmental policies in China and the United States;
- the increasing fragmentation of semiconductor markets, leading certain markets to become too small to support the cost of a new fabrication plant, while others require less technologically advanced products; and
- the growing importance of specialty markets (such as Internet of Things, communications, automotive, power and sensors) that use mature process technologies and have a low barrier to entry.

If Applied does not accurately forecast and allocate appropriate resources and investment towards addressing, key technology changes and inflections, successfully develop and commercialize products to meet demand for new technologies, and effectively address industry trends, its business and results of operations may be adversely impacted.

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

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

- the importance of new types of display technologies, such as organic light-emitting diode (OLED), low temperature polysilicon (LTPS) and metal oxide transistor backplanes, flexible displays, and new touch panel films;
- the increasing cost of research and development, and complexity of technology transitions and inflections, and Applied's ability to timely and effectively anticipate and adapt to these changes;
- the timing and extent of an expansion of manufacturing facilities in China, which may be affected by changes in local economic conditions and governmental policies in China, Korea, Japan and the United States;
- the importance of increasing market positions in products and technologies with growing demand;
- the rate of transition to larger substrate sizes for TVs and to new display technologies for TVs and mobile applications, and the resulting effect on capital intensity in the industry and on Applied's product differentiation, gross margin and return on investment; and
- fluctuations in customer spending quarter over quarter and year over year for display manufacturing equipment, concentration of display manufacturer customers and their ability to successfully commercialize new products and technologies, and uncertainty with respect to future display technology end-use applications and growth drivers.

If Applied does not successfully develop and commercialize products to meet demand for new and emerging display technologies, or if industry demand for display manufacturing equipment and technologies slows, Applied's business and its results of operations may be adversely impacted.

The industries in which Applied operates are highly competitive and subject to rapid technological and market changes.

Applied operates in a highly competitive environment in which innovation is critical, and its future success depends on many factors, including the development of new technologies and effective commercialization and customer acceptance of its equipment, services and related products, and its ability to increase its position in its current markets, expand into adjacent and new markets, and optimize operational performance. The development, introduction and support of a broadening set of products in a geographically diverse and competitive environment, and that may require greater collaboration with customers and other industry participants, have grown more complex and expensive over time. Furthermore, new or improved products may entail higher costs, longer development cycles, lower profits and may have unforeseen product design or manufacturing defects. To compete successfully, Applied must:

- identify and address technology inflections, market changes, competitor innovations, new applications, customer requirements and end-use demand in a timely and effective manner;
- develop new products and disruptive technologies, improve and develop new applications for existing products, and adapt products for use by customers in different applications and markets with varying technical requirements;
- differentiate its products from those of competitors, meet customers' performance specifications, appropriately price products, and achieve market acceptance;
- maintain operating flexibility to enable responses to changing markets, applications, customers and customer requirements;
- enhance its worldwide operations across its businesses to reduce cycle time, enable continuous quality improvement, reduce costs, and enhance design for manufacturability and serviceability;
- focus on product development and sales and marketing strategies that address customers' high value problems and strengthen customer relationships;
- effectively allocate resources between its existing products and markets, the development of new products, and expanding into new and adjacent markets;
- improve the productivity of capital invested in R&D activities;
- accurately forecast demand, work with suppliers and meet production schedules for its products;
- improve its manufacturing processes and achieve cost efficiencies across product offerings;
- adapt to changes in value offered by companies in different parts of the supply chain;
- qualify products for evaluation and volume manufacturing with its customers; and
- implement changes in its design engineering methodology to reduce material costs and cycle time, increase commonality of platforms and types of parts used in different systems, and improve product life cycle management.

If Applied does not successfully anticipate technology inflections, develop and commercialize new products and technologies, and respond to changes in customer requirements and market trends, its business performance and results of operations may be adversely impacted.

Risks Related to Applied's Business, Finance and Operations

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

Applied engages in acquisitions of or investments in companies, technologies or products in existing, related or new markets for Applied. Business combinations, acquisitions and investments involve numerous risks to Applied's business, financial condition and operating results, including but not limited to:

- inability to complete proposed transactions timely or at all due to the failure to obtain regulatory or other approvals, litigation or other disputes, and any ensuing obligation to pay a termination fee;
- diversion of management's attention and disruption of ongoing businesses;
- the failure to realize expected revenues, gross and operating margins, net income and other returns from acquired businesses;

- requirements imposed by government regulators in connection with their review of a transaction, which may include, among other things, divestitures and restrictions on the conduct of Applied's existing business or the acquired business;
- following completion of acquisitions, ineffective integration of businesses, operations, systems, digital and physical security, technologies, products, employees, compliance programs, changes in laws or regulations, including tax laws, or other factors, may impact the ability to realize anticipated synergies or other benefits;
- failure to commercialize technologies from acquired businesses or developed through strategic investments;
- dependence on unfamiliar supply chains or relatively small supply partners;
- inability to capitalize on characteristics of new markets that may be significantly different from Applied's existing markets and where competitors may have stronger market positions and customer relationships;
- failure to retain and motivate key employees of acquired businesses;
- the potential impact of the announcement or consummation of a proposed transaction on relationships with third parties;
- potential changes in Applied's credit rating, which could adversely impact the Company's access to and cost of capital;
- reductions in cash balances or increases in debt obligations to finance activities associated with a transaction, which increase interest expense, and reductions in cash balances, which reduce the availability of cash flow for general corporate or other purposes, including share repurchases and dividends;
- exposure to new operational risks, rules, regulations, worker expectations, customs and practices to the extent acquired businesses are located in regions where Applied has not historically conducted business;
- challenges associated with managing new, more diverse and more widespread operations, projects and people;
- inability to obtain and protect intellectual property rights in key technologies;
- inadequacy or ineffectiveness of an acquired company's internal financial controls, disclosure controls and procedures, cybersecurity, privacy policies and compliance programs, or environmental, health and safety, anti-corruption, human resource, or other policies or practices;
- impairment of acquired intangible assets and goodwill as a result of changing business conditions, technological advancements or worse-than-expected performance of the segment;
- the risk of litigation or claims associated with a proposed or completed transaction;
- unknown, underestimated, undisclosed or undetected commitments or liabilities or non-compliance with laws, regulations or policies; and
- the inappropriate scale of acquired entities' critical resources or facilities for business needs.

Applied also makes strategic investments in other companies, including companies formed as joint ventures, which may decline in value or not meet desired objectives. The success of these investments depends on various factors over which Applied may have limited or no control and, particularly with respect to joint ventures, requires ongoing and effective cooperation with strategic partners. In addition, new legislation, additional regulations or global economic or political conditions may affect or impair our ability to invest in certain countries or require us to obtain regulatory approvals to do so. The risks to Applied's strategic investment portfolio may be exacerbated by unfavorable financial market and macroeconomic conditions and, as a result, the value of the investment portfolio could be negatively impacted and lead to impairment charges.

Applied continually assesses the strategic fit of its businesses and may from time to time seek to divest portions of its business that are not deemed to fit with its strategic plan. Divestitures involve significant risks and uncertainties, such as ability to sell such businesses on satisfactory price and terms and in a timely manner (including long and costly sales processes and the possibility of lengthy and potentially unsuccessful attempts by a buyer to receive required regulatory approvals), or at all, disruption to other parts of the businesses and distraction of management, allocation of internal resources that would otherwise be devoted to completing strategic acquisitions, loss of key employees or customers, exposure to unanticipated liabilities (including, among other things, those arising from representations and warranties made to a buyer regarding the businesses) or ongoing obligations to support the businesses following such divestitures, and other adverse financial impacts.

Applied is exposed to risks associated with expanding into new and related markets and industries.

As part of its growth strategy, Applied must successfully expand into related or new markets and industries, either with its existing products or with new products developed internally, or those developed in collaboration with third parties, or obtained through acquisitions. Applied's ability to successfully expand its business into new and related markets and industries may be adversely affected by a number of factors, including:

- the need to devote additional resources to develop new products for, and operate in, new markets;
- the need to develop new sales and technical marketing strategies, cultivate relationships with new customers and meet different customer service requirements;
- differing rates of profitability and growth among multiple businesses;
- Applied's ability to anticipate demand, capitalize on opportunities, and avoid or minimize risks;
- the complexity of managing multiple businesses with variations in production planning, execution, supply chain management and logistics;
- the adoption of new business models, business processes and systems;
- the complexity of entering into and effectively managing strategic alliances or partnering opportunities;
- new materials, processes and technologies;
- the need to attract, motivate and retain employees with skills and expertise in these new areas;
- new and more diverse customers and suppliers, including some with limited operating histories, uncertain or limited funding, evolving business models or locations in regions where Applied does not have, or has limited, operations;
- new or different competitors with potentially more financial or other resources, industry experience and established customer relationships;
- entry into new industries and countries, with differing levels of government involvement, laws and regulations, and business, employment and safety practices;
- third parties' intellectual property rights; and
- the need to comply with, or work to establish, industry standards and practices.

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

Supply chain disruptions, manufacturing interruptions or delays, or the failure to accurately forecast customer demand, could affect Applied's ability to meet customer demand, lead to higher costs, or result in excess or obsolete inventory.

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

- the failure or inability to accurately forecast demand and obtain sufficient quantities of quality parts on a cost-effective basis;
- volatility in the availability and cost of materials;
- difficulties or delays in obtaining required import or export approvals;
- shipment delays due to transportation interruptions or capacity constraints;

- a worldwide shortage of semiconductor components as a result of sharp increases in demand for semiconductor products in general;
- information technology or infrastructure failures, including those of a third party supplier or service provider; and
- natural disasters or other events beyond Applied’s control (such as earthquakes, utility interruptions, tsunamis, hurricanes, typhoons, floods, storms or extreme weather conditions, fires, regional economic downturns, regional or global health epidemics, including the ongoing COVID-19 pandemic, geopolitical turmoil, increased trade restrictions between the U.S. and China and other countries, social unrest, political instability, terrorism, or acts of war) in locations where it or its customers or suppliers have manufacturing, research, engineering or other operations.

As more fully discussed in the risk factor “The ongoing COVID-19 pandemic and global measures taken in response thereto have adversely impacted, and may continue to adversely impact, Applied’s operations and financial results” above, the ongoing COVID-19 pandemic and measures taken in response by governments and businesses worldwide to contain its spread, including quarantines, facility closures, travel and logistics restrictions, border controls, and shelter in place or stay at home and social distancing orders, have adversely impacted and are expected to continue to adversely impact Applied’s supply chain, manufacturing, logistics, workforce and operations, as well as the operations of Applied’s customers, suppliers and partners globally.

If a supplier fails to meet Applied’s requirements concerning quality, cost, protection of intellectual property, socially-responsible business practices, or other performance factors, Applied may transfer its business to alternative sources, which could entail manufacturing delays, additional costs or other difficulties, and may also result in a loss of Applied’s ability to protect, enforce and extract the full value of its or its customers’ and other third parties’ intellectual property rights, which could have an adverse impact on its business and competitive position and subject Applied to legal proceedings and claims. If Applied is unable to meet its customers’ demand for a prolonged period due to its inability to obtain certain parts or components, it could affect its ability to manage its operations, and have an adverse impact on Applied’s business, results of operations and customer relationships. In addition, if Applied needs to rapidly increase its business and manufacturing capacity to meet increases in demand or expedited shipment schedules, this may exacerbate any interruptions in Applied’s manufacturing operations and supply chain and the associated effect on Applied’s working capital. Moreover, if actual demand for Applied’s products is different than expected, Applied may purchase more/fewer parts than necessary or incur costs for canceling, postponing or expediting delivery of parts. If Applied purchases inventory in anticipation of customer demand that does not materialize or rendered obsolete by the rapid pace of technological change, or if customers reduce or delay orders, Applied may incur excess or obsolete inventory charges.

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

Applied’s success, competitiveness and ability to execute on its global strategies and maintain a culture of innovation depend in large part on its ability to attract, retain and motivate qualified employees and leaders with expertise and capabilities, representing diverse backgrounds and experiences. Achieving this objective may be difficult due to many factors, including fluctuations in global economic and industry conditions, management changes, Applied’s organizational structure, increasing global competition for talent, the availability of qualified employees in the local and global markets, cost reduction activities (including workforce reductions and unpaid shutdowns), availability of career development opportunities, the ability to obtain necessary authorizations for workers to provide services outside their home countries, and the attractiveness of Applied’s compensation and benefit programs, including its share-based programs. If we are unable to attract, retain and motivate qualified employees and leaders, we may be unable to fully capitalize on current and new market opportunities, which could adversely impact Applied’s business and results of operations. The loss or retirement of employees presents particular challenges to the extent they involve the departure of knowledgeable and experienced employees and the resulting need to identify and train existing or new workers to perform necessary functions, which may result in unexpected costs, reduced productivity, and/or difficulties with respect to internal processes and controls.

Applied is exposed to risks associated with operating in jurisdictions with complex and changing tax laws.

Applied is subject to income taxes in the United States and foreign jurisdictions. Significant judgment is required to determine and estimate worldwide tax liabilities. Applied's provision for income taxes and effective tax rates could be affected by numerous factors, including changes in applicable tax laws, interpretations of applicable tax laws, amount and composition of pre-tax income in jurisdictions with differing tax rates, and valuation of deferred tax assets. The Biden Administration proposed a number of tax law changes that, if enacted, would increase our tax liability. While it is too early to predict the outcome of these proposals, if enacted, they could have a material impact on our provision for income taxes and effective tax rate. An increase in Applied's provision for income taxes and effective tax rate could, in turn, have a material adverse impact on Applied's results of operations and financial condition.

Consistent with the international nature of its business, Applied conducts certain manufacturing, supply chain, and other operations in Asia, bringing these activities closer to customers and reducing operating costs. In certain foreign jurisdictions, conditional reduced income tax rates have been granted to Applied. To obtain the benefit of these tax incentives, Applied must meet requirements relating to various activities. Applied's ability to realize benefits from these incentives could be materially affected if, among other things, applicable requirements are not met or Applied incurs net losses in these jurisdictions.

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

Applied's indebtedness and debt covenants could adversely affect its financial condition and business.

Applied has $5.5 billion in aggregate principal amount of senior unsecured notes outstanding. Under the indenture governing the senior unsecured notes, it may be required to offer to repurchase the notes at a price equal to 101% of the principal amount, plus accrued and unpaid interest, upon a change of control of Applied and a contemporaneous downgrade of the notes below investment grade. Applied also has in place a $1.5 billion revolving credit facility. While no amounts were outstanding under this credit facility as of May 2, 2021, Applied may borrow amounts in the future under this credit facility. Applied may also enter into new financing arrangements. Applied's ability to satisfy its debt obligations is dependent upon the results of its business operations and subject to other risks discussed in this section. Significant changes in Applied's credit rating, disruptions in the global financial markets or changes in the interest rate environment could have a material adverse consequence on Applied's access to and cost of capital for future financings, and financial condition. If Applied fails to satisfy its debt obligations, or comply with financial and other debt covenants, it may be in default and any borrowings may become immediately due and payable, and such default may also constitute a default under other of Applied's obligations. There can be no assurance that Applied would have sufficient financial resources or be able to arrange financing to repay any borrowings at such time.

The failure to successfully implement enterprise resource planning and other information systems changes could adversely impact Applied's business and results of operations.

Applied periodically implements new or enhanced enterprise resource planning and related information systems in order to better manage its business operations, align its global organizations and enable future growth. Implementation of new business processes and information systems requires the commitment of significant personnel, training and financial resources, and entails risks to Applied's business operations. If Applied does not successfully implement enterprise resource planning and related information systems improvements, or if there are delays or difficulties in implementing these systems, Applied may not realize anticipated productivity improvements or cost efficiencies, and may experience interruptions in service and operational difficulties, such as its ability to track orders, timely manufacture and ship products, project inventory requirements, effectively manage its supply chain and allocate human resources, aggregate financial data and report operating results, and otherwise effectively manage its business, all of which could result in quality issues, reputational harm, lost market and revenue opportunities, and otherwise adversely affect Applied's business, financial condition and results of operations.

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

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

Risks Related to Intellectual Property and Cybersecurity

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

Applied's success depends in significant part on the protection of its patents, trade secrets, copyrights and other intellectual property rights. Infringement of Applied's rights by a third party, such as the unauthorized manufacture or sale of equipment or spare parts, could result in uncompensated lost market and revenue opportunities for Applied. Policing any unauthorized use of intellectual property is difficult and costly and Applied cannot be certain that the measures it has implemented will prevent misuse. Applied's ability to enforce its intellectual property rights is subject to litigation risks, as well as uncertainty as to the protection and enforceability of those rights in some countries. If Applied seeks to enforce its intellectual property rights, it may be subject to claims that those rights are invalid or unenforceable, and others may seek counterclaims against Applied, which could have a negative impact on its business. If Applied is unable to enforce and protect intellectual property rights, or if they are circumvented, invalidated, rendered obsolete by the rapid pace of technological change, it could have an adverse impact on its competitive position and business. In addition, changes in intellectual property laws or their interpretation may impact Applied's ability to protect and assert its intellectual property rights, increase costs and uncertainties in the prosecution of patent applications and enforcement or defense of issued patents, and diminish the value of Applied's intellectual property.

Third parties may also assert claims against Applied and its products. Claims that Applied's products infringe the rights of others, whether or not meritorious, can be expensive and time-consuming to defend and resolve, and may divert the efforts and attention of management and personnel. The inability to obtain rights to use third party intellectual property on commercially reasonable terms could have an adverse impact on Applied's business. In addition, Applied may face claims based on the theft or unauthorized use or disclosure of third-party trade secrets and other confidential business information. Any such incidents and claims could severely harm Applied's business and reputation, result in significant expenses, harm its competitive position, and prevent Applied from selling certain products, all of which could have a significant adverse impact on Applied's business and results of operations.

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

In the conduct of its business, Applied collects, uses, transmits and stores data on information technology systems, including systems owned and maintained by Applied or third party providers. These data include confidential information and intellectual property belonging to Applied or its customers or other business partners, as well as personally-identifiable information of individuals. All information systems are subject to disruption, breach or failure. Applied has experienced, and expects to continue to be subject to, cybersecurity threats and incidents ranging from employee error or misuse to individual attempts to gain unauthorized access to these information systems, to sophisticated and targeted measures known as advanced persistent threats, none of which have been material to the Company to date. Applied devotes significant resources to network security, data encryption and other measures to protect its systems and data from unauthorized access or misuse. However, depending on their nature and scope, cybersecurity incidents could result in business disruption, such as delay in the development and delivery of Applied's products or disruption of Applied's manufacturing processes; the misappropriation of intellectual property, and corruption, loss of or inability to access (e.g. through ransomware or denial of service) confidential information and critical data (Applied's and that of third parties, including suppliers); reputational damage; litigation with third parties; diminution in the value of Applied's investment in research, development and engineering; data privacy issues; and increased cybersecurity protection and remediation costs. Compliance with, and changes to, laws and regulations concerning privacy and information security could result in significant expense, and any failure to comply could result in proceedings against Applied by regulatory authorities or other third parties.

Risks Related to Legal and Compliance

Applied is exposed to various risks related to legal proceedings.

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

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

Applied is subject to risks associated with environmental, health and safety regulations.

Applied is subject to environmental, health and safety regulations in connection with its global business operations, including but not limited to: regulations related to the development, manufacture, shipping and use of its products; handling, discharge, recycling and disposal of hazardous materials used in its products or in producing its products; the operation of its facilities; and the use of its real property. The failure or inability to comply with existing or future environmental and safety regulations could result in: significant remediation or other legal liabilities; the imposition of penalties and fines; restrictions on the development, manufacture, sale, shipping or use of certain of its products; limitations on the operation of its facilities or ability to use its real property; and a decrease in the value of its real property. Applied could be required to alter its manufacturing and operations and incur substantial expense in order to comply with environmental, health and safety regulations. Any failure to comply with these regulations could subject Applied to significant costs and liabilities that could adversely affect Applied's business, financial condition and results of operations.

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

As a public company with global operations, Applied is subject to the laws of the United States and multiple foreign jurisdictions and the rules and regulations of various governing bodies, which may differ among jurisdictions, including those related to financial and other disclosures, accounting standards, corporate governance, intellectual property, tax, trade, antitrust, employment, immigration and travel regulations, privacy, and anti-corruption. Changing, inconsistent or conflicting laws, rules and regulations, and ambiguities in their interpretation and application create uncertainty and challenges, and compliance with laws, rules and regulations may be onerous and expensive, divert management time and attention from revenue-generating activities, and otherwise adversely impact Applied's business operations. Violations of law, rules and regulations, including, among others, those related to financial and other disclosures, trade, antitrust, privacy and anti-corruption, could result in fines, criminal sanctions, restrictions on Applied's business, and damage to its reputation, and could have an adverse impact on its business operations, financial condition and results of operations.

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

Issuer Purchases of Equity Securities

In March 2021, Applied’s Board of Directors approved a common stock repurchase program authorizing $7.5 billion in repurchases. This authorized repurchase program supplemented the previously existing authorization, which has approximately $525 million remaining as of May 2, 2021. As of May 2, 2021, approximately $8.0 billion, in aggregate, remained available for future stock repurchases under these repurchase programs.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Aggregate Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Dollar Value of Shares That May Yet be Purchased Under the Program
	(In millions, except per share amounts)				
Month #1					
(February 1, 2021 to February 28, 2021)	—	n/a	$ —	—	$ 1,275
Month #2					
(March 1, 2021 to March 28, 2021)	—	n/a	—	—	$ 8,775
Month #3					
(March 29, 2021 to May 2, 2021)	5.5	$ 135.30	750	5.5	$ 8,025
Total	5.5	$ 135.30	$ 750	5.5	

Item 3. *Defaults Upon Senior Securities*

None

Item 4. *Mine Safety Disclosures*

Not applicable.

Item 5. *Other Information*

None.

Item 6. ***Exhibits***

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

		Incorporated by Reference			
Exhibit No.	**Description**	**Form**	**File No.**	**Exhibit No.**	**Filing Date**
10.1	Applied Materials, Inc. Employee Stock Incentive Plan, as amended and restated, effective March 11, 2021	8-K	000-06920	10.1	03/16/2021
10.2	Applied Materials, Inc. Omnibus Employees' Stock Purchase Plan, effective September 1, 2021	8-K	000-06920	10.2	03/16/2021
10.3	Form of Restricted Stock Unit Agreement for use under the amended and restated Applied Materials, Inc. Employee Stock Incentive Plan†				
10.4	Form of Restricted Stock Unit Agreement for Non-employee Directors for use under the amended and restated Applied Materials, Inc. Employee Stock Incentive Plan†				
10.5	Form of Performance Share Unit Agreement for members of the Executive Staff for use under the amended and restated Applied Materials, Inc. Employee Stock Incentive Plan†				
10.6	Form of Restricted Stock Unit Agreement for members of the Executive Staff for use under the amended and restated Applied Materials, Inc. Employee Stock Incentive Plan†				
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†				
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†				
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002‡				
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002‡				
101.SCH	Inline XBRL Taxonomy Extension Schema Document‡				
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document‡				
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document‡				
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document‡				
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document‡				
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)				

† Filed herewith.
‡ Furnished herewith.

SIGNATURES

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

APPLIED MATERIALS, INC.

By: /s/ DANIEL J. DURN

Daniel J. Durn
Senior Vice President,
Chief Financial Officer
(Principal Financial Officer)

May 27, 2021

By: /s/ CHARLES W. READ

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

May 27, 2021

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

APPLIED MATERIALS, INC.

RESTRICTED STOCK UNIT AGREEMENT

NOTICE OF GRANT

Applied Materials, Inc. (the “Company”) hereby grants you, **[EMPL_NAME]** (the “Employee”), an award of Restricted Stock Units under the Company’s Employee Stock Incentive Plan (the “Plan”). The date of this Restricted Stock Unit Agreement (the “Agreement”) is **[GRANT_DT]** (the “Grant Date”). Subject to the provisions of the Terms and Conditions of Restricted Stock Unit Award (the “Terms and Conditions”), which constitute part of this Agreement, and of the Plan, the principal features of this Award are as follows:

Number of Restricted Stock Units: **[MAX_SHARES]**

Vesting of Restricted Stock Units: Please refer to the UBS One Source website for the vesting schedule related to this grant of Restricted Stock Units (click on the specific grant under the tab labeled “Grants/Awards/Units.”).*

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

IMPORTANT:

Your electronic or written signature below indicates your agreement and understanding that this Award is subject to all of the Terms and Conditions and the Plan. For example, important additional information on vesting and forfeiture of this Award is contained in paragraphs 3 through 5 and paragraph 7 of the Terms and Conditions, and in Sections 4.4 and 12.10 of the Plan. **PLEASE BE SURE TO READ ALL OF THE TERMS AND CONDITIONS OF THIS GRANT.**

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

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

For Employees who are People's Republic of China (PRC) Nationals on the Grant Date: In the event that you are or become employed by an Affiliate of the Company located in the PRC, you will be subject to the PRC State Administration of Foreign Exchange ("SAFE") regulations concerning the conversion and transfer of funds. As an employee of a Company Affiliate located in the PRC, you must enter into a separate agreement with the Company and the designated broker for the Plan, referred to as a Letter of Authorization, which includes, but is not limited to, the following provisions:

- Your participation in the Plan and this Award are subject to the rules and regulations set forth by SAFE;
- All cash proceeds related to the grant, vesting, and exercise of any Award granted to you by the Company and from the sale of Shares received by you under any Award granted to you by the Company must be transferred to you through a SAFE- approved foreign exchange bank account ("SAFE Account") established by the Company;
- The Shares received under the Award will be deposited into an account set up for you with the designated broker for the Plan and may not be transferred from that account to any other bank, brokerage, or share-holding account.
- Within 30 days of your Termination of Service, all of the Shares held in your account with the designated broker must be sold either by you or by the designated broker and the proceeds from the sale of those Shares will be transferred to you through the SAFE Account.

If you do not provide a signed copy of the Letter of Authorization to the Company at the time that you become employed by an Affiliate of the Company located in the PRC, this Award shall become null and void without any liability to the Company and/or your employer and shall lapse with immediate effect.

For Employees employed in the United Kingdom (U.K.) on the Grant Date: The grant of your Award is subject to the execution of a joint election between the Company and you (the "Election") under which you agree to pay all National Insurance contributions (NICs) that may become due in connection with the grant or vesting of the Award. The NICs include the "primary" NIC payable by an employee as well as the "secondary" NIC payable by the employer in the absence of any election (referred to as the Secondary Class 1 NIC). By accepting the Award, to the extent allowable by Applicable Law, you hereby consent and agree to satisfy any liability the Company and/or your employer realizes with respect to Secondary Class 1 NIC payments required to be paid by the Company and/or your employer in connection with the grant or vesting of the Award.

In addition, by accepting the Award, you hereby authorize the Company or your employer to withhold any such Secondary Class 1 NICs from the sale of a sufficient number of Shares upon vesting of the Award. In addition, and to the maximum extent permitted by law, the Company (or the employing Affiliate) has the right to retain without notice from salary or other amounts payable to you to satisfy such Secondary Class 1 NICs. The Company, in its discretion, may require you, and you hereby agree, to make payment on demand for such contributions by cash or check to the designated broker for the Plan, the Company or your employer, and such contributions will be remitted to the HMR&C. If additional consents and/or elections are required to accomplish the foregoing, you agree to provide them promptly upon request. If you do not enter an Election prior to the first vesting date or if the Election is revoked at any time by you or the HMR&C, the Award shall become null and void without any liability to the Company and/or your employer and shall lapse with immediate effect.

TERMS AND CONDITIONS OF

RESTRICTED STOCK UNIT AWARD

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

2. Company's Obligation to Pay. Each Restricted Stock Unit represents the right to receive the value of one (1) Share at the time the Restricted Stock Unit vests. Unless and until the Restricted Stock Units have vested in the manner set forth in paragraphs 3 through 5, or paragraph 11, or Sections 4.4 or 12.10 of the Plan, the Employee will have no right to payment of such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Units will represent an unsecured obligation of the Company. Payment of any vested Restricted Stock Units will be made in whole Shares only, provided, however, that if the Company determines that it is necessary or advisable, the Shares subject to the Restricted Stock Units shall be sold immediately upon settlement of the Restricted Stock Units, and the Employee shall receive the proceeds from the sale, less any applicable fees and taxes or other required withholding.

3. Vesting Schedule. Except as provided in paragraphs 4, 5 and 11 of this Agreement, and Sections 4.4 and 12.10 of the Plan, and subject to paragraph 7, the Restricted Stock Units awarded by this Agreement will vest in accordance with the vesting provisions set forth on the UBS One Source website (click on the specific grant under the tab labeled "Grants/Awards/Units") (the "Vesting Schedule"). Subject to paragraph 4(b) below, the Restricted Stock Units will not vest in accordance with any of the provisions of this Agreement unless the Employee will have been continuously employed by the Company or by one of its Affiliates from the Grant Date up to and including the scheduled vesting date of the Restricted Stock Units.

4. Modifications to Vesting Schedule**.**

(a) *Vesting upon Personal Leave of Absence.* In the event that the Employee takes a personal leave of absence ("PLOA"), the Vesting Schedule of the Restricted Stock Units will be modified as follows:

(i) if the duration of the Employee's PLOA is six (6) months or fewer, the Vesting Schedule (set forth on the UBS One Source website (click on the specific grant under the tab labeled "Grants/Awards/Units")) will not be affected by the Employee's PLOA.

(ii) if the duration of the Employee's PLOA is greater than six (6) months but not more than twelve (12) months, the scheduled vesting of any Restricted Stock Units under the

Vesting Schedule that are not then vested will be deferred for a period of time equal to the duration of the Employee's PLOA, minus six (6) months.

(iii) if the duration of the Employee's PLOA is greater than twelve (12) months, any Restricted Stock Units that are not then vested will immediately terminate.

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

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

(vi) Example 3. Employee's Restricted Stock Units are scheduled to vest on January 1 of the next calendar year. On May 1 of the current calendar year, Employee begins a 13-month PLOA. Employee's Restricted Stock Units will terminate on May 2 of the next calendar year.

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

(b) *Death of Employee*. In the event that the Employee incurs a Termination of Service due to his or her death, one hundred percent (100%) of the Restricted Stock Units will vest on the date of the Employee's death. In the event that any Applicable Law limits the Company's ability to accelerate the vesting of the Restricted Stock Units, this paragraph 4(b) will be limited to the extent required to comply with applicable law. If the Employee is subject to Hong Kong's ORSO provisions, this paragraph 4(b) will not apply to this award of Restricted Stock Units.

(c) *Change of Control*. In the event of a Change of Control, the Restricted Stock Units will be treated in accordance with Section 4.4 of the Plan. In addition, in the event Employee experiences a qualifying Termination of Service within 12 months following a Change of Control, the vesting of the Restricted Stock Units shall be accelerated to the extent provided under Section 12.10 of the Plan.

5. <u>Committee Discretion</u>. The Committee, in its discretion, may at any time accelerate the vesting of all or a portion of any unvested Restricted Stock Units, subject to the terms of the

Plan. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Committee. Subject to the provisions of this paragraph 5, if the Committee, in its discretion, accelerates the vesting of all or a portion of any unvested Restricted Stock Units, the payment of such accelerated Restricted Stock Units shall be made as soon as practicable upon or following the accelerated vesting date, but in no event later than 60 days following the vesting date of such accelerated Restricted Stock Units. If the Employee is subject to Hong Kong's ORSO provisions, the Committee may not accelerate the vesting of any unvested Restricted Stock Units as a result of the Hong Kong Employee's Termination of Service.

6. Payment after Vesting.

(a) Any Restricted Stock Units that vest in accordance with paragraph 3 or 4 of this Agreement or Section 4.4 or 12.10 of the Plan (subject in each case to withholding under paragraph 8) will be paid to the Employee (or in the event of the Employee's death, to his or her estate) as soon as practicable, but in all cases within 60 days, following the vesting date of such Restricted Stock Units. Any Restricted Stock Units that vest in accordance with paragraph 5 or 11 (subject to withholding under paragraph 8) will be paid to the Employee (or in the event of the Employee's death, to his or her estate) in accordance with the provisions of such paragraph. For each Restricted Stock Unit that vests, the Employee will receive one Share, subject to withholding under paragraph 8.

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

7. Forfeiture. Notwithstanding any contrary provision of this Agreement and except in the event of Employee's death (see paragraph 4(b)), any Restricted Stock Units that have not vested pursuant to paragraphs 3 through 5 or paragraph 11 of this Agreement or Sections 4.4 or 12.10 of the Plan at the time of the Employee's Termination of Service for any or no reason will be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company.

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

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

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

10. No Effect on Employment. Subject to any authorized, written employment contract with the Employee, the terms of the Employee's employment will be determined from time to time by the Company, or the Affiliate employing the Employee, as the case may be, and the Company, or the Affiliate employing the Employee, as the case may be, will have the right, which is hereby expressly reserved, to terminate or change the terms of the employment of the Employee at any time for any reason whatsoever, with or without good cause. The transactions contemplated hereunder and the Vesting Schedule (set forth on the UBS One Source website (click on the specific grant under the tab labeled "Grants/Awards/Units")) do not constitute an express or implied promise of

continued employment for any period of time. A leave of absence or an interruption in service (including an interruption during military service) authorized or acknowledged by the Company or the Affiliate employing the Employee, as the case may be, will not be deemed a Termination of Service for the purposes of this Agreement.

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

12. Address for Notices. Any notice to be given to the Company under this Agreement shall be addressed to the Company, in care of Stock Programs, at Applied Materials, Inc., 3050 Bowers Avenue, M/S 1213, P.O. Box 58039, Santa Clara, CA 95052-8039, U.S.A., or at such other address as the Company may hereafter designate in writing.

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

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

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

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

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

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

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

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

21. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. The Employee expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Company reserves the right to revise this Agreement as it deems necessary or advisable, in its sole discretion and without the consent of the Employee, to

comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A prior to the actual payment of Shares pursuant to this Agreement.

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

23. Labor Law. By accepting this Restricted Stock Units award, the Employee acknowledges that: (a) the grant of these Restricted Stock Units is a one-time benefit which does not create any contractual or other right of the Employee to receive future grants of Restricted Stock Units, or benefits in lieu of Restricted Stock Units; (b) all determinations with respect to any future grants, including, but not limited to, when the Restricted Stock Units will be granted, the number of Restricted Stock Units subject to each award and when the Restricted Stock Units will vest, shall be at the sole discretion of the Company; (c) the Employee’s participation in the Plan is voluntary; (d) the value of these Restricted Stock Units is an extraordinary item of compensation that is outside the scope of the Employee’s employment contract, if any; (e) these Restricted Stock Units are not part of the Employee’s normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; (f) the vesting of these Restricted Stock Units shall cease upon Termination of Service for any reason, except as may otherwise be explicitly provided in the Plan or this Agreement; (g) the future value of the underlying Shares is unknown and cannot be predicted with certainty; (h) these Restricted Stock Units have been granted to the Employee in the Employee’s status as an employee of the Company or its Affiliates; and (i) there shall be no additional obligations for any Affiliate employing the Employee as a result of these Restricted Stock Units.

24. Information on the Collection, Processing and Use of Employee Data. In administering this Restricted Stock Units award, the Company will collect, use and transfer the Employee personal data as described in this paragraph. The Employee understands that the Company and its Affiliates hold certain personal information about him or her, including his or her name, home address and telephone number, date of birth, social security or identity number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all awards of Restricted Stock Units or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in his or her favor, for the purpose of managing and administering the Plan (“Data”).

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

The aforementioned Data will be collected, processed and used during and after the employment relationship. Data is not retained for longer than necessary to meet its intended purpose or for longer than required by applicable law.

The Employee authorizes the Company to receive, possess, use, retain and transfer the Data in electronic or other form, for the purposes of implementing, administering and managing his or her participation in the Plan, including any requisite transfer of such Data to a broker or other third party with whom the Employee may elect to deposit any Shares of stock acquired from this award of Restricted Stock Units, as may be required for the administration of the Plan and/or the subsequent holding of Shares of stock on his or her behalf. Subject to limitations set out in applicable law, the Employee has certain rights in respect of his or her Data, such as a right to access, correction, restriction, erasure, opposition and portability. Requests to exercise those rights can be made to the Human Resources department and/or the Stock Programs Administrator for the Company and/or its applicable Affiliates. The Employee understands, however, that refusing or opposing the collection and use of the Data may affect the Employee's ability to participate in the Plan. For more information on the consequences of the Employee's opposition to the collection or use of the Data, the Employee understands that he or she may contact the Employee's local Human Resources representative.

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

oOo

[DIRECTOR NAME]
AMAT ID Number: **[EMPLID]**
Grant Number: **[GRANT_ID]**

APPLIED MATERIALS, INC.

RESTRICTED STOCK UNIT AGREEMENT

FOR NONEMPLOYEE DIRECTORS

NOTICE OF GRANT

Applied Materials, Inc. (the "Company") hereby grants you, **[DIRECTOR NAME]** (the "Grantee"), an award of Restricted Stock Units under the Company's Employee Stock Incentive Plan (the "Plan"). The date of this Restricted Stock Unit Agreement (the "Agreement") is **[GRANT DT]** (the "Grant Date"). Subject to the Terms and Conditions of Restricted Stock Unit Award (the "Terms and Conditions") and of the Plan, the principal features of this Award are as follows:

Number of Restricted Stock Units: **[MAX_SHARES]**

Vesting of Restricted Stock Units: One-Hundred percent (100%) of the Restricted Stock Units subject to the Award will vest on **[VESTING DATE]** or, if earlier, on the date immediately before the date of the Annual Meeting of Stockholders of the Company that next follows the Grant Date.*

* Except as otherwise provided in the Terms and Conditions of this Agreement, the Grantee will not vest in the Restricted Stock Units unless he or she remains a Director of the Company through the vesting date.

IMPORTANT:

Your electronic signature below indicates your agreement and understanding that this Award is subject to all of the Terms and Conditions and the Plan. For example, important additional information on vesting and forfeiture of this Award is contained in paragraphs 3, 4 and 7 of the Terms and Conditions and in Sections 4.4 and 12.10 of the Plan. **PLEASE READ ALL OF THE TERMS AND CONDITIONS.**

To accept the Award, please sign electronically below.

GRANTEE

____
[Director Name]

Date: ___________

Please retain a copy of your signed Agreement by saving a pdf version of the Agreement. You may also obtain a copy of the Agreement at any time by requesting one from Stock Programs by email at Stock_Programs@amat.com or by phone at (408) 748-5552.

TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT AWARD
FOR NONEMPLOYEE DIRECTORS

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

2. Company's Obligation to Pay. Each Restricted Stock Unit represents the right to receive the value of one (1) Share at the time the Restricted Stock Unit vests. Unless and until the Restricted Stock Units have vested in the manner set forth in paragraphs 3 and 4, or Sections 4.4 or 12.10 of the Plan, the Grantee will have no right to payment of such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Units will represent an unsecured obligation of the Company. Payment of any vested Restricted Stock Units will be made in whole Shares only.

3. Vesting Schedule/Period of Restriction. Except as provided in paragraph 4 of this Agreement, and Sections 4.4 and 12.10 of the Plan, and subject to paragraph 7, the Restricted Stock Units awarded by this Agreement will vest in accordance with the vesting provisions set forth on the Notice of Grant of this Agreement. Restricted Stock Units will not vest in accordance with any of the provisions of this Agreement unless the Grantee will have continuously served as a Director of the Company from the Grant Date up to and including the scheduled vesting date of the Restricted Stock Units.

4. Acceleration of Vesting.

(a) Death of Grantee. In the event that the Grantee dies while serving as a Director but prior to the vesting of his or her Restricted Stock Units, one hundred percent (100%) of the Restricted Stock Units subject to this Agreement will vest on the date of the Grantee's death.

(b) Disability of Grantee. If Grantee has a Termination of Service due to Disability prior to the vesting of his or her Restricted Stock Units subject to this Agreement, one hundred percent (100%) of such Restricted Stock Units shall immediately become vested.

(c) Change of Control. In the event of a Change of Control, the Restricted Stock Units will be treated in accordance with Section 4.4 of the Plan. In addition, in the event the Grantee ceases to be a Nonemployee Director as of the date of a Change of Control and does not become a member of the board of directors of the successor corporation, or a parent of the successor corporation, the vesting of the Restricted Stock Units will be accelerated to the extent provided under Section 12.10 of the Plan.

5. Payment after Vesting. Subject to the provisions of paragraphs 8 and 20, any Restricted Stock Units that vest in accordance with paragraph 3 or 4 of this Agreement or Sections 4.4 or 12.10 of the Plan will be paid to the Grantee (or in the event of the Grantee's death,

to his or her estate) as soon as practicable, but in all cases within 60 days, following the vesting date of such Restricted Stock Units. Notwithstanding the foregoing, any Restricted Stock Units that vest in accordance with paragraphs 3 or 4 of this Agreement or Sections 4.4 or 12.10 of the Plan that the Grantee elects to defer pursuant to paragraph 6 will be paid to the Grantee in accordance with the terms of paragraph 6 below, subject to the provisions of paragraphs 8 and 20. For each Restricted Stock Unit that vests, the Grantee will receive one Share, subject to withholding under paragraph 8.

6. Deferral. Subject to the Committee's determination that this right of deferral or any term thereof complies with applicable laws or regulations in effect from time to time, Grantee may make an election to defer the issuance of the Shares issuable in accordance with the terms and conditions set forth in a Restricted Stock Unit Deferral Election Form approved by the Committee. In the event of the Committee's determination otherwise, the Committee may, in its discretion, deny Grantee this right of deferral altogether, modify the terms of the deferral and/or add such requirements as it deems necessary or advisable to comply with applicable law and regulations. If the Grantee elects to defer the issuance of vested Restricted Stock Units in accordance with this paragraph 6, payment of the deferred vested Restricted Stock Units (and any dividends payable in accordance with paragraph 9) will be made in accordance with the terms of the deferral election.

7. Forfeiture. Notwithstanding any contrary provision of this Agreement, any Restricted Stock Units that have not vested pursuant to paragraphs 3 or 4 of this Agreement or Sections 4.4 or 12.10 of the Plan at the time of the Grantee's Termination of Service for any or no reason will be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company.

8. Withholding of Taxes. If any tax withholding is required when Shares are issued as payment for vested Restricted Stock Units or, in the discretion of the Company, at such earlier time as the Tax Obligations (defined below) are due, the Company (or, if the Grantee has become an employee of an Affiliate, the employing Affiliate), will withhold a portion of the Shares that has an aggregate market value sufficient to pay all taxes and social insurance liability and other requirements in connection with the Shares, including, without limitation, (a) all federal, state and local income, employment and any other applicable taxes that are required to be withheld by the Company or the employing Affiliate, (b) the Grantee's and, to the extent required by the Company (or the employing Affiliate), the Company's (or the employing Affiliate's) fringe benefit tax liability, if any, associated with the grant, vesting, or sale of the Restricted Stock Units and the Shares issued thereunder, and (c) all other taxes or social insurance liabilities with respect to which the Grantee has agreed to bear responsibility (collectively, the "Tax Obligations"). The number of Shares withheld pursuant to the prior sentence will be rounded up to the nearest whole Share, with no refund provided in the U.S. for any value of the Shares withheld in excess of the Tax Obligations as a result of such rounding.

Notwithstanding any contrary provision of this Agreement, no Shares will be issued unless and until satisfactory arrangements (as determined by the Company) have been made by the Grantee with respect to the payment of any Tax Obligations that the Company determines must be withheld or collected with respect to such Shares. In addition and to the maximum extent permitted by law, the Company (or the employing Affiliate) has the right to retain without notice from any fees, salary or other amounts payable to the Grantee, cash having a sufficient value to satisfy any Tax Obligations that the Company determines cannot be satisfied through the withholding of otherwise deliverable Shares or that are due prior to the issuance of Shares under the Restricted Stock Units. All Tax Obligations related to the Restricted Stock Units and any Shares delivered in payment thereof are the sole responsibility of the Grantee.

9. Dividend Equivalents for Deferred Restricted Stock Units. If the Grantee elects to defer the issuance of vested Restricted Stock Units (the “Deferred RSUs”) in accordance with paragraph 6, the Grantee will be entitled to receive dividends or distributions paid on the Shares underlying vested Deferred RSUs in accordance with this paragraph 9. Any such dividends or distributions automatically will be credited as Deferred RSUs (the “Dividend RSUs”).

(a) Cash Dividends. If the Company declares and pays any cash dividends or cash distributions on Shares during a calendar year, then with respect to the Deferred RSUs that have vested as of the date the cash dividend or distribution was paid and that remain unissued on the last Nasdaq Global Select Market trading day of that year (the “Applicable Date”), such Deferred RSUs will be increased on the Applicable Date by a number of Dividend RSUs equal to the quotient obtained by dividing the cash dividend or distribution paid on the Shares underlying such vested Deferred RSUs by the Fair Market Value (as defined in the Plan) of a Share on the Applicable Date, rounded down to the nearest whole Share. Specifically, the number of Dividend RSUs for each cash dividend or distribution during a calendar year will be determined in accordance with the following formula, rounded down to the nearest whole Share: **X = (A x B)/C**, where **X** = the Dividend RSUs that will become vested Deferred RSUs on the Applicable Date by reason of the cash dividend or distribution paid during the year, **A** = the number of unissued Shares that were vested as of the cash dividend or distribution date and remain subject to the vested Deferred RSUs as of the Applicable Date, **B** = the per Share amount of the applicable cash dividend or distribution, and **C** = the Fair Market Value of a Share on the Applicable Date.

(b) Stock Dividends. If the Company declares and pays any stock dividends or stock distribution on Shares during a calendar year, then the number of unissued Shares, if any, that remain subject to Grantee’s vested Deferred RSUs automatically will be adjusted in accordance with paragraph 12.

(c) Any Dividend RSUs resulting from the application of this paragraph 9 will be subject to the same terms and conditions (including, without limitation, the applicable deferral election and forfeiture provisions) as the unissued Deferred RSUs to which they relate.

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

have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

11. No Effect on Service. Subject to any subsequent employment or service contract that may be entered into with the Grantee or applicable laws, the terms of the Grantee's service to the Company, whether as a Director or otherwise, will be determined from time to time by the Company, or the Affiliate employing the Grantee, as the case may be, and the Company, or the Affiliate employing the Grantee, as the case may be, will have the right, which is hereby expressly reserved, to terminate or change the terms of the service as a Director or employment of the Grantee at any time for any reason whatsoever, with or without good cause. The transactions contemplated hereunder and the vesting schedule set forth on the Notice of Grant of this Agreement do not constitute an express or implied promise of continued service as a Director or employment for any period of time.

12. Changes in Restricted Stock Units. If as a result of a stock or extraordinary cash dividend, stock split, distribution, reclassification, recapitalization, combination of Shares or the adjustment in capital stock of the Company or otherwise, or as a result of a merger, consolidation, spin-off or other corporate transaction or event, the Restricted Stock Units will be increased, reduced or otherwise affected, and by virtue of any such event, the Grantee will, as the owner of unvested Restricted Stock Units (the "Prior Restricted Stock Units"), be entitled to receive upon vesting new or additional or different shares of stock, cash or other securities or property (other than rights or warrants to purchase securities), such new or additional or different shares, cash or securities or property will thereupon be considered to be unvested Restricted Stock Units and will be subject to all of the conditions and restrictions that were applicable to the Prior Restricted Stock Units pursuant to this Agreement and the Plan. If the Grantee receives rights or warrants with respect to any Prior Restricted Stock Units, such rights or warrants may be held or exercised by the Grantee, provided that until such exercise any such rights or warrants and after such exercise any shares or other securities acquired by the exercise of such rights or warrants will be considered to be unvested Restricted Stock Units and will be subject to all of the conditions and restrictions that were applicable to the Prior Restricted Stock Units pursuant to the Plan and this Agreement.

13. Address for Notices. Any notice to be given to the Company under this Agreement shall be addressed to the Company, in care of Stock Programs, at Applied Materials, Inc., 3050 Bowers Avenue, M/S 1213, P.O. Box 58039, Santa Clara, CA 95052-8039, or at such other address as the Company may hereafter designate in writing.

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

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

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

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

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

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

20. Section 409A. Notwithstanding anything in the Plan or this Agreement to the contrary, if the vesting or issuance of all or a portion of any unvested Restricted Stock Units is accelerated in connection with the Grantee's termination as a Director (provided that such termination is a "separation from service" within the meaning of Section 409A, as determined by the Company), other than due to death, and if both (a) Grantee is a "specified employee" within the meaning of Section 409A at the time of such termination as a Director, and (b) the payment of such accelerated Restricted Stock Units would result in the imposition of additional tax under Section 409A if paid to the Grantee within the six (6) month period following the Grantee's termination as a Director, then the payment of such accelerated Restricted Stock Units will not be made until the date that is six (6) months and one (1) day following the date of the Grantee's termination as a Director, unless the Grantee dies following his or her termination as a Director, in which case, the Restricted

Stock Units will be paid in Shares to the Grantee's estate as soon as practicable following his or her death. It is the intent of this Agreement to comply with the requirements of Section 409A so that none of the Restricted Stock Units provided under this Agreement or Shares issuable thereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities or ambiguous terms herein will be interpreted to so comply. For purposes of this Agreement, "Section 409A" means Section 409A of the U.S. Internal Revenue Code of 1986, as amended, and any proposed, temporary or final Treasury Regulations and Internal Revenue Service guidance thereunder, as each may be amended from time to time.

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

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

23. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. The Grantee expressly warrants that he or she is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement or the Plan can be made only in an express written contract executed by a duly authorized officer of the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the parties agree to work in good faith to revise this Agreement as necessary or advisable to comply with Section 409A or to otherwise avoid imposition of any additional tax or income recognition under Section 409A in connection to this award of Restricted Stock Units.

24. Amendment, Suspension or Termination of the Plan. By accepting these Restricted Stock Units, the Grantee expressly warrants that he or she has received a right to receive stock under the Plan, and has received, read and understood a description of the Plan. The Grantee understands that the Plan is discretionary in nature and may be amended, suspended or terminated by the Company at any time.

25. Labor Law. By accepting these Restricted Stock Units, the Grantee acknowledges that: (a) the grant of these Restricted Stock Units is a one-time benefit which does not create any contractual or other right of the Grantee to receive future grants of Restricted Stock Units, or benefits in lieu of Restricted Stock Units; (b) all determinations with respect to any future grants, including, but not limited to, when the Restricted Stock Units will be granted, the number of Restricted Stock Units subject to each award and when the Restricted Stock Units will vest, will be at the sole discretion of the Company; (c) the Grantee's participation in the Plan is voluntary; (d) the value of these Restricted Stock Units is an extraordinary item of compensation that is outside the scope of any subsequent employment contract with the Grantee, if any; (e) these Restricted Stock Units are not part of the Grantee's normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; (f) the vesting of these Restricted Stock Units will cease upon termination of service as a Director for any reason, except as may otherwise be explicitly

provided in the Plan or this Agreement; (g) the future value of the underlying Shares is unknown and cannot be predicted with certainty; (h) these Restricted Stock Units have been granted to the Grantee in the Grantee's status as a Nonemployee Director of the Company; and (i) there will be no additional obligations for any Affiliate employing the Grantee as a result of these Restricted Stock Units.

26. Information on the Collection, Processing and Use of Grantee Data. In administering this Restricted Stock Units award, the Company will collect, use and transfer the Grantee personal data as described in this paragraph. The Grantee understands that the Company and its Affiliates hold certain personal information about him or her, including his or her name, home address and telephone number, date of birth, social security or identity number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all awards of Restricted Stock Units or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in his or her favor, for the purpose of managing and administering the Plan ("Data").

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

The aforementioned Data will be collected, processed and used during and after the Grantee period of service. Data is not retained for longer than necessary to meet its intended purpose or for longer than required by applicable law.

The Grantee authorizes the Company to receive, possess, use, retain and transfer the Data in electronic or other form, for the purposes of implementing, administering and managing his or her participation in the Plan, including any requisite transfer of such Data to a broker or other third party with whom the Grantee may elect to deposit any Shares of stock acquired from this award of Restricted Stock Units, as may be required for the administration of the Plan and/or the subsequent holding of Shares of stock on his or her behalf. Subject to limitations set out in applicable law, the Grantee has certain rights in respect of his or her Data, such as a right to access, correction, restriction, erasure, opposition and portability. Requests to exercise those rights can be made to the Stock Programs Administrator for the Company and/or its applicable Affiliates. The Grantee understands, however, that refusing or opposing the collection and use of the Data may affect the Grantee's ability to participate in the Plan.

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

*****

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

APPLIED MATERIALS, INC.

PERFORMANCE SHARE UNIT AGREEMENT

NOTICE OF GRANT

Applied Materials, Inc. (the “Company”) hereby grants you, **[EMPL_NAME]** (the “Employee”), an award of Performance Share Units under the Company’s Employee Stock Incentive Plan (the “Plan”). The date of this Performance Share Unit Agreement (the “Agreement”) is **[GRANT_DT]** (the “Grant Date”). Subject to the provisions of the Terms and Conditions of Performance Share Unit Award (the “Terms and Conditions”),Appendix A attached hereto and the Plan, the principal features of this Award are as follows:

Target Number of Performance Share Units: [TARGET_SHARES] (which number is the “Target Award”)

Vesting of Performance Share Units: **[VESTING SCHEDULE and/or PERFORMANCE VESTING CONDITIONS.] ***

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

IMPORTANT*:*

Your electronic or written signature below indicates your agreement and understanding that this Award is subject to all of the Terms and Conditions (including exhibits thereto) and the Plan. For example, important additional information on vesting and forfeiture of this Award is contained in paragraphs 3 through 5, and 11 of the Terms and Conditions as well as in Appendix A and in sections 4.4 and 12.10 of the Plan. **PLEASE BE SURE TO READ ALL OF THE TERMS AND CONDITIONS AND APPENDIX A.**

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

EMPLOYEE

____

[NAME]

Date:_, 20___

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

For Employees who are People's Republic of China (PRC) Nationals on the Grant Date: In the event that you are or become employed by an Affiliate of the Company located in the PRC, you will be subject to the PRC State Administration of Foreign Exchange ("SAFE") regulations concerning the conversion and transfer of funds. As an employee of a Company Affiliate located in the PRC, you must enter into a separate agreement with the Company and the designated broker for the Plan, referred to as a Letter of Authorization, which includes, but is not limited to, the following provisions:

- Your participation in the Plan and this Award are subject to the rules and regulations set forth by SAFE;
- All cash proceeds related to the grant, vesting, and exercise of any Award granted to you by the Company and from the sale of Shares received by you under any Award granted to you by the Company must be transferred to you through a SAFE- approved foreign exchange bank account ("SAFE Account") established by the Company;

- The Shares received under the Award will be deposited into an account set up for you with the designated broker for the Plan and may not be transferred from that account to any other bank, brokerage, or share-holding account.

- Within 30 days of your Termination of Service, all of the Shares held in your account with the designated broker must be sold either by you or by the designated broker and the proceeds from the sale of those Shares will be transferred to you through the SAFE Account.

If you do not provide a signed copy of the Letter of Authorization to the Company at the time that you become employed by an Affiliate of the Company located in the PRC, this Award shall become null and void without any liability to the Company and/or your employer and shall lapse with immediate effect.

For Employees employed in the United Kingdom (U.K.) on the Grant Date: The grant of your Award is subject to the execution of a joint election between the Company and you (the "Election") under which you agree to pay all National Insurance contributions (NICs) that may become due in connection with the grant or vesting of the Award. The NICs include the "primary" NIC payable by an employee as well as the "secondary" NIC payable by the employer in the absence of any election (referred to as the Secondary Class 1 NIC). By accepting the Award, to the extent allowable by Applicable Law, you hereby consent and agree to satisfy any liability the Company and/or your employer realizes with respect to Secondary Class 1 NIC payments required to be paid by the Company and/or your employer in connection with the grant or vesting of the Award.

In addition, by accepting the Award, you hereby authorize the Company or your employer to withhold any such Secondary Class 1 NICs from the sale of a sufficient number of Shares upon vesting of the Award. In addition, and to the maximum extent permitted by law, the Company (or the employing Affiliate) has the right to retain without notice from salary or other amounts payable to you to satisfy such Secondary Class 1 NICs. The Company, in its discretion, may require you, and you hereby agree, to make payment on demand for such contributions by cash or check to the designated broker for the Plan, the Company or your employer, and such contributions will be remitted to the HMR&C. If additional consents and/or elections are required to accomplish the foregoing, you agree to provide them promptly upon request. If you do not enter an Election prior to the first vesting date or if the Election is revoked at any time by you or the HMR&C, the Award shall become null and void without any liability to the Company and/or your employer and shall lapse with immediate effect.

TERMS AND CONDITIONS OF PERFORMANCE SHARE UNIT AWARD

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

2. Company's Obligation to Pay. Each Performance Share Unit represents the right to receive the value of one (1) Share at the time the Performance Share Unit vests. Unless and until the Performance Share Units have vested in the manner set forth in paragraphs 3 through 5, or paragraph 11, or Sections 4.4 or 12.10 of the Plan, the Employee will have no right to payment of such Performance Share Units. Prior to actual payment of any vested Performance Share Units, such Performance Share Units will represent an unsecured obligation of the Company. Payment of any vested Performance Share Units will be made in whole Shares only, provided, however, that if the Company determines that it is necessary or advisable, the Shares subject to the Performance Share Units shall be sold immediately upon settlement of the Performance Share Units award, and the Employee shall receive the proceeds from the sale, less any applicable fees and taxes or other required withholding.

3. Vesting Schedule. Except as provided in paragraphs 4, 5 and 11 of this Agreement, and Sections 4.4 and 12.10 of the Plan, and subject to paragraph 7, the Performance Share Units awarded by this Agreement will vest in accordance with the vesting provisions set forth [on the first page of the Notice of Grant of this Agreement]/[in Appendix A]. Subject to paragraphs 4(b) and (d) below, Performance Share Units will not vest in accordance with any of the provisions of this Agreement unless the Employee will have been continuously employed by the Company or by one of its Affiliates from the Grant Date up to and including the Scheduled Vesting Date of the Performance Share Units.

4. Modifications to Vesting Schedule**.**

(a) *Vesting upon Personal Leave of Absence.* In the event that the Employee takes a personal leave of absence ("PLOA"), the Performance Share Units that are not then vested will be modified as follows:

(i) if the duration of the Employee's PLOA is six (6) months or fewer, the vesting schedule set forth [on the first page of the Notice of Grant of this Agreement]/[in Appendix A] will not be affected by the Employee's PLOA.

(ii) if the duration of the Employee's PLOA is greater than six (6) months but not more than twelve (12) months, the scheduled vesting of any Performance Share Units that are not then vested will be deferred for a period of time equal to the duration of the Employee's PLOA, minus six (6) months.

(iii) if the duration of the Employee's PLOA is greater than twelve (12) months, any Performance Share Units that are not then vested will immediately terminate.

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

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

(vi) Example 3. Employee's Performance Share Units are scheduled to vest on January 1 of the next calendar year. On May 1 of the current calendar year, Employee begins a 13-month PLOA. Employee's Performance Share Units will terminate on May 2 of the next calendar year.

In general, a "personal leave of absence" does not include any legally required leave of absence. The duration of the Employee's PLOA will be determined over a rolling twelve (12) month measurement period. Performance Share Units that are scheduled to vest during the first six (6) months of the Employee's PLOA will continue to vest as scheduled. However, Performance Share Units that are scheduled to vest after the first six (6) months of the Employee's PLOA will be deferred or terminated depending on the length of the Employee's PLOA to the extent permissible under Section 409A of the Code. The vesting schedule for the Performance Share Units will be modified, if at all, as soon as the duration of the Employee's PLOA exceeds six (6) months.

(b) *Death of Employee*. In the event that the Employee incurs a Termination of Service due to his or her death, one hundred percent (100%) of the Employee's Target Award will vest on the date of the Employee's death. In the event that any Applicable Law limits the Company's ability to accelerate the vesting of the Performance Share Units, this paragraph 4(b) will be limited to the extent required to comply with Applicable Law. If the Employee is subject to Hong Kong's ORSO provisions, this paragraph 4(b) will not apply to this award of Performance Share Units.

(c) *Change of Control*. In the event of a Change of Control, the Performance Share Units will be treated in accordance with Section 4.4 of the Plan. In addition, in the event Employee experiences a qualifying Termination of Service within 12 months following a Change of Control, the vesting of the Performance Share Units shall be accelerated to the extent provided under Section 12.10 of the Plan.

(d) *Retirement*. In the event that the Employee incurs a Termination of Service by reason of voluntary resignation after obtaining at least sixty (60) years of age and completing at least five (5) Years of Service, a number of Performance Share Units will vest on the later of the Scheduled Vesting Date or the Certification Date in accordance with Appendix A and on the first page of the Notice of Grant of this Agreement determined in accordance with the following:

(i) if the Employee has completed at least five (5) (but fewer than ten (10)) Years of Service on the date of Termination of Service, the number equal to (I) the Performance Share Units that would have vested had the Employee remained employed through the later of the Scheduled Vesting Date or the Certification Date *multiplied by* (II) a fraction the numerator of which is twelve (12) and the denominator of which is thirty-six (36).

(ii) if the Employee has completed at least ten (10) (but fewer than fifteen (15)) Years of Service on the date of Termination of Service, the number equal to (I) the Performance Share Units that would have vested had the Employee remained employed through the later of the Scheduled Vesting Date or the Certification Date *multiplied by* (II) a fraction the numerator of which is eighteen (18) and the denominator of which is thirty-six (36).

(iii) if the Employee has completed at least fifteen (15) Years of Service on the date of Termination of Service, the number equal to (I) the Performance Share Units that would have vested had the Employee remained employed through the later of the Scheduled Vesting Date or the Certification Date *multiplied by* (II) a fraction the numerator of which is twenty-four (24) and the denominator of which is thirty-six (36).

Notwithstanding the definition of “Retirement” in the Plan, an Employee who incurs a Termination of Service by reason of voluntary resignation at the age of sixty-five (65) or over but who has not completed at least five (5) Years of Service will not be eligible for the vesting of Performance Share Units described in this paragraph 4(d).

5. Committee Discretion. The Committee, in its discretion, may at any time accelerate the vesting of all or a portion of any unvested Performance Share Units, subject to the terms of the Plan. If so accelerated, such Performance Share Units will be considered

as having vested as of the date specified by the Committee. Subject to the provisions of this paragraph 5, if the Committee, in its discretion, accelerates the vesting of all or a portion of any unvested Performance Share Units, the payment of such accelerated Performance Share Units shall be made as soon as practicable upon or following the accelerated vesting date, but in no event later than 60 days following the vesting date of such accelerated Performance Share Units. If the Employee is subject to Hong Kong's ORSO provisions, the Committee may not accelerate the vesting of any unvested Performance Share Units as a result of the Hong Kong Employee's Termination of Service.

6. Payment after Vesting. Any Performance Share Units that vest in accordance with paragraph 3 or 4 of this Agreement or section 4.4 or 12.10 of the Plan (subject in each case to withholding under paragraph 8) will be paid to the Employee (or in the event of the Employee's death, to his or her estate) as soon as practicable, but in all cases within 60 days, following the vesting date of such Performance Share Units. Any Performance Share Units that vest in accordance with paragraph 5 or 11 (subject to withholding under paragraph 8) will be paid to the Employee (or in the event of the Employee's death, to his or her estate) in accordance with the provisions of such paragraph. For each Performance Share that vests, the Employee will receive one Share, subject to withholding under paragraph 8.

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

7. Forfeiture. Notwithstanding any contrary provision of this Agreement and except in the event of Employee's death or retirement (see paragraph 4(b) and 4(d)), any Performance Share Units that have not vested pursuant to paragraphs 3 through 5 or paragraph 11 of this Agreement or Sections 4.4 or 12.10 of the Plan at the time of the Employee's Termination of Service for any or no reason will be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company. Notwithstanding anything to the contrary in the Plan or this Agreement, the Board, in its sole discretion, may require the Employee to forfeit, return or reimburse the Company all or a portion of the Performance Share Units subject to this Award in accordance with paragraph 16 of the Agreement.

8. Withholding of Taxes. When Shares are issued as payment for vested Performance Share Units or, in the discretion of the Company, at such earlier time as the Tax Obligations (defined below) are due, the Company (or the employing Affiliate) will withhold a portion of the Shares that has an aggregate market value sufficient to pay all taxes and social insurance liability and other requirements in connection with the Shares, including, without limitation, (a) all federal, state and local income, employment and any other applicable taxes that are required to be withheld by the Company or the employing Affiliate, (b) the Employee's and, to the extent required by the Company (or the employing Affiliate), the Company's (or the employing Affiliate's) fringe benefit tax liability, if any, associated with the grant, vesting, or sale of the Performance Share Units and the Shares issued thereunder, and (c) all other taxes or social insurance liabilities with respect to which the Employee has agreed to bear responsibility (collectively, the "Tax Obligations"). The number of Shares withheld pursuant to the prior sentence will be rounded up to the nearest whole Share, with no refund provided in the U.S. for any value of the Shares withheld in excess of the Tax Obligations as a result of such rounding. Notwithstanding the foregoing, the Company (or, in respect of an Employee subject to Section 16 of the 1934 Act, the HRCC), in its sole discretion, may require the Employee to make alternate arrangements satisfactory to it for such Tax Obligations in advance of the arising of any Tax Obligations.

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

9. Rights as Stockholder. Neither the Employee nor any person claiming under or through the Employee will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares (which may be in book entry form) will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Employee (including through electronic delivery to a brokerage account).

Notwithstanding any contrary provision of this Agreement, any quarterly or other regular, periodic dividends or distributions (as determined by the Company) paid on Shares will affect neither unvested Performance Share Units nor Performance Share Units that are vested but unpaid, and no such dividends or other distributions will be paid on unvested Performance Share Units or Performance Share Units that are vested but unpaid. After such issuance, recordation and delivery, the Employee will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

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

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

however, that the payment of such accelerated new or additional awards will be made in accordance with the provisions of paragraph 5.

12. Address for Notices. Any notice to be given to the Company under this Agreement shall be addressed to the Company, in care of Stock Programs, at Applied Materials, Inc., 3050 Bowers Avenue, M/S 1213, P.O. Box 58039, Santa Clara, CA 95052-8039, U.S.A., or at such other address as the Company may hereafter designate in writing.

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

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

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

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

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

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

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

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

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

Committee, in its sole discretion, will have determined to be necessary or advisable; and (d) the lapse of such reasonable period of time following the vesting date of the Performance Share Units, as the Committee may establish from time to time, for reasons of administrative convenience.

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

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

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

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

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

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

24. Labor Law. By accepting this Performance Share Units award, the Employee acknowledges that: (a) the grant of these Performance Share Units is a one-time benefit

which does not create any contractual or other right of the Employee to receive future grants of Performance Share Units, or benefits in lieu of Performance Share Units; (b) all determinations with respect to any future grants, including, but not limited to, when the Performance Share Units will be granted, the number of Performance Share Units subject to each award and when the Performance Share Units will vest, shall be at the sole discretion of the Company; (c) the Employee's participation in the Plan is voluntary; (d) the value of these Performance Share Units is an extraordinary item of compensation that is outside the scope of the Employee's employment contract, if any; (e) these Performance Share Units are not part of the Employee's normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; (f) the vesting of these Performance Share Units shall cease upon Termination of Service for any reason, except as may otherwise be explicitly provided in the Plan or this Agreement; (g) the future value of the underlying Shares is unknown and cannot be predicted with certainty; (h) these Performance Share Units have been granted to the Employee in the Employee's status as an employee of the Company or its Affiliates; and (i) there shall be no additional obligations for any Affiliate employing the Employee as a result of these Performance Share Units.

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

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

The aforementioned Data will be collected, processed and used during and after the employment relationship. Data is not retained for longer than necessary to meet its intended purpose or for longer than required by applicable law.

The Employee authorizes the Company to receive, possess, use, retain and transfer the Data in electronic or other form, for the purposes of implementing, administering and managing his or her participation in the Plan, including any requisite transfer of such Data to a broker or other third party with whom the Employee may elect to deposit any Shares of stock acquired from this award of Performance Share Units, as may be required for the administration of the Plan and/or the subsequent holding of Shares of stock on his or her behalf. Subject to limitations set out in applicable law, the Employee has certain rights in respect of his or her Data, such as a right to access, correction, restriction, erasure, opposition and portability. Requests to exercise those rights can be made to the Human Resources department and/or the Stock Programs Administrator for the Company and/or its applicable Affiliates. The Employee understands, however, that refusing or opposing the collection and use of the Data may affect the Employee's ability to participate in the Plan. For more information on the consequences of the Employee's opposition to the collection or use of the Data, the Employee understands that he or she may contact the Employee's local Human Resources representative.

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

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

APPLIED MATERIALS, INC.

RESTRICTED STOCK UNIT AGREEMENT

NOTICE OF GRANT

Applied Materials, Inc. (the "Company") hereby grants you, **[EMPL_NAME]** (the "Employee"), an award of Restricted Stock Units under the Company's Employee Stock Incentive Plan (the "Plan"). The date of this Restricted Stock Unit Agreement (the "Agreement") is **[GRANT_DT]** (the "Grant Date"). Subject to the provisions of the Terms and Conditions of Restricted Stock Unit Award (the "Terms and Conditions"), which constitute part of this Agreement, and of the Plan, the principal features of this Award are as follows:

Number of Restricted Stock Units: **[MAX_SHARES]**

Vesting of Restricted Stock Units: Please refer to the UBS One Source website for the vesting schedule related to this grant of Restricted Stock Units (click on the specific grant under the tab labeled "Grants/Awards/Units.").*

- Except as otherwise provided in the Terms and Conditions of this Agreement, the Employee will not vest in the Restricted Stock Units unless he or she is employed by the Company or one of its Affiliates through the applicable vesting date.

***IMPORTANT*:**

Your electronic or written signature below indicates your agreement and understanding that this Award is subject to all of the Terms and Conditions and the Plan. For example, important additional information on vesting and forfeiture of this Award is contained in paragraphs 3 through 5 and paragraph 7 of the Terms and Conditions, and in Sections 4.4 and 12.10 of the Plan. **PLEASE READ ALL OF THE TERMS AND CONDITIONS.**

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

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

For Employees who are People's Republic of China (PRC) Nationals on the Grant Date: In the event that you are or become employed by an Affiliate of the Company located in the PRC, you will be subject to the PRC State Administration of Foreign Exchange ("SAFE") regulations concerning the conversion and transfer of funds. As an employee of a Company Affiliate located in the PRC, you must enter into a separate agreement with the Company and the designated broker for the Plan, referred to as a Letter of Authorization, which includes, but is not limited to, the following provisions:

- Your participation in the Plan and this Award are subject to the rules and regulations set forth by SAFE;

- All cash proceeds related to the grant, vesting, and exercise of any Award granted to you by the Company and from the sale of Shares received by you under any Award granted to you by the Company must be transferred to you through a SAFE-approved foreign exchange bank account ("SAFE Account") established by the Company;

- The Shares received under the Award will be deposited into an account set up for you with the designated broker for the Plan and may not be transferred from that account to any other bank, brokerage, or share-holding account.

- Within 30 days of your Termination of Service, all of the Shares held in your account with the designated broker must be sold either by you or by the designated broker and the proceeds from the sale of those Shares will be transferred to you through the SAFE Account.

If you do not provide a signed copy of the Letter of Authorization to the Company at the time that you become employed by an Affiliate of the Company located in the PRC, this Award shall become null and void without any liability to the Company and/or your employer and shall lapse with immediate effect.

For Employees employed in the United Kingdom (U.K.) on the Grant Date: The grant of your Award is subject to the execution of a joint election between the Company and you (the "Election") under which you agree to pay all National Insurance contributions (NICs) that may become due in connection with the grant or vesting of the Award. The NICs include the "primary" NIC payable by an employee as well as the "secondary" NIC payable by the employer in the absence of any election (referred to as the Secondary Class 1 NIC). By accepting the Award, to the extent allowable by Applicable Law, you hereby consent and agree to satisfy any liability the Company and/or your employer realizes with respect to Secondary Class 1 NIC payments required to be paid by the Company and/or your employer in connection with the grant or vesting of the Award.

In addition, by accepting the Award, you hereby authorize the Company or your employer to withhold any such Secondary Class 1 NICs from the sale of a sufficient number of Shares upon vesting of the Award. In addition, and to the maximum extent permitted by law, the Company (or the employing Affiliate) has the right to retain without notice from salary or other amounts payable to you to satisfy such Secondary Class 1 NICs. The Company, in its discretion, may require you, and you hereby agree, to make payment on demand for such contributions by cash or check to the designated broker for the Plan, the Company or your employer, and such contributions will be remitted to the HMR&C. If additional consents and/or elections are required to accomplish the foregoing, you agree to provide them promptly upon request. If you do not enter an Election prior to the first vesting date or if the Election is revoked at any time by you or the HMR&C, the Award shall become null and void without any liability to the Company and/or your employer and shall lapse with immediate effect.

TERMS AND CONDITIONS OF RESTRICTED STOCK UNIT AWARD

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

2. Company's Obligation to Pay. Each Restricted Stock Unit represents the right to receive the value of one (1) Share at the time the Restricted Stock Unit vests. Unless and until the Restricted Stock Units have vested in the manner set forth in paragraphs 3 through 5, or paragraph 11, or Sections 4.4 or 12.10 of the Plan, the Employee will have no right to payment of such Restricted Stock Units. Prior to actual payment of any vested Restricted Stock Units, such Restricted Stock Units will represent an unsecured obligation of the Company. Payment of any vested Restricted Stock Units will be made in whole Shares only, provided, however, that if the Company determines that it is necessary or advisable, the Shares subject to the Restricted Stock Units shall be sold immediately upon settlement of the Restricted Stock Units, and the Employee shall receive the proceeds from the sale, less any applicable fees and taxes or other required withholding.

3. Vesting Schedule. Except as provided in paragraphs 4, 5 and 11 of this Agreement, and Sections 4.4 and 12.10 of the Plan, and subject to paragraph 7, the Restricted Stock Units awarded by this Agreement will vest in accordance with the vesting provisions set forth on the Notice of Grant of this Agreement (the "Vesting Schedule"). Subject to paragraphs 4(b) and (d) below, the Restricted Stock Units will not vest in accordance with any of the provisions of this Agreement unless the Employee will have been continuously employed by the Company or by one of its Affiliates from the Grant Date up to and including the scheduled vesting date of the Restricted Stock Units.

4. Modifications to Vesting Schedule.

(a) *Vesting upon Personal Leave of Absence.* In the event that the Employee takes a personal leave of absence ("PLOA"), the Vesting Schedule of the Restricted Stock Units will be modified as follows:

(i) if the duration of the Employee's PLOA is six (6) months or fewer, the Vesting Schedule set forth on the Notice of Grant of this Agreement will not be affected by the Employee's PLOA.

(ii) if the duration of the Employee's PLOA is greater than six (6) months but not more than twelve (12) months, the scheduled vesting of any Restricted Stock Units under the Vesting Schedule that are not then vested will be deferred for a period of time equal to the duration of the Employee’s PLOA, minus six (6) months.

(iii) if the duration of the Employee’s PLOA is greater than twelve (12) months, any Restricted Stock Units that are not then vested will immediately terminate.

(iv) Example 1. Employee’s Restricted Stock Units are scheduled to vest on January 1 of the next calendar year. On May 1 of the current calendar year, Employee begins a six-month PLOA. The Vesting Schedule of Employee’s Restricted Stock Units remains unchanged and will still be scheduled to vest on January 1 of the next calendar year.

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

(vi) Example 3. Employee’s Restricted Stock Units are scheduled to vest on January 1 of the next calendar year. On May 1 of the current calendar year, Employee begins a 13-month PLOA. Employee’s Restricted Stock Units will terminate on May 2 of the next calendar year.

In general, a “personal leave of absence” does not include any legally required leave of absence. The duration of the Employee’s PLOA will be determined over a rolling twelve (12) month measurement period. Restricted Stock Units that are scheduled to vest during the first six (6) months of the Employee’s PLOA will continue to vest as scheduled. However, Restricted Stock Units that are scheduled to vest after the first six (6) months of the Employee’s PLOA will be deferred or terminated depending on the length of the Employee’s PLOA to the extent permissible under Section 409A of the Code. The Vesting Schedule for the Restricted Stock Units will be modified, if at all, as soon as the duration of the Employee’s PLOA exceeds six (6) months.

(b) *Death of Employee*. In the event that the Employee incurs a Termination of Service due to his or her death, one hundred percent (100%) of the Restricted Stock Units will vest on the date of the Employee’s death. In the event that any Applicable Law limits the Company’s ability to accelerate the vesting of the Restricted Stock Units, this paragraph 4(b) will be limited to the extent required to comply with applicable law. If the Employee is subject to Hong Kong’s ORSO provisions, this paragraph 4(b) will not apply to this award of Restricted Stock Units.

(c) *Change of Control*. In the event of a Change of Control, the Restricted Stock Units will be treated in accordance with Section 4.4 of the Plan. In addition, in the event

Employee experiences a qualifying Termination of Service within 12 months following a Change of Control, the vesting of the Restricted Stock Units shall be accelerated to the extent provided under Section 12.10 of the Plan.

(d) *Retirement*. In the event that the Employee incurs a Termination of Service by reason of voluntary resignation after obtaining at least sixty (60) years of age and completing at least five (5) Years of Service, a number of the Restricted Stock Units will vest on the date of such Termination of Service determined in accordance with the following:

1. if the Employee has completed at least five (5) (but fewer than ten (10)) Years of Service on the date of Termination of Service, all Restricted Stock Units scheduled to vest under the Vesting Schedule during the twelve (12) months following such date.

2. if the Employee has completed at least ten (10) (but fewer than fifteen (15)) Years of Service on the date of Termination of Service, all Restricted Stock Units scheduled to vest under the Vesting Schedule during the eighteen (18) months following such date.

3. if the Employee has completed at least fifteen (15) Years of Service on the date of Termination of Service, all Restricted Stock Units scheduled to vest under the Vesting Schedule during the twenty-four (24) months following such date.

Any Restricted Stock Units vesting by reason of this paragraph 4(d) will be paid out in accordance with paragraph 6 of this Agreement; provided, however, that if the Employee's Termination of Service is not considered a "separation from service" within the meaning of Section 409A, as determined by the Company, any Restricted Stock Unit vesting by reason of this paragraph 4(d) will be paid on the earliest of (x) the scheduled vesting date for such Restricted Stock Unit under the Vesting Schedule, (y) the Employee's death or (z) the Employee's actual "separation from service" within the meaning of Section 409A, as determined by the Company.

Notwithstanding the definition of "Retirement" in the Plan, an Employee who incurs a Termination of Service by reason of voluntary resignation at the age of sixty-five (65) or over but who has not completed at least five (5) Years of Service will not be eligible for the acceleration of Restricted Stock Units described in this paragraph 4(d).

5. Committee Discretion. The Committee, in its discretion, may at any time accelerate the vesting of all or a portion of any unvested Restricted Stock Units, subject to the terms of the Plan. If so accelerated, such Restricted Stock Units will be considered as having vested as of the date specified by the Committee. Subject to the provisions of this paragraph 5, if the Committee, in its discretion, accelerates the vesting of all or a portion of any unvested Restricted Stock Units, the payment of such accelerated Restricted Stock Units shall be made as soon as practicable upon or following the accelerated vesting date, but in no event later than 60 days following the vesting date of such accelerated Restricted Stock Units. If the Employee is subject to Hong Kong's ORSO provisions, the Committee may not accelerate the vesting of any

unvested Restricted Stock Units as a result of the Hong Kong Employee's Termination of Service.

6. Payment after Vesting.

(a) Any Restricted Stock Units that vest in accordance with paragraph 3 or 4 of this Agreement or Section 4.4 or 12.10 of the Plan (subject in each case to withholding under paragraph 8) will be paid to the Employee (or in the event of the Employee's death, to his or her estate) as soon as practicable, but in all cases within 60 days, following the vesting date of such Restricted Stock Units. Any Restricted Stock Units that vest in accordance with paragraph 5 or 11 (subject to withholding under paragraph 8) will be paid to the Employee (or in the event of the Employee's death, to his or her estate) in accordance with the provisions of such paragraph. For each Restricted Stock Unit that vests, the Employee will receive one Share, subject to withholding under paragraph 8.

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

7. Forfeiture. Notwithstanding any contrary provision of this Agreement and except in the event of Employee's death or retirement (see paragraphs 4(b) and 4(d)), any Restricted Stock Units that have not vested pursuant to paragraphs 3 through 5 or paragraph 11 of this Agreement or Sections 4.4 or 12.10 of the Plan at the time of the Employee's Termination of Service for any or no reason will be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company.

8. Withholding of Taxes. When Shares are issued as payment for vested Restricted Stock Units or, in the discretion of the Company, at such earlier time as the Tax Obligations

(defined below) are due, the Company (or the employing Affiliate) will withhold a portion of the Shares that has an aggregate market value sufficient to pay all taxes and social insurance liability and other requirements in connection with the Shares, including, without limitation, (a) all federal, state and local income, employment and any other applicable taxes that are required to be withheld by the Company or the employing Affiliate, (b) the Employee's and, to the extent required by the Company (or the employing Affiliate), the Company's (or the employing Affiliate's) fringe benefit tax liability, if any, associated with the grant, vesting, or sale of the Restricted Stock Units and the Shares issued thereunder, and (c) all other taxes or social insurance liabilities with respect to which the Employee has agreed to bear responsibility (collectively, the "Tax Obligations"). The number of Shares withheld pursuant to the prior sentence will be rounded up to the nearest whole Share, with no refund provided in the U.S. for any value of the Shares withheld in excess of the Tax Obligations as a result of such rounding. Notwithstanding the foregoing, the Company (or, in respect of an Employee subject to Section 16 of the 1934 Act, the HRCC), in its sole discretion, may require the Employee to make alternate arrangements satisfactory to it for such Tax Obligations in advance of the arising of any Tax Obligations.

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

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

10. No Effect on Employment. Subject to any authorized, written employment contract with the Employee, the terms of the Employee's employment will be determined from

time to time by the Company, or the Affiliate employing the Employee, as the case may be, and the Company, or the Affiliate employing the Employee, as the case may be, will have the right, which is hereby expressly reserved, to terminate or change the terms of the employment of the Employee at any time for any reason whatsoever, with or without good cause. The transactions contemplated hereunder and the Vesting Schedule (set forth on the UBS One Source website (click on the specific grant under the tab labeled “Grants/Awards/Units”)) do not constitute an express or implied promise of continued employment for any period of time. A leave of absence or an interruption in service (including an interruption during military service) authorized or acknowledged by the Company or the Affiliate employing the Employee, as the case may be, will not be deemed a Termination of Service for the purposes of this Agreement.

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

12. Address for Notices. Any notice to be given to the Company under this Agreement shall be addressed to the Company, in care of Stock Programs, at Applied Materials, Inc., 3050 Bowers Avenue, M/S 1213, P.O. Box 58039, Santa Clara, CA 95052-8039, U.S.A., or at such other address as the Company may hereafter designate in writing.

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

grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

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

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

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

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

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

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

20. Agreement Severable. In the event that any provision in this Agreement will be held invalid or unenforceable, such provision will be severable from, and such invalidity or

unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

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

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

23. Labor Law. By accepting this Restricted Stock Units award, the Employee acknowledges that: (a) the grant of these Restricted Stock Units is a one-time benefit which does not create any contractual or other right of the Employee to receive future grants of Restricted Stock Units, or benefits in lieu of Restricted Stock Units; (b) all determinations with respect to any future grants, including, but not limited to, when the Restricted Stock Units will be granted, the number of Restricted Stock Units subject to each award and when the Restricted Stock Units will vest, shall be at the sole discretion of the Company; (c) the Employee’s participation in the Plan is voluntary; (d) the value of these Restricted Stock Units is an extraordinary item of compensation that is outside the scope of the Employee’s employment contract, if any; (e) these Restricted Stock Units are not part of the Employee’s normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end-of-service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; (f) the vesting of these Restricted Stock Units shall cease upon Termination of Service for any reason, except as may otherwise be explicitly provided in the Plan or this Agreement; (g) the future value of the underlying Shares is unknown and cannot be predicted with certainty; (h) these Restricted Stock Units have been granted to the Employee in the Employee’s status as an employee of the Company or its Affiliates; and (i) there shall be no additional obligations for any Affiliate employing the Employee as a result of these Restricted Stock Units.

24. Information on the Collection, Processing and Use of Employee Data. In administering this Restricted Stock Units award, the Company will collect, use and transfer the Employee personal data as described in this paragraph. The Employee understands that the Company and its Affiliates hold certain personal information about him or her, including his or her name, home address and telephone number, date of birth, social security or identity number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of

all awards of Restricted Stock Units or any other entitlement to shares of stock awarded, canceled, exercised, vested, unvested or outstanding in his or her favor, for the purpose of managing and administering the Plan ("Data").

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

The aforementioned Data will be collected, processed and used during and after the employment relationship. Data is not retained for longer than necessary to meet its intended purpose or for longer than required by applicable law.

The Employee authorizes the Company to receive, possess, use, retain and transfer the Data in electronic or other form, for the purposes of implementing, administering and managing his or her participation in the Plan, including any requisite transfer of such Data to a broker or other third party with whom the Employee may elect to deposit any Shares of stock acquired from this award of Restricted Stock Units, as may be required for the administration of the Plan and/or the subsequent holding of Shares of stock on his or her behalf. Subject to limitations set out in applicable law, the Employee has certain rights in respect of his or her Data, such as a right to access, correction, restriction, erasure, opposition and portability. Requests to exercise those rights can be made to the Human Resources department and/or the Stock Programs Administrator for the Company and/or its applicable Affiliates. The Employee understands, however, that refusing or opposing the collection and use of the Data may affect the Employee's ability to participate in the Plan. For more information on the consequences of the Employee's opposition to the collection or use of the Data, the Employee understands that he or she may contact the Employee's local Human Resources representative.

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

EXHIBIT 31.1

CERTIFICATION

I, Gary E. Dickerson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 27, 2021

/s/ GARY E. DICKERSON

Gary E. Dickerson
President, Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Daniel J. Durn, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 27, 2021

/s/ DANIEL J. DURN

Daniel J. Durn
Senior Vice President, Chief Financial Officer

EXHIBIT 32.1

SARBANES-OXLEY ACT SECTION 906 CERTIFICATION

In connection with this Quarterly Report on Form 10-Q of Applied Materials, Inc. for the period ended May 2, 2021, I, Gary E. Dickerson, President, Chief Executive Officer of Applied Materials, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-Q for the period ended May 2, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in this Form 10-Q for the period ended May 2, 2021 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: May 27, 2021

/s/ GARY E. DICKERSON

Gary E. Dickerson
President, Chief Executive Officer

EXHIBIT 32.2

SARBANES-OXLEY ACT SECTION 906 CERTIFICATION

In connection with this Quarterly Report on Form 10-Q of Applied Materials, Inc. for the period ended May 2, 2021, I, Daniel J. Durn, Senior Vice President, Chief Financial Officer of Applied Materials, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-Q for the period ended May 2, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in this Form 10-Q for the period ended May 2, 2021 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: May 27, 2021

/s/ DANIEL J. DURN

Daniel J. Durn
Senior Vice President, Chief Financial Officer