UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended April 29, 2001 or

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

For the transition period from ________to _________

Commission file number 0-6920

APPLIED MATERIALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-1655526**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

3050 Bowers Avenue
Santa Clara, California 95054-3299
(Address of principal executive offices, including zip code)

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

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

Number of shares outstanding of the issuer's common stock as of April 29, 2001: 813,127,436

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PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(In thousands, except per share amounts)	Three Months Ended April 30, 2000	Three Months Ended April 29, 2001	Six Months Ended April 30, 2000	Six Months Ended April 29, 2001
Net sales........................	$2,190,031	$1,909,435	$3,912,221	$4,640,567
Cost of products sold...........	1,092,433	1,054,463	1,957,302	2,452,944
Gross margin....................	1,097,598	854,972	1,954,919	2,187,623
Operating expenses:				
Research, development and engineering................	253,283	312,606	476,563	648,918
Marketing and selling........	111,580	119,752	212,292	263,209
General and administrative...	118,890	89,763	210,707	192,112
Non-recurring items..........	40,000	58,414	40,000	58,414
Income from operations..........	573,845	274,437	1,015,357	1,024,970
Non-recurring income............	68,158	--	68,158	--
Interest expense................	13,259	11,897	25,489	24,272
Interest income.................	41,072	53,408	78,992	112,546

Income before income taxes	669,816	315,948	1,137,018	1,113,244
Provision for income taxes	200,945	89,218	341,044	328,407
Net income	$468,871	$226,730	$795,974	$784,837
Earnings per share:				
Basic	$0.58	$0.28	$0.99	$0.97
Diluted	$0.54	$0.27	$0.93	$0.93
Weighted average number of shares:				
Basic	805,142	811,354	801,940	810,897
Diluted	861,200	847,912	856,666	846,419

See accompanying notes to consolidated condensed financial statements.

APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS*

(In thousands)	October 29, 2000	April 29, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$1,647,604	$1,977,310
Short-term investments	2,580,435	2,563,077
Accounts receivable, net	2,351,379	1,614,911
Inventories	1,503,751	1,649,122
Deferred income taxes	549,108	543,405
Other current assets	206,870	305,611
Total current assets	8,839,147	8,653,436
Property, plant and equipment, net	1,366,782	1,549,206
Other assets	339,801	343,924
Total assets	$10,545,730	$10,546,566
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$94,676	$112,900
Current portion of long-term debt	11,621	4,652
Accounts payable and accrued expenses	2,268,608	1,798,452
Income taxes payable	384,806	187,257
Total current liabilities	2,759,711	2,103,261
Long-term debt	573,126	566,427
Deferred income taxes and other liabilities	108,545	124,744
Total liabilities	3,441,382	2,794,432
Stockholders' equity:		
Common stock	8,125	8,131
Additional paid-in capital	1,930,212	1,779,956
Retained earnings	5,185,181	5,970,018
Accumulated other comprehensive income/(loss)	(19,170)	(5,971)
Total stockholders' equity	7,104,348	7,752,134
Total liabilities and stockholders' equity	$10,545,730	$10,546,566

* Amounts as of April 29, 2001 are unaudited. Amounts as of October 29, 2000 are from the October 29, 2000 audited financial statements.

See accompanying notes to consolidated condensed financial statements.

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

(In thousands)	Six Months Ended April 30, 2000	Six Months Ended April 29, 2001
Cash flows from operating activities:		
Net income	$795,974	$784,837
Adjustments required to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	184,046	185,004
Deferred income taxes	9,875	1,879
Non-cash portion of restructuring charge	--	18,418
Adjustment to conform fiscal year end for Etec Systems, Inc	(708)	--
Changes in assets and liabilities, net of amounts acquired:		
Accounts receivable, net	(384,592)	645,109
Inventories	(257,840)	(183,491)
Other current assets	(787)	(55,397)
Other assets	(7,442)	(38,896)
Accounts payable and accrued expenses	199,047	(347,572)
Income taxes payable	2,440	(194,549)
Other liabilities	13,224	18,966
Cash provided by operating activities	553,237	834,308
Cash flows from investing activities:		
Capital expenditures, net of retirements	(113,392)	(353,327)
Proceeds from sales of short-term investments	861,645	1,169,959
Purchases of short-term investments	(1,097,506)	(1,152,601)
Cash used for investing activities	(349,253)	(335,969)
Cash flows from financing activities:		
Short-term debt activity, net	(8,033)	33,697
Long-term debt activity, net	(3,359)	(8,052)
Common stock transactions, net	129,214	(162,149)
Cash provided by (used for) financing activities	117,822	(136,504)
Effect of exchange rate changes on cash	(3,114)	(32,129)
Increase in cash and cash equivalents	318,692	329,706
Cash and cash equivalents - beginning of period	868,121	1,647,604
Cash and cash equivalents - end of period	$1,186,813	$1,977,310

Cash payments for interest were $21,837 for the six months ended April 30, 2000 and $20,944 for the six months ended April 29, 2001. Cash payments for income taxes were $345,009 for the six months ended April 30, 2000 and $522,667 for the six months ended April 29, 2001.

See accompanying notes to consolidated condensed financial statements.

APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS *(Unaudited)*
SIX MONTHS ENDED APRIL 29, 2001

1) <u>Basis of Presentation</u>

In the opinion of management, the unaudited interim consolidated condensed financial statements of Applied Materials, Inc. (Applied) included herein have been prepared on a basis consistent with the October 29, 2000 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 October 29, 2000 audited consolidated financial statements and notes thereto included in Applied's Form 10-K for the fiscal year ended October 29, 2000. Applied's results of operations for the three and six months ended April 29, 2001 are not necessarily indicative of future operating results.

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

2) Earnings Per Share

Basic earnings per share has been determined using the weighted average number of common shares outstanding during the period. Diluted earnings per share has been determined using the weighted average number of common shares and equivalents (representing the dilutive effect of stock options) 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.

For purposes of computing diluted earnings per share, weighted average common share equivalents do not include stock options with an exercise price that exceeded the average fair market value of Applied's common stock for the period. For the three months ended April 29, 2001, options to purchase approximately 11,052,000 shares of common stock at an average exercise price of $65.40 were excluded from the computation, and for the six months ended April 29, 2001, options to purchase approximately 13,134,000 shares of common stock at an average exercise price of $62.41 were excluded from the computation.

3) Accounts Receivable, Net

Applied has agreements with various financial institutions to sell accounts receivable from selected customers. During the six months ended April 30, 2000 and April 29, 2001, Applied sold $763 million and $891 million, respectively, of accounts receivable under these agreements. Discounting fees were not material for the three or six months ended April 30, 2000 or April 29, 2001, and were recorded as interest expense. At April 29, 2001, $517 million of sold receivables remained outstanding under these agreements. A portion of these sold receivables is subject to certain recourse provisions. Applied has not experienced any losses under these recourse provisions, and receivables sold under these provisions have terms and credit risk characteristics similar to Applied's overall receivables portfolio.

4) Inventories

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

	October 29, 2000	April 29, 2001
Customer service spares	$443,595	$536,823
Raw materials	384,840	436,433
Work-in-process	413,228	283,133
Finished goods	262,088	392,733
	$1,503,751	$1,649,122

5) Accounts Payable and Accrued Expenses

Components of accounts payable and accrued expenses were as follows (in thousands):

	October 29, 2000	April 29, 2001
Accounts payable	$649,681	$354,841
Compensation and benefits	446,848	313,325
Installation and warranty	363,697	342,534
Deferred revenue	144,447	185,714
Other	663,935	602,038
	$2,268,608	$1,798,452

6) Non-recurring Items

During the second fiscal quarter of 2001, in response to continued reductions in capital spending by semiconductor manufacturers, Applied took actions to reduce headcount, which consisted primarily of a voluntary separation plan in North America, and to consolidate certain facilities. In connection with these actions, Applied reduced its global workforce by approximately 1,000 employees, or three percent, and recorded a pre-tax restructuring charge of $58 million, or $0.05 per diluted share after tax. The majority of the affected employees were based in Santa Clara, California and Austin, Texas, and represented multiple company activities and functions.

Total cash outlays for these restructuring activities will be approximately $40 million. The remaining $18 million of non-cash restructuring charges consists primarily of compensation expense for accelerated vesting of certain stock options and reserves for certain assets. During the second fiscal quarter of 2001, approximately $8 million of cash was used for restructuring costs. The majority of the remaining cash outlays are expected to occur during the second half of fiscal 2001.

Restructuring activity for the second fiscal quarter of 2001 was as follows (in thousands):

	Severance and Benefits	Facilities	Other	Total
Provision.................	$46,693	$6,523	$5,198	$58,414
Amount utilized..........	(19,628)	--	--	(19,628)
Balance, April 29, 2001...	$27,065	$6,523	$5,198	$38,786

During the second fiscal quarter of 2000, Applied recorded $40 million of pre-tax operating expenses for costs incurred in connection with its acquisition of Etec Systems, Inc.

7) Non-recurring Income

During the second fiscal quarter of 2000, Applied recorded $68 million of pre-tax, non-operating income related to a prior litigation settlement with ASM International, N.V. (ASMI). This amount consisted of: 1) the final cash payment from ASMI of $35 million related to an outstanding note receivable; and 2) a net gain of $33 million on the exercise of ASMI warrants and subsequent sale of the resulting shares.

8) Derivative Financial Instruments

Applied adopted Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 137 and SFAS 138, in the first fiscal quarter of 2001. SFAS 133 establishes new standards of accounting and reporting for derivative instruments and hedging activities, and requires that all derivatives, including foreign currency exchange contracts, be recognized on the balance sheet at fair value. Changes in the fair value of derivatives that do not qualify for hedge treatment, as well as the ineffective portion of any hedges, must be recognized currently in earnings. All of Applied's derivative financial instruments are recorded at their fair value in other current assets or accounts payable and accrued expenses. The transition adjustment upon adoption of SFAS 133 was not material.

Applied conducts business in a number of foreign countries, with certain transactions denominated in local currencies, principally Japanese yen. The purpose of Applied's foreign currency management is to manage the effect of exchange rate fluctuations on certain foreign 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.

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 within the next 12 months. In accordance with SFAS 133, these hedges related to anticipated transactions are designated and documented at the inception of the hedge as cash flow hedges, and are evaluated for effectiveness quarterly. The effective portion of the gain or loss on these hedges is reported as a component of other comprehensive income in stockholders' equity, and is reclassified into earnings when the hedged transaction affects earnings. All amounts included in other comprehensive income at April 29, 2001 will be reclassified to earnings within 12 months. Changes in the fair value of currency option contracts due to changes in time value are excluded from the assessment of effectiveness, and are recognized in cost of products sold. For the three and six months ended April 29, 2001, the change in option time value was not material. If the underlying transaction being hedged fails to occur, or occurs prior to the maturity of the financial instrument, or if a portion of any derivative is ineffective, Applied immediately recognizes the gain or loss on the associated financial instrument in general and administrative expenses. Applied did not record any gains or losses due to hedge ineffectiveness for the three and six months ended April 29, 2001. Applied recorded an immaterial amount of gains due to the underlying transaction failing to occur for the three months ended April 29, 2001.

Forward exchange contracts are used to hedge certain foreign currency denominated assets or liabilities. These derivatives do not qualify for SFAS 133 hedge accounting treatment. Accordingly, changes in the fair value of these hedges are recorded immediately in earnings to offset the changes in the fair value of the assets or liabilities being hedged.

For the six months ended April 29, 2001, the transition adjustment was not material. Unrealized gains on derivative instruments designated and qualifying as cash flow hedges totaled $40 million, comprised of $77 million of net increase in fair value of derivatives, offset by $37 million in net gains reclassified from other comprehensive income to earnings.

9) Stockholders' Equity

Comprehensive Income

Components of comprehensive income, on an after-tax basis where applicable, were as follows (in thousands):

	Three Months Ended		Six Months Ended	
	April 30, 2000	April 29, 2001	April 30, 2000	April 29, 2001
Net income.......................	$468,871	$226,730	$795,974	$784,837
Change in unrealized gain on derivative instruments designated and qualifying as cash flow hedges..............	--	(2,633)	--	39,758

Foreign currency translation adjustments	(8,357)	(13,902)	(6,718)	(26,559)
Comprehensive income	$460,514	$210,195	$789,256	$798,036

Components of accumulated other comprehensive income/(loss), on an after-tax basis where applicable, were as follows (in thousands):

	October 29, 2000	April 29, 2001
Unrealized gain on derivative instruments designated and qualifying as cash flow hedges	$ --	$39,758
Cumulative translation adjustments	(19,170)	(45,729)
Accumulated other comprehensive income/(loss)	($19,170)	($5,971)

Stock Repurchase Program
Since March 1996, Applied has systematically repurchased shares of its common stock in the open market to partially fund its stock-based employee benefit plans. Upon the expiration of the previous authorization on March 22, 2001, the Board of Directors extended the share repurchase program and authorized the repurchase of up to $2 billion of Applied's common stock in the open market over the next three years. Under this new authorization, Applied will continue a systematic stock repurchase program and may also make additional share repurchases from time to time, depending on market conditions, share price and other factors.

During the six months ended April 30, 2000, Applied repurchased 548,000 shares of its common stock at an average price of $77.33, for a total cash outlay of $42 million. During the six months ended April 29, 2001, Applied repurchased 6,471,000 shares at an average price of $41.35, for a total cash outlay of $268 million.

10) Business Combination
On March 29, 2000, Applied acquired Etec Systems, Inc. (Etec), a supplier of mask pattern generating equipment for the semiconductor and electronics industries, in a stock-for-stock merger. This transaction was accounted for as a pooling-of-interests; therefore, all prior period amounts have been restated. Applied issued approximately 29 million shares of its common stock to complete this transaction, and recorded $40 million of transaction costs as a one-time operating expense.

Prior to the merger, Etec's fiscal year end (July 31) was different than Applied's (last Sunday in October). Fiscal 2000 amounts included herein for Etec have been conformed to Applied's fiscal year. As a result, Etec's net loss for the three months ended October 31, 1999 was reflected as an adjustment to retained earnings in the first fiscal quarter of 2000.

11) Recent Accounting Pronouncements
In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101), "Revenue Recognition in Financial Statements," providing guidance on the recognition, presentation and disclosure of revenue in financial statements. Applied is required to adopt SAB 101 in the fourth fiscal quarter of 2001, retroactively effective to the beginning of fiscal 2001. Management is currently evaluating the potential effect of the implementation of SAB 101 on Applied's financial condition and results of operations. Because Applied has complied with generally accepted accounting principles for historical revenue recognition, any change in revenue recognition resulting from SAB 101 will be reported with the fourth fiscal quarter of 2001 results as a change in accounting principle. While SAB 101 would not affect the fundamental aspects of Applied's operations as measured by shipments and cash flows, the implementation of SAB 101 could result in changes to the timing of Applied's revenue recognition practices, and therefore could have a material and adverse effect on Applied's financial condition and results of operations.

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

Certain information contained in this Quarterly Report on Form 10-Q is forward-looking in nature. All statements included in this Quarterly Report on Form 10-Q or made by management of Applied Materials, Inc. and its subsidiaries (Applied), other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding Applied's future financial results, operating results, business strategies, projected costs, products, competitive positions and plans and objectives of management for future operations. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should, " "would," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in the section below entitled "Trends, Risks and Uncertainties" and in Note 11 of Notes to Consolidated Condensed Financial Statements in this Form 10-Q. Other risks and uncertainties are disclosed in Applied's prior SEC filings, including its Annual Report on Form 10-K for the fiscal year ended October 29, 2000. These and many other factors could affect Applied's future financial 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.

Results of Operations

Applied is a supplier of semiconductor manufacturing equipment and services to the global semiconductor industry. Business activity in the semiconductor and semiconductor manufacturing equipment industries has been cyclical; for this and other reasons, Applied's results of operations for the three and six months ended April 29, 2001 may not necessarily be indicative of future operating results.

During fiscal 2000, strong demand for Applied's products was driven by semiconductor manufacturers' needs for additional capacity and new technology to meet strong consumer demand for Internet, communications and digital applications and products. In addition, the semiconductor industry is transitioning to smaller device sizes, new materials, such as copper, and 300mm wafer processing, all of which require new manufacturing equipment and technology solutions. As a result of the industry expansion, Applied achieved new record levels of new orders, net sales and net income each quarter during fiscal 2000.

During the first fiscal quarter of 2001, slowing worldwide demand for semiconductors resulted in a rapid decline in demand for manufacturing equipment. Inventory buildups in telecommunication products, slower than expected personal computer sales and slower global economic growth caused semiconductor companies to reevaluate their capital spending plans. Despite the slowing worldwide economy, customers continue to invest in 300mm and other new technologies. However, a number of Applied's customers revised the timing of their capital spending and rescheduled or canceled existing backlog, resulting in the postponement of equipment delivery and a decline in new orders and net sales from fiscal 2000. This decline in demand deepened during the second fiscal quarter of 2001 due to continued weakness in the macro-economic climate and consumption of electronic goods, which resulted in further capital spending cutbacks by customers.

Applied received new orders of $1.4 billion for the second fiscal quarter of 2001 compared to $2.4 billion for the first fiscal quarter of 2001 and $2.9 billion for the second fiscal quarter of 2000. The decrease in new orders was due primarily to the industry cycles discussed above. New orders by region were as follows (dollars in millions):

	Three Months Ended			
	January 28, 2001		April 29, 2001	
	($)	(%)	($)	(%)
North America*	713	29	332	24
Taiwan	483	20	265	20
Japan	452	19	282	21
Europe	400	16	189	14
Korea	117	5	83	6
Asia-Pacific	265	11	202	15
Total	2,430	100	1,353	100

* Primarily the United States.

Applied's backlog at April 29, 2001 was $3.0 billion, compared to $3.9 billion at January 28, 2001 and $4.4 billion at October 29, 2000.

Net sales for the second fiscal quarter of 2001 decreased 30 percent from the first fiscal quarter of 2001 and 13 percent from the second fiscal quarter of 2000. The decrease in second quarter net sales was due primarily to the industry cycles discussed above. However, net sales for the six months ended April 29, 2001 increased 19 percent from the comparable period of fiscal 2000 because of strong business volume early in the first fiscal quarter of 2001. Net sales by region were as follows (dollars in millions):

	Three Months Ended				Six Months Ended			
	April 30, 2000		April 29, 2001		April 30, 2000		April 29, 2001	
	($)	(%)	($)	(%)	($)	(%)	($)	(%)
North America*	530	24	647	34	946	24	1,253	27
Taiwan	544	25	210	11	1,070	27	728	16
Japan	366	17	498	26	681	17	1,202	26
Europe	303	14	264	14	565	15	674	14
Korea	315	14	127	7	392	10	340	7
Asia-Pacific	132	6	163	8	258	7	444	10
Total	2,190	100	1,909	100	3,912	100	4,641	100

* Primarily the United States.

Applied's gross margin was 44.8 percent for the second fiscal quarter of 2001, compared to 48.8 percent for the first fiscal quarter of 2001 and 50.1 percent for the second fiscal quarter of 2000. Decreases from prior periods were caused primarily by lower factory absorption due to the decrease in business volume, and changes in product mix due to 300mm start-up and learning curve costs.

Excluding non-recurring items, operating expenses were 27 percent of net sales for the three months ended April 29, 2001, compared to 21 percent for the first fiscal quarter of 2001 and 22 percent for the second fiscal quarter of 2000. The increases as a percentage of net sales were due primarily to the decrease in net sales. Operating expenses were 24 percent of net sales for the six months ended April 29, 2001, compared to 23 percent for the six months ended April 30, 2000. In terms of absolute dollars, operating expenses for the three and six months ended April 29, 2001 were 8 percent and 23 percent higher, respectively, than for the comparable periods of fiscal 2000. Research and development spending increased primarily to support the semiconductor industry's transition to 300mm wafer processing, new materials (including copper) and smaller chip feature sizes. Marketing, selling, general and administrative expenses combined decreased slightly due to recent cost containment actions and lower business volume.

Non-recurring items for the second fiscal quarter of 2001 consisted of a pre-tax restructuring charge of $58 million, or $0.05 per diluted share after tax. During the second fiscal quarter of 2001, in response to continued reductions in capital spending by semiconductor manufacturers, Applied took actions to reduce headcount, which consisted primarily of a voluntary separation plan in North America, and to consolidate certain facilities. Non-recurring items for the second fiscal quarter of 2000 consisted of $40 million of pre-tax operating expenses incurred in connection with the acquisition of Etec Systems, Inc. For further details, see Note 6 of Notes to Consolidated Condensed Financial Statements in this Form 10-Q.

Net interest income was $42 million for the three months ended April 29, 2001 and $88 million for the six months ended April 29, 2001, an increase from $28 million for the three months ended April 30, 2000 and $54 million for the six months ended April 30, 2000, due to higher average cash and investment balances.

Due to a shift in the geographic composition of Applied's pre-tax income, the effective income tax rate decreased from 30 percent for the six months ended April 30, 2000 to 29.5 percent for the six months ended April 29, 2001. As a result, the effective income tax rate decreased from 30 percent for the three months ended April 30, 2000 to 28 percent for the three months ended April 29, 2001.

Financial Condition, Liquidity and Capital Resources

Applied's financial condition at April 29, 2001 remained strong, with a ratio of current assets to current liabilities of 4.1:1, compared to 3.2:1 at October 29, 2000. Applied had cash, cash equivalents and short-term investments of $4.5 billion at April 29, 2001.

For the six months ended April 29, 2001, cash, cash equivalents and short-term investments increased by $312 million. Significant sources of cash were net income, excluding depreciation and amortization expense, and a decrease in accounts receivable due to collections of $4.6 billion and receivable sales of $891 million. These sources of cash were partially offset by changes in working capital, particularly an increase in inventories and decreases in accounts payable and accrued expenses and income taxes payable, capital expenditures to complete strategic infrastructure projects and repurchases of common stock. For further details, see the Consolidated Condensed Statements of Cash Flows in this Form 10-Q.

Applied utilized programs to sell accounts receivable of $891 million during the six months ended April 29, 2001. Receivable sales have the effect of increasing cash and reducing accounts receivable and days sales outstanding. For further details regarding accounts receivable sales, see Note 3 of Notes to Consolidated Condensed Financial Statements in this Form 10-Q.

At April 29, 2001, Applied's principal sources of liquidity consisted of $4.5 billion of cash, cash equivalents and short-term investments and approximately $551 million of available credit facilities, including $250 million from the 364-Day Credit Agreement dated March 10, 2000, the expiration of which has been extended to March 8, 2002. Applied's liquidity is affected by many factors, some of which are based on normal ongoing operations, and others of which relate to the uncertainties of global economies and the semiconductor and semiconductor equipment industries, and also may be affected from time to time by potential additional share repurchases. Although Applied's cash requirements fluctuate based on the timing and extent of these factors, Applied believes that cash generated from operations, together with the liquidity provided by existing cash balances and borrowing capability, will be sufficient to satisfy liquidity requirements for the next 12 months.

Trends, Risks and Uncertainties

The industry that Applied serves is highly volatile and unpredictable.
The semiconductor industry has historically been cyclical because of sudden changes in customer capacity requirements and demand for semiconductors, which have affected the timing and amounts of capital equipment purchases by customers. The health of the semiconductor manufacturing equipment industry is affected by these industry cycles, the timing, length and severity of which are difficult to predict. Although semiconductors are used in many different products, the markets for those products are interrelated to various degrees. During periods of declining demand for semiconductor manufacturing equipment, customers may reduce purchases, delay delivery of products and/or cancel orders. Therefore, Applied must be able to quickly and effectively align its cost structure with prevailing market conditions, to manage its inventory levels in order to reduce the possibility of future inventory write-downs resulting from obsolescence, and to motivate and retain key employees. These cycles create pressure on pricing, gross margin and profit. In addition, these cycles strain key management, engineering and other employees who are vital to Applied's success. During periods of rapid growth, Applied must be able to acquire and/or develop sufficient manufacturing capacity and inventory to meet customer demand, and to attract, hire, assimilate and retain a sufficient number of qualified people.

If Applied is unable to achieve its objectives in a timely manner during these industry cycles, there could be a material adverse effect on its financial condition and results of operations.

Applied is exposed to the risks associated with industry overcapacity.
Inventory buildups in telecommunication products, slower than expected personal computer sales and slower global economic growth have resulted in overcapacity for semiconductor manufacturers and have caused them to reevaluate their capital spending plans. Continued overcapacity could cause further delays or decreased demand for Applied's products and materially and adversely affect Applied's business, financial condition and results of operations.

Applied is exposed to the risks of operating a global business.
Currently, a significant percentage of Applied's revenues result from sales outside the U.S. Certain manufacturing facilities and suppliers are also located abroad. Managing Applied's global operations presents challenges, including periodic regional economic downturns, trade balance issues, varying business conditions and demands, political instability, U.S. export restrictions, fluctuations in interest and currency exchange rates and cultural diversities, among other risks. For example, global uncertainties with respect to: 1) decreased rates of gross domestic product growth globally; 2) foundry capacity utilization; 3) capital spending in the telecommunications and personal computer industries; and 4) memory price weakness may affect Applied's business, financial condition and results of operations.

Applied is exposed to the risks associated with the slowing in global economic growth.
Decreased consumer confidence, reduced corporate profits and a slowdown in the sale of electronic goods have contributed to slower growth in the U.S. economy, which is affecting other regions throughout the world. A prolonged slowdown in global economic growth can materially and adversely affect Applied's business, financial condition and results of operations.

Applied operates in a highly competitive industry characterized by increasingly rapid technological changes.
Applied's competitive advantage and future success depend on its ability to successfully: 1) develop new products and technologies; 2) develop new markets in the semiconductor industry for its products and services; 3) introduce new products to the marketplace in a timely manner; 4) qualify new products with its customers; and 5) commence and adjust production to meet customer demands. The introduction of an increasingly broader set of new products and technologies, including those to support the transition to new materials, smaller linewidths and 300mm systems, grows increasingly complex over time. If Applied does not develop and introduce new products and technologies in a timely manner in response to changing market conditions or customer requirements, its competitive position, financial condition and results of operations could be materially and adversely affected.

Applied is exposed to risks associated with acquisitions.
Applied has made, and may in the future make, acquisitions of, or significant investments in, businesses with complementary products, services and/or technologies. Acquisitions involve numerous risks, including but not limited to: 1) diversion of management's attention from other operational matters; 2) lack of synergy, or the inability to realize expected synergies, resulting from the acquisition; 3) failure to commercialize purchased technology; and 4) acquired intangible assets becoming impaired as a result of technological advancements or worse-than-expected performance of the acquired company. Mergers and acquisitions are inherently risky and the inability to effectively manage these risks could materially and adversely affect Applied's business, financial condition and results of operations.

Applied is subject to risks of non-compliance with environmental and safety regulations.
Applied is subject to environmental and safety regulations in connection with its business operations, including but not limited to regulations related to the development, manufacturing and use of its products. From time to time, Applied receives notices alleging violations of these regulations. It is Applied's policy to respond promptly to these notices and to take necessary corrective action. Failure or inability to comply with existing or future environmental and safety regulations could result in significant remediation liabilities, the imposition of fines and/or the suspension or termination of development, manufacturing or use of certain of its products, each of which could have a material adverse effect on Applied's financial condition and results of operations.

Manufacturing interruptions or delays could affect Applied's ability to meet customer demand.
Applied's business depends on its ability to manufacture products that meet the rapidly changing demands of its customers. Significant interruptions of manufacturing operations as a result of natural disasters, such as earthquakes or tornadoes, or other causes, such as software issues, failures of suppliers to timely deliver quality components and products or infrastructure failures, could result in delayed product deliveries or manufacturing inefficiencies, any or all of which could materially and adversely affect Applied's financial condition and results of operations.

The shortage of energy supplies in California could negatively affect Applied's operations.
California is experiencing prolonged energy alerts caused by the shortage and substantially increased costs of electricity and natural gas supplies. Although the majority of Applied's manufacturing operations are located outside of California, Applied conducts its major research, development and engineering and pilot manufacturing activities in California. In addition, California's power crisis may affect other regions of the U.S. If Applied encounters a disruption in its energy supplies and its backup generators fail to provide adequate power, or if energy costs continue to rise sharply, Applied's financial condition and results of operations may be materially and adversely affected.

Applied is exposed to various risks related to legal proceedings or claims.
Applied currently is, and in the future may be, involved in legal proceedings or claims regarding patent infringement, intellectual property rights, antitrust, environmental regulations, contracts and other matters (see Part II below). These legal proceedings and claims, whether with or without merit, could be time-consuming and expensive to prosecute or defend, and divert management's attention and resources. There can be no assurance regarding the outcome of current or future legal proceedings or claims.

Applied's intellectual property rights may not provide significant competitive advantages if they are circumvented, invalidated or obsoleted by the rapid pace of technological change. If Applied is not able to resolve a claim, negotiate a settlement of the matter, obtain necessary licenses on commercially reasonable terms, and/or successfully prosecute or defend its position, Applied's financial condition and results of operations could be materially and adversely affected. Applied's success is dependent in part upon the protection of its intellectual property rights. Infringement of Applied's rights by a third party could result in uncompensated lost market and revenue opportunities for Applied.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Applied purchases forward exchange and currency option contracts to hedge certain existing and anticipated foreign currency denominated transactions expected to occur during the next year. Gains and losses on these contracts are recognized in income when the related transactions being hedged are recognized. Because the effect of movements in currency exchange rates on forward exchange and currency option contracts generally offsets the related effect on the underlying items being hedged, these financial instruments are not expected to subject Applied to risks that would otherwise result from changes in currency exchange rates. Net foreign currency gains and losses were not material for the three or six months ended April 29, 2001.

Applied has performed an analysis to assess the potential financial effect of reasonably possible near-term changes in interest and foreign currency exchange rates. Based upon Applied's analysis, the effect of such rate changes is not expected to be material to Applied's cash flows, financial condition or results of operations.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Novellus
On June 13, 1997, Applied filed a lawsuit against Varian Associates, Inc. (Varian) captioned Applied Materials, Inc. v. Varian Associates, Inc. (case no. C-97-20523-RMW) in the United States District Court for the Northern District of California, alleging infringement of several of Applied's patents concerning physical vapor deposition (PVD) technology. On July 7, 1997, Applied amended that action to allege infringement of those same Applied PVD patents against Novellus Systems, Inc. (Novellus) and to add Novellus as a defendant, as a result of Novellus' acquisition of Varian's thin film systems PVD business. On June 23, 1997, Novellus filed a separate lawsuit against Applied captioned Novellus Systems, Inc. v. Applied Materials, Inc. (case no. C-97-20551-EAI) in the United States District Court for the Northern District of California, alleging infringement by Applied of several PVD technology patents that were formerly owned by Varian. Novellus seeks damages for past infringement, a permanent injunction, treble damages for willful infringement, pre-judgment interest and attorneys' fees. In September 2000, Applied and Varian settled their disputes, and on October 3, 2000, Applied's claims against Varian and Varian's claims and counterclaims against Applied were dismissed with prejudice. The litigation with Novellus continues. Fact discovery has closed in these actions. The court has canceled the August 2001 trial date and no new trial date has been set. Applied believes it has meritorious claims and defenses and intends to pursue them vigorously.

Plasma Physics
On April 17, 2000, Applied filed a lawsuit against Plasma Physics Corp. (PPC) and Solar Physics Corp. (SPC). The lawsuit seeks a judicial declaration that Applied's chemical vapor deposition equipment does not infringe two patents owned by PPC and exclusively licensed to SPC and/or that those patents are invalid or unenforceable. On July 31, 2000, PPC and SPC answered the complaint and filed a conditional counterclaim alleging that Applied had contributed to or induced others to infringe the two patents. PPC and SPC seek an injunction prohibiting infringement by Applied and an award of costs, expenses and attorneys' fees. The counterclaim is conditional because PPC and SPC have stated that they will not sue Applied for infringement of the two patents if the Court dismisses the lawsuit initiated by Applied for lack of subject matter jurisdiction. The Court subsequently denied without prejudice PPC and SPC's motion to dismiss the lawsuit for lack of subject matter jurisdiction, but stated that PPC and SPC could renew the motion to dismiss if appropriate after further discovery. Discovery has commenced. No trial date has been set.

U.S. Department of Justice, Antitrust Division
In September 2000, Applied received notice from the Department of Justice, Antitrust Division that it had begun an investigation into Applied's licensing of technology. Although neither the extent nor the outcome of this investigation can be determined at this time, Applied does not believe that the outcome will have a material adverse effect on its financial condition or results of operations.

Axcelis Technologies
On January 8, 2001, Axcelis Technologies, Inc. (Axcelis), formerly a subsidiary of Eaton Corporation, filed a lawsuit in the United States District Court for the District of Massachusetts captioned Axcelis Technologies, Inc. v. Applied Materials, Inc. (case no. 01-10029 DPW). The lawsuit alleges that Applied infringes a patent concerning ion implantation owned by Axcelis. The complaint also alleges various Massachusetts state and common law tortious interference and unfair competition claims. Axcelis seeks a preliminary and permanent injunction, damages, costs and attorneys' fees. On April 12, 2001, Applied answered the complaint by denying all allegations and counterclaimed for declaratory judgment of invalidity and non-infringement, and various unfair

competition and deceptive practices law claims. Applied seeks damages, a permanent injunction, costs and attorneys' fees. The August 2001 trial date has been postponed, and the Court has set a trial readiness date of October 24, 2001. No trial date has been set. Applied believes it has meritorious defenses to the action and intends to pursue them vigorously.

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

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

The Annual Meeting of Stockholders was held on March 22, 2001 in New York, New York. Nine incumbent directors were re-elected and one new director was elected without opposition to serve one-year terms in office. The results of this election were as follows:

Name of Director	Votes For (shares)	Votes Withheld (shares)
James C. Morgan...........	683,913,403	3,660,656
Dan Maydan.................	683,426,574	4,147,485
Michael H. Armacost........	683,935,199	3,638,860
Deborah A. Coleman.........	683,582,979	3,991,080
Herbert M. Dwight, Jr......	683,642,589	3,931,470
Philip V. Gerdine..........	683,861,200	3,712,859
Paul R. Low................	683,571,133	4,002,926
Steven L. Miller...........	683,624,438	3,949,621
Minoru Morio...............	681,815,928	5,758,131
Stan Shih..................	660,793,734	26,780,325

Item 5. Other Information

The ratio of earnings to fixed charges for the six months ended April 30, 2000 and April 29, 2001, and for each of the last five fiscal years, was as follows:

Fiscal Year					Six Months Ended	
1996	1997	1998	1999	2000	April 30, 2000	April 29, 2001
19.44x	19.01x	7.56x	14.03x	32.82x	20.49x	22.58x

Item 6. Exhibits and Reports on Form 8-K

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

10.1 Form of Nonqualified Stock Option Grant Agreement for use under the 1995 Equity Incentive Plan.

b) Applied did not file any reports on Form 8-K during its second fiscal quarter of 2001.

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.

June 7, 2001

By: /s/ Joseph R. Bronson

Joseph R. Bronson
Executive Vice President, Office of the President and
Chief Financial Officer

By: /s/ Nancy H. Handel

Nancy H. Handel
Group Vice President, Deputy Chief Financial Officer
and Corporate Controller

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
10.1	Form of Nonqualified Stock Option Grant Agreement for use under the 1995 Equity Incentive Plan

[EMPLOYEE NAME]

Employee ID Number

Grant Number:

APPLIED MATERIALS, INC.

NONQUALIFIED STOCK OPTION GRANT AGREEMENT

Applied Materials, Inc. (the "Company") hereby grants you, [NAME OF EMPLOYEE] (the "Employee"), an option under the Company's 1995 Equity Incentive Plan (the "Plan") to purchase shares of common stock of the Company. The date of this Agreement is [DATE] (the "Grant Date"). In general, the latest date this option will terminate is [DATE] (the "Expiration Date"). However, as provided in Appendix A (attached to this Agreement), this option may terminate earlier than the Expiration Date. Subject to the provisions of Appendix A and of the Plan, the principal features of this option are as follows:

Maximum Number of Shares of Shares Purchasable with this Option:	Exercise Price per Share:
[NUMBER]	US $____

Scheduled Vesting Dates:	Number of Shares
[DATE]	[NUMBER]
[DATE]	[NUMBER]
[DATE]	[NUMBER]
[DATE]	[NUMBER]

Event Triggering Option Termination	Maximum Time to Exercise After Triggering Event*
Termination of Service (except as shown below)	30 days
Termination of Service due to Retirement (age 65 or age 60 or over with at least 10 Years of Service)	1 year
Termination of Service due to Disability	6 months
Termination of Service due to death	1 year

* However, in no event may this option be exercised after the Expiration Date (except in certain cases of the death of the Employee). In addition, the maximum time to exercise this option may be further limited by the Company where required by applicable law.

IMPORTANT:

IT IS YOUR RESPONSIBILITY TO EXERCISE THIS OPTION BEFORE IT TERMINATES.

Your signature below indicates your agreement and understanding that this option is subject to all of the terms and conditions contained in Appendix A and the Plan. For example, important additional information on vesting and termination of this option is contained in Paragraphs 1 through 5 of Appendix A. **PLEASE BE SURE TO READ ALL OF APPENDIX A, WHICH CONTAINS THE SPECIFIC TERMS AND CONDITIONS OF THIS OPTION, INCLUDING INFORMATION CONCERNING CANCELLATION AND TERMINATION OF THIS OPTION.**

APPLIED MATERIALS, INC.	EMPLOYEE
____________________	____________________
[Title]	[Name]

APPENDIX A - TERMS AND CONDITIONS OF NONQUALIFIED STOCK OPTION GRANT

1. Vesting Schedule. As of the date of this Agreement, this option is scheduled to become exercisable (vest) as to the number of shares, and on the dates shown, on the attached Nonqualified Stock Option Grant Agreement. In all cases, on any such scheduled vesting date, vesting actually will occur only if the Employee has been continuously employed by the Company or an Affiliate from the Grant Date until the scheduled vesting date (except to the limited extent provided in Paragraphs 3 and 5).

2. Modifications to Vesting Schedule.

(a) *Vesting upon Change to Part-time Status.* In the event that the Employee's employment with the Company or an Affiliate changes from full-time status to part-time status, and the change to part-time status lasts more than six (6) months during any rolling twelve (12) month period, the shares subject to this option that are scheduled to become exercisable during the twelve (12) months following the day the Employee first attains part-time status (as defined below) shall be determined according to the following formula (rounded to the nearest whole share):

```
                                   average number of
                                 hours worked per week
number of shares that would  X  during part-time status = new number of shares
have been exercisable           ----------------------    that will be exercisable
                                        40 hours
```

Only shares that are not yet exercisable may be modified pursuant to the preceding formula. Shares subject to this option that are no longer exercisable as a result of the change to part-time status never will vest and instead will terminate. The preceding formula will be reapplied if the Employee continues to be on part-time status following the conclusion of the twelve (12) month measurement period. The number of shares subject to this option shall be modified according to the preceding formula unless otherwise recommended by the Company's Vice President of Human Resources ("VP of HR") and approved by the Company's Chief Executive Officer ("CEO").

(i) Example 1. Employee is scheduled to vest in 100 shares on July 1, 2002. On May 1, 2001, Employee begins working 20 hours per week, and continues to work part-time for 2 months. Employee still will be scheduled to vest in 100 shares on July 1, 2002.

(ii) Example 2. Employee is scheduled to vest in 100 shares on July 1, 2002. On May 1, 2001, Employee begins working 20 hours per week, and continues to work part-time for 7 months. Employee now will be scheduled to vest in 50 shares on July 1, 2002. The other 50 shares that were scheduled to vest on July 1, 2002 never will vest and instead will terminate.

(iii) Example 3. Employee is scheduled to vest in 100 shares on December 1, 2001. On May 1, 2001, Employee begins working 30 hours per week, and continues to work part-time for 9 months. Employee therefore attains part-time status on November 2, 2001. Employee now will be scheduled to vest in 75 shares on December 1, 2001. The other 25 shares that were scheduled to vest on December 1, 2001 never will vest and instead will terminate.

For this purpose, "part-time status" means the Employee is scheduled to work less than thirty (30) hours per week for a period greater than six (6) months as determined over a rolling twelve (12) month period.

(b) *Vesting upon Personal Leave of Absence.* In the event that the Employee takes a personal leave of absence ("PLOA"), the shares subject to this option that are scheduled to become exercisable shall be modified as follows:

(i) if the duration of the Employee's PLOA is six (6) months or less, the vesting schedule set forth in the attached Nonqualified Stock Option Agreement shall 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 exercisability of any shares subject to this option that are not then exercisable shall be deferred for a period of time equal to the duration of the Employee's PLOA less six (6) months unless otherwise recommended by the Company's VP of HR.

(iii) if the duration of the Employee's PLOA is greater than twelve (12) months, any shares subject to this option that are not then exercisable immediately will terminate unless otherwise recommended by the Company's VP of HR and approved by the CEO.

(iv) Example 1. Employee is scheduled to vest in shares on January 1, 2002. On May 1, 2001, Employee begins a 6 month PLOA. Employee's shares still will be scheduled to vest on January 1, 2002.

(v) Example 2. Employee is scheduled to vest in shares on January 1, 2002. On May 1, 2001, Employee begins a 9 month PLOA. Employee's shares subject to this option that are scheduled to become exercisable after November 2, 2001 will be modified (this is the date on which the Employee's PLOA exceeds 6 months). Employee's shares now will be scheduled to vest on April 1, 2002 (3 months after the originally scheduled date).

(vi) Example 3. Employee is scheduled to vest in shares on January 1, 2002. On May 1, 2001, Employee begins a 13 month PLOA. Employee's shares will terminate on May 2, 2002 unless otherwise recommended by the Company's VP of HR and approved by the CEO.

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. Shares subject to this option that are scheduled to vest during the first six (6) months of the Employee's PLOA will continue to vest as scheduled. However, shares subject to this option 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 Employee's right to exercise all shares subject to this option that remain unexercisable shall be modified as soon as the duration of the Employee's PLOA exceeds six (6) months.

3. <u>Additional Vesting upon Retirement of Employee</u>. In the event that the Employee is age sixty (60) or over and completes at least ten (10) Years of Service and then incurs a Termination of Service due to Retirement, the right to exercise all or a portion of any

shares subject to this option that remain unexercisable immediately prior to such Retirement shall vest on the date on which the Retirement occurs as follows:

(a) if the Employee has less than fifteen (15) Years of Service as of the date of his or her Retirement, fifty percent (50%) of the shares that otherwise would have vested during the twelve (12) months immediately following the Retirement (had the Employee remained an Employee throughout such twelve (12) month period) shall vest on the Retirement date;

(b) if the Employee has at least fifteen (15) (but less than twenty (20)) Years of Service as of the date of the Retirement, one hundred percent (100%) of the shares that otherwise would have vested during the twelve (12) months immediately following the Retirement (had the Employee remained an Employee throughout such twelve (12) month period) shall vest on the Retirement date;

(c) if the Employee has at least twenty (20) (but less than twenty-five (25)) Years of Service as of the date of the Retirement, (i) one hundred percent (100%) of the shares that otherwise would have vested during the twelve (12) months immediately following the Retirement (had the Employee remained an Employee throughout such twelve (12) month period) shall accrue on the Retirement date, and (ii) fifty percent (50%) of the shares that otherwise would have vested during the second twelve (12) months following the Retirement (had the Employee remained an Employee throughout such twelve (12) month period) shall vest on the Retirement date; and

(d) if the Employee has at least twenty-five (25) Years of Service as of the date of the Retirement, one hundred percent (100%) of the shares that otherwise would have vested during the twenty-four (24) months immediately following the Retirement (had the Employee remained an Employee throughout such twenty-four (24) month period) shall vest on the Retirement date.

"Retirement" and "Years of Service" are defined in the Plan. In general, "Retirement" means a Termination of Service by an Employee after he or she is at least age sixty (60) and has completed at least ten (10) Years of Service, and "Years of Service" means full years of employment since the Employee's last hire date with the Company or an Affiliate (but giving credit for prior service under the non-401(k) Plan principles of the Company's North American Human Resources Policy No. 2-06, or any successor thereto). In the event that any applicable law limits the Company's ability to provide additional vesting upon the Employee's retirement, this Paragraph 3 shall be limited to the extent required to comply with applicable law. Notwithstanding any contrary provision of this Agreement, if the Employee is subject to Hong Kong's ORSO provisions, this Paragraph 3 shall not apply to this option.

4. Termination of Option. In the event of the Employee's Termination of Service for any reason other than Retirement, Disability or death, the Employee may, within thirty (30) days after the date of the Termination, or prior to the Expiration Date, whichever shall first occur, exercise any vested but unexercised portion of this option. In the event of the Employee's Termination of Service due to Retirement (or after attaining age 65), the Employee may, within one (1) year after the date of such Termination, or prior to the Expiration Date, whichever shall first occur, exercise any vested but unexercised portion of this option. In the event of the Employee's Termination of Service due to Disability, the Employee may, within six (6) months after the date of such Termination, or prior to the Expiration Date, whichever shall first occur, exercise any vested but unexercised portion of this option. Upon the Employee's Termination of Service, any unvested portion of this option (after applying the rules of Paragraphs 3 and 5) shall immediately terminate.

For purposes of this Agreement, "Disability" means a permanent and total disability that would qualify the Employee for benefits under the Company's long-term disability benefit plan, as amended from time to time.

5. Death of Employee. In the event that the Employee incurs a Termination of Service due to his or her death, the right to exercise one hundred percent (100%) of the shares subject to this option shall vest on the date of the Employee's death. In the event that the Employee incurs a Termination of Service due to his or her death or in the event the Employee dies after incurring a Termination of Service but before any vested portion of this option terminates in accordance with Paragraph 4 above, the administrator or executor of the Employee's estate, may, within one (1) year after the date of death, exercise any vested but unexercised portion of this option. Any transferee under this Paragraph 5 must furnish the Company in such form or manner as the Company may designate (a) written notice of his or her status as a transferee, (b) evidence satisfactory to the Company to establish the validity of the transfer of this option and compliance with any applicable law pertaining to the transfer, and (c) written acceptance of the terms and conditions of this option as set forth in this Agreement. In the event that any applicable law limits the Company's ability to accelerate the vesting of this option or to extend the exercise period of this option, this Paragraph 5 shall be limited to the extent required to comply with applicable law. Notwithstanding any contrary provision of this Agreement, if the Employee is subject to Hong Kong's ORSO provisions, the first sentence of this Paragraph 5 (relating to accelerated vesting upon death) shall not apply to this option.

6. Persons Eligible to Exercise Option. Except as provided in Paragraph 5 above or as otherwise determined by the Committee in its discretion, this option shall be exercisable during the Employee's lifetime only by the Employee.

7. Option is Not Transferable. Except as provided in Paragraph 5 above, this option and the rights and privileges conferred hereby shall not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this option, or of any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this option and the rights and privileges conferred hereby immediately shall become null and void.

8. Exercise of Option. This option may be exercised by the person then entitled to do so as to any shares which may then be purchased by (a) giving notice in such form or manner as the Company may designate, (b) providing full payment of the Exercise Price (and the amount of any income tax the Company determines is required to be withheld by reason of the exercise of this option or as is otherwise required under Paragraph 11 below), and (c) giving satisfactory assurances in the form or manner requested by the Company that the shares to be purchased upon the exercise of this option are being purchased for investment and not with a view to the distribution thereof. If the Employee receives a hardship withdrawal from his or her account (if any) under the Company's Employee Savings and Retirement Plan (the "401(k) Plan") for U.S. employees, this option may not be exercised during the twelve (12) month period following the hardship withdrawal (unless the Company determines that exercise would not jeopardize the tax-qualification of the 401(k) Plan).

9. Cashless Exercise Required. If the Company determines that a cashless exercise of this option is necessary or advisable, the shares subject to this option shall be sold immediately upon exercise and the Employee shall receive the proceeds from the sale, less the Exercise Price, any applicable fees and taxes or other required withholding.

10. Conditions to Exercise. Except as provided in Paragraph 9 above or as otherwise required as a matter of law, the Exercise Price for this option may be made in one (1) (or a combination of two (2) or more) of the following forms:

(a) Personal check, a cashier's check or a money order.

(b) Irrevocable directions to a securities broker approved by the Company to sell all or part of the option shares and to deliver to the Company from the sale proceeds an amount sufficient to pay the Exercise Price and any required withholding taxes. (The balance of the sale proceeds, if any, will be delivered to Employee.)

(c) Irrevocable directions to a securities broker or lender approved by the Company to pledge option shares as security for a loan and to deliver to the Company from the loan proceeds an amount sufficient to pay the Exercise Price and any required withholding taxes.

11. Tax Withholding and Payment Obligations. The Company will assess its requirements regarding tax, social insurance and any other payroll tax withholding and reporting in connection with this option, including the grant, vesting or exercise of this option or sale of shares acquired pursuant to the exercise of this option ("tax-related items"). These requirements may change from time to time as laws or interpretations change. Regardless of the Company's actions in this regard, the Employee hereby acknowledges and agrees that the ultimate liability for any and all tax-related items is and remains his or her responsibility and liability and that the Company (a) makes no representations or undertaking regarding treatment of any tax-related items in connection with any aspect of this option grant, including the grant, vesting or exercise of this option and the subsequent sale of shares acquired pursuant to the exercise of this option; and (b) does not commit to structure the terms of the grant or any aspect of this option to reduce or eliminate the Employee's liability regarding tax-related items. In the event the Company determines that it and/or an Affiliate must withhold any tax-related items as a result of the Employee's participation in the Plan, the Employee agrees as a condition of the grant of this option to make arrangements satisfactory to the Company to enable it to satisfy all withholding requirements. The Employee authorizes the Company and/or an Affiliate to withhold all applicable withholding taxes from the Employee's wages. Furthermore, the Employee agrees to pay the Company and/or an Affiliate any amount of taxes the Company and/or an Affiliate may be required to withhold as a result of the Employee's participation in the Plan that cannot be satisfied by deduction from the Employee's wages or other cash compensation paid to the Employee by the Company and/or an Affiliate. The Employee acknowledges that he or she may not exercise this option unless the tax withholding obligations of the Company and/or any Affiliate are satisfied.

12. Suspension of Exercisability. If at any time the Company shall determine, in its discretion, that the listing, registration or qualification of the shares upon any securities exchange or under any applicable law, or the consent or approval of any governmental regulatory authority, is necessary or desirable as a condition of the purchase of shares hereunder, this option may not be exercised, in whole or in part, unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company. The Company shall make reasonable efforts to meet the requirements of any applicable law or securities exchange and to obtain any required consent or approval of any governmental authority.

13. Address for Notices. Any notice to be given to the Company under the terms of this Agreement shall be addressed to the Company, in care of Stock Programs, at Applied Materials, Inc., 2881 Scott Blvd., M/S 2023, Santa Clara, CA 95050, or at such other address as the Company may hereafter designate in writing.

14. No Rights of Stockholder. Neither the Employee (nor any transferee) shall be or have any of the rights or privileges of a stockholder of the Company in respect of any of the shares issuable pursuant to the exercise of this option, unless and until certificates representing such shares shall have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Employee (or transferee). Nothing in the Plan or this option shall create an obligation on the part of the Company to repurchase any shares purchased hereunder.

15. No Effect on Employment. The Employee's employment with the Company and its Affiliates is on an at-will basis only, subject to the provisions of applicable law. Accordingly, the terms of the Employee's employment with the Company and its Affiliates shall 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 shall 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 (subject to the provisions of applicable law).

16. Plan Governs. This Agreement is subject to all 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 shall govern. Terms used and not defined in this Agreement shall have the meaning set forth in the Plan. This option is not an incentive stock option as defined in Section 422 of the Internal Revenue Code. The Company may, in its discretion, issue newly issued shares or treasury shares pursuant to this option.

17. Maximum Term of Option. Except as provided in Paragraph 5 above, this option is not exercisable after the Expiration Date.

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

19. Committee Authority. The Committee shall 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. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Employee, the Company and all other interested persons. The Committee shall not 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 shall be held invalid or unenforceable, such provision shall be severable from, and such invalidity or unenforceability shall 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.

23. Amendment, Suspension, Termination. By accepting this option, the Employee expressly warrants that he or she has received an option to purchase 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 modified, suspended or terminated by the Company at any time.

24. Labor Law. By accepting this option, the Employee acknowledges that: (a) the grant of this option is a one-time benefit which does not create any contractual or other right to receive future grants of options, or benefits in lieu of options; (b) all determinations with respect to any future grants, including, but not limited to, the times when the stock options shall be granted, the number of shares subject to each stock option, the Exercise Price, and the time or times when each stock option shall be exercisable, will be at the sole discretion of the Company; (c) the Employee's participation in the Plan is voluntary; (d) the value of this option is an extraordinary item of compensation which is outside the scope of the Employee's employment contract, if any; (e) this option is 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 this option ceases upon termination of employment 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) if the underlying shares do not increase in value, this option will have no value; (i) this option has been granted to the Employee in the Employee's status as an employee of the Company or its Affiliates; (j) any claims resulting from this option shall be enforceable, if at all, against the Company; and (k) there shall be no additional obligations for any Affiliate employing the Employee as a result of this option.

25. Disclosure of Employee Information. By accepting this option, the Employee consents to the collection, use and transfer of personal data as described in this paragraph. The Employee understands that the Company and its Affiliates hold certain personal information about him or her, including his or her name, home address and telephone number, date of birth, social security or identity number, salary, nationality, job title, any shares of stock or directorships held in the Company, details of all stock options 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 amongst themselves as necessary for the purpose of implementation, administration and management of his or her participation in the Plan, and that the Company and/or any of its Affiliates may each further transfer Data to any third parties assisting the Company in the implementation, administration and management of the Plan. The Employee understands that these recipients may be located in the European Economic Area, or elsewhere, such as in the U.S. or Asia. The Employee authorizes the Company to receive, possess, use, retain and transfer the Data in electronic or other form, for the purposes of implementing, administering and managing his or her participation in the Plan, including any requisite transfer to a broker or other third party with whom he or she may elect to deposit any shares of stock acquired upon exercise of this option of such Data as may be required for the administration of the Plan and/or the subsequent holding of shares of stock on his or her behalf. The Employee understands that he or she may, at any time, view the Data, require any necessary amendments to the Data or withdraw the consent herein in writing by contacting the human resources department and/or the stock option administrator for his or her employer.

26. Notice of Governing Law. This option shall be governed by, and construed in accordance with, the laws of the State of California without regard to principles of conflict of laws.

27. Exchange Control Reporting Requirements. In the event that the Employee is subject to German exchange control law, the Employee agrees to report cross-border payments in excess of EURO 12,500, unless this reporting obligation is accomplished through a German bank involved in the transaction. The Employee also agrees to report any participation in a foreign company exceeding 10% of the total or the voting capital and any receivables or payables or debts exceeding DM 3,000,000. The monetary limits specified in this Paragraph 27 are subject to change as determined by applicable German law.

28. Notice to Directors. If the Employee is a director or shadow director of a U.K. Affiliate, the Employee agrees to notify the U.K. Affiliate in writing of his or her interest in the Company and the number of shares or rights to which the interest relates. The Employee agrees to notify the U.K. Affiliate when this option is exercised and when shares acquired under the Plan are sold. This disclosure requirement also applies to any rights or shares acquired by the Employee's spouse or child (under the age of 18).

29. Private Offer. If the Employee is a resident in Ireland, this offering is part of a private transaction; this is not an offer to the public.