

2014 ANNUAL REPORT

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# Dear Fellow Stockholders,

This is a period of reinvigorated innovation and growth in the electronic sector. Unprecedented technology advances provide tremendous opportunities for Applied Materials to create value for you, our stockholders, by extending our technology leadership and growing the company. We are uniquely positioned to apply our capabilities in precision materials engineering to enable our customers and outperform our markets. In 2014, we grew sales in our semiconductor business by 25 percent and expanded our overall operating margins significantly. These results reflect ongoing technology and capacity investments by our semiconductor and display customers, sustainable market share gains in growing markets, as well as significant improvements in our execution, efficiency and costs that we achieved while increasing investment in new product development.

## **A FOUNDATION FOR LONG-TERM PROFITABLE GROWTH**

Over the past two years, we have placed Applied on a trajectory of long-term profitable growth and improving financial performance. The progress we are making towards our strategic and financial goals is made possible by strong support from our stockholders and outstanding contributions from our employees around the world. We are fortunate to have a team that shares a passion to create value for customers and investors.

In 2013, we aligned the business around our Precision Materials Engineering strategy, and took steps to shape a more competitive Company.

- We increased our focus on areas that have the biggest impact for customers and generate the best returns for Applied.
- We shifted spending from low growth businesses and corporate expense to field resources and product development.
- We built a stronger organization, bringing in top industry talent, strengthening our business processes for repeatable success, and changing our structure to improve alignment and speed.
- We increased our market share, with 1.4 points of overall gains in calendar 2013.
- And we invested in a pipeline of new products to enable customers' road maps and drive long-term growth for Applied.

In 2014, we accelerated this strategy, and made strong progress towards our financial model. Our semiconductor business posted the highest revenue since fiscal 2007 and, for the calendar year, we expect to gain share or hold share in almost all of our businesses. We anticipate our largest gains in areas of the market that are growing the fastest. In Chemical Vapor Deposition (CVD), we believe we will win at least 3 points of share this past year, while in Etch we delivered nearly 2.5 times the sales achieved in 2012. These results demonstrate that Applied has the right strategy and the right team, and that we are improving execution and carrying strong momentum into 2015.

Our merger with Tokyo Electron Limited will enable us to further accelerate this strategy. Stockholders of both companies approved the merger in June and we are working to secure the remaining regulatory approvals as soon as possible to form a new combined company called Eteris. Eteris will bring together complementary leading technologies and products to build an expanded set of capabilities in Precision Materials Engineering to solve our customers' high-value problems better, faster and at lower cost.

## **ACCELERATING MOMENTUM INTO 2015**

As we look to 2015 and beyond, we see a market environment with expanded opportunities. Evolving trends in mobility and connectivity are driving industry growth and accelerating innovation in mobile chips, solid state storage and interactive displays.

Global appetite for new and better mobile devices, with more features and longer battery life, fueled growth in wafer fabrication equipment spending in 2014, and our current view is that investment levels will be higher still in 2015. In recent years, the foundries have been the biggest component of industry investment, building new factories to fulfill demand for advanced mobile chips and racing to introduce new technology that enables devices with higher performance and lower power consumption. This is very positive for Applied, as we have our strongest share positions at these customers and continue to make gains. For foundries, the technology leadership battle is intensifying and we anticipate strong investment from customers in the coming years as they focus on winning the critical transition from planar 2D transistors to new 3D "FinFET" devices.

Mobility and cloud computing also drive increased demand for memory. Memory manufacturers are investing more to meet consumer demand for mobile DRAM, and 2014 was a year of strong investment in NAND – the two most common forms of advanced semiconductor memory. While the bulk of NAND capacity additions were focused on extending 2D technology, we saw initial investments in 3D NAND and we expect this spending to be broader and larger in 2015 as more customers introduce this next-generation technology. The transition from 2D memory to 3D materials-enabled devices is also very positive for Applied, expanding our available market by 35 to 50 percent.

Through fiscal 2014, wafer starts and fab utilization increased and, as customers aggressively push factory output, we see expanded opportunities for our service business. We are building our capabilities in areas that help customers ramp complex new device technologies faster and at lower cost. Our service organization is building momentum, and in fiscal 2014, delivered the highest orders and the highest operating margins since 2007.

The outlook for the display equipment market also remains very healthy. Attractive price points for Ultra High Definition '4K' TVs are driving a new TV refresh cycle, while average screen sizes are growing about twice as fast as historic rates. Demand for higher resolution, lower powered screens for mobile devices is also a key factor in display, and we are seeing strong orders for new technology. Our fourth quarter 2014 display revenues were at a three-year high, and we believe we are gaining share in our served available market.

#### **NEW TECHNOLOGY TRANSITIONS PLAY TO OUR STRENGTHS**

In both semiconductor and display, major changes in device technology provide a catalyst for our growth. FinFET and 3D NAND represent the biggest technology transitions in decades and provide new opportunities for us. These complex inflections are enabled by materials innovation that plays directly to the core strengths of Applied Materials. These transitions create new precision materials engineering steps, expand our available market, and fuel demand for our leadership products that enable the latest transistor and interconnect devices. For example, our Epi business posted record sales in fiscal 2014, our Metal

Deposition group delivered its highest annual revenues and operating margins since 2000, and we believe our Implant group is on track to reach its highest ever market share.

In logic and memory, the acceleration of materials-enabled scaling is a major driver for Etch and Deposition. These are large growth opportunities for Applied Materials, where we are building strong momentum and gaining share. Our combined revenues in Etch and CVD grew by almost 50 percent in calendar 2014 and we see strong customer pull for our next-generation technologies.

#### **DELIVERING STRONG RESULTS, OPENING NEW OPPORTUNITIES**

For Applied Materials, fiscal 2014 was a year when we grew faster than our markets, and made significant progress towards our strategic and financial goals. We accelerated our product momentum, and strengthened the organization in key areas.

As we look to the future, we see great opportunities as we are uniquely positioned to apply our differentiated capabilities in precision materials engineering to enable major technology transitions. We are only at the beginning of these inflections. The ramps in FinFET, 3D NAND and new display technology will be the next of multiple waves of investment by customers.

Our strategy is delivering results, and in order to fully capitalize on the great opportunities ahead, we remain highly focused on improving execution while driving alignment, speed and scale across the organization as we prepare to merge and form Eteris.

Sincerely,



Michael R. Splinter  
Executive Chairman



Gary E. Dickerson  
President and  
Chief Executive Officer

December 31, 2014

This Annual Report contains forward-looking statements, which are all statements other than those of historical fact, and actual results could differ materially. Risk factors that could cause actual results to differ are set forth in the "Risk Factors" section of, and elsewhere in, our 2014 Form 10-K included in this report. All forward-looking statements are based on management's estimates, projections and assumptions as of the date hereof, and Applied Materials undertakes no obligation to update any such statements.

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## STOCKHOLDERS' INFORMATION

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP  
Santa Clara, California

### NUMBER OF REGISTERED STOCKHOLDERS

3,408 (as of December 12, 2014)

### STOCK LISTING

Applied Materials, Inc. is traded on The NASDAQ  
Global Select Market®  
NASDAQ Symbol: AMAT

### TRANSFER AGENT

*Mail correspondence to:*  
Computershare  
Stockholder Services  
P.O. Box 30170  
College Station, TX 77842-3170

*Send overnight correspondence to:*  
Computershare  
211 Quality Circle, Suite 210  
College Station, TX 77845

*Online inquiries:*  
[www-us.computershare.com/investor/Contact](http://www-us.computershare.com/investor/Contact)

*Tel:* (312) 360-5186 or (877) 388-5186  
*Fax:* (312) 601-4348

### INVESTOR CONTACT

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Santa Clara, California 95052-8039  
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### CORPORATE HEADQUARTERS

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3050 Bowers Avenue  
Santa Clara, California 95054-3299

### MAILING ADDRESS AND TELEPHONE

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Santa Clara, California 95052-8039  
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### CORPORATE WEB SITE

Additional information can be found at  
[www.appliedmaterials.com](http://www.appliedmaterials.com)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark one)

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

For the fiscal year ended October 26, 2014

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

(State or other jurisdiction of incorporation or organization)

3050 Bowers Avenue, P.O. Box 58039 Santa Clara, California

(Address of principal executive offices)

94-1655526

(I.R.S. Employer Identification No.)

95052-8039

(Zip Code)

Registrant's telephone number, including area code:

(408) 727-5555

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

Title of Each Class

Common Stock, par value \$.01 per share

Name of Each Exchange on Which Registered

The NASDAQ Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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

Large accelerated filer [X]

Accelerated filer [ ]

Non-accelerated filer [ ] (Do not check if a smaller reporting company)

Smaller reporting company [ ]

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

Aggregate market value of the voting stock held by non-affiliates of the registrant as of April 27, 2014, based upon the closing sale price reported by the NASDAQ Global Select Market on that date: \$22,617,248,500

Number of shares outstanding of the registrant's Common Stock, \$.01 par value, as of December 12, 2014: 1,221,471,983

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of Part III will be provided in accordance with Instruction G(3) to Form 10-K no later than February 23, 2015.

## **Caution Regarding Forward-Looking Statements**

This Annual Report on Form 10-K (report or Form 10-K) of Applied Materials, Inc. and its subsidiaries (Applied or the Company), including “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7, contains forward-looking statements that involve risks and uncertainties.

Examples of forward-looking statements include those regarding Applied’s future financial or operating 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, the proposed business combination with Tokyo Electron Limited, growth opportunities, restructuring activities, backlog, working capital, liquidity, investment portfolio and policies, taxes, supply chain, manufacturing, properties, legal proceedings and claims, customer demand and spending, end-use demand, market and industry trends and outlooks, general economic conditions, 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,” “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 I, 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.

The following information should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in this report.



**APPLIED MATERIALS, INC.**  
**FORM 10-K FOR THE FISCAL YEAR ENDED OCTOBER 26, 2014**

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## PART I

### Item 1: *Business*

Incorporated in 1967, Applied, a Delaware corporation, provides manufacturing equipment, services and software to the global semiconductor, flat panel display, solar photovoltaic (PV) and related industries. Applied's customers include manufacturers of semiconductor wafers and chips, flat panel liquid crystal and other displays, solar PV cells and modules, 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. Applied's fiscal year ends on the last Sunday in October.

Applied operates in four reportable segments: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. Applied manages its business based upon these segments. A summary of financial information for each reportable segment is found in Note 16 of Notes to Consolidated Financial Statements. A discussion of factors that could affect operations is set forth under "Risk Factors" in Item 1A, which is incorporated herein by reference.

Net sales by reportable segment for the past three fiscal years were as follows:

	2014		2013		2012	
	(In millions, except percentages)					
Silicon Systems Group . . . . .	\$ 5,978	66%	\$ 4,775	64%	\$ 5,536	64%
Applied Global Services . . . . .	2,200	24%	2,023	27%	2,285	26%
Display . . . . .	615	7%	538	7%	473	5%
Energy and Environmental Solutions . . . . .	279	3%	173	2%	425	5%
Total . . . . .	\$ 9,072	100%	\$ 7,509	100%	\$ 8,719	100%

#### Silicon Systems Group Segment

The Silicon Systems Group segment develops, manufactures and sells manufacturing equipment used to fabricate semiconductor chips, also referred to as integrated circuits (ICs). Most chips are built on a silicon wafer base and include a variety of circuit components, such as transistors and other devices, that are connected by multiple layers of wiring (interconnects). Applied offers systems that perform various processes used in chip fabrication, including chemical vapor deposition (CVD), physical vapor deposition (PVD), etch, electrochemical deposition (ECD), rapid thermal processing (RTP), ion implantation, chemical mechanical planarization (CMP), epitaxy (Epi), wet cleaning, atomic layer deposition (ALD), wafer metrology and inspection, and systems that etch or inspect circuit patterns on masks used in the photolithography process. Applied's semiconductor manufacturing systems are used by integrated device manufacturers and foundries to build and package memory, logic and other types of chips.

The majority of the Company's new equipment sales are for leading-edge technology for advanced 2X nanometer (nm) nodes and smaller dimensions. To build a chip, the transistors, capacitors and other circuit components are first created on the surface of the wafer by performing a series of processes to deposit and selectively remove portions of successive film layers. Similar processes are then used to build the layers of wiring structures on the wafer. As the density of the circuit components increases to enable greater computing capability in the same or smaller physical area, the complexity of building the chip also increases, necessitating more process steps to form smaller transistor structures and more intricate wiring schemes. Advanced chip designs require more than 500 steps involving these and other processes to complete the manufacturing cycle.

Today's advanced interconnects are made using copper as the main wiring material. Copper has low resistance and can carry a large amount of current in a small area, which allows signals to travel quickly. Applied is a leading supplier of systems for manufacturing copper-based interconnects, including equipment for depositing, etching and planarizing these multi-layer structures.

To increase the speed of interconnect signals even further, low dielectric constant (low k) films are used to insulate the copper wiring. Applied provides systems for depositing low k dielectric films that enable higher device performance and longer battery life.

The transistor is another key area of the chip where semiconductor manufacturers are improving their device designs to enhance performance. Applied has technically-advanced products for building smaller and faster transistors. One method of enhancing chip performance is strain engineering, a technique that stretches or compresses the space between atoms, allowing electrical current to flow more quickly. Multiple strain films are typically used in advanced devices since they have an additive effect on increasing transistor speed. Applied has systems to enable these applications using CVD and epitaxial deposition technologies.

Major chipmakers are integrating high dielectric constant (high-k) and metal materials and processes in their transistor gate structures to increase chip performance and reduce power consumption. Applied has fully characterized processes for building these high-k/metal gates. These solutions include an integrated gate stack tool that combines multiple critical steps in a single system, including a portfolio of metallization technologies using CVD, ALD and PVD processes.

To address the need for higher performance in a smaller space driven by new consumer products, a new type of chip packaging at wafer level is emerging, which enables three-dimensional (3D) ICs. Providing greater functionality in a smaller footprint, 3D ICs stack multiple chips together and electrically connect them using deep holes, called through-silicon via (TSV) structures. Applied has production-proven systems and processes required for advanced packaging, including etch, CVD, PVD, ECD, wafer cleaning and CMP systems.

Most of Applied's semiconductor equipment products are single-wafer systems with multiple process chambers attached to a base platform. This enables each wafer to be processed separately in its own environment, allowing precise process control, while the system's multiple chambers enable simultaneous, high productivity manufacturing. Applied sells most of its single-wafer, multi-chamber systems on eight basic platforms: the Endura<sup>®</sup>, Centura<sup>®</sup>, Producer<sup>®</sup>, Centris<sup>™</sup>, Reflection<sup>®</sup>, Raider<sup>®</sup>, VISta<sup>®</sup> and Vantage<sup>®</sup> platforms. These platforms support ALD, CVD, ECD, PVD, etch, ion implantation, and RTP technologies.

Over time, the semiconductor industry has migrated to increasingly larger wafers to build chips. The predominant or common wafer size used today for volume production of advanced chips is 300 millimeter (mm), or 12-inch, wafers. Applied offers 300mm systems through its Silicon Systems Group segment. In addition, Applied offers earlier-generation 200mm systems, as well as products and services to support all of its systems, which are reported under its Applied Global Services segment.

The following discusses in more detail the portfolio of products and their associated process technology areas reported under the Silicon Systems Group segment.

### ***Deposition***

Deposition is a fundamental step in fabricating a chip. During deposition, layers of dielectric (an insulator), barrier, or electrically conductive (typically metal) films are deposited or grown on a wafer. Applied provides equipment to perform four types of deposition: ALD, CVD, ECD and PVD. In addition, Applied's RTP systems can be used to perform certain types of dielectric deposition.

#### ***Atomic Layer Deposition***

ALD is an advanced technology in which atoms are deposited one layer at a time to build chip structures. This technology enables customers to fabricate thin films of either conducting or insulating material with uniform coverage in nanometer-sized structures. One of the most critical areas of the transistor is its gate, which is built by depositing layers of dielectric films. At the 22nm node and below, these film layers are so thin that they must be atomically engineered. The Applied Centura Integrated Gate Stack system features advanced ALD technology that builds ultrathin high-k film layers less than 2nm in thickness.

## ***Chemical Vapor Deposition***

CVD is used to deposit dielectric and metal films on a wafer. During the CVD process, gases that contain atoms of the material to be deposited react on the wafer surface, forming a thin film of solid material. Films deposited by CVD may be silicon oxide, single-crystal epitaxial silicon, amorphous silicon, silicon nitride, dielectric anti-reflective coatings, low k dielectric (for highly-efficient insulating materials), aluminum, titanium, titanium nitride, polysilicon, tungsten, refractory metals or silicides. Applied offers the following CVD products and technologies:

*The Applied Producer CVD platform* — The Producer high-throughput platform features Twin-Chamber<sup>®</sup> modules that have two single-wafer process chambers per unit. Up to three Twin-Chamber modules can be mounted on each Producer platform, giving it a simultaneous processing capacity of six wafers. Many dielectric CVD processes can be performed on this platform. The highest productivity model of this system is the Applied Producer GT, which features fast wafer handling performance and compact design.

*Low k Dielectric Films* — Low k dielectric materials are used in copper-based chip designs to further improve interconnect speed. Using conventional CVD equipment, the Applied Producer Black Diamond<sup>®</sup> family of low k systems provides customers with a proven, cost-effective way to integrate a variety of low k films into advanced interconnect structures. The Company's latest third-generation low k technologies are featured on the Applied Producer Black Diamond 3 system and Applied Producer Nanocure 3 system. In addition, the Company offers its Applied Producer Onyx<sup>™</sup> process, an innovative film treatment that optimizes the molecular structure of low k films. Together, these products are designed to enable smaller, higher performance and more power-efficient devices at 22nm and below.

*Lithography-Enabling Solutions* — Applied offers several technologies on the Producer system to help chipmakers extend their current 193nm lithography tools, including a line of Applied APF<sup>®</sup> (advanced patterning film) films and Applied DARC<sup>®</sup> (dielectric anti-reflective coating) films. Together, they provide a film stack with the precise dimensional control and compatibility needed to cost-effectively pattern nano-scale features without additional integration complexity.

*Gap Fill Films* — There are many steps during the chipmaking process in which extremely small and deep, or high aspect ratio (HAR), structures must be filled void-free with a dielectric film. Many of these applications include the deposition of silicon oxides in substrate isolation structures, contacts and interconnects. Applied's most advanced gap fill system is its Applied Producer Eterna<sup>™</sup> FCVD<sup>™</sup> system. Targeted for 20nm and below chips, the Eterna system delivers a liquid-like film that flows freely into virtually any structure to provide void-free dielectric fill.

*Strain Engineering Solutions* — The Applied Producer HARP<sup>™</sup> system plays a key role in enhancing transistor performance, enabling chipmakers to boost chip speed by depositing strain-inducing dielectric films. Offering the industry's first integrated stress nitride deposition and ultraviolet (UV) cure solution, the Applied Producer Celera CVD delivers benchmark levels of high-stress tensile silicon nitride films. The Company also offers the Applied Centura SiNgenPlus low pressure CVD system for low temperature silicon nitride films. Used together, and in conjunction with silicon germanium (SiGe) films using Applied's epitaxial deposition technologies, these systems can provide additive strain engineering benefits.

*Through-Silicon Via Films* — Applied offers products for TSV fabrication, including the Applied Producer InVia<sup>™</sup> system. This product uses an innovative process to deposit the critical oxide liner film layer in HAR TSV structures, enabling robust electrical isolation of the TSV, which is vital for reliable device performance. For applications where higher temperatures can damage the manufacturing process, the Applied Producer Avila<sup>™</sup> CVD system and Applied Producer Optiva<sup>™</sup> CVD system allow high-quality dielectric film deposition at stable substrate temperatures.

*3D NAND and FinFET Films* — 3D NAND requires deposition technology for vertical gate formation and complex patterning applications. Applied offers products for FinFET and 3D NAND fabrication, including the Applied Producer XP Precision<sup>™</sup> CVD system released in 2014, which addresses the deposition challenges presented by vertical 3D architectures. Designed for high-volume manufacturing, the XP Precision system combines production-proven Producer CVD technology with more efficient, faster processing chamber technology.

*Copper Interconnect Encapsulation Solutions* — In 2014, Applied introduced its Endura Volta<sup>™</sup> CVD Cobalt system for encapsulating copper interconnects in logic chips smaller than the 28nm node. The system deposits a conformal cobalt liner and selective cobalt capping layer to provide complete enclosure of copper lines, improving reliability while reducing yield-limiting issues.

*Epitaxial Deposition* — Epitaxial silicon (epitaxy or epi) is a layer of pure silicon grown in a uniform crystalline structure on the wafer to form a high quality base for the device circuitry. Epi technology is used in an increasing number of IC devices in both the wafer substrate and transistor areas of a chip to enhance speed. The Applied Centura Epi system integrates pre- and post-epi processes on the same system to improve film quality and reduce production costs. This system is also used for SiGe epi technology, which reduces power usage and increases speed in certain types of advanced chips. For emerging transistor designs, the Applied Centura RP Epi system offers selective epi processes to enable faster transistor switching through strain engineering techniques.

*Polysilicon Deposition* — Polysilicon is a type of silicon used to form portions of the transistor structure within the IC device. The Applied Centura Polygen™ LPCVD system is a single-wafer, multi-chamber product that deposits thin polysilicon films at high temperatures to create transistor gate structures. To address the challenging requirements of shrinking gate dimensions, the Applied Centura DPN Gate Stack system integrates chambers for decoupled plasma nitridation (DPN), RTP anneal, and polysilicon deposition on one platform to enable superior film quality and material properties.

*Tungsten Deposition* — Tungsten is used in the contact area of a chip that connects the transistors to the wiring circuitry. In aluminum-based devices, tungsten is also used in the structures that connect the multiple layers of aluminum wiring. Applied has two products for depositing tungsten: the Applied Centura Sprint® Tungsten CVD system and the Applied Centura iSprint® ALD/CVD system which provide tungsten filling capability to 20nm and below.

### ***Electrochemical Deposition***

ECD is a process by which metal atoms from a chemical fluid (an electrolyte) are deposited on the surface of an immersed object. One application is to deposit copper in interconnect wiring structures. This process step follows the deposition of barrier and seed layers that prevent the copper from contaminating other areas of the device, improve the adhesion of the copper film and enable electrodeposition to occur. Another application is wafer level packaging for deposition of copper to fill TSV 3D chip-to-chip connections. Applied offers special configurations of the Applied Raider system for these ECD applications.

### ***Physical Vapor Deposition***

PVD is a physical process in which atoms of a gas, such as argon, are accelerated toward a metal target. The metal atoms chip off, or sputter away, and are then deposited on the wafer. The Applied Endura PVD system offers various advanced metal deposition processes, including aluminum, aluminum alloys, cobalt, titanium nitride, tantalum/tantalum nitride, tungsten/tungsten nitride, nickel, vanadium and copper. Introduced 24 years ago, the Company's Applied Endura platform is the most successful metal deposition system in the history of the semiconductor industry.

The Applied Endura CuBS (copper barrier/seed) PVD system is widely used by customers for fabricating copper-based chips. The system deposits a tantalum-based barrier film that prevents copper material from entering other areas of the device and then a copper seed layer that primes the structure for the subsequent deposition of bulk copper. The Applied Endura CuBS RFX PVD system extends cost-effective CuBS technology to the 2Xnm node. The Applied Endura Avenir™ RF PVD system sequentially deposits the multiple metal film layers that form the heart of the industry's new, faster, metal gate transistors. The Applied Endura iLB PVD/CVD system enables customers to shrink their speed-critical contact structures for 20nm and below devices. The Applied Endura Amber™ PVD system uses copper reflow technology to achieve rapid, void-free fill of interconnect structures at virtually any device node.

In 2014, Applied introduced the Endura Ventura™ PVD system, incorporating the latest industry-leading PVD technologies. The Ventura system supports the use of titanium in volume manufacturing as an alternative barrier material and expands Applied's comprehensive toolset for wafer level packaging applications, including through silicon vias, redistribution layers, and bump technology used to connect the die to the substrates.

Applied's Endura system has also been used for many years in back-end applications to deposit metal layers before final bump or wire bonding packaging steps are performed. Additionally, the Applied Charger® UBM PVD system, which is specifically designed for under-bump metallization (UBM) and other back-end processes, features linear architecture for reliable performance and very high productivity at a low cost per wafer.

## ***Etch***

Etching is used many times throughout the IC manufacturing process to selectively remove material from the surface of a wafer. Before etching begins, the wafer is coated with a light-sensitive film, called photoresist. A photolithography process then projects the circuit pattern onto the wafer. Etching removes material only from areas dictated by the photoresist pattern. Applied offers systems for etching dielectric, metal, and silicon films to meet the requirements of advanced processing.

For etching silicon, the Applied Centris AdvantEdge™ Mesa™ system features eight process chambers for high wafer output and proprietary system intelligence software to assure every process on every chamber precisely matches. The system also saves on power, water and gas consumption, helping customers to lower operating costs and support their sustainable manufacturing initiatives. Chip manufacturers are also beginning to employ 3D architectures in advanced memory chips to provide higher-density storage capacity. These structures require the precise etching of exceptionally deep and narrow structures. To meet this industry requirement, Applied offers its Applied Centura Avatar™ dielectric etch system that can etch holes and trenches up to 80:1 depth-to-width aspect ratios. Also for 3D chip manufacturing, the Applied Centura Silvia® system is specifically designed for etching small, deep holes for TSV applications.

## ***Rapid Thermal Processing***

RTP is a process in which a wafer is subjected to rapid bursts of intense heat that can take the wafer from room temperature to more than 1,000 degrees Celsius in less than 10 seconds. A rapid thermal process is used mainly for annealing, which modifies the properties of deposited films. The Applied Centura Radiance® Plus and Applied Vantage® RadOx™ RTP systems feature advanced RTP technology with differing platform designs. While the multi-chamber Centura platform offers exceptional process flexibility, the streamlined two-chamber Vantage platform is designed for dedicated high-volume manufacturing. These single-wafer RTP systems are also used for growing high quality oxide and oxynitride films, deposition steps that traditional large batch furnaces can no longer achieve with the necessary precision and control.

Applied's latest RTP systems address the critical need for controlling wafer temperature to increase chip performance and yield. The laser-based Applied Vantage Astra™ millisecond anneal system abruptly raises the surface temperature of the wafer locally to modify material properties at the atomic level. The Applied Vantage Vulcan system, the first RTP system to heat the wafer entirely from the backside, brings a new level of precision and control to the anneal process, allowing chipmakers to produce more high-performance devices per wafer.

## ***Ion Implantation***

Ion implantation is a key technology for forming transistors and is used many times during chip fabrication. During ion implantation, wafers are bombarded by a beam of electrically-charged ions, called dopants, which change the electrical properties of the exposed surface films. These dopants are accelerated to an energy that permits them to penetrate the substrate at a precise quantity and depth. Dopant concentration is determined by controlling the number of ions in the beam and the number of times the wafer passes through the beam, while the depth of the dopants is determined by the energy of the beam. Ion implantation systems may also be used in other areas of IC manufacturing to modify the material properties of the semiconductor devices, as well as in manufacturing crystalline-silicon solar cells.

Applied offers a line of single-wafer ion implantation equipment that covers the entire energy and current range required to manufacture advanced devices. The VIISa 3000XP implanter delivers the angle precision required for advanced high-energy applications, while the VIISa 900XP implanter provides medium current precision doping. The VIISa PLAD implanter enables manufacturers to rapidly implant high dopant concentrations over the entire wafer using a low-energy process that preserves sensitive circuit features in next-generation devices. The VIISa Trident high current ion implanter provides the precise dose and angle control needed for advanced transistor structures.

## ***Chemical Mechanical Planarization***

The CMP process removes material from a wafer to create a flat (planarized) surface. This process allows subsequent photolithography patterning and material deposition steps to occur with greater accuracy, resulting in more highly uniform film layers with minimal thickness variations. Applied has led the industry with its 300mm Applied Reflexion® LK system, with features such as integrated cleaning, film measurement and process control capabilities.

Applied's latest CMP product, the Applied Reflexion LK Prime™, is a critical enabler for FinFET gate and 3D NAND staircase structures.

## ***Metrology and Wafer Inspection***

Applied offers several products for locating, measuring and analyzing defects and features on the wafer during various stages of the fabrication process. These systems enable customers to characterize and control critical dimension (CD) and defect issues, especially at advanced generation technology nodes.

*Critical Dimension and Defect Review Scanning Electron Microscopes (CD-SEMs and DR-SEMs)* — Scanning electron microscopes (SEMs) use an electron beam to form images of microscopic features of a patterned wafer at extremely high magnification. Applied's SEM products provide customers with full automation, along with the high accuracy and sensitivity needed for measuring very small CDs. The Applied VeritySEM<sup>®</sup> 4i+ metrology system uses proprietary SEM imaging technology to enable precise control of the lithography and etching processes, measuring CDs at a precision of less than 0.3nm. Applied's OPC Check<sup>™</sup> software for the VeritySEM system performs automated qualification of OPC-based (optical proximity correction) chip designs, significantly reducing mask verification time over conventional manual methods.

DR-SEMs review defects on the wafer (such as particles, scratches or residues) that are first located by a defect detection system and then classify the defects to identify their source. The high-throughput, fully automatic Applied SEMVision<sup>™</sup> Defect Analysis products enable customers to use this technology as an integral part of their production lines to analyze critical defects with industry-leading throughput. The Applied SEMVision G6 system, designed to accelerate time-to-yield for leading-edge chip manufacturing at the 1Xnm node and beyond and enhanced by the Purity<sup>™</sup> Automatic Defect Classification (ADC), is the most advanced of the SEMVision family of products.

*Wafer Inspection* — Using deep ultraviolet (DUV) laser-based technology, defects can be detected on patterned wafers (wafers with printed circuit images) as they move between processing steps. Defects include particles, open circuit lines, and shorts between lines. The Applied UVision<sup>®</sup> 6 wafer inspection system detects yield-limiting defects in the critical patterning layers of logic and memory devices.

## ***Mask Making***

Masks are used by photolithography systems to transfer microscopic circuit designs onto wafers. Since an imperfection in a mask may be replicated on the wafer, the mask must be virtually defect-free. Applied provides systems for etching and inspecting masks.

Applied's Tetra<sup>™</sup> systems have been used by mask makers worldwide to etch the majority of high-end masks including 28nm/14nm nodes. The Applied Centura Tetra EUV (extreme ultraviolet) Advanced Reticle Etch system fabricates leading-edge masks at 22nm and smaller dimensions. The Applied Aera3<sup>™</sup> Mask inspection uses sophisticated aerial imaging technology that allows users to immediately see how the pattern on the mask will appear on the wafer, revealing only the defects most likely to print and significantly reducing inspection time. These systems also address the challenge of fabricating emerging EUV lithography masks.

## Applied Global Services Segment

The Applied Global Services segment encompasses services, products and integrated solutions to optimize equipment and fab performance and productivity. Leveraging the Company's experience with complex manufacturing technology and processes, skilled equipment and process engineers are deployed at or near customer sites in more than a dozen countries to support approximately 33,000 installed Applied semiconductor, display and solar manufacturing systems worldwide. Applied offers the following general types of services and products under the Applied Global Services segment:

*Fab and Equipment Services* — Applied's fab and equipment services are designed to help customers improve cost of ownership, process control and device performance. They include corrective and preventive maintenance programs, comprehensive spare parts packages, and consulting and advanced service offerings.

For example, Applied Performance Services offers customers comprehensive equipment support with performance-based pricing and predictable costs. This program includes Applied's ExpertConnect remote diagnostic capability, providing specialized support around the clock. Applied FabVantage™ Consulting Services are delivered by teams of technology, equipment and engineering experts who provide key insights to help customers solve some of their most difficult manufacturing challenges. Applied's TechEdge™ advanced service offerings combine equipment and engineering expertise with software and connectivity technologies to address manufacturing issues like excursion control and predictive maintenance.

*Legacy Systems* — Applied offers products to extend the performance and productive life of 200mm semiconductor fabrication plants, including new and remanufactured 200mm equipment, system enhancements to lower cost of ownership and extend technology, and fab transition services. Applied's 200mm systems are available in production-proven technologies that provide productive, cost-effective manufacturing solutions for mainstream, as well as specialty processes including micro-electro-mechanical systems (MEMS), power transistors and image sensors.

*Automation Systems* — Applied offers automated factory-level and tool-level control software systems for semiconductor, display and solar manufacturing facilities. These enterprise solutions include manufacturing execution systems (MES) to automate the production of wafers, display and solar substrates; advanced process control systems; and scheduling and materials handling control systems.

Applied also offers computerized maintenance management systems, performance tracking, and modeling and simulation tools for improving asset utilization. Applied's E3™ equipment engineering system solution, for example, integrates all critical equipment automation and process control components.

## Display Segment

Applied's products for manufacturing liquid crystal displays (LCDs), organic light-emitting diodes (OLEDs), and other display technologies for televisions, personal computers (PCs), tablets, smartphones, and other consumer-oriented devices are reported under its Display segment. While similarities exist between the technologies utilized in chipmaking and display fabrication, the most significant differences are in the size and composition of the substrate. Substrates used to manufacture display panels can be more than 120 times larger in area than 300mm wafers and are made of glass, while wafers used in semiconductor fabrication are made of silicon.

Applied supplies systems that process and test different glass substrate sizes. To meet consumer demand for larger, more cost-effective LCD TVs, Applied's generation (Gen) 10 systems can process substrates sized at approximately 2.85 x 3.05 meters, with each substrate enabling the production of up to six 65-inch LCD TV screens.

Applied is also extending its core LCD technology to enable ultra-high resolution displays for next-generation smartphones, tablet PCs, and OLED TVs. These higher-performance displays are fabricated using newer materials such as low-temperature polysilicon (LTPS) and metal oxide films in the transistor layer of the panel to gain significantly faster switching speeds. Applied also offers plasma-enhanced CVD (PECVD) products for depositing LTPS films with its AKT PX family of systems, which are available for a range of display substrate sizes to enable manufacturers to achieve economies of scale.



Applied also offers technology for fabricating advanced metal oxide-based transistors in displays. The AKT-PiVot™ PVD system, which features rotary cathode array technology, deposits indium gallium zinc oxide (IZGO) film to form the transistor channel. The AKT-PECVD system is used to deposit the dielectric film needed to insulate the transistor gate. Together, these systems offer a cost-effective solution for producing smaller, faster switching pixels to create higher resolution screens.

For manufacturing the color filter of LCD panels, Applied offers the AKT-NEW ARISTO™ system for transparent conductive oxide film deposition. The Applied AKT-AristoTwin system is used for manufacturing touch-enabled displays. The system's two independent processing tracks achieve more capacity with a smaller footprint than traditional platforms.

To complement these systems, Applied also offers a line of electron beam array test (EBT) systems for testing substrates during production for defective pixels and other imperfections, including the Gen-10 AKT-90K EBT product. Featuring one of the industry's fastest and most accurate pixel test technologies, the EBT systems' non-contact test technology enables the safe testing of thin film transistors (TFTs) used in high-value TV panels without damaging or scratching the display.

## **Energy and Environmental Solutions Segment**

The Energy and Environmental Solutions segment includes systems for manufacturing wafer-based crystalline silicon (c-Si) cells and modules. These systems are designed to increase the conversion efficiency and yields of solar PV devices in order to help reduce the cost per watt of solar generated electricity.

Solar equipment applications include:

*Cell manufacturing* — Applied offers a comprehensive line of automated metallization and test systems for c-Si cell manufacturing. These systems include high-precision printing capability for increasing the efficiency of c-Si solar cells.

*Wafer manufacturing* — Applied's precision wafering systems crop and square silicon ingots into bricks and slice silicon bricks into thin wafers. These wafers are subsequently processed by cell manufacturing systems to create the PV cells used in making c-Si solar panels.

*Ion implantation* — Applied offers ion implantation technology for c-Si cell manufacturing, a process that enables the volume production of high efficiency c-Si cells with better yield and reduced cost.

The Energy and Environmental Solutions segment also includes high-throughput, roll-to-roll vacuum web coating systems for high-performance deposition of a range of films on flexible substrates for flexible electronics, packaging and other applications. These include the SmartWEB™ system, a modular platform for sputtering multiple thin layers on flexible roll-to-roll plastic substrates for manufacturing flexible touch panels, flexible displays, and other applications, at high throughput.

## Backlog

Applied manufactures systems to meet demand represented by order backlog and customer commitments. Backlog consists of: (1) orders for which written authorizations have been accepted and assigned shipment dates are within the next 12 months, or shipment has occurred but revenue has not been recognized; and (2) contractual service revenue and maintenance fees to be earned within the next 12 months.

Backlog by reportable segment as of October 26, 2014 and October 27, 2013 was as follows:

	2014		2013	
	(In millions, except percentages)			
Silicon Systems Group . . . . .	\$ 1,400	48%	\$ 1,295	55%
Applied Global Services . . . . .	775	27%	591	25%
Display . . . . .	593	20%	361	15%
Energy and Environmental Solutions . . . . .	149	5%	125	5%
Total . . . . .	<u>\$ 2,917</u>	<u>100%</u>	<u>\$ 2,372</u>	<u>100%</u>

Applied's backlog on any particular date is not necessarily indicative of actual sales for any future periods, due to the potential for customer changes in delivery schedules or cancellation of orders. Customers may delay delivery of products or cancel orders prior to shipment, subject to possible cancellation penalties. Delays in delivery schedules and/or a reduction of backlog during any particular period could have a material adverse effect on Applied's business and results of operations.

## Manufacturing, Raw Materials and Supplies

Applied's manufacturing activities consist primarily of assembly, test and integration of various proprietary and commercial parts, components and subassemblies (collectively, parts) that are used to manufacture systems. Applied has implemented a distributed manufacturing model under which manufacturing and supply chain activities are conducted in various countries, including the United States, Europe, Israel, Singapore, Taiwan, and other countries in Asia, and assembly of some systems is completed at customer sites. Applied uses numerous vendors, including contract manufacturers, to supply parts and assembly services for the manufacture and support of its products. Although Applied makes reasonable efforts to assure that parts are available from multiple qualified suppliers, this is not always possible. Accordingly, some key parts may be obtained from only a single supplier or a limited group of suppliers. Applied seeks to reduce costs and to lower the risks of manufacturing and service interruptions by: (1) selecting and qualifying alternate suppliers for key parts; (2) monitoring the financial condition of key suppliers; (3) maintaining appropriate inventories of key parts; (4) qualifying new parts on a timely basis; and (5) locating certain manufacturing operations in close proximity to suppliers and customers.

## Research, Development and Engineering

Applied's long-term growth strategy requires continued development of new products, including products that enable expansion into new markets. The Company's significant investment in research, development and engineering (RD&E) has generally enabled it to deliver new products and technologies before the emergence of strong demand, thus allowing customers to incorporate these products into their manufacturing plans at an early stage in the technology selection cycle. Applied works closely with its global customers to design systems and processes that meet their planned technical and production requirements. Product development and engineering organizations are located primarily in the United States, as well as in Europe, Israel, Taiwan, and China. In addition, Applied outsources certain RD&E activities, some of which are performed outside the United States, primarily in India and Singapore. Process support and customer demonstration laboratories are located in the United States, China, Taiwan, Europe, and Israel.

Applied's investments in RD&E for product development and engineering programs to create or improve products and technologies over the last three years were as follows: \$1.4 billion (16 percent of net sales) in fiscal 2014, \$1.3 billion (18 percent of net sales) in fiscal 2013, and \$1.2 billion (14 percent of net sales) in fiscal 2012. Applied has spent an average of 13 percent of net sales in RD&E over the last five years. In addition to RD&E for specific product technologies, Applied maintains ongoing programs for automation control systems, materials research, and environmental control that are applicable to its products.

## Marketing and Sales

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

	2014		2013		2012	
	(In millions, except percentages)					
Taiwan .....	\$ 2,702	30%	\$ 2,640	35%	\$ 2,411	28%
China .....	1,608	18%	787	11%	783	9%
Korea .....	965	10%	924	12%	1,897	22%
Japan .....	817	9%	685	9%	704	8%
Southeast Asia .....	356	4%	320	4%	312	3%
Asia Pacific .....	6,448	71%	5,356	71%	6,107	70%
United States .....	1,966	22%	1,473	20%	1,749	20%
Europe .....	658	7%	680	9%	863	10%
Total .....	\$ 9,072	100%	\$ 7,509	100%	\$ 8,719	100%

Because of the highly technical nature of its products, Applied markets and sells products worldwide almost entirely through a direct sales force. Approximately 78 percent of Applied's fiscal 2014 net sales were to regions outside of the United States.

General economic conditions impact Applied's business and financial results. From time to time, the markets in which products are sold experience weak economic conditions that may negatively impact sales. Applied's business is cyclical, based on capital equipment investment by major semiconductor, flat panel display, solar PV and other manufacturers. Customers' expenditures depend on many factors, including: anticipated market demand and pricing for semiconductors, display, solar cells and modules, and other substrates; the development of new technologies; customers' factory utilization; capital resources and financing; government policies and incentives; and global and regional economic conditions. In addition, a significant driver in the semiconductor and display industries is end-demand for mobile consumer products, which is characterized by seasonality that impacts the timing of customer investments in manufacturing equipment and, in turn, Applied's business.

Information on net sales to unaffiliated customers and long-lived assets attributable to Applied's geographic regions is included in Note 16 of Notes to Consolidated Financial Statements. The following companies accounted for at least 10 percent of Applied's net sales in fiscal 2014, 2013, or 2012, which were for products in multiple reportable segments.

	2014	2013	2012
Taiwan Semiconductor Manufacturing Company Limited. ....	21%	27%	16%
Samsung Electronics Co., Ltd. ....	12%	13%	20%

## Competition

The industries in which Applied operates are highly competitive and characterized by rapid technological change. Applied's ability to compete generally depends on its ability to timely commercialize its technology, continually improve its products, and develop new products that meet constantly evolving customer requirements. Significant competitive factors include technical capability and differentiation, productivity, cost-effectiveness and the ability to support a global customer base. The importance of these factors varies according to customers' needs, including product mix and respective product requirements, applications, and the timing and circumstances of purchasing decisions. Substantial competition exists in all areas of Applied's business. Competitors range from small companies that compete in a single region, which may benefit from policies and regulations that favor domestic companies, to global, diversified companies. Applied's ability to compete requires a high level of investment in RD&E, marketing and sales, and global customer support activities. Management believes that many of Applied's products have strong competitive positions.

The competitive environment for each segment is described below.

The semiconductor industry has been increasingly driven by consumer demand for lower-cost electronic products with increased capability, particularly mobility devices such as smartphones and tablets. As a result, products within the Silicon Systems Group segment are subject to significant changes in customer requirements, including transitions to smaller dimensions, new materials and an increasing number of applications. While certain existing technologies may be adapted to new requirements, some applications create the need for an entirely different technological approach. The rapid pace of technological change can quickly diminish the value of current technologies and products and create opportunities for existing and new competitors. Applied offers a variety of technologically-differentiated products that must continuously evolve to satisfy customers' requirements in order to compete effectively in the marketplace. Applied allocates resources among its numerous product offerings and therefore may decide not to invest in an individual product to the same degree as competitors who specialize in fewer products. There are a number of competitors serving the semiconductor manufacturing equipment industry, with some offering a single product line and others offering multiple product lines. These competitors range from suppliers serving a single region to global, diversified companies. The competitive environment for the Silicon Systems Group in fiscal 2014 reflected continued investment in the semiconductor industry driven by capacity demand for mobile computing. Foundry customers led capacity additions for advanced technology nodes and were the primary drivers for net sales of the Silicon Systems Group in fiscal 2014.

Products and services within the Applied Global Services segment complement the Silicon Systems Group, Display, and Energy and Environmental Solutions segments' products, in markets that are characterized by demanding worldwide service requirements and a diverse group of numerous competitors. To compete effectively, Applied offers products and services to improve tool performance, lower overall cost of ownership, and increase the productivity and energy efficiency of customers' fab operations. Significant competitive factors include productivity, cost-effectiveness, and the level of technical service and support. The importance of these factors varies according to customers' needs and the type of products or services offered. Industry conditions that affected Applied Global Services' sales of spares and services in fiscal 2014 were principally semiconductor manufacturers' wafer starts and factory utilization rates.

Products in the Display segment are generally subject to strong competition from a number of major competitors primarily in Asia. Applied holds established market positions with its technically-differentiated LCD and OLED manufacturing solutions for PECVD, color filter PVD, PVD array, PVD touch panel, and TFT array testing, although its market position could change quickly due to customers' evolving requirements. The competitive environment for the Display segment in fiscal 2014 was characterized by an increase in demand for TV manufacturing equipment, particularly in China, and continued demand for equipment to manufacture displays for high-end mobile devices. Demand for larger LCD TVs continues to drive investment in display equipment, although the TV manufacturing sector remains susceptible to cyclical conditions. Important factors affecting the competitive position of Applied's Display products include: industry trends, Applied's ability to innovate and develop new products, and the extent to which Applied's products are technically-differentiated, as well as which customers within a highly concentrated customer base are making capital equipment investments and Applied's existing position at these customers.

Applied's products within the Energy and Environmental Solutions segment compete in several diverse market areas, including the c-Si solar equipment market. The solar equipment market has been characterized by significant pressure to reduce customers' overall production costs and improve performance. In fiscal 2014, the solar end-market demand continued to be robust, as the industry further reduced manufacturing costs, enabling PV-generated electricity to reach parity with retail electricity rates in an increasing number of areas around the world. However, investment levels in capital equipment remained low, with spending focused on upgrades and improving conversion efficiencies as global solar PV production capacity exceeds end-demand, and the rationalization of capacity will be an important factor in determining when supply and demand comes back into balance. Adding to market uncertainty are international trade actions that have resulted in the imposition of some import sanctions, with others still under consideration. With respect to its c-Si equipment products, Applied competes with a number of other companies, some of which have significant experience with solar applications and some of which are new entrants to the solar equipment market. The solar industry downturn has affected many of Applied's competitors and customers adversely, with some companies going through extensive financial and organizational restructuring, and in some instances ceasing operations.

## **Patents and Licenses**

Management believes that Applied's competitive position significantly depends upon the Company's research, development, engineering, manufacturing and marketing capabilities, and not just on its patent position. However, protection of Applied's technological assets through enforcement of its intellectual property rights, including patents, is important. Therefore, Applied's practice is to file patent applications in the United States and other countries for inventions that Applied considers significant. Applied has approximately 10,500 patents in the United States and other countries, and additional applications are pending for new inventions. Although Applied does not consider its business materially dependent upon any one patent, the rights of Applied and the products made and sold under its patents, taken as a whole, are a significant element of Applied's business. In addition to patents, Applied also possesses other intellectual property, including trademarks, know-how, trade secrets, and copyrights.

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

In the normal course of business, Applied periodically receives and makes inquiries regarding possible patent infringement. In responding to such inquiries, it may become necessary or useful for Applied to obtain or grant licenses or other rights. However, there can be no assurance that such licenses or rights will be available to Applied on commercially reasonable terms, or at all. If Applied is not able to resolve or settle claims, obtain necessary licenses on commercially reasonable terms, and/or successfully prosecute or defend its position, Applied's business, financial condition and results of operations could be materially and adversely affected.

## **Environmental Matters**

Applied maintains a number of environmental, health, and safety programs that are primarily preventive in nature. As part of these programs, Applied regularly monitors ongoing compliance with applicable laws and regulations. In addition, Applied has trained personnel to conduct investigations of any environmental, health, or safety incidents, including, but not limited to, spills, releases, or possible contamination.

Compliance with federal, state and local environmental, health, and safety provisions, including, but not limited to, those regulating the discharge of materials into the environment, remedial agreements, and other actions relating to the environment have not had, and are not expected to have, a material effect on Applied's capital expenditures, competitive position, financial condition, or results of operations.

The most recent report on Applied's environmental, health, and safety activities can be found in the Company's latest Citizenship Report on its website at <http://www.appliedmaterials.com/company/corporate-responsibility/reports>. The Citizenship Report is updated periodically. This website address is intended to be an inactive textual reference only. None of the information on, or accessible through, Applied's website is part of this Form 10-K or is incorporated by reference herein.

## **Employees**

At October 26, 2014, Applied employed approximately 14,000 regular employees and 950 temporary employees. In the high-technology industry, competition for highly-skilled employees is intense. Applied believes that its future success is highly dependent upon its continued ability to attract, retain, and motivate qualified employees. There can be no assurance that Applied will be able to attract, hire, assimilate, motivate, and retain a sufficient number of qualified employees.

## Executive Officers of the Registrant

The following table and notes set forth information about Applied's executive officers:

<u>Name of Individual</u>	<u>Position</u>
Michael R. Splinter(1)	Executive Chairman of the Board of Directors
Gary E. Dickerson(2)	President, Chief Executive Officer
Randhir Thakur(3)	Executive Vice President, General Manager, Silicon Systems
Ginetto Addiego(4)	Senior Vice President, Engineering
Robert J. Halliday(5)	Senior Vice President, Chief Financial Officer
Thomas F. Larkins(6)	Senior Vice President, General Counsel and Corporate Secretary
Omkaram Nalamasu(7)	Senior Vice President, Chief Technology Officer
Ali Salehpour(8)	Senior Vice President, General Manager, New Markets and Service Group
Charles Read(9)	Corporate Vice President, Corporate Controller and Chief Accounting Officer

- (1) Mr. Splinter, age 64, has been Executive Chairman of the Board of Directors of Applied since September 2013 and Chairman of the Board of Directors since March 2009. Mr. Splinter served as Chief Executive Officer of Applied from April 2003 until September 2013, and also as President from April 2003 to June 2012. Prior to joining Applied, Mr. Splinter was an executive at Intel Corporation, a manufacturer of chips and computer, networking and communications products, where he held a number of positions, including Executive Vice President and Director of Sales and Marketing, and Executive Vice President and General Manager of the Technology and Manufacturing Group.
- (2) Mr. Dickerson, age 57, has been Chief Executive Officer and a member of the Board of Directors of Applied since September 2013. Mr. Dickerson was named President of Applied in June 2012, after joining Applied following its acquisition of Varian Semiconductor Equipment Associates, Inc. (Varian) in November 2011. Mr. Dickerson had served as Chief Executive Officer and a director of Varian since 2004. Prior to joining Varian in 2004, Mr. Dickerson served 18 years with KLA-Tencor Corporation (KLA-Tencor), a supplier of process control and yield management solutions for the semiconductor and related industries, where he held a variety of operations and product development roles, including President and Chief Operating Officer. Mr. Dickerson started his semiconductor career in manufacturing and engineering management at General Motors' Delco Electronics Division and then AT&T, Inc.
- (3) Dr. Thakur, age 52, has been Executive Vice President, General Manager, Silicon Systems Group since December 2009, after serving as Senior Vice President, General Manager Silicon Systems Group since October 2009. He had served as Senior Vice President, General Manager, Thin Film Solar and Display, and Senior Vice President, General Manager, Strategic Operations since rejoining Applied in May 2008. Dr. Thakur previously was with Applied from 2000 to 2005 in a variety of executive roles, including Group Vice President, General Manager for Front End Products. From September 2005 to May 2008, Dr. Thakur served as Executive Vice President of Technology and Fab Operations at SanDisk Corporation, a data storage solutions manufacturer, and as head of SanDisk's worldwide operations. Dr. Thakur also serves on the board of directors of Marvell Technology Group Ltd.
- (4) Dr. Addiego, age 55, has been Senior Vice President, Engineering since rejoining Applied in March 2014. He previously was with Applied from 1996 to 2005, leading various product groups as well as global organizations, including Global Operations, Manufacturing, Foundation Engineering, and Information Technology. From March 2011 to March 2014, Dr. Addiego was President and Chief Operating Officer of Ultra Clean Technology Corp., a supplier of critical subsystems for the semiconductor capital equipment, medical device, energy, research, and flat panel industries. From February 2005 to March 2011, Dr. Addiego worked at Novellus Systems, Inc., a provider of advanced process equipment for the semiconductor industry, where he served as Executive Vice President and Chief Administrative Officer and Executive Vice President of Corporate Operations.
- (5) Mr. Halliday, age 60, has been Senior Vice President, Chief Financial Officer of Applied since February 2013. He previously served as a Group Vice President and General Manager in Applied's Silicon Systems Group segment following the completion of Applied's acquisition of Varian in November 2011. Mr. Halliday had served as Chief Financial Officer of Varian since 2001 and as an Executive Vice President of Varian since 2004. He was Varian's Treasurer from November 2002 to October 2006 and from February 2009 to February 2010.

- (6) Mr. Larkins, age 53, has been Senior Vice President, General Counsel and Corporate Secretary of Applied since November 2012. Previously, Mr. Larkins was employed by Honeywell International Inc., a diversified global technology and manufacturing company, where he was Vice President, Corporate Secretary and Deputy General Counsel from 2002 until joining Applied. Mr. Larkins served in various other positions at Honeywell (formerly AlliedSignal) after joining the company in 1997.
- (7) Dr. Nalamasu, age 56, has been Senior Vice President, Chief Technology Officer since June 2013, and had served as Group Vice President, Chief Technology Officer from January 2012 to June 2013, and as Corporate Vice President, Chief Technology Officer from January 2011 to January 2012. Upon joining Applied in June 2006 until January 2011, Dr. Nalamasu was an Appointed Vice President of Research and served as Deputy Chief Technology Officer and General Manager for the Advanced Technologies Group. From 2002 to 2006, Dr. Nalamasu was a NYSTAR distinguished professor of Materials Science and Engineering at Rensselaer Polytechnic Institute, where he also served as Vice President of Research from 2005 to 2006. Prior to Rensselaer, Dr. Nalamasu served in several leadership roles at Bell Laboratories.
- (8) Mr. Salehpour, age 53, has been Senior Vice President, General Manager, New Markets and Service Group since September 2013. He previously served as Group Vice President, General Manager Energy and Environmental Solutions and Display Business Groups, since joining Applied in November 2012. Prior to Applied, Mr. Salehpour worked at KLA-Tencor for 16 years, where he served as a Senior Vice President and General Manager.
- (9) Mr. Read, age 48, has been Corporate Vice President, Corporate Controller and Chief Accounting Officer of Applied since joining the Company in September 2013. Prior to Applied, Mr. Read worked at Brocade Communications Systems, Inc., a provider of semiconductor and software-based network solutions, since October 2002, where he most recently served as Vice President, Corporate Controller. Prior to Brocade, Mr. Read worked at KPMG LLP, an audit, tax and advisory firm, from 1996 to 2002.

#### **Available Information**

Applied's website is <http://www.appliedmaterials.com>. Applied makes available free of charge, on or through its website, its annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with, or furnishing them to, the SEC. This website address is intended to be an inactive textual reference only. None of the information on, or accessible through, Applied's website is part of this Form 10-K or is incorporated by reference herein.

**Item 1A: Risk Factors**

The following factors could materially and adversely affect Applied's business, financial condition or results of operations and cause reputational harm, and they should be carefully considered in evaluating the Company and its business, in addition to other information presented elsewhere in this report.

***The industries that Applied serves are volatile and difficult to predict.***

As a supplier to the global semiconductor, flat panel display, and solar industries, Applied is subject to business cycles, the timing, length and volatility of which can be difficult to predict and which vary by reportable segment. These industries historically have been cyclical due to sudden changes in customers' requirements for new manufacturing capacity and advanced technology, which depend in part on customers' capacity utilization, production volumes, access to affordable capital, end-use demand, consumer buying patterns, and inventory levels relative to demand, as well as the rate of technology transitions and general economic conditions. These changes have affected the timing and amounts of customers' purchases and investments in technology, and continue to affect Applied's orders, net sales, operating expenses and net income.

To meet rapidly changing demand in the industries it serves, Applied must accurately forecast demand and effectively manage its resources and production capacity for each of its segments as well as across multiple segments, 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.

***Applied is exposed to risks associated with the uncertain global economy.***

Uncertain global economic conditions and weak or moderate growth in China, Europe, and the United States, along with uncertainties in the financial markets, national debt and fiscal concerns in various regions, and government austerity measures, are posing challenges to the industries in which Applied operates. The markets for semiconductors and flat panel displays in particular depend largely on consumer spending, while the solar market depends in part on government incentives and the availability of financing for PV installations. 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 placing orders for equipment or services, which may in turn reduce Applied's net sales, reduce backlog, and affect Applied's ability to convert backlog to sales. 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 and/or additional inventory or bad debt expense for Applied. These conditions may similarly affect key suppliers, which could impair their ability to deliver parts and result in delays for Applied's products or added costs. In addition, these conditions may lead to strategic alliances by, or consolidation of, other equipment manufacturers, which could adversely affect Applied's ability to compete effectively.

Uncertainty about future economic and industry conditions also makes 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. Applied may be required to implement additional cost reduction efforts, including restructuring activities, which may adversely affect Applied's ability to capitalize on opportunities. In addition, Applied maintains an investment portfolio that is subject to general credit, liquidity, foreign exchange, market and interest rate risks. The risks to Applied's investment portfolio may be exacerbated if financial market conditions deteriorate 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.



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

The global semiconductor, flat panel display, solar and related industries in which Applied operates are characterized by ongoing changes affecting some or all of these industries that impact demand for and/or the profitability of Applied's products, 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 foundry and other customers' businesses and, in turn, on demand for Applied's products;
- increasing capital requirements for building and operating new fabrication plants and customers' ability to raise the necessary capital;
- differences in growth rates among the semiconductor, display and solar industries;
- 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 to continually reduce the total cost of manufacturing system ownership, due in part to greater demand for lower-cost consumer electronics compared to business information technology spending;
- 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;
- 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, displays and solar PVs, 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 has been and continues to be derived from sales of manufacturing equipment by the Silicon Systems Group to the global semiconductor industry. In addition, a majority of the revenues of Applied Global Services is from sales of service products to semiconductor manufacturers. The semiconductor industry is characterized by ongoing changes particular to this industry that impact demand for and/or the profitability of Applied's semiconductor equipment and service products, including:

- the increasing cost of research and development due to many factors, including: decreasing linewidths on a chip, 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 linewidths 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 under-penetrated segments, such as etch and inspection;

- the growing demand for mobility products, such as tablets and smartphones, and corresponding industry investment in devices that require fewer Applied products to manufacture, such as NAND flash memory, than are needed to make devices used in other applications, such as DRAM for personal computers;
- the adoption of cloud-based memory storage particularly for mobility products, and the associated inhibiting effect on NAND bit growth rates;
- the increasing frequency and complexity of technology transitions and inflections, such as 3-D transistors and advanced interconnects, and Applied's ability to timely and effectively anticipate and adapt to these changes;
- shorter cycle times between order placements by customers (particularly foundries) and product shipment, 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;
- shifts in sourcing strategies by computer and electronics companies 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; and
- 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.

Applied must accurately forecast, and allocate appropriate resources and investment towards addressing, key technology changes and inflections, such as the transition to 20nm devices, in order to enable opportunities for gains. In addition, the proposed industry transition from 300mm to 450mm wafers presents opportunities as well as risks and uncertainties, including those related to cost, technical complexity, timing, and the resulting effect on demand for manufacturing equipment and services.

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

The global flat panel 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, excess production capacity relative to end-use demand, and panel manufacturer profitability. Industry growth has depended primarily on consumer demand for increasingly larger and more advanced TVs and, more recently, on demand for smartphones and other mobile devices, 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/or the profitability of Applied's display products, including:

- the timing and extent of an expansion of manufacturing facilities in China by Chinese display manufacturers and manufacturers from other countries, and the ability of non-Chinese manufacturers to obtain government approvals on a timely basis;
- the rate of transition to larger substrate sizes for TVs and the resulting effect on capital intensity in the industry and on Applied's product differentiation, gross margin and return on investment;
- the importance of new types of display technologies, such as low temperature polysilicon (LTPS), organic light-emitting diode (OLED) and metal oxide, and new touch panel films, such as anti-reflective and anti-fingerprint; and
- uncertainty with respect to future display technology end-use applications and growth drivers.

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

Investment levels in capital equipment for the global solar industry have experienced considerable volatility. In recent years, global solar PV production capacity has exceeded end-use demand, causing customers to significantly reduce or delay investments in manufacturing capacity and new technology, or to cease operations. The global solar market is characterized by ongoing changes specific to this industry that impact demand for and/or the profitability of Applied's solar products, including:

- the need to continually decrease the cost-per-watt of electricity produced by solar PV products to at or below grid parity in more global regions by, among other things, reducing operating costs and increasing throughputs for solar PV manufacturing, and improving the conversion efficiency of solar PVs;
- the variability and uncertainty of government energy policies and their effect in influencing the rate of growth of the solar PV market, including the availability and amount of incentives for solar power such as tax credits, feed-in tariffs, rebates, renewable portfolio standards that require electricity providers to sell a targeted amount of energy from renewable sources, and goals for solar installations on government facilities;
- the number of solar PV manufacturers and amount of global production capacity for solar PVs, primarily in China;
- the filing of regulatory unfair trade proceedings against solar PVs from China, where most of Applied's solar equipment sales are concentrated, which has resulted in the assessment of duties on solar cells and modules imported from China and led to other trade-related conflicts and outcomes;
- the varying levels of operating and industry experience among solar PV manufacturers and the resulting differences in the nature and extent of customer support services requested from Applied;
- challenges associated with marketing and selling manufacturing equipment and services to a diverse and diffuse customer base;
- the growth of market segments in which Applied does not participate, such as passivation and furnaces;
- the availability and condition of used solar equipment, which impacts demand for new equipment;
- complexities associated with government-affiliated entities as customers, for example in China;
- the financial condition of solar PV customers and their access to affordable financing and capital; and
- solar panel manufacturing overcapacity, which has led to weak industry operating performance and outlooks, deterioration of the solar equipment market, and a worsening of the financial condition of certain customers.

***Applied must continually innovate, commercialize its products, and adapt its business and product offerings to respond to competition and rapid technological changes.***

As Applied operates in a highly competitive environment in which innovation is critical, its future success depends on many factors, including the effective commercialization and customer acceptance of its equipment, services and related products. In addition, Applied must successfully execute its growth strategy, including enhancing its presence in existing markets, expanding into related markets, cultivating new markets and exceeding industry growth rates, while constantly improving its operational performance. The development, introduction and support of a broadening set of products in more collaborative, geographically diverse, open and varied competitive environments have grown more complex and expensive over time. Furthermore, new or improved products may entail higher costs and reduced profits. Applied's performance may be adversely affected if it does not timely, cost-effectively and successfully:

- identify and address technology inflections, market changes, new applications, customer requirements and end-use demand;
- develop new products (including disruptive technologies), improve and/or develop new applications for existing products, and adapt similar products for use by customers in different applications and/or markets with varying technical requirements;
- differentiate its products from those of competitors and any disruptive technologies, meet customers' performance specifications, appropriately price products, and achieve market acceptance;
- maintain operating flexibility to enable different responses to different markets, customers and applications;
- enhance its worldwide operations across all business segments 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 foster strong customer relationships;

- allocate resources, including people and R&D funding, among Applied’s products and between the development of new products and the enhancement of existing products, as most appropriate and effective for future growth;
- reduce the cost and 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, in turn, volume manufacturing with its customers; and
- implement changes in its design engineering methodology, including those that enable reduction of material costs and cycle time, greater commonality of platforms and types of parts used in different systems, greater effectiveness of product life cycle management, and reduced energy usage and environmental impact.

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

Applied’s semiconductor customer base historically has been, and is becoming even more, highly concentrated as a result of economic and industry conditions. In fiscal 2014, three semiconductor manufacturers accounted for approximately 54 percent of Silicon Systems Group net sales and two customers accounted for 33 percent of Applied’s consolidated net sales. Applied’s display customer base is also highly concentrated, while concentration within Applied’s solar customer base varies depending on the product line but is increasing due to challenging industry conditions. Applied’s customer base is also geographically-concentrated. See Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” for tabular presentations of net sales by geographic region.

In addition, certain customers have experienced significant ownership or management changes, consolidated with other manufacturers, outsourced manufacturing activities, or engaged in collaboration or cooperation arrangements with other manufacturers. Customers have entered into strategic alliances or industry consortia that have increased the influence of key industry participants in technology decisions made by their partners. Also, certain customers are making an increasingly greater percentage of their respective industry’s capital equipment investments. Further, claims or litigation involving key industry participants have resulted and may continue to result in changes in their sourcing strategies and other outcomes. In this environment, contracts or orders from a relatively limited number of manufacturers have accounted for, and are expected to continue to account for, a substantial portion of Applied’s business. The mix and type of customers, and sales to any single customer, may vary significantly from quarter to quarter and from year to year. As Applied’s products are configured to customer specifications, 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, Applied may not be able to replace the business, which could have a material adverse effect on the Company’s results of operations. Major customers may also seek, and on occasion receive, pricing, payment, intellectual property-related, or other commercial terms that are less favorable to Applied.

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

In fiscal 2014, approximately 78 percent of Applied’s net sales were to customers in regions outside the United States. Moreover, China now represents the largest market for various electronic products, such as TVs, PCs, and smartphones. Certain of Applied’s R&D and manufacturing facilities, as well as suppliers to Applied, are also located outside the United States, including in Singapore, Taiwan, China, Korea, Israel, Germany and Italy. Applied is also expanding its business and operations in new countries. The global nature of Applied’s business and operations, combined with the need to continually improve the Company’s operating cost structure, presents challenges, including but not limited to those arising from:

- varying regional and geopolitical 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;
- 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 intellectual property, labor, tax, and import/export laws), as well as the interpretation and application of such laws and regulations;
- global trade issues, including those related to the interpretation and application of import and export licenses, as well as international trade disputes;

- 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 or shipping delays;
- challenges associated with managing more geographically diverse operations and projects, which require an effective organizational structure and appropriate business processes, procedures and controls;
- a more diverse workforce with different experience levels, cultures, customs, business practices and worker expectations;
- 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, euro, Taiwanese dollar, Israeli shekel or Chinese yuan;
- the need to provide sufficient levels of technical support in different locations around the world;
- political instability, natural disasters (such as earthquakes, floods or storms), pandemics, 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;
- the need for an effective business continuity plan if a disaster or other event occurs that could disrupt business operations;
- the need to regularly reassess the size, capability and location of global infrastructure and make appropriate changes;
- cultural and language differences;
- difficulties and uncertainties associated with the entry into new countries;
- hiring and integration of an increasing number of new workers, including in countries such as India and China;
- the increasing need for the workforce to be more mobile and work in or travel to different regions;
- uncertainties with respect to economic growth rates in various countries; and
- uncertainties with respect to growth rates for the manufacture and sale of semiconductors, displays and solar PVs in the developing economies of certain countries.

Many of these challenges are present in China and Korea, which are experiencing significant growth of customers, suppliers and competitors to Applied. Applied further believes that China and Korea present large potential markets for its products and opportunity for growth over the long term, although at lower projected levels of profitability and margins for certain products than historically have been achieved in other regions.

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

Applied has made, and in the future may make, 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 that vary depending on their scale and nature, including but not limited to:

- diversion of management's attention from other operational matters;
- contractual restrictions on the conduct of Applied's business during the pendency of a proposed transaction;
- inability to complete proposed transactions as anticipated or at all and any ensuing obligation to pay a termination fee;
- the failure of acquired businesses to meet or exceed expected returns;
- requirements imposed by government regulators in connection with their review of a transaction, which may include, among other things, divestitures and/or restrictions on the conduct of Applied's existing business or the acquired business;
- ineffective integration of operations, systems, technologies, products or employees, which can impact the ability to realize anticipated synergies or other benefits;

- failure to commercialize purchased technologies;
- initial 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 attract, retain and motivate key employees;
- 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 and/or increases in debt obligations to finance activities associated with a transaction, which reduce the availability of cash flow for general corporate or other purposes;
- 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, and/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 and/or undisclosed commitments or liabilities; 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 and/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. 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.

***The proposed business combination with Tokyo Electron Limited may not be completed or, if completed, the intended benefits may not be fully realized.***

On September 24, 2013, Applied announced an agreement with Tokyo Electron Limited (TEL), a Japanese corporation and global supplier of semiconductor and flat panel display production equipment, and provider of technical support and services for semiconductor, flat panel display and PV panel production equipment, to effect a strategic combination of their respective businesses. Under the agreement, which was amended February 14, 2014, the closing of the transaction is subject to customary conditions, including regulatory approvals. The proposed business combination is subject to the risk factors described immediately above, including the risks that the combination may not be consummated in a timely manner or at all; that required regulatory approvals may not be obtained or may be subject to conditions that reduce the estimated benefits of the combination; that the businesses, operations, systems, technologies, products or employees of Applied and TEL may not be integrated successfully; and, following completion of the transaction, that ineffective integration, changes in laws or regulations, including tax laws or other factors, may impact the combined company's ability to realize anticipated synergies and benefits.

***Operating in multiple industries, and the entry into new markets and industries, entail additional challenges and obligations.***

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 obtained through acquisitions. The entry into different markets involves additional challenges, including those arising from:

- 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;
- Applied's ability to rapidly expand or reduce its operations to meet increased or decreased demand, respectively, and the associated effect on working capital;
- 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 and/or limited funding, evolving business models and/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/or 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 may be subject to certain record-keeping, audit, intellectual property rights-sharing and/or other obligations.

***Manufacturing interruptions or delays could affect Applied's ability to meet customer demand and lead to higher costs, while the failure to estimate customer demand accurately could 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, components and subassemblies (collectively, parts) from suppliers, including contract manufacturers. Some key parts are subject to long lead-times and/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, including China and Korea. Cyclical 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. Further, 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 products or services, increased costs or customer order cancellations as a result of:

- the failure or inability of suppliers to timely deliver sufficient quantities of quality parts on a cost-effective basis;
- volatility in the availability and cost of materials, including rare earth elements;
- difficulties or delays in obtaining required import or export approvals;
- information technology or infrastructure failures; and
- natural disasters or other events beyond Applied's control (such as earthquakes, floods or storms, regional economic downturns, pandemics, social unrest, political instability, terrorism, or acts of war), particularly where it conducts manufacturing.

If a supplier fails to meet Applied's requirements concerning quality, cost, 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. 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 if customers reduce or delay orders, Applied may incur excess 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 key employees, especially in critical positions. Achieving this objective may be difficult due to many factors, including fluctuations in global economic and industry conditions, management changes, Applied's organizational structure, hiring practices of competitors and other companies, 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 effectiveness of Applied's compensation and benefit programs, including its share-based programs. Restructuring programs present 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 various risks related to protection and enforcement of intellectual property rights.***

Applied's success depends in significant part on the protection of its intellectual property and other 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 intellectual property rights may not provide significant competitive advantages if they are circumvented, invalidated, rendered obsolete by the rapid pace of technological change, or if Applied does not adequately protect or assert these rights or obtain necessary licenses on commercially reasonable terms. Furthermore, the laws and practices of other countries, including China, India, Taiwan and Korea, permit the protection and enforcement of Applied's rights to varying extents, which may not be sufficient to adequately protect Applied's rights. In addition, changes in intellectual property laws or their interpretation, such as recent changes in U.S. patent laws, 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.

***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. This data includes confidential information belonging to Applied or its customers or other business partners, as well as personally-identifiable information of individuals. 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 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; the misappropriation, corruption or loss of confidential information and critical data (Applied's and that of third parties); 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.

***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 or 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 (1) be time-consuming and expensive to prosecute, defend or conduct; (2) divert management's attention and other Applied resources; (3) inhibit Applied's ability to sell its products; (4) result in adverse judgments for damages, injunctive relief, penalties and fines; and/or (5) negatively affect Applied's business. There can be no assurance regarding the outcome of current or future legal proceedings, claims or investigations.



***The failure to successfully implement and conduct outsourcing activities and other operational initiatives could adversely affect results of operations.***

To better align its costs with market conditions, locate closer to customers, enhance productivity, and improve efficiencies, Applied conducts certain engineering, software development, manufacturing, sourcing and other operations in regions outside the United States, including India, Taiwan, China, and Korea. Applied has implemented a distributed manufacturing model, under which certain manufacturing and supply chain activities are conducted in various countries, including the United States, Europe, Israel, Singapore, Taiwan and other countries in Asia, and assembly of some systems is completed at customer sites. In addition, Applied outsources certain functions to third parties, including companies in the United States, India, China, Korea, Malaysia and other countries. Outsourced functions include contract manufacturing, engineering, customer support, software development, information technology support, finance and administrative activities. The expanding role of third party providers has required changes to Applied's existing operations and the adoption of new procedures and processes for retaining and managing these providers, as well as redistributing responsibilities as warranted, in order to realize the potential productivity and operational efficiencies, assure quality and continuity of supply, and protect the intellectual property of Applied and its customers, suppliers and other partners. If Applied does not accurately forecast the amount, timing and mix of demand for products, or if contract manufacturers or other outsource providers fail to perform in a timely manner or at satisfactory quality levels, Applied's ability to meet customer requirements could suffer, particularly during a market upturn.

In addition, Applied must regularly implement or update comprehensive programs and processes to better align its global organizations, including initiatives to enhance the Asia supply chain and improve back office and information technology infrastructure for more efficient transaction processing. Applied also is implementing a multi-year, company-wide program to transform certain business processes or extend established processes, including enhancements or replacements to certain enterprise resource planning (ERP) software systems. The implementation of additional functionality to the ERP system entails certain risks, including difficulties with changes in business processes that could disrupt Applied's operations, such as its ability to track orders and timely ship products, project inventory requirements, manage its supply chain and aggregate financial and operational data. During transitions Applied must continue to rely on legacy information systems, which may be costly or inefficient, while the implementation of new initiatives may not achieve the anticipated benefits and may divert management's attention from other operational activities, negatively affect employee morale, or have other unintended consequences.

If Applied does not effectively develop and implement its outsourcing and relocation strategies, if required export and other governmental approvals are not timely obtained, if Applied's third party providers do not perform as anticipated, or if there are delays or difficulties in enhancing business processes, Applied may not realize anticipated productivity improvements or cost efficiencies, and may experience operational difficulties, increased costs (including energy and transportation), manufacturing interruptions or delays, inefficiencies in the structure and/or operation of its supply chain, loss of its intellectual property rights, quality issues, reputational harm, increased product time-to-market, and/or inefficient allocation of human resources.

***Applied may incur impairment charges 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.

***Changes in tax rates or tax assets and liabilities could affect results of operations.***

As a global company, Applied is subject to taxation in the United States and various other countries. Significant judgment is required to determine and estimate worldwide tax liabilities. Applied's future annual and quarterly tax rates could be affected by numerous factors, including changes in the: (1) applicable tax laws; (2) amount and composition of pre-tax income in countries with differing tax rates; (3) plans of the Company to permanently reinvest certain funds held outside of the U.S.; and (4) valuation of Applied's deferred tax assets and liabilities. As of October 26, 2014, Applied intends to permanently reinvest approximately \$2.1 billion of these funds outside of the U.S. and does not plan to repatriate these funds.

To better align 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. Applied has received authorization to use tax incentives that provide that income earned in certain countries outside the U.S. will be subject to tax holidays or reduced income tax rates. 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 for which it cannot claim a deduction.

In addition, Applied is subject to regular examination by the Internal Revenue Service and other tax authorities, and from time to time initiates amendments to 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 accruals.

***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 global business operations, including but not limited to: regulations related to the development, manufacture and use of its products; recycling and disposal of 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, such as those related to climate change, could result in: (1) significant remediation liabilities; (2) the imposition of fines; (3) the suspension or termination of the development, manufacture, sale or use of certain of its products; (4) limitations on the operation of its facilities or ability to use its real property; and/or (5) a decrease in the value of its real property.

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

Applied is subject to various risks related to: (1) new, different, inconsistent or conflicting laws, rules and regulations that may be enacted by executive order, legislative bodies or regulatory agencies in the countries in which Applied operates; (2) disagreements or disputes between national or regional regulatory agencies related to international trade; and (3) the interpretation and application of laws, rules and regulations. As a public company with global operations, Applied is subject to the laws of multiple jurisdictions and the rules and regulations of various governing bodies, including those related to financial and other disclosures, corporate governance, privacy, and anti-corruption. Changes and ambiguities in laws, regulations and standards create uncertainty and challenges regarding compliance matters. Efforts to comply with new and changing regulations have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

**Item 1B: *Unresolved Staff Comments***

None.

**Item 2: Properties**

Information concerning Applied's principal properties at October 26, 2014 is set forth below:

<u>Location</u>	<u>Type</u>	<u>Principal Use</u>	<u>Square Footage</u>	<u>Ownership</u>
Santa Clara, CA . . . . .	Office, Plant & Warehouse	Headquarters; Marketing; Manufacturing; Distribution; Research, Development, Engineering; Customer Support	1,358,000 164,000	Owned Leased
Austin, TX . . . . .	Office, Plant & Warehouse	Manufacturing	1,676,000 145,000	Owned Leased
Rehovot, Israel . . . . .	Office, Plant & Warehouse	Manufacturing; Research, Development, Engineering; Customer Support	381,000 5,400	Owned Leased
Singapore . . . . .	Office, Plant & Warehouse	Manufacturing and Customer Support	408,000 11,000	Owned Leased
Gloucester, MA . . . . .	Office, Plant & Warehouse	Manufacturing; Research, Development, Engineering; Customer Support	315,000 125,000	Owned Leased
Tainan, Taiwan . . . . .	Office, Plant & Warehouse	Manufacturing and Customer Support	320,000	Owned

Because of the interrelation of Applied's operations, properties within a country may be shared by the segments operating within that country. Products in the Silicon Systems Group are manufactured in Austin, Texas; Singapore; Gloucester, Massachusetts; and Rehovot, Israel. Remanufactured equipment products in the Applied Global Services segment are produced primarily in Austin, Texas. Products in the Display segment are manufactured in Tainan, Taiwan and Santa Clara, California. Products in the Energy and Environmental Solutions segment are primarily manufactured in Alzenau, Germany; Treviso, Italy; and Cheseaux, Switzerland.

In addition to the above properties, Applied also owns and leases offices, plants and/or warehouse locations in 75 locations throughout the world: 16 in Europe, 20 in Japan, 16 in North America (principally the United States), 7 in China, 3 in India, 7 in Korea, 3 in Southeast Asia, and 3 in Taiwan. These facilities are principally used for manufacturing; research, development and engineering; and marketing, sales and/or customer support.

Applied also owns a total of approximately 150 acres of buildable land in Texas, California, Massachusetts, Israel and Italy that could accommodate additional building space.

Applied considers the properties that it owns or leases as adequate to meet its current and future requirements. Applied regularly assesses the size, capability and location of its global infrastructure and periodically makes adjustments based on these assessments.

**Item 3: *Legal Proceedings***

The information set forth under “Legal Matters” in Note 15 of Notes to Consolidated Financial Statements is incorporated herein by reference.

**Item 4: *Mine Safety Disclosures***

None.

**PART II**

**Item 5: *Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

**Market Information**

The following table sets forth the high and low closing sale prices for the periods presented as reported on the NASDAQ Global Select Market.

	Price Range	
	High	Low
<b><u>Fiscal 2014</u></b>		
First quarter . . . . .	\$ 18.01	\$ 16.50
Second quarter . . . . .	\$ 20.84	\$ 16.72
Third quarter . . . . .	\$ 23.27	\$ 18.67
Fourth quarter . . . . .	\$ 23.11	\$ 18.92
<b><u>Fiscal 2013</u></b>		
First quarter . . . . .	\$ 12.83	\$ 10.15
Second quarter . . . . .	\$ 14.15	\$ 12.80
Third quarter . . . . .	\$ 16.69	\$ 14.40
Fourth quarter . . . . .	\$ 18.10	\$ 14.97

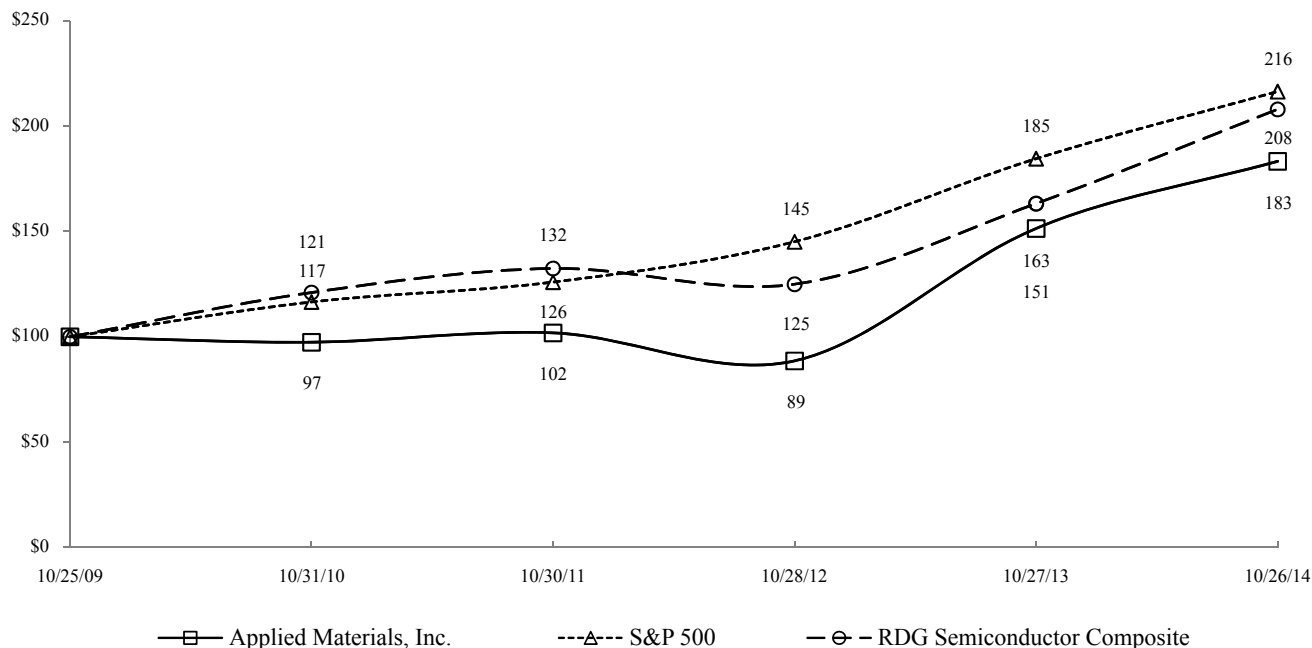
Applied’s common stock is traded on the NASDAQ Global Select Market under the symbol AMAT. As of December 12, 2014, there were 3,408 registered holders of Applied common stock.

## Performance Graph

The performance graph below shows the five-year cumulative total stockholder return on Applied common stock during the period from October 25, 2009 through October 26, 2014. This is compared with the cumulative total return of the Standard & Poor's 500 Stock Index and the RDG Semiconductor Composite Index over the same period. The comparison assumes \$100 was invested on October 25, 2009 in Applied common stock and in each of the foregoing indices and assumes reinvestment of dividends, if any. Dollar amounts in the graph are rounded to the nearest whole dollar. The performance shown in the graph represents past performance and should not be considered an indication of future performance.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Applied Materials, Inc., the S&P 500 Index  
and the RDG Semiconductor Composite Index



\*\$100 invested on 10/25/09 in stock or 10/31/09 in index, including reinvestment of dividends.  
Indexes calculated on month-end basis.

"S&P" is a registered trademark of Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc.

	10/25/2009	10/31/2010	10/30/2011	10/28/2012	10/27/2013	10/26/2014
Applied Materials	100.00	97.43	101.85	88.54	151.43	183.29
S&P 500 Index	100.00	116.52	125.94	145.09	184.52	216.39
RDG Semiconductor Composite Index	100.00	121.00	132.42	124.95	163.20	207.93

## Dividends

During fiscal 2014, Applied's Board of Directors declared four quarterly cash dividends of \$0.10 per share each. During fiscal 2013, Applied's Board of Directors declared three quarterly cash dividends of \$0.10 per share each and one quarterly cash dividend of \$0.09 per share. During fiscal 2012, Applied's Board of Directors declared three quarterly cash dividends of \$0.09 per share each and one quarterly cash dividend of \$0.08. Dividends declared during fiscal 2014, 2013 and 2012 totaled \$487 million, \$469 million and \$438 million, respectively. Applied currently anticipates that it will continue to pay cash dividends on a quarterly basis in the future, although the declaration and amount of any future cash dividends are 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 that cash dividends are in the best interests of Applied's stockholders.

## Repurchases of Applied Common Stock

During the fourth quarter of fiscal 2014, there were no shares of common stock repurchased by Applied. On March 5, 2012, the Board of Directors approved a stock repurchase program authorizing up to \$3.0 billion in repurchases over the next three years, ending March 2015. At October 26, 2014, \$1.6 billion remained available for future stock repurchases under this repurchase program.

### Item 6: *Selected Financial Data*

The following selected financial information has been derived from Applied's historical audited consolidated financial statements and should be read in conjunction with the consolidated financial statements and the accompanying notes for the corresponding fiscal years:

Fiscal Year(1)	2014	2013	2012	2011	2010
(In millions, except percentages and per share amounts)					
New orders . . . . .	\$ 9,648	\$ 8,466	\$ 8,037	\$ 10,142	\$ 10,249
Net sales . . . . .	\$ 9,072	\$ 7,509	\$ 8,719	\$ 10,517	\$ 9,549
Gross margin . . . . .	\$ 3,843	\$ 2,991	\$ 3,313	\$ 4,360	\$ 3,715
(% of net sales) . . . . .	42.4	39.8	38.0	41.5	38.9
Research, development and engineering . . . . .	\$ 1,428	\$ 1,320	\$ 1,237	\$ 1,118	\$ 1,143
Operating income . . . . .	\$ 1,520	\$ 432	\$ 411	\$ 2,398	\$ 1,384
(% of net sales) . . . . .	16.8	5.8	4.7	22.8	14.5
Income before income taxes . . . . .	\$ 1,448	\$ 350	\$ 316	\$ 2,378	\$ 1,387
Net income(2) . . . . .	\$ 1,072	\$ 256	\$ 109	\$ 1,926	\$ 938
Earnings per diluted share(2) . . . . .	\$ 0.87	\$ 0.21	\$ 0.09	\$ 1.45	\$ 0.70
Long-term debt . . . . .	\$ 1,947	\$ 1,946	\$ 1,946	\$ 1,947	\$ 204
Cash dividends declared per common share . . . . .	\$ 0.40	\$ 0.39	\$ 0.35	\$ 0.31	\$ 0.27
Total assets . . . . .	\$ 13,174	\$ 12,043	\$ 12,102	\$ 13,861	\$ 10,943

- (1) Each fiscal year ended on the last Sunday in October. Fiscal 2014, 2013, 2012 and 2011 each contained 52 weeks, while fiscal 2010 contained 53 weeks.
- (2) Fiscal 2014 amount differs from the unaudited consolidated financial statements included in Applied's press release issued on November 13, 2014, reflecting an increase to provision for income taxes of \$34 million and a decrease to earnings per diluted share of \$0.03. This adjustment is not considered material and does not affect Applied's previously announced Non-GAAP Adjusted Results.

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

### **Introduction**

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to facilitate an understanding of Applied's business and results of operations. This MD&A should be read in conjunction with Applied's Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included elsewhere in this Form 10-K. The following discussion contains forward-looking statements and should also be read in conjunction with the cautionary statement set forth at the beginning of this Form 10-K. MD&A consists of the following sections:

- *Overview*: a summary of Applied's business and measurements
- *Results of Operations*: a discussion of operating results
- *Segment Information*: a discussion of segment operating results
- *Business Combinations*: a summary of announced or completed business combinations and acquisitions
- *Recent Accounting Pronouncements*: a discussion of new accounting pronouncements and its impact to Applied's consolidated financial statements
- *Financial Condition, Liquidity and Capital Resources*: an analysis of cash flows, sources and uses of cash, contractual obligations and financial position
- *Off-Balance Sheet Arrangements and Contractual Obligations*
- *Critical Accounting Policies and Estimates*: a discussion of critical accounting policies that require the exercise of judgments and estimates
- *Non-GAAP Adjusted Results*: a presentation of results reconciling GAAP to non-GAAP adjusted measures

### **Overview**

Applied provides manufacturing equipment, services and software to the global semiconductor, flat panel display, solar photovoltaic (PV) and related industries. Applied's customers include manufacturers of semiconductor wafers and chips, flat panel liquid crystal and other displays, solar PV cells and modules, 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. Applied operates in four reportable segments: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. A summary of financial information for each reportable segment is found in Note 16 of Notes to Consolidated Financial Statements. A discussion of factors that could affect Applied's operations is set forth under "Risk Factors" in Part I, 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 worldwide demand for semiconductors, which in turn depends on end-user demand for electronic products. Each of Applied's businesses is subject to cyclical industry conditions, as demand for manufacturing equipment and services can change depending on supply and demand for chips, display technologies, solar PVs 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. In addition, a significant driver in the semiconductor and display industries is end-demand for mobile consumer products, which is characterized by seasonality that impacts the timing of customer investments in manufacturing equipment and, in turn, Applied's business. In light of these conditions, Applied's results can vary significantly year-over-year, as well as quarter-over-quarter.

Applied's strategic priorities for fiscal 2015 include growing its presence in wafer fab and display equipment and services, and improving profitability in solar, as well as expanding Applied's overall available market.

On September 24, 2013, Applied announced an agreement with Tokyo Electron Limited (TEL), a Japanese corporation and global supplier of semiconductor, and flat panel display production equipment, and provider of technical support and services for semiconductor, flat panel display and PV panel production equipment, to effect a combination of their respective businesses into a new combined company. The combination is expected to bring together leading technologies and products and create an expanded set of capabilities in precision materials engineering and patterning. In June 2014, the shareholders of Applied and TEL approved the proposed business combination. Under the agreement, which was amended February 14, 2014, the closing of the transaction is subject to customary conditions, including regulatory approvals.

## Results of Operations

The following table presents certain significant measurements for the past three fiscal years:

Fiscal Year	Change				
	2014	2013	2012	2014 over 2013	2013 over 2012
(In millions, except per share amounts and percentages)					
New orders.....	\$ 9,648	\$ 8,466	\$ 8,037	\$ 1,182	\$ 429
Net sales.....	\$ 9,072	\$ 7,509	\$ 8,719	\$ 1,563	\$ (1,210)
Gross margin.....	\$ 3,843	\$ 2,991	\$ 3,313	\$ 852	\$ (322)
Gross margin percent.....	42.4%	39.8%	38.0%	2.6 points	1.8 points
Operating income.....	\$ 1,520	\$ 432	\$ 411	\$ 1,088	\$ 21
Operating margin.....	16.8%	5.8%	4.7%	11.0 points	1.1 points
Net income(1).....	\$ 1,072	\$ 256	\$ 109	\$ 816	\$ 147
Earnings per diluted share(1).....	\$ 0.87	\$ 0.21	\$ 0.09	\$ 0.66	\$ 0.12
<b>Non-GAAP Adjusted Results</b>					
Non-GAAP adjusted gross margin.....	\$ 4,002	\$ 3,160	\$ 3,566	\$ 842	\$ (406)
Non-GAAP adjusted gross margin percent.....	44.1%	42.1%	40.9%	2.0 points	1.2 points
Non-GAAP adjusted operating income.....	\$ 1,781	\$ 1,032	\$ 1,379	\$ 749	\$ (347)
Non-GAAP adjusted operating margin percent.....	19.6%	13.7%	15.8%	5.9 points	(2.1) points
Non-GAAP adjusted net income.....	\$ 1,314	\$ 718	\$ 960	\$ 596	\$ (242)
Non-GAAP adjusted earnings per diluted share.....	\$ 1.07	\$ 0.59	\$ 0.75	\$ 0.48	\$ (0.16)

- (1) Fiscal 2014 amount differs from the unaudited consolidated financial statements included in Applied's press release issued on November 13, 2014, reflecting an increase to provision for income taxes of \$34 million and a decrease to earnings per diluted share of \$0.03. This adjustment is not considered material and does not affect Applied's previously announced Non-GAAP Adjusted Results.

Reconciliations of non-GAAP adjusted measures are presented under "Non-GAAP Adjusted Results" below. Fiscal 2014, 2013 and 2012 each contained 52 weeks.

Mobility, including the increasing technological functionality of mobile devices, continued to be the largest driver of semiconductor industry spending in fiscal 2014. During the year, demand for advanced mobile chips drove continued demand for semiconductor equipment by foundry customers. In addition, demand for semiconductor equipment from memory customers improved as manufacturers invested in technology upgrades. Mobility also represents a significant driver of display industry spending, which has resulted in continued manufacturing capacity expansion for mobile applications. Demand for larger LCD TVs is also driving investment in display equipment, although the TV manufacturing sector remains susceptible to cyclical conditions. Investment in solar equipment remained low during fiscal 2014, despite continued end-market growth, due to ongoing excess manufacturing capacity in the industry.

Applied expects the mobility trend to remain the main growth driver for the semiconductor industry, and in turn for the Silicon Systems Group, in 2015. The growth in the semiconductor manufacturing equipment industry is expected to be driven by foundry and memory spending. Applied also expects display equipment investment to remain healthy in 2015.

Fiscal 2013 was characterized by strong demand for semiconductor equipment from foundry customers driven by demand for advanced mobile chips. In the second half of fiscal 2013, demand from foundry customers softened, reflecting seasonal consumer buying patterns for mobility products, while demand from memory and logic customers improved. Mobility also represented a significant driver of display industry spending, and demand for mobile display equipment remained strong during fiscal 2013. Fiscal 2013 was also characterized by a recovery in demand for TV manufacturing equipment compared to weak industry levels in fiscal 2012, resulting from higher consumer demand in emerging markets and for larger LCD TVs. Investment in solar equipment remained low during fiscal 2013 due to continued excess manufacturing capacity in the industry.



Fiscal 2012 was characterized by significant fluctuations in demand for semiconductor equipment, coupled with an extremely weak market environment for display and solar equipment. Applied completed its acquisition of Varian Semiconductor Equipment Associates, Inc. (Varian) in the first quarter of fiscal 2012. Mobility was the greatest influence on semiconductor industry spending in fiscal 2012. Investment levels for display equipment were low in fiscal 2012 due to decreased capacity requirements for larger flat panel televisions, while demand for mobility products, such as smartphones and tablets, significantly influenced equipment spending. In the solar industry, fiscal 2012 was characterized by excess manufacturing capacity, which led to significantly reduced demand for crystalline-silicon (c-Si) equipment, as well as weak operating performance and outlook.

### ***New Orders***

New orders by reportable segment for the past three fiscal years were as follows:

	2014		Change 2014 over 2013	2013		Change 2013 over 2012	2012	
	(In millions, except percentages)							
Silicon Systems Group . .	\$ 6,132	64%	11%	\$ 5,507	65%	4%	\$ 5,294	66%
Applied Global Services .	2,433	25%	16%	2,090	25%	(8)%	2,274	28%
Display . . . . .	845	9%	20%	703	8%	157%	274	4%
Energy and Environmental Solutions.	238	2%	43%	166	2%	(15)%	195	2%
Total . . . . .	<u>\$ 9,648</u>	<u>100%</u>	14%	<u>\$ 8,466</u>	<u>100%</u>	5%	<u>\$ 8,037</u>	<u>100%</u>

New orders increased in fiscal 2014 from fiscal 2013 across all segments, primarily due to higher demand for semiconductor equipment, semiconductor spares and services, and display equipment. New orders for the Silicon Systems Group and Applied Global Services continued to comprise a majority of Applied's consolidated total new orders.

New orders for fiscal 2013 increased compared to fiscal 2012, primarily due to a recovery in demand for display manufacturing equipment and increased demand in semiconductor equipment, partially offset by lower demand for service products, as well as depressed demand for c-Si solar equipment due to excess manufacturing capacity in the solar industry.

New orders by geographic region, determined by the product shipment destination specified by the customer, were as follows:

	2014		Change 2014 over 2013	2013		Change 2013 over 2012	2012	
	(In millions, except percentages)							
Taiwan . . . . .	\$ 2,740	28%	(5)%	\$ 2,885	34%	34%	\$ 2,155	27%
China . . . . .	1,517	16%	13%	1,339	16%	232%	403	5%
Korea . . . . .	1,086	11%	19%	915	11%	(49)%	1,784	22%
Japan . . . . .	1,031	11%	25%	822	10%	37%	600	7%
Southeast Asia . . . . .	412	4%	17%	351	4%	24%	283	4%
Asia Pacific . . . . .	<u>6,786</u>	<u>70%</u>	8%	<u>6,312</u>	<u>75%</u>	21%	<u>5,225</u>	<u>65%</u>
United States . . . . .	2,200	23%	55%	1,419	17%	(29)%	1,995	25%
Europe . . . . .	662	7%	(10)%	735	8%	(10)%	817	10%
Total . . . . .	<u>\$ 9,648</u>	<u>100%</u>	14%	<u>\$ 8,466</u>	<u>100%</u>	5%	<u>\$ 8,037</u>	<u>100%</u>

The changes in new orders from customers in the United States, Japan, Taiwan and Korea for fiscal 2014 compared to fiscal 2013 primarily reflected changes in customers mix in the Silicon Systems Group, while the increase in new orders from China resulted from increased demand from display manufacturing equipment.

The recovery in demand for display manufacturing equipment in fiscal 2013 led to the increase in new orders from customers in China. The change in the composition of new orders from customers in Taiwan, Korea, Japan and the United States was primarily related to changes in customer demand for semiconductor equipment.

Changes in backlog during fiscal 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
	(In millions)	
Beginning balance .....	\$ 2,372	\$ 1,606
New orders .....	9,648	8,466
Net sales .....	(9,072)	(7,509)
Net adjustments .....	(31)	(191)
Ending balance .....	<u>\$ 2,917</u>	<u>\$ 2,372</u>

Backlog consists of: (1) orders for which written authorizations have been accepted and assigned shipment dates are within the next 12 months, or shipment has occurred but revenue has not been recognized; and (2) contractual service revenue and maintenance fees to be earned within the next 12 months. Applied's backlog at any particular time is not necessarily indicative of actual sales for any future periods, due to the potential for customer changes in delivery schedules or cancellation of orders. Approximately 80 percent of the backlog as of the end of fiscal 2014 is anticipated to be shipped within the first two quarters of fiscal 2015.

Applied's backlog was \$2.9 billion at October 26, 2014 compared to \$2.4 billion at October 27, 2013. Backlog adjustments were negative for fiscal 2014 and totaled \$31 million, consisting of financial debookings, foreign exchange and other adjustments.

Backlog by reportable segment as of October 26, 2014 and October 27, 2013 was as follows:

	<u>2014</u>		<u>Change</u>	<u>2013</u>	
			2014 over 2013		
	(In millions, except percentages)				
Silicon Systems Group .....	\$ 1,400	48%	8%	\$ 1,295	55%
Applied Global Services .....	775	27%	31%	591	25%
Display .....	593	20%	64%	361	15%
Energy and Environmental Solutions .....	149	5%	19%	125	5%
Total .....	<u>\$ 2,917</u>	<u>100%</u>	23%	<u>\$ 2,372</u>	<u>100%</u>

Backlog increased in fiscal 2014 from fiscal 2013 across all segments. The increase in backlog was primarily due to increases in demand for display manufacturing equipment and semiconductor spares and services. In the fourth quarter of fiscal 2014 approximately 44 percent of net sales in the Silicon Systems Group, Applied's largest business segment, were for orders received and shipped within the quarter, down from 49 percent in the fourth quarter of fiscal 2013.

## Net Sales

Net sales by reportable segment for the past three fiscal years were as follows:

	2014		Change 2014 over 2013	2013		Change 2013 over 2012	2012	
(In millions, except percentages)								
Silicon Systems Group . .	\$ 5,978	66%	25%	\$ 4,775	64%	(14)%	\$ 5,536	64%
Applied Global Services .	2,200	24%	9%	2,023	27%	(11)%	2,285	26%
Display . . . . .	615	7%	14%	538	7%	14%	473	5%
Energy and Environmental Solutions.	279	3%	61%	173	2%	(59)%	425	5%
Total . . . . .	<u>\$ 9,072</u>	<u>100%</u>	21%	<u>\$ 7,509</u>	<u>100%</u>	(14)%	<u>\$ 8,719</u>	<u>100%</u>

Net sales for all segments increased in fiscal 2014 compared to fiscal 2013. The increase primarily reflected increased customer investments in semiconductor and display equipment, as well as semiconductor spares and services. The Silicon Systems Group remains the largest contributor of net sales.

For fiscal 2013 as compared to fiscal 2012, net sales in Display increased, reflecting the recovery of TV manufacturing equipment investment, while net sales across all other segments decreased. The decrease primarily reflected continued excess manufacturing capacity in the solar industry and lower investments in semiconductor equipment, spares and services.

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

	2014		Change 2014 over 2013	2013		Change 2013 over 2012	2012	
(In millions, except percentages)								
Taiwan . . . . .	\$ 2,702	30%	2%	\$ 2,640	35%	9%	\$ 2,411	28%
China . . . . .	1,608	18%	104%	787	11%	1%	783	9%
Korea . . . . .	965	10%	4%	924	12%	(51)%	1,897	22%
Japan . . . . .	817	9%	19%	685	9%	(3)%	704	8%
Southeast Asia . . . . .	356	4%	11%	320	4%	3%	312	3%
Asia Pacific . . . . .	<u>6,448</u>	<u>71%</u>	20%	<u>5,356</u>	<u>71%</u>	(12)%	<u>6,107</u>	<u>70%</u>
United States . . . . .	1,966	22%	33%	1,473	20%	(16)%	1,749	20%
Europe . . . . .	658	7%	(3)%	680	9%	(21)%	863	10%
Total . . . . .	<u>\$ 9,072</u>	<u>100%</u>	21%	<u>\$ 7,509</u>	<u>100%</u>	(14)%	<u>\$ 8,719</u>	<u>100%</u>

Net sales from customers in China increased for fiscal 2014 compared to fiscal 2013 primarily due to greater investments in semiconductor, display and solar manufacturing equipment, while net sales from customers in the United States increased due to higher investments in semiconductor equipment.

The increase in net sales from customers in China in fiscal 2013 was primarily due to the recovery in demand for display manufacturing equipment. The changes in net sales from customers in Korea, the United States and Taiwan were primarily related to changes in customer demand for semiconductor equipment.

## Gross Margin

Gross margins for the past three fiscal years were as follows:

	2014	2013	2012	Change	
				2014 over 2013	2013 over 2012
(In millions, except percentages)					
Gross margin . . . . .	\$ 3,843	\$ 2,991	\$ 3,313	\$ 852	\$ (322)
Gross margin (% of net sales) . . . . .	42.4%	39.8%	38.0%	2.6 points	1.8 points
<b>Non-GAAP Adjusted Results</b> . . . . .					
Non-GAAP adjusted gross margin . . . . .	\$ 4,002	\$ 3,160	\$ 3,566	\$ 842	\$ (406)
Non-GAAP adjusted gross margin (% of net sales) . . . . .	44.1%	42.1%	40.9%	2.0 points	1.2 points

Reconciliations of non-GAAP adjusted measures are presented under "Non-GAAP Adjusted Results" below.

Gross margin and non-GAAP gross margin increased in fiscal 2014 compared to fiscal 2013 primarily reflecting higher net sales, the recovery of a regional customs duty assessment charge recorded in fiscal 2013, sales of display and solar tools that had been written down previously, lower manufacturing costs and change in product mix.

Gross margin and non-GAAP adjusted gross margin decreased in fiscal 2013 compared to fiscal 2012 primarily reflecting lower sales. Gross margin percent and non-GAAP adjusted gross margin percent increased in fiscal 2013 compared to fiscal 2012 despite lower sales, due primarily to lower inventory charges, a favorable product mix, and material cost reductions. Gross margin and non-GAAP adjusted gross margin during fiscal 2014, 2013 and 2012 included \$53 million, \$50 million and \$54 million, respectively, of share-based compensation expense.

## Research, Development and Engineering

Research, Development and Engineering (RD&E) expenses for the past three fiscal years were as follows:

	2014	2013	2012	Change	
				2014 over 2013	2013 over 2012
(In millions)					
Research, development and engineering \$	1,428	1,320	1,237	108	83

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. 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. 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.

In fiscal 2014, Applied increased its investments primarily in the areas of 3D chip technology and 300mm product development. Applied's 3D RD&E investments were focused on products for overcoming the challenges of FinFET and 3D NAND designs at sub-2x nanometer nodes and enabling cost-effective manufacturing of these high-performance 3D chips. Applied also developed new applications for its epitaxial technology to enable the industry's transition to NMOS transistors at the 20nm node, thereby enabling chip makers to build faster devices and deliver next-generation mobile computing power.

RD&E expenses increased in fiscal 2014 compared to the prior year and also in fiscal 2013 compared to fiscal 2012, reflecting the impact of ongoing product development initiatives. As part of its growth strategy, Applied has taken certain actions, including workforce reductions and reprioritization of existing spend, to enable increased funding for investments in technical capabilities and critical RD&E programs in current and new markets, with a focus on semiconductor technologies. RD&E expense during fiscal 2014, 2013 and 2012 included \$66 million, \$53 million and \$54 million, respectively, of share-based compensation expense.

**Marketing and Selling**

Marketing and selling expenses for the past three fiscal years were as follows:

	2014	2013	2012	Change	
				2014 over 2013	2013 over 2012
	(In millions)				
Marketing and selling . . . . .	\$ 423	\$ 433	\$ 481	\$ (10)	\$ (48)

The decrease in marketing and selling expenses for fiscal 2014 compared to fiscal 2013 was mainly due to headcount reductions. The decrease in marketing and selling expenses for fiscal 2013 compared to fiscal 2012 was primarily attributable to savings from restructuring programs along with a reduction in the bad debt provision during the year as a result of lower risk exposures among display and solar customers. Marketing and selling expenses during fiscal 2014, 2013 and 2012 included \$23 million, \$20 million and \$22 million, respectively, of share-based compensation expense.

**General and Administrative**

General and administrative (G&A) expenses for the past three fiscal years were as follows:

	2014	2013	2012	Change	
				2014 over 2013	2013 over 2012
	(In millions)				
General and administrative . . . . .	\$ 467	\$ 465	\$ 595	\$ 2	\$ (130)

G&A expenses for fiscal 2014 increased slightly compared to fiscal 2013 primarily due to integration planning costs associated with the announced business combination with TEL, partially offset by a gain on the sale of foreign exchange option contracts associated with the business combination and proceeds from a favorable litigation outcome. The decrease in G&A for fiscal 2013 compared to fiscal 2012 was primarily due to the absence of certain costs incurred during fiscal 2012 associated with the acquisition of Varian, savings from restructuring programs, and lower share-based compensation expense, partially offset by costs associated with the proposed business combination with TEL. G&A expenses during fiscal 2014, 2013 and 2012 included \$35 million, \$34 million and \$52 million respectively, of share-based compensation expense.

### ***Impairment of Goodwill***

In the fourth quarter of fiscal 2014, Applied performed an annual qualitative assessment to test goodwill for all of its reporting units for impairment. Applied determined that it was more likely than not that each of its reporting units' fair values exceeded its respective carrying values and that it was not necessary to perform the two-step goodwill impairment test for any of its reporting units.

During fiscal 2013 and 2012, the solar industry faced a deterioration in market conditions associated with manufacturing overcapacity and weak operating performance and outlook, resulting in uncertainties regarding the timing and nature of a recovery in solar capital equipment expenditures. Applied performed a two-step goodwill impairment test and, as a result, recorded \$224 million and \$421 million of goodwill impairment charges in its Energy and Environmental Solutions segment in fiscal 2013 and 2012, respectively. In fiscal 2013, Applied also performed an impairment test for long-lived assets associated with the Energy and Environmental Solutions reporting unit and determined that the majority of intangible assets were impaired, mostly due to the lower long-term revenue and profitability outlook associated with products related to these intangible assets. Accordingly, during fiscal 2013, Applied recorded an impairment charge of \$54 million related to these intangible assets, which was the amount by which the carrying value of these intangible assets exceeded their estimated fair value, based on discounted projected cash flows.

The evaluation of goodwill and intangible assets for impairment requires the exercise of significant judgment. In the event of future changes in business conditions, Applied will reassess and update its forecasts and estimates used in future impairment analyses. If the results of these analyses are lower than current estimates, a material impairment charge may result at that time.

For further details, see Note 9 of Notes to Consolidated Financial Statements.

### ***Restructuring and Asset Impairments***

Restructuring and asset impairment expenses for the past three fiscal years were as follows:

	2014	2013	2012	Change	
				2014 over 2013	2013 over 2012
	(In millions)				
Restructuring and asset impairments, net . . . . .	\$ 5	\$ 63	\$ 168	\$ (58)	\$ (105)

On October 3, 2012, Applied announced a restructuring plan (the 2012 Global Restructuring Plan) to realign its global workforce and enhance its ability to invest for growth. Under this plan, Applied implemented a voluntary retirement program and other workforce reduction actions that affected approximately 1,300 positions. As of January 26, 2014, principal activities related to this plan were complete. During fiscal 2014, 2013 and 2012, Applied recognized \$5 million, \$39 million and \$106 million, respectively, of employee-related costs in connection with the 2012 Global Restructuring Plan. Total costs incurred in implementing this plan were \$150 million, none of which were allocated to the operating segments.

On May 10, 2012, Applied announced a plan (the 2012 EES Restructuring Plan) to restructure its Energy and Environmental Solutions segment in light of challenging industry conditions affecting the solar photovoltaic and light-emitting diode (LED) equipment markets. As part of the 2012 EES Restructuring Plan, Applied relocated certain manufacturing, business operations and customer support functions of its precision wafering systems business and ceased LED development activities. This plan impacted approximately 300 positions globally. As of October 27, 2013, principal activities related to this plan were complete. Total costs incurred in implementing this plan were \$87 million, of which \$13 million were inventory-related charges. During fiscal 2013 and 2012, Applied recognized \$26 million and \$48 million, respectively, of restructuring and asset impairment charges in connection with the 2012 EES Restructuring Plan. As of October 26, 2014, there were no remaining severance accruals associated with restructuring reserves under this program.

Also in fiscal 2013 and 2012, Applied incurred \$2 million and \$14 million, respectively, of severance and other employee-related costs in connection with the integration of Varian.

For further details, see Note 11 of Notes to Consolidated Financial Statements.

### ***Interest Expense and Interest and Other Income, net***

Interest expense and interest and other income, net for the past three fiscal years were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>Change</u>	
				<u>2014 over 2013</u>	<u>2013 over 2012</u>
	(In millions)				
Interest expense . . . . .	\$ 95	\$ 95	\$ 95	\$ —	\$ —
Interest and other income, net . . . . .	\$ 23	\$ 13	\$ —	\$ 10	\$ 13

Interest expenses incurred were primarily associated with the senior unsecured notes issued in June 2011 to fund a portion of the consideration and certain costs associated with the acquisition of Varian. Interest expense remained flat during fiscal 2014 from the prior year and in fiscal 2013 compared to fiscal 2012.

Interest income primarily includes interest earned on cash and investments and realized gains on sale of securities. Interest and other income, net increased in fiscal 2014 compared to fiscal 2013 primarily due to realized gains on sales of securities recorded during fiscal 2014, partially offset by increased impairments of strategic investments. Interest and other income, net increased in fiscal 2013 from fiscal 2012 primarily due to decreased impairments of strategic investments.

### ***Income Taxes***

Income tax expenses for the past three fiscal years were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>Change</u>	
				<u>2014 over 2013</u>	<u>2013 over 2012</u>
	(In millions, except percentages)				
Provision for income taxes. . . . .	\$ 376	\$ 94	\$ 207	\$ 282	\$ (113)
Effective income tax rate . . . . .	26.0%	26.9%	65.5%	(0.9) point	(38.6) points

The effective tax rate for fiscal 2014 was lower than the rate for fiscal 2013 due primarily to nondeductible goodwill impairment charges in fiscal 2013, offset by resolutions and changes related to prior years and expiration of the U.S. federal research and development tax credit.

The effective tax rate for fiscal 2013 was significantly lower than the rate for fiscal 2012 due primarily to the geographic composition of Applied's pre-tax income, lower nondeductible goodwill impairment charges, and reinstatement of the U.S. federal research and development tax credit retroactive to its expiration in December 2012. These reductions were partially offset by a lower benefit in fiscal 2013 from the U.S. federal domestic production deduction.

## Segment Information

Applied reports financial results in four segments: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. A description of the products and services, as well as financial data, for each reportable segment can be found in Note 16 of Notes to Consolidated Financial Statements. Applied does not allocate to its reportable segments certain operating expenses that it manages separately at the corporate level. These unallocated costs 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 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.

### *Silicon Systems Group Segment*

The Silicon Systems Group segment includes semiconductor capital equipment for deposition, etch, ion implantation, rapid thermal processing, chemical mechanical planarization, metrology and inspection, and wafer packaging. Development efforts are focused on solving customers' key technical challenges in transistor, patterning, interconnect and packaging performance as devices scale to advanced technology nodes. The mobility trend remains the largest influence on industry spending, as it drives device manufacturers to continually improve their ability to deliver high-performance, low-power processors and affordable solid-state storage in a small form factor.

With the acquisition of Varian, Applied acquired ion implantation technology for semiconductor as well as c-Si solar cell manufacturing, which was recorded under the Silicon Systems Group segment in fiscal 2012. In fiscal 2013, Applied began marketing the solar implant products commercially through its Energy and Environmental Solutions segment. Accordingly, effective in the first quarter of fiscal 2013, Applied accounts for its solar implant products under the Energy and Environmental Solutions segment. The effect of the solar implant products was not material to the operations of either the Silicon Systems Group or Energy and Environmental Solutions segments.

Certain significant measures for the past three fiscal years were as follows:

	2014	2013	2012	Change			
				2014 over 2013		2013 over 2012	
				(In millions, except percentages and ratios)			
New orders . . . . .	\$ 6,132	\$ 5,507	\$ 5,294	\$ 625	11%	\$ 213	4%
Net sales . . . . .	5,978	4,775	5,536	1,203	25%	(761)	(14)%
Book to bill ratio . . . . .	1.0	1.2	1.0				
Operating income . . . . .	1,391	876	1,243	515	59%	(367)	(30)%
Operating margin . . . . .	23.3%	18.3%	22.5%		5.0 points		(4.2) points
<b>Non-GAAP Adjusted Results . . . . .</b>							
Non-GAAP adjusted operating income . . . . .	\$ 1,565	\$ 1,050	\$ 1,537	515	49%	(487)	(32)%
Non-GAAP adjusted operating margin . . . . .	26.2%	22.0%	27.8%		4.2 points		(5.8) points

Reconciliations of non-GAAP adjusted measures are presented under "Non-GAAP Adjusted Results" below.



The composition of new orders for the Silicon Systems Group by end use application for the past three fiscal years was as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Foundry .....	52%	58%	62%
Memory .....	35%	27%	22%
Logic and other .....	13%	15%	16%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

One region accounted for at least 30 percent of total net sales for the Silicon Systems Group segment for one or more of the past three fiscal years:

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>Change</u>			
				<u>2014 over 2013</u>		<u>2013 over 2012</u>	
	(In millions, except percentages)						
Taiwan. ....	\$ 2,186	\$ 2,171	\$ 1,744	\$ 15	1%	\$ 427	24%

Customers in Taiwan accounted for 37 percent, 45 percent and 32 percent of total net sales for the Silicon Systems Group in fiscal 2014, 2013 and 2012, respectively. Customers in the United States, China and Korea together contributed 47 percent, 37 percent and 54 percent of the total net sales for this segment in fiscal 2014, 2013 and 2012, respectively.

Financial results in the Silicon Systems Group for fiscal 2014 compared to fiscal 2013 reflected the overall increase in wafer fab equipment spending in the semiconductor industry. The increase in new orders and net sales in fiscal 2014 compared to fiscal 2013 primarily reflected increased demand and spending from memory customers, as well as continued demand from foundry customers. Three customers accounted for approximately 54 percent of net sales and three customers accounted for 75 percent of new orders in this segment in fiscal 2014. Operating income and non-GAAP adjusted operating income for fiscal 2014 increased compared to fiscal 2013, reflecting the increase in net sales, partially offset by changes in product mix and higher RD&E spend. In the fourth quarter of fiscal 2014, new orders were \$1.3 billion, a decrease of 15 percent compared to the prior quarter, primarily due to lower orders from memory and foundry customers. Approximately 44 percent of net sales in the fourth quarter of fiscal 2014 were for orders received and shipped within the quarter, which increased slightly from 43 percent in the third quarter of fiscal 2014.

The increase in new orders in fiscal 2013 compared to fiscal 2012 primarily reflected increased demand from memory customers. Net sales decreased in fiscal 2013 from the prior year due to overall decreased wafer fab equipment spending in the semiconductor industry. Three customers accounted for approximately 65 percent of new orders and net sales in this segment in fiscal 2013. Operating income and non-GAAP adjusted operating income for fiscal 2013 decreased compared to fiscal 2012, reflecting the decrease in net sales, changes in product mix and higher RD&E spend.

### ***Applied Global Services Segment***

The Applied Global Services segment encompasses integrated solutions to optimize equipment and fab performance and productivity, including spares, upgrades, services, remanufactured earlier generation equipment and factory automation software for semiconductor, display and solar products. Customer demand for products and services is fulfilled through a global distribution system with trained service engineers located in close proximity to customer sites.

Certain significant measures for the past three fiscal years were as follows:

	2014	2013	2012	Change			
				2014 over 2013		2013 over 2012	
	(In millions, except percentages and ratios)						
New orders . . . . .	\$ 2,433	\$ 2,090	\$ 2,274	\$ 343	16%	\$ (184)	(8)%
Net sales . . . . .	2,200	2,023	2,285	177	9%	(262)	(11)%
Book to bill ratio . . . . .	1.1	1.0	1.0				
Operating income . . . . .	573	436	502	137	31%	(66)	(13)%
Operating margin . . . . .	26.0%	21.6%	22.0%		4.4 points		(0.4) point
<b>Non-GAAP Adjusted Results . . . . .</b>							
Non-GAAP adjusted operating income . . . . .	576	443	530	133	30%	(87)	(16)%
Non-GAAP adjusted operating margin . . . . .	26.2%	21.9%	23.2%		4.3 points		(1.3) points

Reconciliations of non-GAAP adjusted measures are presented under "Non-GAAP Adjusted Results" below.

There were no individual regions that accounted for at least 30 percent of total net sales for the Applied Global Services segment for any of the past three fiscal years.

New orders and net sales for fiscal 2014 increased compared to fiscal 2013 mainly due to increased demand for semiconductor spares and services, as well as 200mm equipment systems and equipment upgrades. Operating income and non-GAAP adjusted operating income increased in fiscal 2014 compared to the prior year, reflecting the increase in net sales as well as the recovery of a regional customs duty assessment charge recorded in fiscal 2013.

For fiscal 2013, new orders and net sales decreased compared to fiscal 2012 due primarily to lower demand and investments for semiconductor spares and services. The decrease in net sales was also due to lower investments in display upgrades. Fiscal 2012 net sales also included \$85 million in sales for a thin film solar production line. Operating income and non-GAAP adjusted operating income decreased in fiscal 2013 compared to fiscal 2012, reflecting lower sales and a \$20 million customs duty assessment, partially offset by lower operating expenses from spending controls.

## Display Segment

The Display segment encompasses products for manufacturing liquid crystal displays (LCDs), organic light-emitting diodes (OLEDs), and other display technologies for TVs, personal computers (PCs), tablets, smart phones, and other consumer-oriented devices. The segment is focused on expanding its presence through technologically-differentiated equipment for manufacturing large-scale TVs; entry into new markets such as low temperature polysilicon (LTPS), metal oxide, and touch panel sectors; and development of products that enable cost reductions through productivity and uniformity. Display industry growth depends primarily on consumer demand for increasingly larger and more advanced LCD TVs and high resolution displays for next generation mobile devices.

Certain significant measures for the past three fiscal years were as follows:

	2014	2013	2012	Change			
				2014 over 2013	2013 over 2012		
(In millions, except percentages and ratios)							
New orders . . . . .	\$ 845	\$ 703	\$ 274	\$ 142	20%	\$ 429	157%
Net sales . . . . .	615	538	473	77	14%	65	14%
Book to bill ratio . . . . .	1.4	1.3	0.6				
Operating income . . . . .	129	74	25	55	74%	49	196%
Operating margin . . . . .	21.0%	13.8%	5.3%		7.2 points		8.5 points
<b>Non-GAAP Adjusted Results</b>							
Non-GAAP adjusted operating income . . . . .	\$ 131	\$ 80	\$ 32	51	64%	48	150%
Non-GAAP adjusted operating margin . . . . .	21.3%	14.9%	6.8%		6.4 points		8.1 points

Reconciliations of non-GAAP adjusted measures are presented under "Non-GAAP Adjusted Results" below.

The following regions accounted for at least 30 percent of total net sales for the Display segment for one or more of the past three fiscal years:

	2014	2013	2012	Change			
				2014 over 2013	2013 over 2012		
(In millions, except percentages)							
Taiwan . . . . .	\$ 22	\$ 50	\$ 179	\$ (28)	(56)%	\$ (129)	(72)%
China . . . . .	\$ 491	\$ 260	\$ 133	\$ 231	89%	\$ 127	95%
Korea . . . . .	\$ 99	\$ 175	\$ 88	\$ (76)	(43)%	\$ 87	99%

In fiscal 2014, 2013, and 2012, customers in China accounted for 80 percent, 48 percent and 28 percent, respectively, of the Display segment's total net sales. Customers in Korea and Taiwan together accounted for 20 percent of total net sales for the Display segment in fiscal 2014 compared to 42 percent in fiscal 2013, and 57 percent in fiscal 2012. The increase in net sales from customers in China reflected TV manufacturing capacity expansion, while the decrease in net sales from customers in Korea and Taiwan primarily related to lower sales of mobile display manufacturing equipment.

New orders and net sales for fiscal 2014 increased compared to the prior year reflecting strong TV manufacturing capacity expansions. Operating income and non-GAAP adjusted operating income increased over the prior year, due primarily to higher net sales, sales of tools for which inventory had been written down previously, better installation and warranty performance, and material and manufacturing cost reductions, partially offset by increased research and development expenses. Four customers accounted for approximately 87 percent of new orders for the Display segment in fiscal 2014, with two customers accounting for approximately 50 percent of new orders. Four customers accounted for approximately 77 percent of net sales for this segment in fiscal 2014, with one customer accounting for approximately 40 percent of net sales. In the fourth quarter of fiscal 2014, new orders were \$130 million, down 56 percent from the prior quarter, primarily reflecting continued variability in industry order patterns. Net sales in the fourth quarter of fiscal 2014 were \$190 million, up 60 percent compared to the prior quarter as a result of shipment of TV manufacturing equipment to customers in China.

Fiscal 2013 operating results reflected a recovery in demand for TV manufacturing equipment and continued demand for advanced mobile display equipment, which resulted in increased new orders, net sales, operating income and non-GAAP adjusted operating income compared to fiscal 2012. Two customers accounted for approximately 50 percent of net sales for the Display segment in fiscal 2013.

### ***Energy and Environmental Solutions Segment***

The Energy and Environmental Solutions segment includes products for fabricating crystalline-silicon (c-Si), solar PV wafers and cells, as well as high throughput roll-to-roll deposition equipment for flexible electronics, packaging and other applications. This business is focused on delivering solutions to generate and conserve energy, with an emphasis on lowering the cost to produce solar modules and increasing conversion efficiency. While end-demand for solar PVs has been robust over the last several years, investment in capital equipment remained low as global PV production capacity exceeds anticipated demand. The solar equipment environment improved slightly in fiscal 2014 compared to the previous year.

Certain significant measures for the past three fiscal years were as follows:

	2014	2013	2012	Change			
				2014 over 2013		2013 over 2012	
	(In millions, except percentages and ratios)						
New orders . . . . .	\$ 238	\$ 166	\$ 195	\$ 72	43%	\$ (29)	(15)%
Net sales . . . . .	279	173	425	106	61%	(252)	(59)%
Book to bill ratio . . . . .	0.9	1.0	0.5				
Operating income (loss) . . .	15	(433)	(668)	448	103%	235	35%
Operating margin . . . . .	5.4%	(250.3)%	(157.2)%		255.7 points		(93.1) points
<b>Non-GAAP Adjusted Results . . . . .</b>							
Non-GAAP adjusted operating income (loss) . . .	21	(115)	(184)	136	118%	69	38%
Non-GAAP adjusted operating margin . . . . .	7.5%	(66.5)%	(43.3)%		74.0 points		(23.2) points

Reconciliations of non-GAAP adjusted measures are presented under "Non-GAAP Adjusted Results" below.

The following region accounted for at least 30 percent of total net sales for the Energy and Environmental Solutions segment for one or more of the past three fiscal years:

	2014	2013	2012	Change			
				2014 over 2013	2013 over 2012		
	(In millions, except percentages)						
China .....	\$ 173	\$ 100	\$ 210	\$ 73	73%	\$ (110)	(52)%

In fiscal 2014, customers in China accounted for 62 percent of total net sales for the Energy and Environmental Solutions segment compared to 58 percent in fiscal 2013, and 49 percent in fiscal 2012.

New orders and net sales for fiscal 2014 increased compared to fiscal 2013 but remained at low levels due to continued excess manufacturing capacity in the solar industry. One customer accounted for approximately 23 percent of net sales for this segment during fiscal 2014. Operating margin and non-GAAP adjusted operating margin increased for fiscal 2014 compared to prior year, reflecting increased net sales, lower inventory charges, sales of solar tools that were written down previously and continued cost reduction measures, proceeds from a favorable litigation outcome, and spending controls. In the fourth quarter of fiscal 2014, new orders were \$44 million, down from \$66 million in the prior quarter, and net sales were \$48 million, down 53 percent from the prior quarter.

Fiscal 2013 financial results continued to reflect excess manufacturing capacity in the solar industry, which resulted in low levels of new orders and net sales, and consequently an operating loss for the segment. Operating loss for fiscal 2013 included \$278 million of goodwill and intangible asset impairment charges, as well as restructuring and asset impairment charges of \$25 million associated with the 2012 EES Restructuring Plan discussed above. Details on goodwill and intangible asset impairment and restructuring and asset impairment charges are also included in Note 9 and Note 11 of the Notes to the Consolidated Financial Statements.

## **Business Combinations**

### ***Tokyo Electron Limited***

On September 24, 2013, Applied and Tokyo Electron Limited (TEL) entered into a Business Combination Agreement, which was amended on February 14, 2014, to effect a strategic combination of their respective businesses into a new combined company. TEL, a Japanese corporation, is a global supplier of semiconductor and flat panel display production equipment, and a provider of technical support and services for semiconductor, flat panel display and photovoltaic panel production equipment. Under the terms of the Business Combination Agreement, TEL shareholders will receive 3.25 shares of the new combined company for every TEL share held. Applied shareholders will receive one share of the new combined company for every Applied share held. Based on the number of shares of Applied common stock and shares of TEL common stock expected to be issued and outstanding immediately prior to the closing of the transaction, it is anticipated that, immediately following the transaction, former Applied stockholders and former TEL shareholders will own approximately 68% and 32%, respectively, of the new combined company.

The new combined company, Eteris N.V., will have dual headquarters in Tokyo and Santa Clara and dual listing of its shares on the Tokyo Stock Exchange and NASDAQ, and will be incorporated in the Netherlands. In June 2014, the shareholders of Applied and TEL approved the proposed business combination. The closing of the transaction remains subject to customary conditions, including regulatory approvals. It is expected that the combined company will commence a \$3.0 billion stock repurchase program targeted to be executed within 12 months following the closing of the transaction.

The Business Combination Agreement contains mutual pre-closing covenants, including the obligation of Applied and TEL to conduct their businesses in the ordinary course consistent in all material respects with past practices. The agreement also contains termination rights for Applied and TEL and provides that upon certain events, such as a termination due to a change in recommendation by the other party or a termination relating to certain tax rulings, a termination fee of \$400 million is payable.

### ***Varian Semiconductor Equipment Associates, Inc.***

On November 10, 2011, Applied completed the acquisition of Varian, a public company manufacturer of semiconductor processing equipment and the leading supplier of ion implantation equipment used by chip makers globally, for an aggregate purchase price of \$4.2 billion in cash, net of cash acquired and assumed earned equity awards of \$27 million, pursuant to an Agreement and Plan of Merger dated as of May 3, 2011. Applied's primary reasons for this acquisition were to complement existing product offerings and to provide opportunities for future growth. The acquired business is primarily included in results for the Silicon Systems Group and Applied Global Services segments.

Applied funded the transaction with a combination of existing cash balances and debt. On June 8, 2011, Applied issued senior unsecured notes in the aggregate principal amount of \$1.75 billion and used the net proceeds of the Notes to fund a portion of the consideration and certain costs associated with the acquisition. See Note 10 of Notes to Consolidated Financial Statements for additional discussion of long-term debt.

For further details, see Note 8 of Notes to Consolidated Financial Statements.

## **Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued authoritative guidance that requires revenue recognition to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new standard will supersede most current revenue recognition guidance, including industry-specific guidance. The guidance becomes effective for Applied in the first quarter of fiscal 2018, and can be applied either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Early adoption is prohibited. Applied is currently evaluating the effect of this new guidance on Applied's financial position and its ongoing financial reporting, including the selection of a transition method.

In April 2014, the FASB issued authoritative guidance that raises the threshold for a disposal transaction to qualify as a discontinued operation and requires additional disclosures about discontinued operations and disposals of individually significant components that do not qualify as discontinued operations. The authoritative guidance becomes effective prospectively for Applied in the first quarter of fiscal 2016. Early adoption is permitted, but only for disposals that have not been reported in financial statements previously issued.

In July 2013, the FASB issued authoritative guidance that will require an unrecognized tax benefit to be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, with certain exceptions. The authoritative guidance becomes effective for Applied in the first quarter of fiscal 2015, with early adoption permitted. The guidance is not expected to have a significant impact on Applied's financial position.

## Financial Condition, Liquidity and Capital Resources

Applied's cash, cash equivalents and investments increased to \$4.1 billion at October 26, 2014 from \$2.9 billion at October 27, 2013.

Cash, cash equivalents and investments consist of the following:

	October 26, 2014	October 27, 2013
	(In millions)	
Cash and cash equivalents . . . . .	\$ 3,002	\$ 1,711
Short-term investments . . . . .	160	180
Long-term investments . . . . .	935	1,005
Total cash, cash-equivalents and investments . . . . .	<u>\$ 4,097</u>	<u>\$ 2,896</u>

### Sources and Uses of Cash

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

	2014	2013	2012
	(In millions)		
Cash provided by operating activities . . . . .	\$ 1,800	\$ 623	\$ 1,851
Cash provided by (used in) investing activities . . . . .	\$ (161)	\$ 215	\$ (4,660)
Cash used in financing activities . . . . .	\$ (348)	\$ (519)	\$ (1,754)

### Operating Activities

Cash from operating activities for fiscal 2014 was \$1.8 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, share-based compensation, unrealized loss on derivatives associated with announced business combination, restructuring and asset impairments and deferred income taxes. The increase in cash from operating activities from fiscal 2013 to fiscal 2014 was primarily due to higher business volume and improved working capital performance.

Applied discounted \$29 million of letters of credit issued by customers in fiscal 2014. Applied did not utilize programs to discount letters of credit issued by customers in fiscal 2013 and 2012. 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 factored accounts receivable and discounted promissory notes of \$45 million in fiscal 2014, and \$93 million in fiscal 2012. There was no factoring of accounts receivable or discounting of promissory notes in fiscal 2013.

Applied's working capital was \$4.1 billion at October 26, 2014 and \$3.2 billion at October 27, 2013.

Days sales, inventory and payable outstanding at the end of each of the periods indicated are:

	2014	2013	2012
Days sales outstanding . . . . .	67	75	67
Days inventory outstanding . . . . .	109	108	109
Days payable outstanding . . . . .	43	44	34

Days sales outstanding varies due to the timing of shipments and the payment terms. Days sales outstanding decreased at the end of fiscal 2014 compared to fiscal 2013 primarily due to an increase in revenue and better linearity. The days sales outstanding in fiscal 2012 included a favorable impact from the timing of the sale of thin film production line during the year. Days inventory outstanding remained flat in fiscal 2012, 2013 and 2014. The increase in days payable outstanding from fiscal 2012 to fiscal 2013 primarily reflected an increase in accounts payable due to increase in inventory purchases near the end of the period to support projected customer demand.

### *Investing Activities*

Applied used \$161 million of cash in investing activities in fiscal 2014 and \$4.7 billion in fiscal 2012. Applied generated \$215 million in cash from investing activities in fiscal 2013. Capital expenditures were \$241 million in fiscal 2014, \$197 million in fiscal 2013, and \$162 million in fiscal 2012. Capital expenditures in fiscal 2014 were primarily for demonstration and test equipment and infrastructure improvements in North America, including creation of a new pilot operation facility and distribution center. Capital expenditures in fiscal 2013 were primarily for demonstration and test equipment as well as laboratory tools and equipment upgrades in North America. Capital expenditures in fiscal 2012 were primarily for various information technology expenditures in North America, including the addition of Varian, and expansion of semiconductor assembly centers in Singapore. Proceeds from sales and maturities of investments, net of purchases of investments, totaled \$67 million in fiscal 2014 and \$406 million in fiscal 2013, while purchases of investments, net of proceeds from sales and maturities of investments, totaled \$308 million in fiscal 2012. Investing activities also included investments in technology and acquisitions of companies to allow Applied to access new market opportunities or emerging technologies. In fiscal 2012, Applied acquired Varian for \$4.2 billion, net of cash acquired.

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 cash in financing activities in the amount of \$348 million in fiscal 2014, \$519 million in fiscal 2013, and \$1.8 billion in fiscal 2012 which activities included payment of cash dividends to stockholders and issuances and repurchases of common stock. Applied did not repurchase any shares of its common stock during fiscal 2014. Cash used to repurchase shares totaled \$245 million in fiscal 2013 and \$1.4 billion in fiscal 2012. The majority of these repurchases were made under a share repurchase program approved in March 2012 by Applied's Board of Directors authorizing up to \$3.0 billion in repurchases over the next three years ending in March 2015, of which \$1.6 billion remained available for future stock repurchases at October 26, 2014. Proceeds from stock issuances related to equity compensation awards were \$137 million in fiscal 2014, \$182 million in fiscal 2013, and \$96 million in fiscal 2012.

During fiscal 2014, Applied's Board of Directors declared four quarterly cash dividends of \$0.10 per share each. During fiscal 2013, Applied's Board of Directors declared three quarterly cash dividends of \$0.10 per share each and one quarterly cash dividend of \$0.09 per share. During fiscal 2012, Applied's Board of Directors declared three quarterly cash dividends of \$0.09 per share each and one quarterly cash dividend of \$0.08 per share. Cash paid in dividends during fiscal 2014, 2013 and 2012 amounted to \$485 million, \$456 million and \$434 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.

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 with a group of banks that is scheduled to expire in May 2017. This agreement provides for borrowings in United States dollars at interest rates keyed to one of the two rates selected by Applied for each advance and includes financial and other covenants. These covenants require Applied to maintain certain minimum financial ratios. Applied was in compliance with all such covenants at October 26, 2014. Remaining credit facilities in the amount of approximately \$75 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 October 26, 2014 and October 27, 2013, and Applied has not utilized these credit facilities. In connection with the proposed business combination with TEL, Applied intends to amend or replace its undrawn \$1.5 billion unsecured revolving credit agreement.

In fiscal 2011, Applied established a short-term commercial paper program of up to \$1.5 billion. At October 26, 2014 and October 27, 2013, Applied did not have any commercial paper outstanding.



Applied issued senior unsecured notes in the aggregate principal amount of \$1.95 billion. The following table summarizes the notes issued:

<u>Due Date</u>	<u>Principal Amount</u>	<u>Effective Interest Rate</u>	<u>Interest Payment Dates</u>
	(In millions)		
2.650% Senior Notes Due 2016 .....	\$ 400	2.666%	June 15, December 15
7.125% Senior Notes Due 2017 .....	200	7.190%	April 15, October 15
4.300% Senior Notes Due 2021 .....	750	4.326%	June 15, December 15
5.850% Senior Notes Due 2041 .....	600	5.879%	June 15, December 15
	<u>\$ 1,950</u>		

The indenture governing the notes includes certain covenants with which Applied was in compliance at October 26, 2014. See Note 10 of Notes to Consolidated Financial Statements for additional discussion of long-term debt.

#### *Others*

During fiscal 2014 and 2013, Applied did not record any additional bad debt provision but released \$16 million and \$13 million, respectively, of its allowance for doubtful accounts as a result of an overall lower risk profile of Applied's customers. While Applied believes that its allowance for doubtful accounts at October 26, 2014 is adequate, it will continue to closely monitor customer liquidity and economic conditions.

As of October 26, 2014, approximately \$2.7 billion of cash, cash equivalents, and marketable securities held by foreign subsidiaries may be subject to U.S. taxes if repatriated for U.S. operations. Of this amount, Applied intends to permanently reinvest approximately \$2.1 billion of these funds outside of the U.S. and does not plan to repatriate these funds. For the remaining cash, cash equivalents and marketable securities held by foreign subsidiaries, U.S. taxes have been provided for in the financial statements.

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 Statements of Cash Flows in this report.

For details on standby letters of credit and other agreements with banks, see Off-Balance Sheet Arrangements below.

## Off-Balance Sheet Arrangements

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 October 26, 2014, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately \$46 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 October 26, 2014, Applied Materials Inc. has provided parent guarantees to banks for approximately \$102 million to cover these arrangements.

Applied also has operating leases for various facilities. Total rent expense was \$37 million for fiscal 2014, \$36 million for fiscal 2013, and \$38 million for fiscal 2012.

## Contractual Obligations

The following table summarizes Applied's contractual obligations as of October 26, 2014:

<u>Contractual Obligations</u>	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In millions)				
Long-term debt obligations . . . . .	\$ 1,950	\$ —	\$ 600	\$ —	\$ 1,350
Interest expense associated with long-term debt obligations . . . . .	1,238	92	174	135	837
Operating lease obligations . . . . .	70	28	28	9	5
Purchase obligations <sup>1</sup> . . . . .	1,565	1,527	38	—	—
Other long-term liabilities <sup>2</sup> . . . . .	254	—	55	30	169
	<u>\$ 5,077</u>	<u>\$ 1,647</u>	<u>\$ 895</u>	<u>\$ 174</u>	<u>\$ 2,361</u>

<sup>1</sup> Represents Applied's agreements to purchase goods and services consisting of Applied's (a) outstanding purchase orders for goods and services; and (b) contractual requirements to make specified minimum payments even if Applied does not take delivery of the contracted goods.

<sup>2</sup> Other long-term liabilities do not include noncurrent income taxes payable, noncurrent deferred income taxes payable and certain tax-related liabilities due to the uncertainty in the timing of future payments.

In addition to the contractual obligations disclosed above, Applied has certain tax obligations. Gross interest and penalties and unrecognized tax benefits that are not expected to result in payment or receipt of cash within one year have been reported as non-current liabilities on the Consolidated Balance Sheet. As of October 26, 2014, the gross liability for unrecognized tax benefits was \$134 million. Increases or decreases to interest and penalties on uncertain tax positions are included in provision for income taxes in the Consolidated Statement of Operations. Interest and penalties related to uncertain tax positions were \$25 million as of October 26, 2014 and \$7 million as of October 27, 2013, and were classified as a noncurrent liability in the Consolidated Balance Sheets. At this time, Applied is unable to make a reasonably reliable estimate of the timing of payments in individual years due to uncertainties in the timing of tax audit outcomes and, accordingly, such amounts are not included in the above contractual obligations table.

## **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 describes 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 I, 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 all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; sales price is fixed or determinable; and collectability is probable. Each sale arrangement may contain commercial terms that differ from other arrangements. In addition, Applied frequently enters into contracts that contain multiple deliverables. Judgment is required to properly identify the accounting units of the multiple deliverable transactions and to determine the manner in which revenue should be allocated among the accounting units. Moreover, judgment is used in interpreting the commercial terms and determining when all criteria of revenue recognition have been met in order for revenue recognition to occur in the appropriate accounting period. While changes in the allocation of the estimated sales price between the units of accounting will not affect the amount of total revenue recognized for a particular sales arrangement, any material changes in these allocations could impact the timing 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 Doubtful Accounts***

Applied maintains an allowance for doubtful accounts 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 market, with cost determined on a first-in, first-out basis. The carrying value of inventory is reduced for estimated obsolescence by the difference between its cost and the estimated market 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 whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable, and also annually reviews goodwill and intangibles with indefinite lives for impairment. 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. The fair value of a reporting unit is estimated using both the income approach and the market approach taking into account such factors as future anticipated operating results and estimated cost of capital. Management uses significant judgment when assessing goodwill for potential impairment, especially in emerging markets. A severe decline in market conditions could result in an unexpected impairment charge for impaired goodwill, which could have a material adverse effect on Applied's business, financial condition and results of operations.

### ***Income Taxes***

The effective tax rate is highly dependent upon the geographic composition of worldwide earnings, tax regulations governing each region, nondeductible expenses incurred in connection with acquisitions and availability of tax credits. Management carefully monitors the changes in many factors and adjusts the effective tax rate as required. If actual results differ from these estimates, Applied could be required to record a valuation allowance on deferred tax assets or adjust its effective tax rate, which could have a material adverse effect on Applied's business, financial condition and results of operations.

Applied accounts for income taxes by recognizing deferred tax assets and liabilities using statutory tax rates for the effect of temporary differences between the book and tax bases of recorded assets and liabilities, net operating losses and tax credit carryovers. Deferred tax assets are also reduced by a valuation allowance if it is more likely than not that a portion of the deferred tax asset will not be realized. Management has determined that it is more likely than not that Applied's future taxable income will be sufficient to realize its deferred tax assets, net of existing valuation allowance.

The calculation of tax liabilities 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 a material impact on Applied's results of operations and financial condition.

### ***Non-GAAP Adjusted Results***

Management uses non-GAAP adjusted results to evaluate operating and financial performance in light of business objectives and for planning purposes. Applied believes these measures enhance investors' ability to review the Company's business from the same perspective as management and facilitate comparisons of this period's results with prior periods. The non-GAAP adjusted results presented below exclude the impact of the following, where applicable: certain items related to acquisitions or the announced business combination; restructuring charges and any associated adjustments; impairments of assets, goodwill, or investments; gain or loss on sale of strategic investments or facilities; and certain tax items. These non-GAAP adjusted measures are not in accordance with GAAP and may differ from non-GAAP methods of accounting and reporting used by other companies. The presentation of this additional information should not be considered a substitute for results prepared in accordance with GAAP.

The following tables present a reconciliation of the GAAP and non-GAAP adjusted consolidated results for the past three fiscal years:

APPLIED MATERIALS, INC.

UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED RESULTS

	2014	2013	2012
	(In millions, except percentages)		
<u>Non-GAAP Adjusted Gross Margin</u>			
Reported gross margin - GAAP basis	\$ 3,843	\$ 2,991	\$ 3,313
Certain items associated with acquisitions <sup>1</sup>	158	166	253
Acquisition integration costs	1	3	—
Non-GAAP adjusted gross margin	<u>\$ 4,002</u>	<u>\$ 3,160</u>	<u>\$ 3,566</u>
Non-GAAP adjusted gross margin percent (% of net sales)	44.1%	42.1%	40.9%
<u>Non-GAAP Adjusted Operating Income</u>			
Reported operating income - GAAP basis	\$ 1,520	\$ 432	\$ 411
Impairment of goodwill and intangible assets	—	278	421
Certain items associated with acquisitions <sup>1</sup>	183	201	298
Acquisition integration costs	34	38	81
Loss (gain) on derivative associated with announced business combination, net	(30)	7	—
Certain items associated with announced business combination <sup>4</sup>	73	17	—
Restructuring charges and asset impairments <sup>2,3</sup>	5	63	168
Gain on sale of facility	(4)	(4)	—
Non-GAAP adjusted operating income	<u>\$ 1,781</u>	<u>\$ 1,032</u>	<u>\$ 1,379</u>
Non-GAAP adjusted operating margin percent (% of net sales)	19.6%	13.7%	15.8%
<u>Non-GAAP Adjusted Net Income</u>			
Reported net income - GAAP basis <sup>5</sup>	\$ 1,072	\$ 256	\$ 109
Impairment of goodwill and intangible assets	—	278	421
Certain items associated with acquisitions <sup>1</sup>	183	201	298
Acquisition integration costs	34	38	81
Loss (gain) on derivative associated with announced business combination, net	(30)	7	—
Certain items associated with announced business combination <sup>4</sup>	73	17	—
Restructuring charges and asset impairments <sup>2,3</sup>	5	63	168
Impairment (gain on sale) of strategic investments, net	(9)	1	17
Gain on sale of facility	(4)	(4)	—
Reinstatement of federal R&D tax credit	—	(13)	—
Resolution of prior years' income tax filings and other tax items <sup>5</sup>	28	(24)	(22)
Income tax effect of non-GAAP adjustments	(38)	(102)	(112)
Non-GAAP adjusted net income	<u>\$ 1,314</u>	<u>\$ 718</u>	<u>\$ 960</u>

- 1 These items are incremental charges attributable to completed acquisitions, consisting of amortization of purchased intangible assets.
- 2 Results for the twelve months ended October 27, 2013 included \$39 million of employee-related costs, net, related to the restructuring program announced on October 3, 2012, and restructuring and asset impairment charges of \$26 million related to the restructuring program announced on May 10, 2012, partially offset by a favorable adjustment of \$2 million related to other restructuring plans.
- 3 Results for the twelve months ended October 28, 2012 included employee-related costs of \$106 million related to the restructuring program announced on October 3, 2012, restructuring and asset impairment charges of \$48 million related to the restructuring program announced on May 10, 2012, and severance charges of \$14 million related to the integration of Varian.
- 4 These items are incremental charges related to the announced business combination agreement with Tokyo Electron Limited, consisting of acquisition-related and integration planning costs.
- 5 Fiscal 2014 amount differs from the unaudited consolidated financial statements included in Applied's press release issued on November 13, 2014, reflecting an increase to provision for income taxes of \$34 million. This adjustment is not considered material and does not affect Applied's previously announced Non-GAAP Adjusted Results.

APPLIED MATERIALS, INC.

UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED RESULTS

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(In millions, except per share amounts)		
<u>Non-GAAP Adjusted Earnings Per Diluted Share</u>			
Reported earnings per diluted share - GAAP basis <sup>1</sup> . . . . .	\$ 0.87	\$ 0.21	\$ 0.09
Impairment of goodwill and intangible assets . . . . .	—	0.21	0.33
Certain items associated with acquisitions . . . . .	0.13	0.14	0.19
Acquisition integration costs . . . . .	0.02	0.02	0.05
Gain on derivative associated with announced business combination, net . . . . .	(0.02)	—	—
Certain items associated with announced business combination . . . . .	0.05	0.01	—
Restructuring charges and asset impairments . . . . .	—	0.03	0.10
Impairment of strategic investments, net. . . . .	—	—	0.01
Reinstatement of federal R&D tax credit and resolution of prior years' income tax filings and other tax items <sup>1</sup> . . . . .	0.02	(0.03)	(0.02)
Non-GAAP adjusted earnings per diluted share . . . . .	<u>\$ 1.07</u>	<u>\$ 0.59</u>	<u>\$ 0.75</u>
Weighted average number of diluted shares . . . . .	<u>1,231</u>	<u>1,219</u>	<u>1,277</u>

<sup>1</sup> Fiscal 2014 amount differs from the unaudited consolidated financial statements included in Applied's press release issued on November 13, 2014, reflecting an increase to provision for income taxes of \$34 million and a decrease to earnings per diluted share of \$0.03. This adjustment is not considered material and does not affect Applied's previously announced Non-GAAP Adjusted Results.

The following table presents a reconciliation of the GAAP and non-GAAP adjusted segment results for the past three fiscal years:

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

	2014	2013	2012
	(In millions, except percentages)		
<u>SSG Non-GAAP Adjusted Operating Income</u>			
Reported operating income - GAAP basis	\$ 1,391	\$ 876	\$ 1,243
Certain items associated with acquisitions <sup>1</sup>	172	175	253
Acquisition integration costs	2	(2)	37
Restructuring charges and asset impairments <sup>2</sup>	—	1	4
Non-GAAP adjusted operating income	<u>\$ 1,565</u>	<u>\$ 1,050</u>	<u>\$ 1,537</u>
Non-GAAP adjusted operating margin percent (% of net sales)	<u>26.2%</u>	<u>22.0 %</u>	<u>27.8 %</u>
<u>AGS Non-GAAP Adjusted Operating Income</u>			
Reported operating income - GAAP basis	\$ 573	\$ 436	\$ 502
Certain items associated with acquisitions <sup>1</sup>	3	5	13
Restructuring charges and asset impairments <sup>2,3</sup>	—	2	15
Non-GAAP adjusted operating income	<u>\$ 576</u>	<u>\$ 443</u>	<u>\$ 530</u>
Non-GAAP adjusted operating margin percent (% of net sales)	<u>26.2%</u>	<u>21.9 %</u>	<u>23.2 %</u>
<u>Display Non-GAAP Adjusted Operating Income</u>			
Reported operating income - GAAP basis	\$ 129	\$ 74	\$ 25
Certain items associated with acquisitions <sup>1</sup>	2	6	7
Non-GAAP adjusted operating income	<u>\$ 131</u>	<u>\$ 80</u>	<u>\$ 32</u>
Non-GAAP adjusted operating margin percent (% of net sales)	<u>21.3%</u>	<u>14.9 %</u>	<u>6.8 %</u>
<u>EES Non-GAAP Adjusted Operating Income (Loss)</u>			
Reported operating income (loss) - GAAP basis	\$ 15	\$ (433)	\$ (668)
Certain items associated with acquisitions <sup>1</sup>	6	15	25
Impairment of goodwill and intangible assets	—	278	421
Restructuring charges and asset impairments <sup>2,3</sup>	—	25	38
Non-GAAP adjusted operating income (loss)	<u>\$ 21</u>	<u>\$ (115)</u>	<u>\$ (184)</u>
Non-GAAP adjusted operating margin percent (% of net sales)	<u>7.5%</u>	<u>(66.5)%</u>	<u>(43.3)%</u>

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

2 Results for the twelve months ended October 27, 2013 included restructuring and asset impairment charges of \$26 million related to the restructuring program announced on May 10, 2012 and severance charges of \$2 million related to the integration of Varian.

3 Results for the twelve months ended October 28, 2012 included restructuring and asset impairment charges of \$43 million related to the restructuring program announced on May 10, 2012 and severance charges of \$14 million related to the integration of Varian.

Note: The reconciliation of GAAP and non-GAAP adjusted segment results above does not include certain operating expenses that are managed separately at the corporate level and certain expenses that are not absorbed by the segments, which are reported within corporate and unallocated costs and included in consolidated operating income.

**Item 7A: *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 \$1.0 billion at October 26, 2014. These securities are subject to interest rate risk and will decline in value if interest rates increase. Based on Applied's investment portfolio at October 26, 2014, an immediate 100 basis point increase in interest rates would result in a decrease in the fair value of the portfolio of approximately \$16 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. At October 26, 2014, the carrying amount of debt issued by Applied was \$1.9 billion with an estimated fair value of \$2.2 billion. A hypothetical decrease in interest rates of 100 basis points would result in an increase in the fair value of Applied's debt issuances of approximately \$180 million at October 26, 2014.

Certain operations of Applied are conducted in foreign currencies, such as Japanese yen, euro, Israeli shekel, Taiwanese dollar and Swiss franc. 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.

In certain cases, Applied uses derivatives to hedge specific foreign currency exposures. During fiscal 2014 and 2013, as part of an overall risk management strategy, Applied purchased foreign exchange option contracts to limit its foreign exchange risk associated with the announced business combination with TEL in the event there is a significant weakening in the Japanese yen as compared to the U.S. dollar. The derivatives used to hedge the currency exposure did not qualify for hedge accounting treatment. At October 26, 2014, the fair value of the foreign exchange currency option contracts was approximately \$52 million. Applied recorded an unrealized loss of \$12 million during the fourth quarter of fiscal 2014 related to such contracts. Changes in the exchange rate between the U.S. dollar and the Japanese yen would impact Applied's consolidated financial statements. The future maximum loss exposure on this option contract is generally limited to its fair value as of the most recent balance sheet date. For further details, see Note 5 of Notes to Consolidated Financial Statements.

**Item 8: *Financial Statements and Supplementary Data***

The consolidated financial statements required by this Item are set forth on the pages indicated at Item 15(a).

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

None.



**Item 9A: 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 the design and operation 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.

**Management's Report on Internal Control over Financial Reporting**

Applied's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of Applied's Chief Executive Officer and Chief Financial Officer, management of Applied conducted an evaluation of the effectiveness of Applied's internal control over financial reporting based upon the framework in "Internal Control — Integrated Framework (1992)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, Applied's management concluded that Applied's internal control over financial reporting was effective as of October 26, 2014.

KPMG LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Form 10-K and, as part of the audit, has issued a report, included herein, on the effectiveness of Applied's internal control over financial reporting as of October 26, 2014.

**Changes in Internal Control over Financial Reporting**

During the fourth quarter of fiscal 2014, there were no changes in the internal control over financial reporting that materially affected, or are reasonably likely to materially affect, Applied's internal control over financial reporting.

**Inherent Limitations of Disclosure Controls and Procedures and 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.

**Item 9B: Other Information**

None

## PART III

### Item 10: *Directors, Executive Officers and Corporate Governance*

Except for the information regarding executive officers required by Item 401 of Regulation S-K (which is included in Part I, Item 1 of this Annual Report on Form 10-K, under “Executive Officers of the Registrant”) and code of ethics (which is set forth below), the information required by this item will be provided in accordance with Instruction G(3) to Form 10-K no later than February 23, 2015.

Applied has implemented the Standards of Business Conduct, a code of ethics with which every person who works for Applied and every member of the Board of Directors is expected to comply. If any substantive amendments are made to the Standards of Business Conduct or any waiver is granted, including any implicit waiver, from a provision of the code to Applied’s Chief Executive Officer, Chief Financial Officer or Chief Accounting Officer, Applied will disclose the nature of such amendment or waiver on its website or in a report on Form 8-K. The above information, including the Standards of Business Conduct, is available on Applied’s website under the Governance section at <http://www.appliedmaterials.com/investor-relations>. This website address is intended to be an inactive, textual reference only. None of the materials on, or accessible through, this website is part of this report or is incorporated by reference herein.

### Item 11: *Executive Compensation*

The information required by this Item will be provided in accordance with Instruction G(3) to Form 10-K no later than February 23, 2015.

### Item 12: *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

Except for the information regarding securities authorized for issuance under equity compensation plans (which is set forth below), the information required by this Item will be provided in accordance with Instruction G(3) to Form 10-K no later than February 23, 2015.

The following table summarizes information with respect to options and other equity awards under Applied’s equity compensation plans as of October 26, 2014:

#### Equity Compensation Plan Information

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights(1)	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights(2)	(c) Number of Securities Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a))
(In millions, except prices)			
Equity compensation plans approved by security holders . . . . .	34	\$ 15.06	167 <sup>(3)</sup>
Equity compensation plans not approved by security holders . . . . .	1 <sup>(4)</sup>	\$ 5.85	11 <sup>(5)</sup>
Total . . . . .	<u>35</u>	<u>\$ 10.87</u>	<u>178</u>

- (1) Includes only options, restricted stock units performance shares and performance units outstanding under Applied’s equity compensation plans, as no stock warrants or other rights were outstanding as of October 26, 2014.
- (2) The weighted average exercise price calculation does not take into account any restricted stock units, and performance shares or performance units as they have a de minimis purchase price.
- (3) Includes 23 million shares of Applied common stock available for future issuance under the Applied Materials, Inc. Employees’ Stock Purchase Plan. Of these 23 million shares, 1 million are subject to purchase during the purchase period in effect as of October 26, 2014.
- (4) Includes options to purchase 1 million shares of Applied common stock assumed through various mergers and acquisitions, after giving effect to the applicable exchange ratios. The assumed options had a weighted average exercise price of \$5.85 per share. No further shares are available for issuance under the plans under which these assumed awards were granted.

- (5) Includes 11 million shares of Applied common stock available for future issuance under the Applied Materials, Inc. Stock Purchase Plan for Offshore Employees. Of these 11 million shares, 1 million are subject to purchase during the purchase period in effect as of October 26, 2014.

Applied has the following equity compensation plans that have not been approved by stockholders:

*Stock Purchase Plan for Offshore Employees.* The Stock Purchase Plan for Offshore Employees (the Offshore ESPP) was adopted effective as of October 16, 1995 for the benefit of employees of Applied's participating affiliates (other than United States citizens or residents). The Offshore ESPP provides for the grant of options to purchase shares of Applied common stock through payroll deductions pursuant to one or more offerings. The administrator of the Offshore ESPP (the Board of Directors of Applied or a committee appointed by the Board) determines the terms and conditions of all options prior to the start of an offering, including the purchase price of shares, the number of shares covered by the option and when the option may be exercised. All options granted as part of an offering must be granted on the same date. As of October 26, 2014, a total of 36 million shares have been authorized for issuance under the Offshore ESPP, and 11 million shares remain available for issuance.

*Applied Materials Profit Sharing Scheme.* The Applied Materials Profit Sharing Scheme was adopted effective July 3, 1996 to enable employees of Applied Materials Ireland Limited and its participating subsidiaries to purchase Applied common stock at 100% of fair market value on the purchase date. Under this plan, eligible employees may elect to forego a certain portion of their base salary and certain bonuses they have earned and that otherwise would be payable in cash to purchase shares of Applied common stock at full fair market value. Since the eligible employees pay full fair market value for the shares, there is no reserved amount of shares under this plan and, accordingly, the table above does not include any set number of shares available for future issuance under the plan.

**Item 13: *Certain Relationships and Related Transactions, and Director Independence***

The information required by this Item will be provided in accordance with Instruction G(3) to Form 10-K no later than February 23, 2015.

**Item 14: *Principal Accounting Fees and Services***

The information required by this Item will be provided in accordance with Instruction G(3) to Form 10-K no later than February 23, 2015.

**PART IV**

**Item 15: Exhibits, Financial Statement Schedules**

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

	<b>Page Number</b>
(1) Financial Statements:	
<u>Reports of KPMG LLP, Independent Registered Public Accounting Firm</u> .....	<u>64</u>
Consolidated Statements of Operations for each of the years in the three-year period ended October 26, 2014 .....	<u>66</u>
<u>Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended October 26, 2014</u> .....	<u>67</u>
<u>Consolidated Balance Sheets at October 26, 2014 and October 27, 2013</u> .....	<u>68</u>
<u>Consolidated Statements of Stockholders' Equity for each of the years in the three-year period ended October 26, 2014</u> .....	<u>69</u>
Consolidated Statements of Cash Flows for each of the years in the three-year period ended October 26, 2014 .....	<u>70</u>
<u>Notes to Consolidated Financial Statements</u> .....	<u>71</u>
(2) Exhibits:	
<u>The exhibits listed in the accompanying Index to Exhibits are filed or incorporated by reference as part of this Annual Report on Form 10-K</u> .....	<u>116</u>

All other schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
Applied Materials, Inc.:

We have audited the accompanying consolidated balance sheets of Applied Materials, Inc. and subsidiaries (the Company) as of October 26, 2014 and October 27, 2013, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the ~~three~~-year period ended October 26, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Applied Materials, Inc. and subsidiaries as of October 26, 2014 and October 27, 2013, and the results of their operations and their cash flows for each of the years in the ~~three~~-year period ended October 26, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Applied Materials, Inc.'s internal control over financial reporting as of October 26, 2014, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 17, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP  
\_\_\_\_\_  
KPMG LLP

Santa Clara, California  
December 17, 2014

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
Applied Materials, Inc.:

We have audited Applied Materials, Inc.'s (the Company) internal control over financial reporting as of October 26, 2014, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting in Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Applied Materials, Inc. maintained, in all material respects, effective internal control over financial reporting as of October 26, 2014, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Applied Materials, Inc. and subsidiaries as of October 26, 2014 and October 27, 2013, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended October 26, 2014, and our report dated December 17, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP  
KPMG LLP

Santa Clara, California  
December 17, 2014

**APPLIED MATERIALS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

Fiscal Year	2014	2013	2012
	(In millions, except per share amounts)		
Net sales . . . . .	\$ 9,072	\$ 7,509	\$ 8,719
Cost of products sold . . . . .	5,229	4,518	5,406
Gross margin . . . . .	3,843	2,991	3,313
Operating expenses: . . . . .			
Research, development and engineering . . . . .	1,428	1,320	1,237
Marketing and selling . . . . .	423	433	481
General and administrative . . . . .	467	465	595
Impairment of goodwill and intangible assets . . . . .	—	278	421
Restructuring charges and asset impairments . . . . .	5	63	168
Total operating expenses . . . . .	2,323	2,559	2,902
Income from operations . . . . .	1,520	432	411
Interest expense . . . . .	95	95	95
Interest and other income, net . . . . .	23	13	—
Income before income taxes . . . . .	1,448	350	316
Provision for income taxes . . . . .	376	94	207
Net income . . . . .	\$ 1,072	\$ 256	\$ 109
Earnings per share: . . . . .			
Basic . . . . .	\$ 0.88	\$ 0.21	\$ 0.09
Diluted . . . . .	\$ 0.87	\$ 0.21	\$ 0.09
Weighted average number of shares: . . . . .			
Basic . . . . .	1,215	1,202	1,266
Diluted . . . . .	1,231	1,219	1,277

See accompanying Notes to Consolidated Financial Statements.



**APPLIED MATERIALS, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Fiscal Year	2014	2013	2012
	(In millions)		
Net income . . . . .	\$ 1,072	\$ 256	\$ 109
Other comprehensive income (loss), net of tax: . . . . .			
Change in unrealized net gain on investments . . . . .	(1)	9	(1)
Change in unrealized net gain on derivative investments . . . . .	(2)	1	1
Change in defined and postretirement benefit plans . . . . .	(33)	18	(65)
Change in cumulative translation adjustments . . . . .	(2)	(5)	(2)
Other comprehensive income (loss), net of tax . . . . .	(38)	23	(67)
Comprehensive income . . . . .	<u>\$ 1,034</u>	<u>\$ 279</u>	<u>\$ 42</u>

See accompanying Notes to Consolidated Financial Statements.

**APPLIED MATERIALS, INC.**  
**CONSOLIDATED BALANCE SHEETS**

	October 26, 2014	October 27, 2013
<b>ASSETS</b>		
(In millions, except per share amounts)		
Current assets:		
Cash and cash equivalents	\$ 3,002	\$ 1,711
Short-term investments	160	180
Accounts receivable, net	1,670	1,633
Inventories	1,567	1,413
Other current assets	568	705
Total current assets	6,967	5,642
Long-term investments	935	1,005
Property, plant and equipment, net	861	850
Goodwill	3,304	3,294
Purchased technology and other intangible assets, net	951	1,103
Deferred income taxes and other assets	156	149
Total assets	\$ 13,174	\$ 12,043
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,883	\$ 1,649
Customer deposits and deferred revenue	940	794
Total current liabilities	2,823	2,443
Long-term debt	1,947	1,946
Other liabilities	536	566
Total liabilities	5,306	4,955
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Preferred stock: \$.01 par value per share; 1 shares authorized; no shares issued	—	—
Common stock: \$.01 par value per share; 2,500 shares authorized; 1,221 and 1,204 shares outstanding at 2014 and 2013, respectively	12	12
Additional paid-in capital	6,384	6,151
Retained earnings	13,072	12,487
Treasury stock: 717 shares at 2014 and 2013, net	(11,524)	(11,524)
Accumulated other comprehensive loss	(76)	(38)
Total stockholders' equity	7,868	7,088
Total liabilities and stockholders' equity	\$ 13,174	\$ 12,043

See accompanying Notes to Consolidated Financial Statements.

**APPLIED MATERIALS, INC**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			Shares	Amount		
	(In millions)							
Balance at October 30, 2011	1,306	\$ 13	\$ 5,616	\$ 13,029	573	\$ (9,864)	\$ 6	\$ 8,800
Net income	—	—	—	109	—	—	—	109
Other comprehensive loss, net of tax	—	—	—	—	—	—	(67)	(67)
Dividends	—	—	—	(438)	—	—	—	(438)
Share-based compensation	—	—	182	—	—	—	—	182
Stock options assumed in connection with acquisition	—	—	11	—	—	—	—	11
Issuance under stock plans, net of a tax detriment of \$12 and other	17	—	54	—	—	—	—	54
Common stock repurchases	(126)	(1)	—	—	126	(1,415)	—	(1,416)
Balance at October 28, 2012	1,197	\$ 12	\$ 5,863	\$ 12,700	699	\$ (11,279)	\$ (61)	\$ 7,235
Net income	—	—	—	256	—	—	—	256
Other comprehensive income, net of tax	—	—	—	—	—	—	23	23
Dividends	—	—	—	(469)	—	—	—	(469)
Share-based compensation	—	—	162	—	—	—	—	162
Issuance under stock plans, net of a tax benefit of \$14 and other	25	—	126	—	—	—	—	126
Common stock repurchases	(18)	—	—	—	18	(245)	—	(245)
Balance at October 27, 2013	1,204	\$ 12	\$ 6,151	\$ 12,487	717	\$ (11,524)	\$ (38)	\$ 7,088
Net income	—	—	—	1,072	—	—	—	1,072
Other comprehensive loss, net of tax	—	—	—	—	—	—	(38)	(38)
Dividends	—	—	—	(487)	—	—	—	(487)
Share-based compensation	—	—	177	—	—	—	—	177
Issuance under stock plans, net of a tax benefit of \$27 and other	17	—	56	—	—	—	—	56
Balance at October 26, 2014	1,221	\$ 12	\$ 6,384	\$ 13,072	717	\$ (11,524)	\$ (76)	\$ 7,868

See accompanying Notes to Consolidated Financial Statements.

**APPLIED MATERIALS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Fiscal Year	2014	2013	2012
	(In millions)		
Cash flows from operating activities:			
Net income . . . . .	\$ 1,072	\$ 256	\$ 109
Adjustments required to reconcile net income to cash provided by operating activities: .			
Depreciation and amortization . . . . .	375	410	422
Impairment of goodwill and intangible assets . . . . .	—	278	421
Restructuring charges and asset impairments . . . . .	5	63	168
Unrealized loss on derivative associated with announced business combination . . . . .	21	7	—
Deferred income taxes and other . . . . .	36	(91)	222
Share-based compensation . . . . .	177	162	182
Changes in operating assets and liabilities, net of amounts acquired: . . . . .			
Accounts receivable . . . . .	(21)	(404)	493
Inventories . . . . .	(154)	(141)	679
Other assets . . . . .	5	(70)	46
Accounts payable and accrued expenses . . . . .	79	21	(435)
Customer deposits and deferred revenue . . . . .	146	39	(412)
Income taxes payable . . . . .	142	57	(34)
Other liabilities . . . . .	(83)	36	(10)
Cash provided by operating activities . . . . .	1,800	623	1,851
Cash flows from investing activities:			
Capital expenditures . . . . .	(241)	(197)	(162)
Cash paid for acquisitions, net of cash acquired . . . . .	(12)	(1)	(4,190)
Proceeds from sale of facilities . . . . .	25	7	—
Proceeds from sales and maturities of investments . . . . .	878	1,013	1,019
Purchases of investments . . . . .	(811)	(607)	(1,327)
Cash provided by (used in) investing activities . . . . .	(161)	215	(4,660)
Cash flows from financing activities:			
Proceeds from common stock issuances and others, net . . . . .	137	182	96
Common stock repurchases . . . . .	—	(245)	(1,416)
Payments of dividends to stockholders . . . . .	(485)	(456)	(434)
Cash used in financing activities . . . . .	(348)	(519)	(1,754)
Effect of exchange rate changes on cash and cash equivalents . . . . .	—	—	(5)
Increase (decrease) in cash and cash equivalents . . . . .	1,291	319	(4,568)
Cash and cash equivalents — beginning of year . . . . .	1,711	1,392	5,960
Cash and cash equivalents — end of year . . . . .	\$ 3,002	\$ 1,711	\$ 1,392
Supplemental cash flow information:			
Cash payments for income taxes . . . . .	\$ 195	\$ 196	\$ 243
Cash refunds from income taxes . . . . .	\$ 111	\$ 102	\$ 79
Cash payments for interest . . . . .	\$ 92	\$ 92	\$ 94

See accompanying Notes to Consolidated Financial Statements.

## APPLIED MATERIALS, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### Note 1 Summary of Significant Accounting Policies

##### *Principles of Consolidation and Basis of Presentation*

The consolidated financial statements include the accounts of Applied Materials, Inc. and its subsidiaries (Applied or the Company) after elimination of intercompany balances and transactions. All references to a fiscal year apply to Applied's fiscal year which ends on the last Sunday in October. Fiscal 2014, 2013 and 2012 contained 52 weeks each. Each fiscal quarter of 2014, 2013 and 2012 contained 13 weeks.

Certain prior year amounts have been reclassified to conform to current year presentation.

##### *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 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.

##### *Cash Equivalents*

All highly-liquid investments with a remaining maturity of three months or less at the time of purchase are considered to be cash equivalents. Cash equivalents consist primarily of investments in institutional money market funds.

##### *Investments*

All of Applied's investments, except equity investments held in privately-held companies, are classified as available-for-sale at the respective balance sheet dates. Investments classified as available-for-sale are recorded at fair value based upon quoted market prices, and any temporary difference between the cost and fair value of an investment is presented as a separate component of accumulated other comprehensive income (loss). The specific identification method is used to determine the gains and losses on investments. Interest earned on cash and investments, as well as realized gains and losses on sale of securities, are included in interest income in the accompanying Consolidated Statements of Operations.

Equity investments in privately-held companies are generally accounted for under the cost method of accounting and are periodically assessed for other-than-temporary impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred.

##### *Allowance for Doubtful Accounts*

Applied maintains an allowance for doubtful accounts 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. Bad debt expense and any reversals are recorded in marketing and selling expense in the Consolidated Statement of Operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Inventories*

Inventories are stated at the lower of cost or market, with cost determined on a first-in, first-out (FIFO) basis. Applied adjusts inventory carrying value for estimated obsolescence equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. Applied fully reserves for inventories and noncancelable purchase orders for inventory deemed obsolete. Applied performs periodic reviews of inventory items to identify excess inventories on hand by comparing on-hand balances to anticipated usage using recent historical activity as well as anticipated or forecasted demand. If estimates of customer demand diminish further or market conditions become less favorable than those projected by Applied, additional inventory adjustments may be required.

*Property, Plant and Equipment*

Property, plant and equipment is stated at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Estimated useful lives for financial reporting purposes are as follows: buildings and improvements, 3 to 30 years; demonstration and manufacturing equipment, 3 to 5 years; software, 3 to 5 years; and furniture, fixtures and other equipment, 3 to 15 years. Land improvements are amortized over the shorter of 15 years or the estimated useful life. Leasehold improvements are amortized over the shorter of five years or the lease term.

*Intangible Assets*

Goodwill and indefinite-lived assets 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. Purchased technology and other intangible assets are presented at cost, net of accumulated amortization, and are amortized over their estimated useful lives of 1 to 15 years using the straight-line method.

*Long-Lived Assets*

Applied reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets or asset group may not be recoverable. Applied assesses these assets for impairment based on estimated future cash flows from these assets.

*Research, Development and Engineering Costs*

Research, development and engineering costs are expensed as incurred.

*Sales and Value Added Taxes*

Taxes collected from customers and remitted to governmental authorities are presented on a net basis in the accompanying Consolidated Statements of Operations.

*Warranty*

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. If actual warranty costs differ substantially from Applied's estimates, revisions to the estimated warranty liability would be required.

*Income Taxes*

Income tax expense is based on pretax earnings. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the book and tax bases of recorded assets and liabilities, net operating losses and tax credit carryforwards.

*Restructuring*

From time to time, Applied initiates restructuring activities to appropriately align its cost structure relative to prevailing economic and industry conditions and associated customer demand as well as in connection with certain acquisitions. Costs associated with restructuring actions can include termination benefits and related charges in addition to facility closure, contract termination and other related activities. Costs associated with restructuring activities are included in restructuring charges and asset impairments in the Consolidated Statements of Operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Revenue Recognition*

Applied recognizes revenue when all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists; delivery has occurred or services have been rendered; seller's price to buyer is fixed or determinable; and collectability is probable. Applied's shipping terms are customarily FOB Applied shipping point or equivalent terms. Applied's revenue recognition policy generally results in revenue recognition at the following points: (1) for all transactions where legal title passes to the customer upon shipment or delivery, Applied recognizes revenue upon passage of title for all products that have been demonstrated to meet product specifications prior to shipment; the portion of revenue associated with certain installation-related tasks is deferred, and that revenue is recognized upon completion of the installation-related tasks; (2) for products that have not been demonstrated to meet product specifications prior to shipment, revenue is recognized at customer technical acceptance; (3) for transactions where legal title does not pass at shipment or delivery, revenue is recognized when legal title passes to the customer, which is generally at customer technical acceptance; and (4) for arrangements containing multiple elements, the revenue relating to the undelivered elements is deferred using the relative selling price method utilizing estimated sales prices until delivery of the deferred elements. Applied limits the amount of revenue recognition for delivered elements to the amount that is not contingent on the future delivery of products or services, future performance obligations or subject to customer-specified return or adjustment. In cases where Applied has sold products that have been demonstrated to meet product specifications prior to shipment, Applied believes that at the time of delivery, it has an enforceable claim to amounts recognized as revenue. Spare parts revenue is generally recognized upon shipment, and services revenue is generally recognized over the period that the services are provided.

When a sales arrangement contains multiple elements, such as hardware and services and/or software products, Applied allocates revenue to each element based on a selling price hierarchy. The selling price for a deliverable is based on its vendor specific objective evidence (VSOE) if available, third party evidence (TPE) if VSOE is not available, or estimated selling price (ESP) if neither VSOE nor TPE is available. Applied generally utilizes the ESP due to the nature of its products. In multiple element arrangements where more-than-incidental software deliverables are included, revenue is allocated to each separate unit of accounting for each of the non-software deliverables and to the software deliverables as a group using the relative selling prices of each of the deliverables in the arrangement based on the aforementioned selling price hierarchy. If the arrangement contains more than one software deliverable, the arrangement consideration allocated to the software deliverables as a group is then allocated to each software deliverable using the guidance for recognizing software revenue.

*Derivative Financial Instruments*

Applied uses financial instruments, such as forward exchange and currency option contracts, to hedge a portion of, but not all, existing and anticipated foreign currency denominated transactions typically expected to occur within 24 months. The terms of currency instruments used for hedging purposes are generally consistent with the timing of the transactions being hedged. 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. All of Applied's derivative financial instruments are recorded at fair value based upon quoted market prices for comparable instruments. For derivative instruments designated and qualifying as cash flow hedges of anticipated foreign currency denominated transactions, the effective portion of the gain or loss on these hedges is reported as a component of accumulated other comprehensive income (loss) in stockholders' equity, and is reclassified into earnings when the hedged transaction affects earnings. If the transaction being hedged fails to occur, or if a portion of any derivative is ineffective, the gain or loss on the associated financial instrument is recorded promptly in earnings. For derivative instruments used to hedge existing foreign currency denominated assets or liabilities, the gain or loss on these hedges is recorded promptly in earnings to offset the changes in the fair value of the assets or liabilities being hedged. Applied does not use derivative financial instruments for trading or speculative purposes.

*Foreign Currencies*

As of October 26, 2014, primarily all of Applied's subsidiaries use the United States dollar as their functional currency. Accordingly, assets and liabilities of these subsidiaries are remeasured using exchange rates in effect at the end of the period, except for non-monetary assets, such as inventories and property, plant and equipment, which are remeasured using historical exchange rates. Foreign currency-denominated revenues and costs are remeasured using average exchange rates for the period, except for costs related to those balance sheet items that are remeasured using historical exchange rates. The resulting remeasurement gains and losses are included in general and administrative expenses in the Consolidated Statements of Operations as incurred.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Concentrations of Credit Risk*

Financial instruments that potentially subject Applied to significant concentrations of credit risk consist principally of cash equivalents, investments, trade accounts receivable and derivative financial instruments used in hedging activities. Applied invests in a variety of financial instruments, such as, but not limited to, certificates of deposit, corporate and municipal bonds, United States Treasury and agency securities, and asset-backed and mortgage-backed securities, and, by policy, limits the amount of credit exposure with any one financial institution or commercial issuer. Applied performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral to secure accounts receivable. Applied maintains an allowance reserve for potentially uncollectible accounts receivable based on its assessment of the collectability of accounts receivable. Applied regularly reviews the allowance by considering factors such as historical experience, credit quality, age of the accounts receivable balances, and current economic conditions that may affect a customer's ability to pay. In addition, Applied utilizes letters of credit to mitigate credit risk when considered appropriate. Applied is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments, but does not expect any counterparties to fail to meet their obligations. In some instances, Applied has entered into security arrangements which require the counterparties to post collateral to further mitigate credit exposure.

*Recent Accounting Pronouncements*

In May 2014, the Financial Accounting Standards Board (FASB) issued authoritative guidance that requires revenue recognition to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new standard will supersede most current revenue recognition guidance, including industry-specific guidance. The guidance becomes effective for Applied in the first quarter of fiscal 2018, and can be applied either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Early adoption is prohibited. Applied is currently evaluating the effect of this new guidance on Applied's financial position, results of operations and its ongoing financial reporting, including the selection of a transition method.

In April 2014, the FASB issued authoritative guidance that raises the threshold for a disposal transaction to qualify as a discontinued operation and requires additional disclosures about discontinued operations and disposals of individually significant components that do not qualify as discontinued operations. The authoritative guidance becomes effective prospectively for Applied in the first quarter of fiscal 2016. Early adoption is permitted, but only for disposals that have not been reported in financial statements previously issued.

In July 2013, the FASB issued authoritative guidance that will require an unrecognized tax benefit to be presented as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, with certain exceptions. The authoritative guidance becomes effective for Applied in the first quarter of fiscal 2015, with early adoption permitted. The guidance is not expected to have a significant impact on Applied's financial position.



APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**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 stock options, 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.

	2014	2013	2012
	(In millions, except per share amounts)		
Numerator:			
Net income . . . . .	\$ 1,072	\$ 256	\$ 109
Denominator:			
Weighted average common shares outstanding . . . . .	1,215	1,202	1,266
Effect of dilutive stock options, restricted stock units and employee stock purchase plan shares . . . . .	16	17	11
Denominator for diluted earnings per share . . . . .	<u>1,231</u>	<u>1,219</u>	<u>1,277</u>
Basic earnings per share . . . . .	<u>\$ 0.88</u>	<u>\$ 0.21</u>	<u>\$ 0.09</u>
Diluted earnings per share. . . . .	\$ 0.87	\$ 0.21	\$ 0.09
Potentially dilutive securities . . . . .	1	2	9

Potentially dilutive securities attributable to outstanding stock options and restricted stock units were excluded from the calculation of diluted earnings per share because the combined exercise price, average unamortized fair value and assumed tax benefits upon the exercise of options and the vesting of restricted stock units were greater than the average market price of Applied common stock, and therefore their inclusion would have been anti-dilutive.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**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:

<u>October 26, 2014</u>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
	(In millions)			
Cash . . . . .	\$ 508	\$ —	\$ —	\$ 508
Cash equivalents:				
Money market funds . . . . .	2,494	—	—	2,494
Total Cash equivalents. . . . .	2,494	—	—	2,494
Total Cash and Cash equivalents. . . . .	<u>\$ 3,002</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,002</u>
Short-term and long-term investments:				
U.S. Treasury and agency securities . . . . .	\$ 62	\$ —	\$ —	\$ 62
Non-U.S. government securities* . . . . .	14	—	—	14
Municipal securities . . . . .	391	2	—	393
Commercial paper, corporate bonds and medium-term notes . . . . .	223	1	—	224
Asset-backed and mortgage-backed securities . . . . .	287	1	2	286
Total fixed income securities. . . . .	977	4	2	979
Publicly traded equity securities . . . . .	19	31	—	50
Equity investments in privately-held companies . . . . .	66	—	—	66
Total short-term and long-term investments . . . . .	<u>\$ 1,062</u>	<u>\$ 35</u>	<u>\$ 2</u>	<u>\$ 1,095</u>
Total Cash, Cash equivalents and Investments . . . . .	<u>\$ 4,064</u>	<u>\$ 35</u>	<u>\$ 2</u>	<u>\$ 4,097</u>

\* Includes agency debt securities guaranteed by non-U.S. governments, which consist of Germany and Canada.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

<u>October 27, 2013</u>	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
	(In millions)			
Cash .....	\$ 611	\$ —	\$ —	\$ 611
Cash equivalents:				
Money market funds .....	1,095	—	—	1,095
Municipal securities .....	5	—	—	5
Total Cash equivalents .....	<u>1,100</u>	<u>—</u>	<u>—</u>	<u>1,100</u>
Total Cash and Cash equivalents .....	<u>\$ 1,711</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,711</u>
Short-term and long-term investments:				
U.S. Treasury and agency securities .....	\$ 170	\$ —	\$ —	\$ 170
Non-U.S. government securities .....	11	—	—	11
Municipal securities .....	379	2	—	381
Commercial paper, corporate bonds and medium-term notes .....	218	2	1	219
Asset-backed and mortgage-backed securities .....	268	2	2	268
Total fixed income securities .....	<u>1,046</u>	<u>6</u>	<u>3</u>	<u>1,049</u>
Publicly traded equity securities .....	27	33	—	60
Equity investments in privately-held companies .....	76	—	—	76
Total short-term and long-term investments .....	<u>\$ 1,149</u>	<u>\$ 39</u>	<u>\$ 3</u>	<u>\$ 1,185</u>
Total Cash, Cash equivalents and Investments .....	<u>\$ 2,860</u>	<u>\$ 39</u>	<u>\$ 3</u>	<u>\$ 2,896</u>

*Maturities of Investments*

The following table summarizes the contractual maturities of Applied's investments at October 26, 2014:

	<u>Cost</u>	<u>Estimated Fair Value</u>
	(In millions)	
Due in one year or less .....	\$ 151	\$ 151
Due after one through five years .....	539	542
No single maturity date** .....	372	402
	<u>\$ 1,062</u>	<u>\$ 1,095</u>

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

**APPLIED MATERIALS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*Gains and Losses on Investments*

Gross realized gains and losses on sales of investments during fiscal 2014, 2013, and 2012 were as follows:

	<u>2014</u>		<u>2013</u>		<u>2012</u>
		<b>(In millions)</b>			
Gross realized gains . . . . .	\$ 27	\$	7	\$	3
Gross realized losses . . . . .	\$ 2	\$	2	\$	3

At October 26, 2014, gross unrealized losses related to Applied's investment portfolio were not material. Applied regularly reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether an unrealized loss was considered to be temporary, or other-than-temporary and therefore impaired, include: the length of time and extent to which fair value has been lower than 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. Generally, the contractual terms of investments in marketable securities do not permit settlement at prices less than the amortized cost of the investments. Applied determined that the gross unrealized losses on its marketable securities at October 26, 2014, October 27, 2013 and October 28, 2012 were temporary in nature and therefore it did not recognize any impairment of its marketable securities for fiscal 2014, 2013 or 2012. During fiscal 2014, 2013 and 2012, Applied determined that certain of its equity investments held in privately-held companies were other-than-temporarily impaired and, accordingly, recognized impairment charges of \$15 million, \$6 million and \$17 million, respectively. These impairment charges are included in interest and other income, net in the Consolidated Statement of Operations.

Unrealized gains and temporary losses on investments classified as available-for-sale are included within accumulated other comprehensive income (loss), net of any related tax effect. Upon realization, those amounts are reclassified from accumulated other comprehensive income (loss) to results of operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Note 4 Fair Value Measurements**

Applied's financial assets are measured and recorded at fair value, except for equity investments in privately-held companies. These equity investments are generally accounted for under the cost method of accounting and are periodically assessed for other-than-temporary impairment when events or circumstances indicate that an other-than-temporary 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 when events or circumstances indicate that an other-than-temporary decline in value may have occurred.

*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.

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. As of October 26, 2014, 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 MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*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 as of October 26, 2014 and October 27, 2013:

	October 26, 2014			October 27, 2013		
	Level 1	Level 2	Total	Level 1	Level 2	Total
(In millions)						
Assets:						
Money market funds . . . . .	\$ 2,494	\$ —	\$ 2,494	\$ 1,095	\$ —	\$ 1,095
U.S. Treasury and agency securities . . . . .	43	19	62	66	104	170
Non-U.S. government securities . . . . .	—	14	14	—	11	11
Municipal securities . . . . .	—	393	393	—	386	386
Commercial paper, corporate bonds and medium-term notes . . . . .	—	224	224	—	219	219
Asset-backed and mortgage-backed securities . . . . .	—	286	286	—	268	268
Publicly traded equity securities . . . . .	50	—	50	60	—	60
Foreign exchange derivative assets . . . . .	—	52	52	—	20	20
Total . . . . .	<u>\$ 2,587</u>	<u>\$ 988</u>	<u>\$ 3,575</u>	<u>\$ 1,221</u>	<u>\$ 1,008</u>	<u>\$ 2,229</u>

There were no transfers between Level 1 and Level 2 fair value measurements during fiscal 2014 and 2013 and Applied did not have any financial assets measured at fair value on a recurring basis within Level 3 fair value measurements as of October 26, 2014 or October 27, 2013.

*Assets and Liabilities Measured at Fair Value on a Non-recurring Basis*

Equity investments in privately-held companies are generally accounted for under the cost method of accounting and are periodically assessed for other-than-temporary impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred. If Applied determines that an other-than-temporary impairment has occurred, the investment will be written down to its estimated fair value based on available information, such as pricing in recent rounds of financing, current cash positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data. Equity investments in privately-held companies totaled \$66 million at October 26, 2014, of which \$57 million of investments were accounted for under the cost method of accounting and \$9 million of investments had been measured at fair value on a non-recurring basis within Level 3 fair value measurements due to an other-than-temporary decline in value. Equity investments in privately-held companies totaled \$76 million at October 27, 2013, of which \$66 million of investments were accounted for under the cost method of accounting and \$10 million of investments had been measured at fair value on a non-recurring basis within Level 3 fair value measurements due to an other-than-temporary decline in value.

During fiscal 2014, 2013 and 2012, Applied determined that certain of its equity investments held in privately-held companies were other-than-temporarily impaired and, accordingly, recognized impairment charges of \$15 million, \$6 million and \$17 million, respectively.

In fiscal 2013 and 2012, Applied recorded goodwill and intangible asset impairment charges related to the Energy and Environmental Solutions segment. The inputs used to measure the fair value of goodwill and intangible assets of the Energy and Environmental Solutions segment are classified as a Level 3 fair value measurement due to the significance of unobservable inputs using company-specific information. The valuation methodology used to estimate the fair value of goodwill and intangible assets is discussed in Note 9, Goodwill, Purchased Technology and Other Intangible Assets.

*Other*

The carrying amounts of Applied's financial instruments, including cash and cash equivalents, accounts receivable, notes payable, and accounts payable and accrued expenses, approximate fair value due to their short maturities. At October 26, 2014, the carrying amount of long-term debt was \$1.9 billion and the estimated fair value was \$2.2 billion. At October 27, 2013, the carrying amount of long-term debt was \$1.9 billion and the estimated fair value was \$2.1 billion. The estimated fair value of long-term debt is determined by Level 2 inputs and is based primarily on quoted market prices for the same or similar issues.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**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, euro, Israeli shekel, Taiwanese dollar and Swiss franc. 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 contracts, are 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, 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 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 accumulated other comprehensive income or loss (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 derivative instruments included in AOCI at October 26, 2014 is expected to be reclassified into earnings within 12 months. Changes in the fair value of currency forward exchange and option contracts due to changes in time value are excluded from the assessment of effectiveness. Both ineffective hedge amounts and hedge components excluded from the assessment of effectiveness are recognized in earnings. If the transaction being hedged is no longer probable to occur, or if a portion of any derivative is deemed to be ineffective, Applied promptly recognizes the gain or loss on the associated financial instrument in general and administrative expenses. The amount recognized due to discontinuance of cash flow hedges that were probable not to occur by the end of the originally specified time period was not significant for fiscal 2014, 2013 or 2012.

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.

During the fourth quarters of fiscal 2013 and fiscal 2014, Applied purchased foreign exchange option contracts to limit its foreign exchange risk associated with the announced business combination with Tokyo Electron Limited (TEL). The derivatives used to hedge our currency exposure did not qualify for hedge accounting treatment. These derivatives are marked to market at the end of each reporting period with gains and losses recognized as general and administrative expenses. At October 27, 2013, the fair value of the foreign exchange option contracts was approximately \$17 million, and the Company recognized an unrealized loss of \$7 million during fiscal 2013 related to such contracts. During fiscal 2014, the derivatives purchased in fiscal 2013 were sold, and the Company recorded gains of \$51 million and \$42 million, respectively, for the three and twelve month periods ended October 26, 2014. Concurrently, during the fourth quarter of fiscal 2014, the Company purchased new foreign exchange option contracts for the same purpose with an extended maturity. At October 26, 2014, the fair value of the option contracts purchased in fiscal 2014 was approximately \$52 million and Applied recorded an unrealized loss of \$12 million in fiscal 2014 related to these option contracts. The cash flow impacts of these derivatives have been classified as operating cash flows in the Consolidated Statements of Cash Flows. To further mitigate credit exposure in connection with these foreign exchange option contracts, the Company entered into security arrangements with certain counterparties, which require the counterparties to post collateral amounting to the approximate fair value of the derivative contracts. The cash collateral is included in cash and cash equivalents in the Consolidated Statements of Financial Position, with the corresponding liability included in accounts payable and accrued expenses.

Other than the foreign exchange option contracts discussed in the preceding paragraph, the fair values of other derivative instruments at October 26, 2014 and October 27, 2013 were not material.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The effects of derivative instruments on the Consolidated Statements of Operations for fiscal 2014 and 2013 were as follows:

	2014			2013			
	Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing	Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing	
	Location of Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in AOCI	Gain or (Loss) Recognized in Income	Gain or (Loss) Recognized in AOCI	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in Income	
	(In millions)						
<b>Derivatives in Cash Flow Hedging Relationships</b>							
Foreign exchange contracts	Cost of products sold	\$ 7	\$ 8	\$ (2)	\$ 29	\$ 21	\$ (3)
Foreign exchange contracts	General and administrative	—	1	(2)	—	7	(1)
Total		<u>\$ 7</u>	<u>\$ 9</u>	<u>\$ (4)</u>	<u>\$ 29</u>	<u>\$ 28</u>	<u>\$ (4)</u>

	Location of Gain or (Loss) Recognized in Income	Amount of Gain or (Loss) Recognized in Income	
		2014	2013
(In millions)			
<b>Derivatives Not Designated as Hedging Instruments</b>			
Foreign exchange contracts	General and administrative	\$ 49	\$ 19
Total		<u>\$ 49</u>	<u>\$ 19</u>

*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 October 26, 2014 and October 27, 2013.

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



**APPLIED MATERIALS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**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 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. Details of discounted letters of credit, factored accounts receivable and discounted promissory notes for fiscal years ended October 26, 2014, October 27, 2013 and October 28, 2012 were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	<u>(In millions)</u>		
Discounted letters of credit . . . . .	\$ 29	\$ —	\$ —
Factored accounts receivable and discounted promissory notes . . . . .	45	—	93
Total . . . . .	<u>\$ 74</u>	<u>\$ —</u>	<u>\$ 93</u>

Financing charges on the sale of receivables and discounting of letters of credit are included in interest expense in the accompanying Consolidated Statements of Operations and were not material for all years presented.

Accounts receivable are presented net of allowance for doubtful accounts of \$58 million at October 26, 2014 and \$74 million at October 27, 2013. Changes in allowance for doubtful accounts were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	<u>(In millions)</u>		
Beginning balance . . . . .	\$ 74	\$ 87	\$ 73
Provision . . . . .	—	—	14
Deductions <sup>1</sup> . . . . .	(16)	(13)	—
Ending balance . . . . .	<u>\$ 58</u>	<u>\$ 74</u>	<u>\$ 87</u>

<sup>1</sup> Fiscal 2014 and 2013 deductions represent releases of allowance for doubtful accounts credited to expense as a result of an overall lower risk profile of Applied's customers.

Applied sells its products principally to manufacturers within the semiconductor, display and solar industries. While Applied believes that its allowance for doubtful accounts is adequate and represents its best estimate as of October 26, 2014, it continues to closely monitor customer liquidity and industry and economic conditions, which may result in changes to Applied's estimates regarding collectability.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 7 Balance Sheet Detail

	October 26, 2014	October 27, 2013
	(In millions)	
<b>Inventories</b>		
Customer service spares . . . . .	\$ 316	\$ 283
Raw materials . . . . .	405	361
Work-in-process . . . . .	316	292
Finished goods . . . . .	530	477
	<u>\$ 1,567</u>	<u>\$ 1,413</u>

Included in finished goods inventory is \$104 million at October 26, 2014, and \$136 million at October 27, 2013, 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 \$192 million and \$177 million of evaluation inventory at October 26, 2014 and October 27, 2013, respectively.

	October 26, 2014	October 27, 2013
	(In millions)	
<b>Other Current Assets</b>		
Deferred income taxes, net . . . . .	\$ 232	\$ 323
Prepaid expenses . . . . .	172	135
Prepaid income taxes and income taxes receivable . . . . .	79	178
Other . . . . .	85	69
	<u>\$ 568</u>	<u>\$ 705</u>

Useful Life	October 26, 2014	October 27, 2013
(In years)	(In millions)	
<b>Property, Plant and Equipment, Net</b>		
Land and improvements . . . . .	\$ 156	\$ 167
Buildings and improvements . . . . .	3-30 1,227	1,217
Demonstration and manufacturing equipment . . . . .	3-5 829	792
Furniture, fixtures and other equipment . . . . .	3-15 575	589
Construction in progress . . . . .	61	52
Gross property, plant and equipment . . . . .	<u>2,848</u>	<u>2,817</u>
Accumulated depreciation . . . . .	(1,987)	(1,967)
	<u>\$ 861</u>	<u>\$ 850</u>

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Depreciation expense was \$191 million, \$211 million and \$198 million for fiscal 2014, 2013 and 2012, respectively.

During fiscal 2013 and 2012, fixed asset impairment charges of \$12 million and \$20 million, respectively were recorded in relation to the Energy and Environmental Solutions segment restructuring plan, as discussed in Note 11, Restructuring Charges and Asset Impairments.

	October 26, 2014	October 27, 2013
	(In millions)	
<b>Accounts Payable and Accrued Expenses</b>		
Accounts payable . . . . .	\$ 613	\$ 582
Compensation and employee benefits . . . . .	524	417
Warranty . . . . .	113	102
Income taxes payable . . . . .	142	73
Dividends payable . . . . .	122	121
Other accrued taxes . . . . .	51	41
Interest payable . . . . .	30	30
Restructuring reserve . . . . .	9	39
Other . . . . .	279	244
	<u>\$ 1,883</u>	<u>\$ 1,649</u>

	October 26, 2014	October 27, 2013
	(In millions)	
<b>Customer Deposits and Deferred Revenue</b>		
Customer deposits . . . . .	\$ 286	\$ 175
Deferred revenue . . . . .	654	619
	<u>\$ 940</u>	<u>\$ 794</u>

Applied typically receives deposits on future deliverables from customers in the Energy and Environmental Solutions and Display segments. In certain instances, customer deposits may be received from customers in the Applied Global Services segment.

	October 26, 2014	October 27, 2013
	(In millions)	
<b>Other Liabilities</b>		
Deferred income taxes . . . . .	\$ 32	\$ 71
Income taxes payable . . . . .	225	174
Defined and postretirement benefit plans . . . . .	208	193
Other . . . . .	71	128
	<u>\$ 536</u>	<u>\$ 566</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Note 8 Business Combinations*****Tokyo Electron Limited***

On September 24, 2013, Applied and TEL entered into a Business Combination Agreement, which was amended on February 14, 2014, to effect a strategic combination of their respective businesses into a new combined company. TEL, a Japanese corporation, is a global supplier of semiconductor and flat panel display production equipment, and a provider of technical support and services for semiconductor, flat panel display and photovoltaic panel production equipment. Under the terms of the Business Combination Agreement, TEL shareholders will receive 3.25 shares of the new combined company for every TEL share held. Applied shareholders will receive one share of the new combined company for every Applied share held. Based on the number of shares of Applied common stock and shares of TEL common stock expected to be issued and outstanding immediately prior to the closing of the transaction, it is anticipated that, immediately following the transaction, former Applied stockholders and former TEL shareholders will own approximately 68% and 32%, respectively, of the new combined company.

The new combined company, Eteris N.V., will have dual headquarters in Tokyo and Santa Clara, and dual listing of its shares on the Tokyo Stock Exchange and NASDAQ, and will be incorporated in the Netherlands. In June 2014, the shareholders of Applied and TEL approved the proposed business combination. The closing of the transaction remains subject to customary conditions, including regulatory approvals. It is expected that the combined company will commence a \$3.0 billion stock repurchase program targeted to be executed within 12 months following the closing of the transaction.

The Business Combination Agreement contains mutual pre-closing covenants, including the obligation of Applied and TEL to conduct their businesses in the ordinary course consistent in all material respects with past practices. The agreement also contains termination rights for Applied and TEL and provides that upon certain events, such as a termination due to a change in recommendation by the other party or a termination relating to certain tax rulings, a termination fee of \$400 million is payable.

***Varian Semiconductor Equipment Associates, Inc.***

On November 10, 2011, Applied completed the acquisition of Varian, a public company manufacturer of semiconductor processing equipment and the leading supplier of ion implantation equipment used by chip makers globally, for an aggregate purchase price of \$4.2 billion in cash, net of cash acquired and assumed earned equity awards of \$27 million, pursuant to an Agreement and Plan of Merger dated as of May 3, 2011.

Applied allocated the purchase price of this acquisition to tangible and identifiable intangible assets acquired and liabilities assumed, based on their estimated fair values. These estimates were determined through established and generally accepted valuation techniques. Applied recorded \$2.6 billion in goodwill, of which \$1.8 billion was allocated to the Silicon Systems Group segment, and the remainder was allocated to the Applied Global Services segment.

The following table summarizes the allocation of the assets acquired and liabilities assumed at the acquisition date:

	<b>Estimated Fair Values</b>
	<b>(In millions)</b>
Fair value of net tangible assets acquired. . . . .	\$ 892
Goodwill. . . . .	2,604
Purchased intangible assets . . . . .	1,365
Purchase price allocated. . . . .	<u>\$ 4,861</u>

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table presents details of the purchase price allocated to purchased intangible assets of Varian at the acquisition date:

	Useful Life	Purchased Intangible Assets
	(In years)	(In millions)
Developed technology . . . . .	1 - 7	\$ 987
Customer relationships . . . . .	15	150
In-process technology . . . . .		142
Patents and trademarks . . . . .	10	69
Backlog . . . . .	1	7
Covenant not to compete . . . . .	2	10
Total purchased intangible assets . . . . .		<u>\$ 1,365</u>

**Other**

From time to time, Applied makes acquisitions of or investments in companies related to existing or new markets for Applied. Applied completed an acquisition during fiscal 2014 which was not significant to Applied's consolidated results of operations and financial position. Substantially all of the consideration was allocated to goodwill and acquisition-related intangible assets. See Note 9 Goodwill, Purchased Technology and Other Intangible Assets for more information.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Note 9 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. Applied regularly monitors current business conditions and considers other factors including, but not limited to, adverse industry or economic trends, restructuring actions and lower projections of profitability that may impact future operating results.

To test 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. If it is concluded that this is the case, Applied then performs the two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. Under the two-step goodwill impairment test, Applied would, in the first step, compare the estimated fair value of each reporting unit to its carrying value. Applied determines the fair value of each of its reporting units based on a weighting of income and market approaches. If the carrying value of a reporting unit exceeds its fair value, Applied would then perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If Applied determines that the carrying value of a reporting unit's goodwill exceeds its implied fair value, Applied would record an impairment charge equal to the difference. Applied's reporting units are consistent with the reportable segments identified in Note 16, Industry Segment Operations, which are based on the manner in which Applied operates its business and the nature of those operations.

In the fourth quarter of fiscal 2014, Applied performed an annual qualitative assessment to test goodwill for all of its reporting units for impairment. Applied determined that it was more likely than not that each of its reporting units' fair values exceeded their respective carrying values and that it was not necessary to perform the two-step goodwill impairment test for any of its reporting units.

During fiscal 2013 and 2012, the solar industry faced a deterioration in market conditions associated with manufacturing overcapacity and weak operating performance and outlook, resulting in uncertainties regarding the timing and nature of a recovery in solar capital equipment expenditures. Applied performed a two-step goodwill impairment test and, as a result, recorded \$224 million and \$421 million of goodwill impairment charges in its Energy and Environmental Solutions segment in fiscal 2013 and 2012, respectively. As of October 27, 2014, accumulated goodwill impairment charges amounted to \$645 million all of which were recorded in the Energy and Environmental Solutions segment.

In fiscal 2013, Applied also performed an impairment test for long-lived assets associated with the Energy and Environmental Solutions reporting unit and determined that the majority of intangible assets were impaired, mostly due to the lower long-term revenue and profitability outlook associated with products related to these intangible assets. Accordingly, during fiscal 2013, Applied recorded an impairment charge of \$54 million related to these intangible assets, which was the amount by which the carrying value of these intangible assets exceeded their estimated fair value, based on discounted projected cash flows.

**APPLIED MATERIALS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Applied utilized an equal weighting of both the discounted cash flow method of the income approach and the guideline company method of the market approach to estimate the fair value of the Energy and Environmental Solutions reporting unit. The estimates used in the impairment testing were consistent with the discrete forecasts that Applied uses to manage its business, and considered the significant developments that occurred during the quarter. Under the discounted cash flow method, cash flows beyond the discrete forecasts were estimated using a terminal growth rate, which considered the long-term earnings growth rate specific to the Energy and Environmental Solutions reporting unit. The estimated future cash flows were discounted to present value using a discount rate that was the value-weighted average of the reporting unit's estimated cost of equity and debt derived using both known and estimated market metrics, and was adjusted to reflect risk factors that considered both the timing and risks associated with the estimated cash flows. The tax rate used in the discounted cash flow method reflected the international structure currently in place, which is consistent with the market participant perspective. Under the guideline company method, market multiples were applied to forecasted revenues and earnings before interest, taxes, depreciation and amortization. The market multiples used were consistent with comparable publicly-traded companies.

The evaluation of goodwill and intangible assets for impairment requires the exercise of significant judgment. In the event of future changes in business conditions, Applied will be required to reassess and update its forecasts and estimates used in future impairment analyses. If the results of these future analyses are lower than current estimates, a material impairment charge may result at that time.

Details of goodwill and other indefinite-lived intangible assets were as follows:

	October 26, 2014			October 27, 2013		
	Goodwill	Other Intangible Assets	Total	Goodwill	Other Intangible Assets	Total
	(In millions)					
Silicon Systems Group . . . . .	\$ 2,151	\$ 103	\$ 2,254	\$ 2,151	\$ 142	\$ 2,293
Applied Global Services . . . . .	1,027	6	1,033	1,027	—	1,027
Display . . . . .	126	18	144	116	—	116
Carrying amount . . . . .	<u>\$ 3,304</u>	<u>\$ 127</u>	<u>\$ 3,431</u>	<u>\$ 3,294</u>	<u>\$ 142</u>	<u>\$ 3,436</u>

Other intangible assets that are not subject to amortization consist primarily of in-process technology, which will be subject to amortization upon commercialization. The fair value assigned to in-process technology was determined using the income approach taking into account estimates and judgments regarding risks inherent in the development process, including the likelihood of achieving technological success and market acceptance. If an in-process technology project is abandoned, the acquired technology attributable to the project will be written-off.

During fiscal 2014, goodwill and other indefinite lived intangible assets decreased by \$5 million primarily due to commercialization of in-process technology in the Silicon Systems Group segment, partially offset by increases in goodwill and in-process technology as a result of an acquisition in the Display segment. The acquisition is not material to the consolidated financial position and results of operations of Applied.

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

	October 26, 2014	October 27, 2013
	(In millions)	
Purchased technology, net . . . . .	\$ 636	\$ 748
Intangible assets - finite-lived, net . . . . .	188	213
Intangible assets - indefinite-lived . . . . .	127	142
Total . . . . .	<u>\$ 951</u>	<u>\$ 1,103</u>

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**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:

	October 26, 2014			October 27, 2013		
	Purchased Technology	Other Intangible Assets	Total	Purchased Technology	Other Intangible Assets	Total
	(In millions)					
<b>Gross carrying amount:</b>						
Silicon Systems Group . . . . .	\$ 1,346	\$ 252	\$ 1,598	\$ 1,301	\$ 252	\$ 1,553
Applied Global Services . . . . .	28	44	72	28	44	72
Display . . . . .	110	33	143	110	33	143
Energy and Environmental Solutions . . . . .	5	17	22	5	15	20
Gross carrying amount . . . . .	<u>\$ 1,489</u>	<u>\$ 346</u>	<u>\$ 1,835</u>	<u>\$ 1,444</u>	<u>\$ 344</u>	<u>\$ 1,788</u>
<b>Accumulated amortization:</b>						
Silicon Systems Group . . . . .	\$ (716)	\$ (77)	\$ (793)	\$ (562)	\$ (58)	\$ (620)
Applied Global Services . . . . .	(24)	(44)	(68)	(23)	(42)	(65)
Display . . . . .	(110)	(31)	(141)	(110)	(29)	(139)
Energy and Environmental Solutions . . . . .	(3)	(6)	(9)	(1)	(2)	(3)
Accumulated amortization . . . . .	<u>\$ (853)</u>	<u>\$ (158)</u>	<u>\$ (1,011)</u>	<u>\$ (696)</u>	<u>\$ (131)</u>	<u>\$ (827)</u>
Carrying amount . . . . .	<u>\$ 636</u>	<u>\$ 188</u>	<u>\$ 824</u>	<u>\$ 748</u>	<u>\$ 213</u>	<u>\$ 961</u>



**APPLIED MATERIALS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Details of amortization expense by segment for fiscal 2014, 2013 and 2012 were as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	<b>(In millions)</b>		
Silicon Systems Group .....	\$ 173	\$ 172	\$ 183
Applied Global Services .....	3	5	9
Display .....	2	6	7
Energy and Environmental Solutions .....	6	16	25
<b>Total .....</b>	<b><u>\$ 184</u></b>	<b><u>\$ 199</u></b>	<b><u>\$ 224</u></b>

For fiscal 2014, 2013 and 2012, amortization expense was charged to the following categories:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	<b>(In millions)</b>		
Cost of products sold .....	\$ 159	\$ 166	\$ 185
Research, development and engineering .....	1	1	1
Marketing and selling .....	21	26	30
General and administrative .....	3	6	8
<b>Total .....</b>	<b><u>\$ 184</u></b>	<b><u>\$ 199</u></b>	<b><u>\$ 224</u></b>

As of October 26, 2014, future estimated amortization expense is expected to be as follows:

	<u>Amortization Expense</u>
	<b>(In millions)</b>
2015 .....	182
2016 .....	175
2017 .....	171
2018 .....	170
2019 .....	30
Thereafter .....	96
<b>Total .....</b>	<b><u>\$ 824</u></b>

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Note 10 Borrowing Facilities and Long-Term Debt**

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 with a group of banks that is scheduled to expire in May 2017. This agreement provides for borrowings in United States dollars at interest rates keyed to one of the two rates selected by Applied for each advance and includes financial and other covenants. Remaining credit facilities in the amount of approximately \$75 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 October 26, 2014 and October 27, 2013 and Applied has not utilized these credit facilities. In connection with the proposed business combination with TEL, Applied intends to amend or replace its undrawn \$1.5 billion unsecured revolving credit agreement. In fiscal 2011, Applied established a short-term commercial paper program of up to \$1.5 billion. At October 26, 2014 and October 27, 2013, Applied did not have any commercial paper outstanding.

Long-term debt outstanding as of October 26, 2014 and October 27, 2013 was as follows:

	Principal Amount		Effective Interest Rate	Interest Pay Dates
	October 26, 2014	October 27, 2013		
	(In millions)			
2.650% Senior Notes Due 2016 . . . . .	\$ 400	\$ 400	2.666%	June 15, December 15
7.125% Senior Notes Due 2017 . . . . .	200	200	7.190%	April 15, October 15
4.300% Senior Notes Due 2021 . . . . .	750	750	4.326%	June 15, December 15
5.850% Senior Notes Due 2041 . . . . .	600	600	5.879%	June 15, December 15
	1,950	1,950		
Total unamortized discount . . . . .	(3)	(4)		
Total long-term debt . . . . .	\$ 1,947	\$ 1,946		

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Note 11 Restructuring Charges and Asset Impairments**

From time to time, Applied initiates restructuring activities to appropriately align its cost structure relative to prevailing economic and industry conditions and associated customer demand as well as in connection with certain acquisitions. Costs associated with restructuring actions can include termination benefits and related charges in addition to facility closure, contract termination and other related activities.

The following table summarizes major components of the restructuring and asset impairment charges during fiscal 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(In millions)		
<i>2012 Global Restructuring Plan</i>			
Severance and other employee-related costs . . . . .	\$ 5	\$ 39	\$ 106
<i>2012 EES Restructuring Plan</i>			
Severance and other employee-related costs . . . . .	—	8	27
Contract cancellation and other costs . . . . .	—	6	1
Asset impairments . . . . .	—	12	20
<i>Others</i>			
Severance and other employee-related costs . . . . .	—	2	14
Contract cancellation and other costs . . . . .	—	(4)	—
	<u>\$ 5</u>	<u>\$ 63</u>	<u>\$ 168</u>

Restructuring and asset impairment charges were recorded as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(In millions)		
Silicon Systems Group . . . . .	\$ —	\$ 1	\$ 4
Applied Global Services . . . . .	—	2	15
Energy and Environmental Solutions . . . . .	—	25	38
Corporate Unallocated . . . . .	5	35	111
Total . . . . .	<u>\$ 5</u>	<u>\$ 63</u>	<u>\$ 168</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*2012 Global Restructuring Plan*

On October 3, 2012, Applied announced a restructuring plan (the 2012 Global Restructuring Plan) to realign its global workforce and enhance its ability to invest for growth. Under this plan, Applied implemented a 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. Applied implemented other workforce reduction actions globally across multiple business segments and functions, the extent of which depended on the number of employees who participated in the voluntary retirement program and other considerations. A total of approximately 1,300 positions were affected under this plan. As of January 26, 2014, principal activities related to this plan were complete.

During fiscal 2014, 2013 and 2012, Applied recognized \$5 million, \$39 million and \$106 million, respectively, of employee-related costs in connection with the 2012 Global Restructuring Plan. Total costs incurred in implementing this plan were \$150 million, none of which were allocated to the operating segments.

*2012 EES Restructuring Plan*

On May 10, 2012, Applied announced a plan (the 2012 EES Restructuring Plan) to restructure its Energy and Environmental Solutions segment in light of challenging industry conditions affecting the solar photovoltaic and light-emitting diode (LED) equipment markets. As part of this plan, Applied relocated certain manufacturing, business operations and customer support functions of its precision wafering systems business and ceased LED development activities. The 2012 EES Restructuring Plan also impacted certain LED support activities in the Applied Global Services segment. The 2012 EES Restructuring Plan impacted approximately 300 positions globally. As of October 27, 2013, principal activities related to this plan were complete. Total costs incurred in implementing this plan were \$87 million, of which \$13 million were inventory-related charges.

During fiscal 2013 and 2012, Applied recognized \$26 million and \$48 million respectively, of restructuring and asset impairment charges in connection with the 2012 EES Restructuring Plan. These costs were reported in the Energy and Environmental Solutions and Applied Global Services segments. As of October 26, 2014, there were no remaining severance accruals associated with restructuring reserves under this program.

*Integration of Varian and Prior Year Restructuring Plans*

During fiscal 2013 and 2012, Applied also recognized \$2 million and \$14 million, respectively, of severance and other employee-related costs in connection with the integration of Varian. These costs were reported in the Silicon Systems Group and Applied Global Services segments. As of October 26, 2014, there were no remaining severance accrual associated with restructuring reserves under this program.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Changes in restructuring reserves for fiscal 2014, 2013, and 2012 were as follows:

	2012 Global Restructuring Plan	2012 EES Restructuring Plan		Others		Total
	Severance and Other Employee- Related Costs	Severance and Other Employee- Related Costs	Contract Cancellation and Other Costs	Severance and Other Employee- Related Costs	Contract Cancellation and Other Costs	
	(In millions)					
Balance, October 30, 2011	\$ —	\$ —	\$ —	\$ 6	\$ 5	\$ 11
Provision for restructuring reserves	106	27	1	14	—	148
Consumption of reserves	—	(11)	—	(15)	—	(26)
Balance, October 28, 2012	\$ 106	\$ 16	\$ 1	\$ 5	\$ 5	\$ 133
Provision for restructuring reserves	35	7	8	2	—	52
Consumption of reserves	(111)	(18)	(2)	(5)	—	(136)
Adjustment of restructuring reserves	(4)	—	(2)	—	(4)	(10)
Balance, October 27, 2013	\$ 26	\$ 5	\$ 5	\$ 2	\$ 1	\$ 39
Provision for restructuring reserves	7	—	—	—	—	7
Consumption of reserves	(27)	(5)	(1)	(2)	—	(35)
Adjustment of restructuring reserves	(2)	—	—	—	—	(2)
Balance, October 26, 2014	\$ 4	\$ —	\$ 4	\$ —	\$ 1	\$ 9

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Note 12 Stockholders' Equity, Comprehensive Income and Share-Based Compensation**

*Accumulated Other Comprehensive Income (Loss)*

Changes in the components of AOCI, net of tax, were as follows:

	Unrealized Gain on Investments, Net	Unrealized Gain on Derivative Instruments Qualifying as Cash Flow Hedges	Defined and Postretirement Benefit Plans	Cumulative Translation Adjustments	Total
(in millions)					
Balance at October 27, 2013.....	\$ 25	\$ 2	\$ (72)	\$ 7	\$ (38)
Other comprehensive income (loss) before reclassifications .....	8	4	(36)	(2)	(26)
Amounts reclassified out of AOCI.....	(9)	(6)	3	—	(12)
Other comprehensive loss, net of tax .....	(1)	(2)	(33)	(2)	(38)
Balance at October 26, 2014.....	<u>\$ 24</u>	<u>\$ —</u>	<u>\$ (105)</u>	<u>\$ 5</u>	<u>\$ (76)</u>

*Stock Repurchase Program*

On March 5, 2012, Applied's Board of Directors approved a stock repurchase program authorizing up to \$3.0 billion in repurchases over the next three years ending in March 2015. Under this authorization, Applied purchases shares of its common stock on the open market. At October 26, 2014, \$1.6 billion remained available for future stock repurchases under this repurchase program.

Applied did not repurchase any shares of its common stock during fiscal 2014. The following table summarizes Applied's stock repurchases for fiscal 2013 and 2012:

	2013	2012
(In millions, except per share amounts)		
Shares of common stock repurchased.....	18	126
Cost of stock repurchased.....	\$ 245	\$ 1,416
Average price paid per share.....	\$ 13.60	\$ 11.22

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.

**APPLIED MATERIALS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

*Dividends*

During fiscal 2014, Applied's Board of Directors declared four quarterly cash dividends of \$0.10 per share each. During fiscal 2013, Applied's Board of Directors declared three quarterly cash dividends of \$0.10 per share each and one quarterly cash dividend of \$0.09 per share. During fiscal 2012, Applied's Board of Directors declared three quarterly cash dividends of \$0.09 per share each and one quarterly cash dividend of \$0.08 per share. Dividends declared during fiscal 2014, 2013 and 2012 amounted to \$487 million, \$469 million and \$438 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, which permits grants to employees of share-based awards, including stock options, restricted stock, restricted stock units, performance shares 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 beginning in March 2012 under the plan may be subject to accelerated vesting under certain circumstances in the event of a change in control of Applied. Applied also has two Employee Stock Purchase Plans, one generally for United States employees and a second for employees of international subsidiaries (collectively, ESPP), which enable eligible employees to purchase Applied common stock.

During fiscal 2014, 2013, and 2012, Applied recognized share-based compensation expense related to stock options, ESPP shares, restricted stock, restricted stock units, performance shares and performance units. Total share-based compensation and related tax benefits were as follows:

	<u>2014</u>		<u>2013</u>		<u>2012</u>
	<b>(In millions)</b>				
Share-based compensation . . . . .	\$ 177	\$	\$ 162	\$	\$ 182
Tax benefit recognized . . . . .	\$ 50	\$	\$ 45	\$	\$ 52

The effect of share-based compensation on the results of operations for fiscal 2014, 2013, and 2012 was as follows:

	<u>2014</u>		<u>2013</u>		<u>2012</u>
	<b>(In millions)</b>				
Cost of products sold . . . . .	\$ 53	\$	\$ 50	\$	\$ 54
Research, development, and engineering . . . . .	66		53		54
Marketing and selling . . . . .	23		20		22
General and administrative . . . . .	35		34		52
Restructuring charge . . . . .	—		5		—
Total . . . . .	<u>\$ 177</u>	<u>\$</u>	<u>\$ 162</u>	<u>\$</u>	<u>\$ 182</u>

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. The cost associated with performance-based equity awards is recognized for each tranche over the service period, based on an assessment of the likelihood that the applicable performance goals will be achieved.

At October 26, 2014, Applied had \$241 million in total unrecognized compensation expense, net of estimated forfeitures, related to grants of share-based awards and shares issued under Applied's ESPP, which will be recognized over a weighted average period of 2.5 years. At October 26, 2014, there were 176 million shares available for grants of share-based awards under the Employee Stock Incentive Plan, and an additional 34 million shares available for issuance under the ESPP.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Stock Options

Applied grants options to purchase, at future dates, shares of its common stock to employees and consultants. The exercise price of each stock option equals the fair market value of Applied common stock on the date of grant. Options typically vest over three to four years, subject to the grantee's continued service with Applied through the scheduled vesting date, and expire no later than seven years from the grant date. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. This model was developed for use in estimating the value of publicly traded options that have no vesting restrictions and are fully transferable. Applied's employee stock options have characteristics significantly different from those of publicly traded options. There were no stock options granted during fiscal 2014. The weighted average assumptions used in the model for the stock options granted and assumed are outlined below:

	2013	2012
<b>Stock Options:</b>		
Dividend yield . . . . .	2.7%	2.6%
Expected volatility . . . . .	29.5%	38.7%
Risk-free interest rate . . . . .	1.44%	0.52%
Expected life (in years) . . . . .	4.5	3.3

Information with respect to stock options is as follows:

	2014	2013	2012
	(In millions)		
Aggregate intrinsic value of outstanding stock options . . . . .	\$ 19	\$ 49	\$ 43
Total intrinsic value of stock options exercised . . . . .	\$ 39	\$ 63	\$ 21
Total fair value of stock options vested . . . . .	\$ 1	\$ 4	\$ 41
Cash received from stock option exercises . . . . .	\$ 29	\$ 88	\$ 33
Actual tax benefit realized from options exercised . . . . .	\$ 12	\$ 19	\$ 7

Stock option activity for fiscal 2014, 2013 and 2012 was as follows:

	2014		2013		2012	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
	(In millions, except per share amounts)					
Outstanding, beginning of year . . . . .	6	\$ 9.12	21	\$ 10.53	30	\$ 13.05
Granted and assumed in Varian acquisition . . . . .	—	\$ —	1	\$ 15.06	5	\$ 4.85
Exercised . . . . .	(4)	\$ 7.85	(11)	\$ 8.16	(4)	\$ 7.30
Canceled and forfeited . . . . .	—	\$ —	(5)	\$ 17.62	(10)	\$ 16.76
Outstanding, end of year . . . . .	<u>2</u>	\$ 10.87	<u>6</u>	\$ 9.12	<u>21</u>	\$ 10.53
Exercisable, end of year . . . . .	<u>1</u>	\$ 7.97	<u>5</u>	\$ 7.90	<u>20</u>	\$ 10.71



APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes information with respect to options outstanding and exercisable at October 26, 2014:

Range of Exercise Prices	Options Outstanding				Options Exercisable		
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
	(In millions)		(In years)	(In millions)	(In millions)		(In millions)
\$3.36 — \$9.99 .....	1	\$ 5.31	1.81	\$ 12	1	\$ 5.30	\$ 12
\$10.00 — \$15.06 .....	1	\$ 14.96	5.59	7	—	\$ 14.71	2
	<u>2</u>	<u>\$ 10.87</u>	<u>3.99</u>	<u>\$ 19</u>	<u>1</u>	<u>\$ 7.97</u>	<u>\$ 14</u>
Options exercisable and expected to become exercisable .	2	\$ 10.87	3.99	\$ 19			

Option prices at the lower end of the range were principally attributable to stock options assumed in connection with the Varian acquisition in fiscal year 2012.

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

Restricted stock units are converted into shares of Applied common stock upon vesting on a one-for-one basis. Restricted stock has the same rights as other issued and outstanding shares of Applied common stock except these shares generally have no right to dividends and are held in escrow until the award vests. Performance shares and performance units are awards that result in a payment to a grantee, generally in shares of Applied common stock on a one-for-one basis if performance goals and/or other vesting criteria established by the Human Resources and Compensation Committee of Applied's Board of Directors (the Committee) are achieved or the awards otherwise vest. Restricted stock units, restricted stock, performance shares and performance units typically vest over four years and vesting is usually subject to the grantee's continued service with Applied and, in some cases, achievement of specified performance goals. The compensation expense related to the service-based awards is determined using the fair market value of Applied common stock on the date of the grant, and the compensation expense is recognized over the vesting period.

Restricted stock, performance shares and performance units granted to certain executive officers are subject to the achievement of specified performance goals (performance-based awards). These performance-based awards become eligible to vest only if performance goals are achieved and then actually will vest only if the grantee remains employed by Applied through each applicable vesting date. These performance-based awards require the achievement of targeted levels of adjusted annual operating profit margin. For the fiscal 2013 performance-based awards, additional shares become eligible for time-based vesting if Applied achieves certain levels of total shareholder return (TSR) relative to a peer group, comprised of companies in the Standard & Poor's 500 Information Technology Index, measured at the end of a two-year period.

The fair value of these performance-based awards is estimated on the date of grant and assumes that the specified performance goals will be achieved. If the goals are achieved, these awards vest over a specified remaining service period of generally three or four years, provided that the grantee remains employed by Applied through each scheduled vesting date. 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 of each award is reflected over the service period and is reduced for estimated forfeitures.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of the changes in restricted stock units, restricted stock, performance shares and performance units outstanding under Applied's equity compensation plans during fiscal 2014, 2013 and 2012 are presented below:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
(In millions, except per share amounts)				
Non-vested restricted stock units, restricted stock, performance shares and performance units at October 30, 2011	28	\$ 12.64	2.8 years	\$ 345
Granted	19	\$ 10.61		
Vested	(9)	\$ 12.87		
Canceled	(2)	\$ 12.26		
Non-vested restricted stock units, restricted stock, performance shares and performance units at October 28, 2012	36	\$ 11.53	2.6 years	\$ 376
Granted	19	\$ 10.55		
Vested	(11)	\$ 11.44		
Canceled	(6)	\$ 11.28		
Non-vested restricted stock units, restricted stock, performance shares and performance units at October 27, 2013	38	\$ 11.11	2.4 years	\$ 662
Granted	11	\$ 16.58		
Vested	(13)	\$ 11.13		
Canceled	(3)	\$ 11.72		
Non-vested restricted stock units, restricted stock, performance shares and performance units at October 26, 2014	<u>33</u>	\$ 12.59	2.3 years	\$ 698
Non-vested restricted stock units, restricted stock, performance shares and performance units expected to vest	30	\$ 12.47	2.1 years	\$ 630

At October 26, 2014, 1 million additional performance-based awards could be earned upon certain levels of achievement of Applied's TSR relative to a peer group at a future date.

The actual tax benefit realized for the tax deductions from vested restricted stock units totaled \$61 million in fiscal 2014, \$42 million in fiscal 2013 and \$27 million in fiscal 2012.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Employee Stock Purchase Plans*

Under the 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. Based on the Black-Scholes option pricing model, the weighted average estimated fair value of purchase rights under the ESPP was \$4.56 per share for the year ended October 26, 2014, \$3.08 per share for the year ended October 27, 2013 and \$2.73 per share for the year ended October 28, 2012. The number of shares issued under the ESPP during fiscal October 26, 2014, October 27, 2013 and October 28, 2012 was 6 million, 7 million and 7 million, respectively. At October 26, 2014, there were 34 million available for future issuance under the ESPP. Compensation expense is calculated using the fair value of the employees' purchase rights under the Black-Scholes model. Underlying assumptions used in the model for fiscal 2014, 2013 and 2012 are outlined in the following table:

	2014	2013	2012
<b>ESPP:</b>			
Dividend yield . . . . .	1.96%	2.80%	3.01%
Expected volatility . . . . .	26.3%	24.8%	29.6%
Risk-free interest rate . . . . .	0.06%	0.09%	0.13%
Expected life (in years) . . . . .	0.5	0.5	0.5

**Note 13 Employee Benefit Plans**

*Employee Bonus Plans*

Applied has various employee bonus plans. A discretionary bonus plan provides for the distribution of a percentage of pre-tax income to Applied employees who are not participants in other performance-based incentive plans, up to a maximum percentage of eligible compensation. Other plans provide for bonuses to Applied's executives and other key contributors based on the achievement of profitability and/or other specified performance criteria. Charges under these plans were \$290 million for fiscal 2014, \$269 million for fiscal 2013, and \$271 million charges for fiscal 2012.

*Employee Savings and Retirement Plan*

Applied's Employee Savings and Retirement Plan (the 401(k) Plan) is qualified under Sections 401(a) and (k) of the Internal Revenue Code (the Code). Eligible employees may make salary deferral and catch-up contributions under the 401(k) Plan on a pre-tax basis and/or (effective as of the first payroll period beginning on or after December 22, 2012) on a Roth basis, subject to an annual dollar limit established by the Code.

Applied matches 100% of participant salary and/or Roth deferral contributions up to the first 3% of eligible contribution and then 50% of every dollar between 4% and 6% of eligible contribution. Applied does not make matching contributions on any catch-up contributions made by participants. Plan participants who were employed by Applied or any of its affiliates on or after January 1, 2010 became 100% vested in their Applied matching contribution account balances. Applied's matching contributions under the 401(k) Plan were approximately \$29 million, net of \$1 million in forfeitures for fiscal 2014 and fiscal 2013 and \$37 million for fiscal 2012.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*Defined Benefit Pension Plans of Foreign Subsidiaries and Other Post-Retirement Benefits*

Several of Applied's foreign subsidiaries have defined benefit pension plans covering substantially all of their eligible employees. Benefits under these plans are typically based on years of service and final average compensation levels. The plans are managed in accordance with applicable local statutes and practices. Applied deposits funds for certain of these plans with insurance companies, pension trustees, government-managed accounts, and/or accrues the expense for the unfunded portion of the benefit obligation on its Consolidated Financial Statements. Applied's practice is to fund the various pension plans in amounts sufficient to meet the minimum requirements as established by applicable local governmental oversight and taxing authorities. Depending on the design of the plan, local custom and market circumstances, the liabilities of a plan may exceed qualified plan assets. The differences between the aggregate projected benefit obligations and aggregate plan assets of these plans have been recorded as liabilities by Applied and are included in other liabilities and accrued expenses in the Consolidated Balance Sheets.

Applied also has a U.S. post-retirement plan that provides certain medical and vision benefits to eligible retirees who are at least age 55 and whose years of service plus their age equals at least 65 at their date of retirement. An eligible retiree also may elect coverage for an eligible spouse or domestic partner who is not eligible for Medicare. Coverage under the plan generally ends for both the retiree and spouse or domestic partner upon becoming eligible for Medicare. In addition, Applied also has a post-retirement benefit plan as a result of the acquisition of Varian. Applied's liability under these post-retirement plans, which was included in other liabilities in the Consolidated Balance Sheets, was \$34 million at October 26, 2014 and October 27, 2013.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of the changes in benefit obligations and plan assets, which includes post-retirement benefits, for fiscal October 26, 2014 and October 27, 2013 is presented below.

	2014	2013
	(In millions, except percentages)	
<b>Change in projected benefit obligation</b>		
Beginning projected benefit obligation	\$ 445	\$ 434
Service cost	17	20
Interest cost	17	15
Plan participants' contributions	1	1
Actuarial (gain) loss	62	(16)
Curtailments, settlements and special termination benefits	(26)	(8)
Foreign currency exchange rate changes	(22)	10
Benefits paid	(12)	(10)
Plan amendments and business combinations	(3)	(1)
Ending projected benefit obligation	<u>\$ 479</u>	<u>\$ 445</u>
<b>Ending accumulated benefit obligation</b>	<u>\$ 446</u>	<u>\$ 409</u>
<b>Range of assumptions to determine benefit obligations</b>		
Discount rate	1.0% - 4.4%	1.1% - 4.5%
Rate of compensation increase	2.0% - 4.0%	2.0% - 4.7%
<b>Change in plan assets</b>		
Beginning fair value of plan assets	\$ 248	\$ 214
Return on plan assets	20	18
Employer contributions	48	24
Plan participants' contributions	1	1
Foreign currency exchange rate changes	(11)	8
Divestitures, settlements and business combinations	(26)	(7)
Benefits paid	(12)	(10)
Ending fair value of plan assets	<u>\$ 268</u>	<u>\$ 248</u>
Funded status	<u>\$ (211)</u>	<u>\$ (197)</u>
<b>Amounts recognized in the consolidated balance sheets</b>		
Noncurrent asset	\$ 17	\$ 9
Current liability	(3)	(4)
Noncurrent liability	(225)	(202)
Total	<u>\$ (211)</u>	<u>\$ (197)</u>
<b>Estimated amortization from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year</b>		
Actuarial loss	\$ 6	\$ 4
Prior service cost (credit)	—	—
Total	<u>\$ 6</u>	<u>\$ 4</u>
<b>Amounts recognized in accumulated other comprehensive loss</b>		
Net actuarial loss	\$ 134	\$ 91
Prior service cost (credit)	(1)	2
Total	<u>\$ 133</u>	<u>\$ 93</u>
<b>Plans with projected benefit obligations in excess of plan assets</b>		
Projected benefit obligation	\$ 326	\$ 438
Fair value of plan assets	\$ 98	\$ 233
<b>Plans with accumulated benefit obligations in excess of plan assets</b>		
Accumulated benefit obligation	\$ 297	\$ 269
Fair value of plan assets	\$ 98	\$ 99

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	2014	2013
<b>Plan assets — allocation</b>		
Equity securities . . . . .	39%	37%
Debt securities . . . . .	38%	36%
Insurance contracts . . . . .	15%	19%
Other investments . . . . .	5%	5%
Cash . . . . .	3%	3%

The following table presents a summary of the ending fair value of the plan assets:

	October 26, 2014				October 27, 2013			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	(In millions)							
Equity securities . . . . .	\$ 38	\$ 66	\$ —	\$ 104	\$ 27	\$ 65	\$ —	\$ 92
Debt securities . . . . .	8	94	—	102	6	84	—	90
Insurance contracts . . . . .	—	—	41	41	—	—	47	47
Other investments . . . . .	—	12	—	12	—	12	—	12
Cash . . . . .	9	—	—	9	7	—	—	7
Total . . . . .	<u>\$ 55</u>	<u>\$ 172</u>	<u>\$ 41</u>	<u>\$ 268</u>	<u>\$ 40</u>	<u>\$ 161</u>	<u>\$ 47</u>	<u>\$ 248</u>

The following table presents the activity in Level 3 instruments during fiscal 2014 and 2013:

	2014	2013
	(In millions)	
Balance, beginning of year . . . . .	\$ 47	\$ 49
Actual return on plan assets:		
Relating to assets still held at reporting date . . . . .	—	(1)
Purchases, sales, settlements, net . . . . .	(2)	(4)
Currency impact . . . . .	(4)	3
Balance, end of year . . . . .	<u>\$ 41</u>	<u>\$ 47</u>

Applied's investment strategy for its defined benefit plans is to invest plan assets in a prudent manner, maintaining well-diversified portfolios with the long-term objective of meeting the obligations of the plans as they come due. Asset allocation decisions are typically made by plan fiduciaries with input from Applied's international pension committee. Applied's asset allocation strategy incorporates a sufficient equity exposure in order for the plans to benefit from the expected better long-term performance of equities relative to the plans' liabilities. Applied retains investment managers, where appropriate, to manage the assets of the plans. Performance of investment managers is monitored by plan fiduciaries with the assistance of local investment consultants. The investment managers make investment decisions within the guidelines set forth by plan fiduciaries. Risk management practices include diversification across asset classes and investment styles, and periodic rebalancing toward target asset allocation ranges. Investment managers may use derivative instruments for efficient portfolio management purposes. Plan assets do not include any of Applied's own equity or debt securities.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of the components of net periodic benefit costs and the weighted average assumptions used for net periodic benefit cost and benefit obligation calculations for fiscal 2014, 2013 and 2012 is presented below.

	2014	2013	2012
	(In millions, except percentages)		
<b>Components of net periodic benefit cost</b>			
Service cost . . . . .	\$ 17	\$ 20	\$ 16
Interest cost . . . . .	17	15	14
Expected return on plan assets . . . . .	(14)	(12)	(11)
Amortization of actuarial loss and prior service credit . . . . .	4	6	—
Settlement and curtailment loss . . . . .	3	—	6
Net periodic benefit cost . . . . .	<u>\$ 27</u>	<u>\$ 29</u>	<u>\$ 25</u>
<b>Weighted average assumptions</b>			
Discount rate . . . . .	3.68%	3.46%	4.53%
Expected long-term return on assets . . . . .	5.64%	5.38%	5.91%
Rate of compensation increase . . . . .	3.29%	3.07%	3.09%

Asset return assumptions are derived based on actuarial and statistical methodologies, from analysis of long-term historical data relevant to the country in which each plan is in effect and the investments applicable to the corresponding plan. The discount rate for each plan was derived by reference to appropriate benchmark yields on high quality corporate bonds, allowing for the approximate duration of both plan obligations and the relevant benchmark yields.

Future expected benefit payments for the pension plans and the post-retirement plan over the next ten fiscal years are as follows:

	<b>Benefit Payments</b>
	(In millions)
2015 . . . . .	\$ 12
2016 . . . . .	13
2017 . . . . .	13
2018 . . . . .	14
2019 . . . . .	14
2020-2024 . . . . .	81
	<u>\$ 147</u>

Company contributions to these plans for fiscal 2015 are expected to be approximately \$9 million.

*Executive Deferred Compensation Plans*

Applied sponsors two unfunded deferred compensation plans, the Executive Deferred Compensation Plan (Predecessor EDCP) and the 2005 Executive Deferred Compensation Plan (2005 EDCP), under which certain employees may elect to defer a portion of their following year's eligible earnings. The Predecessor EDCP was frozen as of December 31, 2004 such that no new deferrals could be made under the plan after that date and the plan would qualify for "grandfather" relief under Section 409A of the Code. The Predecessor EDCP participant accounts continue to be maintained under the plan and credited with deemed interest. The 2005 EDCP was implemented by Applied effective as of January 1, 2005 and is intended to comply with the requirements of Section 409A of the Code. The ability to elect new deferrals of compensation under the 2005 EDCP was suspended effective as of October 1, 2014. In addition, Applied also sponsors a non-qualified deferred compensation plan as a result of the acquisition of Varian. Amounts payable, including accrued deemed interest, totaled \$40 million at October 26, 2014, of which \$35 million was included in accounts payable and accrued expenses and \$5 million was included in other liabilities in the Consolidated Balance Sheets. Amounts payable, including accrued deemed interest, totaled \$49 million at October 27, 2013, which was included in other liabilities in the Consolidated Balance Sheets. Under the Predecessor EDCP and 2005 EDCP, in the event of change of control (as defined under these plans), the distribution of all deferred balances would be required.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Note 14 Income Taxes**

The components of income before income taxes for fiscal 2014, 2013 and 2012 were as follows:

	2014	2013	2012
	(In millions)		
U.S. ....	\$ 612	\$ 194	\$ 381
Foreign .....	836	156	(65)
	<u>\$ 1,448</u>	<u>\$ 350</u>	<u>\$ 316</u>

The components of the provision for income taxes for fiscal 2014, 2013 and 2012 were as follows:

	2014	2013	2012
	(In millions)		
<b>Current:</b>			
U.S. ....	\$ 270	\$ 3	\$ 74
Foreign .....	97	72	75
State .....	27	2	8
	<u>394</u>	<u>77</u>	<u>157</u>
<b>Deferred:</b>			
U.S. ....	(9)	34	52
Foreign .....	(3)	(19)	(4)
State .....	(6)	2	2
	<u>(18)</u>	<u>17</u>	<u>50</u>
	<u>\$ 376</u>	<u>\$ 94</u>	<u>\$ 207</u>

A reconciliation between the statutory U.S. federal income tax rate of 35 percent and Applied's actual effective income tax rate for fiscal 2014, 2013 and 2012 is presented below:

	2014	2013	2012
Tax provision at U.S. statutory rate. ....	35.0%	35.0%	35.0%
Resolutions from prior years' income tax filings .....	2.0	(4.7)	(6.0)
Effect of foreign operations taxed at various rates .....	(10.9)	(21.1)	(8.5)
State income taxes, net of federal benefit .....	1.0	0.8	2.0
Research and other tax credits .....	(0.3)	(5.4)	(1.0)
Production benefit .....	(1.3)	(1.0)	(8.0)
Acquisition costs .....	0.8	—	—
Goodwill impairment .....	—	22.5	47.0
Share-based compensation .....	0.4	2.2	4.0
Other .....	(0.7)	(1.4)	1.0
	<u>26.0%</u>	<u>26.9%</u>	<u>65.5%</u>

The effective tax rate for fiscal 2014 was lower than the rate for fiscal 2013 due primarily to nondeductible goodwill impairment charges in fiscal 2013, offset by resolutions and changes related to prior years and expiration of the U.S. federal research and development tax credit. The effective tax rate for fiscal 2013 was significantly lower than the rate for fiscal 2012 due primarily to the geographic composition of Applied's pre-tax income, lower nondeductible goodwill impairment charges, and reinstatement of the U.S. federal research and development tax credit retroactive to its expiration in December 2012. These reductions were partially offset by a lower benefit in fiscal 2013 from the U.S. federal domestic production deduction.



APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In the reconciliation between the statutory U.S. federal income tax rate and the actual effective income tax rate for fiscal 2014, the effect of foreign operations taxed at various rates represents the difference between an income tax provision at the U.S. federal statutory income tax rate and the recorded income tax provision, with the difference expressed as a percentage of worldwide income before income taxes. This effect is substantially related to the tax effect of foreign income before income taxes generated in jurisdictions with lower statutory tax rates. The foreign operations with the most significant effective tax rate impact are Singapore and Israel. The fiscal 2014 statutory tax rates for Singapore and Israel are 17% and 26.5%, respectively. Applied has been granted tax holidays for both jurisdictions that expire in fiscal 2025 and fiscal 2017, respectively, excluding potential renewals and subject to certain conditions with which Applied expects to comply. The tax benefit arising from these tax holidays was \$85 million for fiscal 2014 or \$0.07 per diluted share.

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

	October 26, 2014	October 27, 2013
(In millions)		
<b>Deferred tax assets:</b>		
Allowance for doubtful accounts . . . . .	\$ 26	\$ 27
Inventory reserves and basis difference . . . . .	128	134
Installation and warranty reserves . . . . .	18	14
Accrued liabilities . . . . .	123	138
Deferred revenue . . . . .	32	27
Tax credits and net operating losses . . . . .	160	182
Deferred compensation . . . . .	44	33
Share-based compensation . . . . .	57	60
Fixed assets . . . . .	16	(34)
Other . . . . .	27	13
Gross deferred tax assets . . . . .	<u>631</u>	<u>594</u>
Valuation allowance . . . . .	<u>(173)</u>	<u>(116)</u>
Total deferred tax assets . . . . .	<u>458</u>	<u>478</u>
<b>Deferred tax liabilities:</b>		
Intangible assets . . . . .	(92)	(82)
Undistributed foreign earnings . . . . .	(87)	(75)
Foreign exchange . . . . .	(12)	(18)
Total gross deferred tax liabilities . . . . .	<u>(191)</u>	<u>(175)</u>
Net deferred tax assets . . . . .	<u>\$ 267</u>	<u>\$ 303</u>

The following table presents the breakdown between current and non-current net deferred tax assets and liabilities:

	October 26, 2014	October 27, 2013
(In millions)		
Current deferred tax asset . . . . .	\$ 232	\$ 323
Non-current deferred tax asset . . . . .	67	53
Current deferred tax liability . . . . .	—	(2)
Non-current deferred tax liability . . . . .	(32)	(71)
	<u>\$ 267</u>	<u>\$ 303</u>

**APPLIED MATERIALS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Current deferred tax liabilities are included in accounts payable and accrued expenses on the Consolidated Balance Sheets and non-current deferred tax liabilities are included in other liabilities on the Consolidated Balance Sheets.

A valuation allowance is recorded to reflect the estimated amount of deferred tax assets that may not be realized. During fiscal 2014, the valuation allowance against current state research and development credit carryforwards increased by \$39 million and the valuation allowance against foreign deferred tax assets increased by \$18 million.

For fiscal 2014, U.S. income taxes have not been provided for approximately \$2.7 billion of cumulative undistributed earnings of several foreign subsidiaries. Applied intends to reinvest these earnings indefinitely in operations outside of the U.S. If these earnings were distributed to the United States in the form of dividends or otherwise, or if the shares of the relevant foreign subsidiaries were sold or otherwise transferred, Applied would be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. Determination of the amount of unrecognized deferred income tax liability related to these earnings is not practicable.

At October 26, 2014, Applied has state research and development tax credit carryforwards of \$146 million, including \$112 million of credits that are carried over until exhausted and \$34 million which are carried over for 15 years and begin to expire in fiscal 2021. Applied has a net operating loss carryover in state jurisdictions of \$45 million which begin to expire in fiscal 2018. Management believes it is more likely than not that all loss and tax credit carryovers at October 26, 2014, net of valuation allowance, will be utilized in future periods.

Applied's income taxes payable have been reduced by the tax benefits associated with employee stock option transactions. These benefits, credited directly to stockholders' equity with a corresponding reduction to taxes payable, amounted to \$27 million for fiscal 2014, \$11 million for fiscal 2013, and \$2 million for fiscal 2012.

Applied maintains liabilities for uncertain tax positions. These liabilities involve considerable judgment and estimation and are continuously monitored by management based on the best information available. A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows:

	<u>2014</u>	<u>2013</u>
	<u>(In millions)</u>	
Beginning balance of gross unrecognized tax benefits . . . . .	\$ 194	\$ 174
Settlements with tax authorities . . . . .	(143)	(15)
Lapses of statutes of limitation . . . . .	(2)	(15)
Increases in tax positions for current year . . . . .	52	48
Increases in tax positions for prior years . . . . .	42	2
Decreases in tax positions for prior years . . . . .	(9)	—
Ending balance of gross unrecognized tax benefits . . . . .	<u>\$ 134</u>	<u>\$ 194</u>

In the provision for income taxes in the Consolidated Statement of Operations, tax expense of \$18 million was realized in fiscal 2014 and a tax benefit of \$1 million was realized in fiscal 2013 related to interest and penalties on unrecognized tax benefits. The liability for interest and penalties was \$25 million as of October 26, 2014 and \$7 million as of October 27, 2013 and was classified as a non-current liability in the Consolidated Balance Sheets.

Included in the ending balance of unrecognized tax benefits for fiscal 2014 and fiscal 2013 are \$124 million and \$183 million, respectively, of tax benefits that, if recognized, would affect the effective tax rate. Also included in the ending balance of unrecognized tax benefits for fiscal 2014 and fiscal 2013 are \$9 million and \$10 million respectively, of tax benefits that, if recognized, would result in adjustments to other tax accounts, primarily deferred taxes.

In fiscal 2014, Applied received a refund of \$18 million, including interest, as a result of settling an audit of fiscal 2008 through fiscal 2012 in Korea, and received a refund of \$17 million, including interest, as a result of settling an Internal Revenue Service (IRS) audit of Varian for fiscal 2010. These settlements resulted in the recognition of a tax benefit of \$3 million in the Consolidated Statement of Operations. In fiscal 2013, Applied received a refund of \$31 million, including interest, as a result of settling an IRS audit of fiscal 2008 and fiscal 2009. This resulted in the recognition of a tax benefit of \$12 million in the Consolidated Statement of Operations. In fiscal 2013, Applied paid \$14 million to the IRS as part of an ongoing audit of Varian for fiscal 2010 through fiscal 2012. No tax expense or benefit was recognized.

**APPLIED MATERIALS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

A number of Applied's tax returns remain subject to examination by taxing authorities. These include U.S. federal returns for fiscal 2010 and later years, California returns for fiscal 2010 and later years, tax returns for certain other states for fiscal 2010 and later years, and tax returns in certain jurisdictions outside of the United States for fiscal 2007 and later years.

The timing of the resolution of income tax examinations, as well as the amounts and timing of various tax payments that may be part of the settlement process, is highly uncertain. This could cause large fluctuations in the balance sheet classification of current assets and non-current assets and liabilities. Applied continues to have ongoing negotiations with various taxing authorities throughout the year.

**Note 15     Warranty, Guarantees, Commitments and Contingencies**

*Leases*

Applied leases some of its facilities and equipment under non-cancelable operating leases and has options to renew most leases, with rentals to be negotiated. Total rent expense was \$37 million for fiscal 2014, \$36 million for fiscal 2013, and \$38 million for fiscal 2012.

As of October 26, 2014, future minimum lease payments are expected to be as follows:

	<u>Lease Payments</u>	
	<u>(In millions)</u>	
2015 .....	\$	28
2016 .....		18
2017 .....		10
2018 .....		6
2019 .....		3
Thereafter .....		5
	\$	<u>70</u>

*Warranty*

Changes in the warranty reserves during fiscal 2014 and 2013 were as follows:

	<u>2014</u>		<u>2013</u>	
	<u>(In millions)</u>			
Beginning balance .....	\$	102	\$	119
Provisions for warranty .....		115		103
Consumption of reserves .....		(104)		(120)
Ending balance .....	\$	<u>113</u>	\$	<u>102</u>

Applied products are generally sold with a 12-month warranty 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

*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 October 26, 2014, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately \$46 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 October 26, 2014, Applied Materials Inc. has provided parent guarantees to banks for approximately \$102 million to cover these arrangements.

*Legal Matters**Korea Criminal Proceedings*

In 2010, the Seoul Eastern District Court began hearings on indictments brought by the Seoul Prosecutor's Office for the Eastern District of Korea (the Prosecutor's Office) alleging that employees of several companies improperly received and used confidential information belonging to Samsung Electronics Co., Ltd. (Samsung), a major Applied customer based in Korea. The individuals charged included the former head of Applied Materials Korea (AMK), who at the time of the indictment was a vice president of Applied Materials, Inc., and certain other AMK employees. Neither Applied nor any of its subsidiaries was named as a party to the proceedings. Hearings on these matters concluded in November 2012 and the Court issued its decision on February 7, 2013. As part of the ruling, nine AMK employees (including the former head of AMK) were acquitted of all charges, while one AMK employee was found guilty on some of the charges and received a suspended jail sentence. The Prosecutor's Office and various individuals appealed the matter to the High Court. On June 20, 2014, the High Court rendered its decision, finding all defendants not guilty, including all ten AMK employees. The prosecutor has appealed the High Court decision to the Korean Supreme Court.

*Other 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

**Note 16 Industry Segment Operations**

Applied's four reportable segments are: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. 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 October 26, 2014 and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to Applied's reportable segments.

Each reportable 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.

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. Applied does not allocate to its reportable segments certain operating expenses that it manages separately at the corporate level, which 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 and asset impairment charges and any associated adjustments related to restructuring actions, unless these actions pertain to a specific reportable segment. Segment operating income 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.

The Silicon Systems Group 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 includes technically differentiated products and services to improve operating efficiency, reduce operating costs and lessen the environmental impact of semiconductor, display and solar customers' factories. Applied Global Services' products consist of spares, services, certain earlier generation products, remanufactured equipment, and products that have reached a particular stage in the product lifecycle. Customer demand for these products and services is fulfilled through a global distribution system with trained service engineers located in close proximity to customer sites.

The Display segment includes products for manufacturing LCDs, organic light-emitting diodes (OLEDs), and other display technologies for TVs, personal computers, tablets, smart phones, and other consumer-oriented devices.

The Energy and Environmental Solutions segment includes products for fabricating solar photovoltaic cells and modules, high throughput roll-to-roll deposition equipment for flexible electronics and other applications.

In November 2011, Applied completed its acquisition of Varian. Beginning in the first quarter of fiscal 2012, the acquired business is primarily included in the results for the Silicon Systems Group and Applied Global Services segments, with certain corporate functions included in corporate and unallocated costs.

With the acquisition of Varian, Applied acquired ion implantation technology for semiconductor as well as for c-Si solar cell manufacturing, which was recorded under the Silicon Systems Group segment in fiscal 2012. In fiscal 2013, Applied began marketing the solar implant products commercially through its Energy and Environmental Solutions segment. Accordingly, effective in the first quarter of fiscal 2013, Applied accounts for its solar implant products under the Energy and Environmental Solutions segment. The effect of the solar implant products was not material to the operations of either the Silicon Systems Group or Energy and Environmental Solutions segments.

**APPLIED MATERIALS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Information for each reportable segment as of October 26, 2014, October 27, 2013 and October 28, 2012 and for the fiscal years then ended, is as follows:

	<u>Net Sales</u>	<u>Operating Income (Loss)</u>	<u>Depreciation/ Amortization</u>	<u>Capital Expenditures</u>	<u>Segment Assets</u>
	(In millions)				
2014:					
Silicon Systems Group . . . . .	\$ 5,978	\$ 1,391	\$ 268	\$ 134	\$ 5,508
Applied Global Services . . . . .	2,200	573	11	7	2,042
Display . . . . .	615	129	5	4	423
Energy and Environmental Solutions . .	279	15	9	1	173
Total Segment . . . . .	<u>\$ 9,072</u>	<u>\$ 2,108</u>	<u>\$ 293</u>	<u>\$ 146</u>	<u>\$ 8,146</u>
2013:					
Silicon Systems Group . . . . .	\$ 4,775	\$ 876	\$ 260	\$ 118	\$ 5,525
Applied Global Services . . . . .	2,023	436	13	7	1,958
Display . . . . .	538	74	8	6	293
Energy and Environmental Solutions . .	173	(433)	22	1	183
Total Segment . . . . .	<u>\$ 7,509</u>	<u>\$ 953</u>	<u>\$ 303</u>	<u>\$ 132</u>	<u>\$ 7,959</u>
2012:					
Silicon Systems Group . . . . .	\$ 5,536	\$ 1,243	\$ 256	\$ 71	\$ 5,106
Applied Global Services . . . . .	2,285	502	17	8	2,035
Display . . . . .	473	25	8	1	278
Energy and Environmental Solutions . .	425	(668)	38	6	513
Total Segment . . . . .	<u>\$ 8,719</u>	<u>\$ 1,102</u>	<u>\$ 319</u>	<u>\$ 86</u>	<u>\$ 7,932</u>

Operating results for fiscal 2014, 2013 and 2012 included restructuring charges and asset impairments as discussed in detail in Note 11, Restructuring Charges and Asset Impairments.

Reconciliations of segment operating results to Applied consolidated totals for fiscal 2014, 2013 and 2012 are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(In millions)		
Total segment operating income . . . . .	\$ 2,108	\$ 953	\$ 1,102
Corporate and unallocated costs . . . . .	(540)	(462)	(580)
Restructuring charges and asset impairments . . . . .	(5)	(35)	(111)
Certain items associated with announced business combination .	(73)	(17)	—
Gain (loss) on derivative associated with announced business combination . . . . .	30	(7)	—
Income from operations . . . . .	<u>\$ 1,520</u>	<u>\$ 432</u>	<u>\$ 411</u>

Corporate and unallocated costs for fiscal 2012 included deal and other costs related to completed acquisitions of \$45 million.

**APPLIED MATERIALS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

Reconciliations of depreciation and amortization expense to Applied consolidated totals for fiscal 2014, 2013 and 2012 are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	<b>(In millions)</b>		
Total segment depreciation and amortization . . . . .	\$ 293	\$ 303	\$ 319
Depreciation on shared facilities and information technology assets . . . . .	82	107	103
Consolidated depreciation and amortization . . . . .	<u>\$ 375</u>	<u>\$ 410</u>	<u>\$ 422</u>

Reconciliations of capital expenditures to Applied consolidated totals for fiscal 2014, 2013 and 2012 are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	<b>(In millions)</b>		
Total segment capital expenditures . . . . .	\$ 146	\$ 132	\$ 86
Shared facilities and information technology assets . . . . .	95	65	76
Consolidated capital expenditures . . . . .	<u>\$ 241</u>	<u>\$ 197</u>	<u>\$ 162</u>

Reconciliations of segment assets to Applied consolidated totals as of October 26, 2014, and October 27, 2013 are as follows:

	<u>October 26, 2014</u>	<u>October 27, 2013</u>
	<b>(In millions)</b>	
Total segment assets . . . . .	\$ 8,146	\$ 7,959
Cash and investments . . . . .	4,060	2,896
Allowance for bad debts . . . . .	(58)	(74)
Deferred income taxes . . . . .	299	376
Other current assets . . . . .	147	203
Common property, plant and equipment . . . . .	522	541
Other assets . . . . .	58	142
Consolidated total assets . . . . .	<u>\$ 13,174</u>	<u>\$ 12,043</u>

**APPLIED MATERIALS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

For geographical reporting, revenue by geographic location is determined by the location of customers' facilities to which products were shipped. Long-lived assets consist primarily of property, plant and equipment and equity-method investments, and are attributed to the geographic location in which they are located. Net sales and long-lived assets by geographic region were as follows:

	<u>Net Sales</u>	<u>Long-lived Assets</u>
	<u>(In millions)</u>	
2014:		
United States .....	\$ 1,966	\$ 636
Taiwan .....	2,702	34
China .....	1,608	61
Korea .....	965	12
Japan .....	817	5
Europe .....	658	99
Southeast Asia .....	356	77
Total outside United States .....	<u>7,106</u>	<u>288</u>
Consolidated total .....	<u>\$ 9,072</u>	<u>\$ 924</u>
2013:		
United States .....	\$ 1,473	\$ 620
Taiwan .....	2,640	37
China .....	787	65
Korea .....	924	8
Japan .....	685	4
Europe .....	680	99
Southeast Asia .....	320	81
Total outside United States .....	<u>6,036</u>	<u>294</u>
Consolidated total .....	<u>\$ 7,509</u>	<u>\$ 914</u>
2012:		
United States .....	\$ 1,749	\$ 666
Taiwan .....	2,411	36
China .....	783	74
Korea .....	1,897	9
Japan .....	704	6
Europe .....	863	110
Southeast Asia .....	312	87
Total outside United States .....	<u>6,970</u>	<u>322</u>
Consolidated total .....	<u>\$ 8,719</u>	<u>\$ 988</u>

The following companies accounted for at least 10 percent of Applied's net sales in fiscal 2014, 2013, or 2012, which were for products in multiple reportable segments.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Taiwan Semiconductor Manufacturing Company Limited .....	21%	27%	16%
Samsung Electronics Co., Ltd. ....	12%	13%	20%



**APPLIED MATERIALS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**

**Note 17     Unaudited Quarterly Consolidated Financial Data**

	Fiscal Quarter				Fiscal Year
	First	Second	Third	Fourth	
	(In millions, except per share amounts)				
2014:					
Net sales. . . . .	\$ 2,190	\$ 2,353	\$ 2,265	\$ 2,264	\$ 9,072
Gross margin . . . . .	\$ 891	\$ 1,001	\$ 992	\$ 959	\$ 3,843
Net income. . . . .	\$ 253	\$ 262	\$ 301	\$ 256	\$ 1,072
Earnings per diluted share . . . . .	\$ 0.21	\$ 0.21	\$ 0.24	\$ 0.21	\$ 0.87
2013:					
Net sales. . . . .	\$ 1,573	\$ 1,973	\$ 1,975	\$ 1,988	\$ 7,509
Gross margin . . . . .	\$ 582	\$ 808	\$ 806	\$ 795	\$ 2,991
Net income (loss). . . . .	\$ 34	\$ (129)	\$ 168	\$ 183	\$ 256
Earnings (loss) per diluted share . . . . .	\$ 0.03	\$ (0.11)	\$ 0.14	\$ 0.15	\$ 0.21

## INDEX TO EXHIBITS

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

<u>Exhibit No.</u>	<u>Description</u>	<u>Form</u>	<u>Incorporated by Reference</u>		
			<u>File No.</u>	<u>Exhibit No.</u>	<u>Filing Date</u>
2.1**	Business Combination Agreement, dated as of September 24, 2013, between Applied Materials, Inc. and Tokyo Electron Limited	8-K	000-06920	2.1	9/24/2013
2.2**	Amendment No.1 to Business Combination Agreement, dated as of February 14, 2014, by and among Applied Materials, Inc., Tokyo Electron Limited and TEL-Applied Holdings B.V.	8-K	000-06920	2.1	2/18/2014
3.1	Certificate of Incorporation of Applied Materials, Inc., as amended and restated through March 10, 2009	10-Q	000-06920	3.1	6/3/2009
3.2	Certificate of Designation, Preferences and Rights of the Terms of the Series A Junior Participating Preferred Stock dated as of July 9, 1999	10-Q	000-06920	3(i)(a)	9/14/1999
3.3	Bylaws of Applied Materials, Inc., amended and restated to December 6, 2011	8-K	000-06920	3.1	12/7/2011
4.1	Form of Indenture (including form of debt security) between Applied Materials, Inc. and Harris Trust Company of California, as Trustee	8-K	000-06920	4.1	8/17/1994
4.2	Indenture, dated June 8, 2011, by and between Applied Materials, Inc. and U.S. Bank National Association, as Trustee	8-K	000-06920	4.1	6/10/2011
4.3	First Supplemental Indenture, dated June 8, 2011, by and between Applied Materials, Inc. and U.S. Bank National Association, as Trustee	8-K	000-06920	4.2	6/10/2011
10.1*	Applied Materials, Inc. Executive Deferred Compensation Plan, as amended and restated on April 1, 1995	10-Q	000-06920	10.24	6/7/1995
10.2*	Amendment No. 1 to the Applied Materials, Inc. Executive Deferred Compensation Plan	10-Q	000-06920	10.1	9/9/1998
10.3*	Amendment No. 2 to the Applied Materials, Inc. Executive Deferred Compensation Plan	10-Q	000-06920	10.2	9/9/1998
10.4	Form of Indemnification Agreement between Applied Materials, Inc. and Non-Employee Directors	10-K	000-06920	10.44	1/31/2000
10.5	Form of Indemnification Agreement between Applied Materials, Inc. and certain of its officers	10-K	000-06920	10.46	1/31/2000
10.6	Applied Materials, Inc. Profit Sharing Scheme (Ireland)	S-8	333-45011	4.1	1/27/1998
10.7*	Applied Materials, Inc. amended and restated Relocation Policy	8-K	000-06920	10.46	10/31/2005
10.8*	Amendment No. 3 to the Applied Materials, Inc. Executive Deferred Compensation Plan	10-K	000-06920	10.46	12/14/2005
10.9*	Amendment No. 4 to the Applied Materials, Inc. Executive Deferred Compensation Plan	10-K	000-06920	10.47	12/14/2005
10.10*	Applied Materials Inc. Employee Financial Assistance Plan, amended and restated as of December 18, 2008	10-Q	000-06920	10.58	3/3/2009
10.11*	Form of Non-Qualified Stock Option Grant Agreement for use under the Applied Materials Employee Stock Incentive Plan, as amended	10-Q	000-06920	10.45	5/30/2007
10.12*	Applied Materials, Inc. amended and restated 2005 Executive Deferred Compensation Plan	8-K	000-06920	10.49	7/13/2007

<u>Exhibit No.</u>	<u>Description</u>	<u>Form</u>	<u>Incorporated by Reference</u>		
			<u>File No.</u>	<u>Exhibit No.</u>	<u>Filing Date</u>
10.13*	Form of Non-Qualified Stock Option Grant Agreement for use under the Applied Materials, Inc. Employee Stock Incentive Plan, as amended	10-K	000-06920	10.50	12/14/2007
10.14*	Form of Restricted Stock Agreement for use under the Applied Materials, Inc. Employee Stock Incentive Plan, as amended	10-Q	000-06920	10.57	8/29/2008
10.15	Deed of Amendment to Applied Materials Profit Sharing Scheme, dated February 7, 2006, to amend Clause 20 of the Trust Deed thereunder	10-K	000-06920	10.48	12/12/2008
10.16	Deed of Amendment to Applied Materials Profit Sharing Scheme, dated February 7, 2006, to amend the definition of Eligible Employee in the First Schedule to the Trust Deed thereunder.	10-K	000-06920	10.49	12/12/2008
10.17*	Amendment No. 5 to the Applied Materials, Inc. Executive Deferred Compensation Plan	10-K	000-06920	10.50	12/12/2008
10.18*	Amendment No. 6 to the Applied Materials, Inc. Executive Deferred Compensation Plan	10-Q	000-06920	10.59	3/3/2009
10.19*	Amendment No. 1 to the Applied Materials, Inc. 2005 Executive Deferred Compensation Plan	10-K	000-06920	10.51	12/12/2008
10.20*	Amendment No. 2 to the Applied Materials, Inc. 2005 Executive Deferred Compensation Plan	10-Q	000-06920	10.60	3/3/2009
10.21*	Form of Performance Shares Agreement for use under the Applied Materials, Inc. Employee Stock Incentive Plan, as amended	10-K	000-06920	10.56	12/12/2008
10.22*	Form of Performance Shares Agreement for Nonemployee Directors for use under the Applied Materials, Inc. Employee Stock Incentive Plan, as amended	10-Q	000-06920	10.61	3/3/2009
10.23*	Form of Non-Qualified Stock Option Agreement for Employees for use under the Applied Materials, Inc. Employee Stock Incentive Plan, as amended	10-Q	000-06920	10.63	3/3/2009
10.24*	Amendment No. 7 to the Applied Materials, Inc. Executive Deferred Compensation Plan	10-Q	000-06920	10.67	6/9/2010
10.25*	Amendment No. 3 to the Applied Materials, Inc. 2005 Executive Deferred Compensation Plan	10-Q	000-06920	10.68	6/9/2010
10.26*	Form of Performance Share Agreement for use under the Applied Materials, Inc. Employee Stock Incentive Plan, as amended	10-Q	000-06920	10.71	6/9/2010
10.27*	Form of Restricted Stock Agreement for use under the Applied Materials, Inc. Employee Stock Incentive Plan, as amended	10-Q	000-06920	10.72	6/9/2010
10.28*	Amendment No. 8 to the Applied Materials, Inc. Executive Deferred Compensation Plan	10-Q	000-06920	10.60	2/28/2011
10.29*	Amendment No. 4 to the Applied Materials, Inc. 2005 Executive Deferred Compensation Plan	10-Q	000-06920	10.61	2/28/2011
10.30	Credit Agreement, dated as of May 25, 2011, among Applied Materials, Inc., JPMorgan Chase Bank, N.A., as administrative agent, and other lenders named therein	10-Q/A	000-06920	10.64	11/18/2011
10.31*	Form of Performance Unit Agreement for use under the Applied Materials, Inc. Employee Stock Incentive Plan, as amended	10-Q	000-06920	10.1	2/27/2012
10.32*	Applied Materials, Inc. Employee Stock Incentive Plan, amended and restated effective March 6, 2012	8-K	000-06920	10.1	3/9/2012

**Incorporated by Reference**

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>	<b><u>Form</u></b>	<b><u>File No.</u></b>	<b><u>Exhibit No.</u></b>	<b><u>Filing Date</u></b>
10.33*	Applied Materials, Inc. Senior Executive Bonus Plan, amended and restated effective March 6, 2012	8-K	000-06920	10.2	3/9/2012
10.34*	Form of Restricted Stock Unit Agreement for use under the amended and restated Applied Materials, Inc. Employee Stock Incentive Plan	10-Q	000-06920	10.3	5/24/2012
10.35*	Form of Restricted Stock Unit Agreement for Nonemployee Directors for use under the amended and restated Applied Materials, Inc. Employee Stock Incentive Plan	10-Q	000-06920	10.4	5/24/2012
10.36*	Form of Performance Shares Agreement for use under the amended and restated Applied Materials, Inc. Employee Stock Incentive Plan	10-Q	000-06920	10.5	5/24/2012
10.37	Amendment No. 1 and Extension Agreement, dated as of May 25, 2012, to Credit Agreement, dated as of May 25, 2011, among Applied Materials, Inc., JPMorgan Chase Bank, N.A. as administrative agent, and other lenders named therein	8-K	000-06920	10.1	5/30/2012
10.38*	Form of Restricted Stock Agreement for use under the amended and restated Applied Materials, Inc. Employee Stock Incentive Plan	10-Q	000-06920	10.3	8/23/2012
10.39*	Applied Materials, Inc. Employees' Stock Purchase Plan, amended and restated effective October 28, 2012	10-K	000-06920	10.54	12/5/2012
10.40*	Applied Materials, Inc. Stock Purchase Plan for Offshore Employees, amended and restated effective October 28, 2012	10-K	000-06920	10.55	12/5/2012
10.41	Extension Agreement, dated as of May 25, 2013, to Credit Agreement, dated as of May 25, 2011, as amended, among Applied Materials, Inc., JPMorgan Chase Bank, N.A. as administrative agent and the lenders parties thereto	8-K	000-06920	10.1	5/28/2013
10.42*	Offer Letter, dated August 14, 2013, between Applied Materials, Inc. and Gary E. Dickerson	10-Q	000-06920	10.2	8/22/2013
10.43*	Offer Letter, dated August 15, 2013, between Applied Materials, Inc. and Michael R. Splinter	10-Q	000-06920	10.3	8/22/2013
10.44*	Form of Non-Qualified Stock Option Agreement for Employees for use under the Applied Materials, Inc. Employee Stock Incentive Plan, as amended	10-Q	000-06920	10.4	8/22/2013
10.45*	Offer Letter, dated May 3, 2011, between Applied Materials, Inc. and Robert J. Halliday	10-K	000-06920	10.52	12/4/2013
10.46*	Form of Retention Bonus and Equity Award Amendment Agreement entered into between Applied Materials, Inc. and certain officers identified in the attached schedule	10-K	000-06920	10.53	12/4/2013
10.47*	Retention and Equity Award Amendment Agreement, dated December 20, 2013, between Applied Materials, Inc. and Michael R. Splinter	10-Q	000-06920	10.1	2/20/2014
10.48*	Form of Performance Unit Agreement for use under the Applied Materials, Inc. Employee Stock Incentive Plan, as amended	10-Q	000-06920	10.2	2/20/2014
10.49*	Form of Letter of Understanding for Long-Term Assignment†				
10.50*	Applied Materials, Inc. Applied Incentive Plan, amended and restated effective October 28, 2013†				
10.51*	Amendment No. 5 to the Applied Materials, Inc. 2005 Executive Deferred Compensation Plan†				

<u>Exhibit No.</u>	<u>Description</u>	<u>Form</u>	<u>Incorporated by Reference</u>		
			<u>File No.</u>	<u>Exhibit No.</u>	<u>Filing Date</u>
21	Subsidiaries of Applied Materials, Inc. †				
23	Consent of Independent Registered Public Accounting Firm, KPMG LLP†				
24	Power of Attorney†				
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†				
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†				
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002‡				
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002‡				
101.INS	XBRL Instance Document‡				
101.SCH	XBRL Taxonomy Extension Schema Document‡				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document‡				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document‡				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document‡				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document‡				

\* Indicates a management contract or compensatory plan or arrangement, as required by Item 15(a)3.

\*\* Schedules and certain exhibits to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Applied hereby undertakes to furnish supplementally copies of any of the omitted schedules and exhibits upon request by the Securities and Exchange Commission.

† Filed herewith.

‡ Furnished herewith.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APPLIED MATERIALS, INC.

By: /s/ GARY E. DICKERSON

Gary E. Dickerson

*President, Chief Executive Officer*

Dated: December 17, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

	<u>Title</u>	<u>Date</u>
<u>/s/ GARY E. DICKERSON</u> Gary E. Dickerson	President, Chief Executive Officer (Principal Executive Officer)	December 17, 2014
<u>/s/ ROBERT J. HALLIDAY</u> Robert J. Halliday	Senior Vice President, Chief Financial Officer (Principal Financial Officer)	December 17, 2014
<u>/s/ CHARLES W. READ</u> Charles W. Read	Corporate Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)	December 17, 2014
Directors:		
<u>*</u> Michael R. Splinter	Executive Chairman of the Board	December 17, 2014
<u>*</u> Aart J. de Geus	Director	December 17, 2014
<u>*</u> Gary E. Dickerson	Director	December 17, 2014
<u>*</u> Stephen R. Forrest	Director	December 17, 2014
<u>*</u> Thomas J. Iannotti	Director	December 17, 2014
<u>*</u> Susan M. James	Director	December 17, 2014
<u>*</u> Alexander A. Karsner	Director	December 17, 2014
<u>*</u> Gerhard H. Parker	Director	December 17, 2014
<u>*</u> Dennis D. Powell	Director	December 17, 2014
<u>*</u> Willem P. Roelandts	Director	December 17, 2014
<u>*</u> James E. Rogers	Director	December 17, 2014
<u>*</u> Robert H. Swan	Director	December 17, 2014

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

\* By /s/ GARY E. DICKERSON  
Gary E. Dickerson  
Attorney-in-Fact\*\*

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





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