



## **Applied Materials Announces Results for Third Fiscal Quarter 2004; New Orders Increase to \$2.46 Billion; Net Sales Increase to \$2.24 Billion**

August 17, 2004

SANTA CLARA, Calif.--(BUSINESS WIRE)--Aug. 17, 2004--Applied Materials, Inc. (Nasdaq:AMAT), the world's largest supplier of equipment and services to the global semiconductor industry, reported results for its third fiscal quarter ended August 1, 2004. Net sales were \$2.24 billion, up 11 percent from \$2.02 billion for the second fiscal quarter of 2004, and up 104 percent from \$1.09 billion for the third fiscal quarter of 2003. Gross margin for the third fiscal quarter of 2004 was 47.4 percent, up from 46.5 percent for the second fiscal quarter of 2004, and up from 31.7 percent for the third fiscal quarter of 2003. Net income for the third fiscal quarter of 2004 was \$441 million, or \$0.26 per share, up from net income of \$373 million, or \$0.22 per share, for the second fiscal quarter of 2004, and up from a net loss of \$37 million, or \$0.02 per share, for the third fiscal quarter of 2003.

The company's ongoing net income was \$441 million, or \$0.26 per share, for the third fiscal quarter of 2004, up from \$373 million, or \$0.22 per share, for the second fiscal quarter of 2004, and up from \$78 million, or \$0.05 per share, for the third fiscal quarter of 2003. Ongoing results for the second and third fiscal quarters of 2004 were the same as reported net income since there were no special items.

New orders of \$2.46 billion for the third fiscal quarter of 2004 increased 11 percent from \$2.21 billion for the second fiscal quarter of 2004, and increased 134 percent from \$1.05 billion for the third fiscal quarter of 2003. Regional distribution of new orders for the third fiscal quarter of 2004 was: Taiwan 28 percent, North America 19 percent, Japan 17 percent, Southeast Asia and China 15 percent, Korea 12 percent, and Europe 9 percent. Backlog at the end of the third fiscal quarter of 2004 was \$2.99 billion, compared to \$2.80 billion at the end of the second fiscal quarter of 2004.

"Our financial results demonstrate that Applied Materials is continuing to grow while delivering excellent profitability and productivity," said Mike Splinter, president and chief executive officer. "We are building on our technology leadership, introducing leading-edge products and entering new businesses to provide more capability to our customers."

Applied Materials continues to deliver breakthrough technologies with a broad portfolio of transistor, interconnect, and inspection solutions for manufacturing chips at 65 nanometers and beyond. During the quarter, the company launched the Applied Quantum(TM) X, Applied Reflexion LK Ecmp(TM) and Applied Producer(R) HARP(TM) products, and added the FlexStar(TM) system through the acquisition of Torrex. Applied Materials also entered into agreements with Brooks Automation, Praxair Electronics, and Phoenix Silicon to broaden its service product offerings. In addition, Applied Materials announced yesterday a definitive agreement to acquire the operating subsidiaries and businesses of Metron Technology, which provides a wide range of outsource solutions to the semiconductor industry.

"With our growth strategy in place, our focus is clearly on building a stronger Applied Materials as we further expand our product offerings and capabilities," concluded Splinter.

Reconciliations of reported results of operations under U.S. Generally Accepted Accounting Principles (GAAP) to ongoing results are included as a supplement to this press release. Due to the amount of realignment charges incurred in certain prior periods, Applied Materials believes that ongoing results are useful to investors because they reflect baseline performance exclusive of charges associated with realignment activities. Ongoing results are the primary indicator used by Applied Materials' management to plan and forecast future periods. These non-GAAP measures are neither in accordance with, nor an alternative for, GAAP, and may be materially different from non-GAAP methods of accounting and reporting used by other companies. The presentation of this additional information should not be considered as a substitute for net income prepared in accordance with GAAP.

This press release contains forward-looking statements, including, but not limited to, those relating to the company's strategic position and business outlook, as well as the semiconductor and semiconductor equipment industries' trends. Forward-looking statements may contain words such as "expect," "anticipate," "believe," "may," "should," "will," "estimate," "forecast," "see," or similar expressions, and include the assumptions that underlie such statements. These statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. Risks and uncertainties include, but are not limited to: the sustainability, timing, rate and amount of increased demand in the semiconductor and semiconductor equipment industries, which is subject to many factors, including global economic conditions, business spending, consumer confidence, demand for electronic products and semiconductors, and geopolitical uncertainties; customers' capacity requirements, including capacity utilizing the latest technology (such as 300mm and nanometer applications); the company's ability to timely develop, deliver and support a broad range of products and services and successfully develop new markets; the company's ability to timely satisfy manufacturing requirements; the company's ability to timely align its cost structure with business conditions; changes in management; the possible inability to complete acquisition(s) as anticipated or at all and the possible inability to realize the potential benefits of the integration and performance of acquired business(es); effectiveness of strategic transactions and other risks described in Applied Materials' Securities and Exchange Commission filings. All forward-looking statements are based on management's estimates, projections and assumptions as of the date hereof. The company assumes no obligation to update the information in this press release.

Applied Materials will be discussing its third fiscal quarter results, along with its outlook for the fourth fiscal quarter of 2004, on a conference call today beginning at 1:30 p.m. Pacific Time. A webcast of the conference call will be available on Applied Materials' web site under the "Investors" section.

Applied Materials, Inc. (Nasdaq:AMAT) is the largest supplier of equipment and services to the global semiconductor industry. Applied Materials' web site is <http://www.appliedmaterials.com>.

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

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	July 27, 2003	August 1, 2004	July 27, 2003	August 1, 2004
Net sales	\$1,094,907	\$2,236,152	\$3,256,293	\$5,809,705
Cost of products sold	747,979	1,176,920	2,146,209	3,135,663
Gross margin	346,928	1,059,232	1,110,084	2,674,042
Operating expenses:				
Research, development and engineering	217,025	256,781	692,668	743,601
Marketing and selling	78,121	101,513	253,906	285,886
General and administrative	72,307	87,394	223,306	251,145
Restructuring, asset impairments and other charges	66,181	-	258,250	167,459
Income/(loss) from operations	(86,706)	613,544	(318,046)	1,225,951
Interest expense	11,626	13,489	35,185	36,971
Interest income	46,131	24,869	119,759	82,362
Income/(loss) before income taxes	(52,201)	624,924	(233,472)	1,271,342
Provision for/(benefit from) income taxes	(15,399)	184,353	(68,874)	375,047
Net income/(loss)	\$ (36,802)	\$ 440,571	\$ (164,598)	\$ 896,295
Earnings/(loss) per share:				
Basic	\$ (0.02)	\$ 0.26	\$ (0.10)	\$ 0.53
Diluted	\$ (0.02)	\$ 0.26	\$ (0.10)	\$ 0.52
Weighted average number of shares:				
Basic	1,659,365	1,696,544	1,655,430	1,689,573
Diluted	1,659,365	1,721,690	1,655,430	1,727,626

APPLIED MATERIALS, INC.  
CONSOLIDATED CONDENSED BALANCE SHEETS

(In thousands)	October 26, 2003	August 1, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,364,857	\$ 2,047,442
Short-term investments	4,128,349	4,548,645

Accounts receivable, net	912,875	1,527,603
Inventories	950,692	1,152,774
Deferred income taxes	782,823	572,245
Other current assets	231,177	292,734
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Total current assets	8,370,773	10,141,443
Property, plant and equipment	3,094,427	2,922,091
Less: accumulated depreciation and amortization	(1,534,597)	(1,539,487)
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Net property, plant and equipment	1,559,830	1,382,604
Goodwill, net	223,521	249,157
Purchased technology and other intangible assets, net	92,512	62,416
Other assets	64,986	82,849
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Total assets	\$10,311,622	\$11,918,469
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#### LIABILITIES AND STOCKHOLDERS' EQUITY

##### Current liabilities:

Current portion of long-term debt	\$ 105,292	\$ 103,829
Accounts payable and accrued expenses	1,319,471	1,779,143
Income taxes payable	216,114	323,880
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Total current liabilities	1,640,877	2,206,852
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Long-term debt	456,422	454,491
Deferred income taxes and other liabilities	146,289	153,713
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Total liabilities	2,243,588	2,815,056
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##### Stockholders' equity:

Common stock	16,774	16,982
Additional paid-in capital	2,223,553	2,364,609
Deferred stock compensation, net	(1,543)	(371)
Retained earnings	5,812,867	6,709,162
Accumulated other comprehensive income	16,383	13,031
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Total stockholders' equity	8,068,034	9,103,413
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Total liabilities and stockholders' equity	\$10,311,622	\$11,918,469
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Amounts as of August 1, 2004 are unaudited. Amounts as of October 26, 2003 are derived from the October 26, 2003 audited financial statements.

APPLIED MATERIALS, INC.  
SUPPLEMENTAL CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
- ONGOING BASIS  
(UNAUDITED)

Three Months Ended

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July 27, 2003  
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(In thousands, except per share amounts)	Special Reported(1)	Ongoing Items(2)	Ongoing Results
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Net sales	\$1,094,907	\$ -	\$1,094,907
Cost of products sold	747,979	(93,404) (a)	654,575
Gross margin	346,928	93,404	440,332
Operating expenses:			
Research, development and engineering	217,025	(3,916) (b)	213,109
Marketing and selling	78,121	-	78,121
General and administrative	72,307	-	72,307
Restructuring, asset impairments and other charges	66,181	(66,181) (c)	-
Income/(loss) from operations	(86,706)	163,501	76,795
Interest expense	11,626	-	11,626
Interest income	46,131	-	46,131
Income/(loss) before income taxes	(52,201)	163,501	111,300
Provision for/(benefit from) income taxes	(15,399)	48,233 (d)	32,834
Net income/(loss)	\$ (36,802)	\$ 115,268	\$ 78,466
Earnings/(loss) per share:			
Basic	\$ (0.02)	\$ 0.07	\$ 0.05
Diluted	\$ (0.02)	\$ 0.07	\$ 0.05
Weighted average number of shares:			
Basic	1,659,365	1,659,365	1,659,365
Diluted	1,659,365	1,692,207	1,692,207

(1) Reported results of operations are presented in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

(2) Special items for the third fiscal quarter of 2003 consisted of the following:

(a) Charges to cost of products sold for inventory write-offs as a result of the implementation of the global spares distribution system and refocused product efforts, which included the Etec mask pattern products.

(b) Charges to research, development and engineering expense for laboratory tool write-offs as a result of refocused product efforts associated with realignment activities.

(c) Restructuring, asset impairments and other charges consisted of a reduction in the workforce, the consolidation of facilities and impairment of certain assets associated with realignment activities.

(d) Provision for the tax effect of special items.

SUPPLEMENTAL CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
- ONGOING BASIS  
(UNAUDITED)

Three Months Ended

(In thousands, except per share amounts)	August 1, 2004		
	Reported(1)	Special Items(3)	Ongoing Results
Net sales	\$2,236,152	\$ -	\$2,236,152
Cost of products sold	1,176,920	-	1,176,920
Gross margin	1,059,232	-	1,059,232
Operating expenses:			
Research, development and engineering	256,781	-	256,781
Marketing and selling	101,513	-	101,513
General and administrative	87,394	-	87,394
Restructuring, asset impairments and other charges	-	-	-
Income/(loss) from operations	613,544	-	613,544
Interest expense	13,489	-	13,489
Interest income	24,869	-	24,869
Income/(loss) before income taxes	624,924	-	624,924
Provision for/(benefit from) income taxes	184,353	-	184,353
Net income/(loss)	\$ 440,571	\$ -	\$ 440,571
Earnings/(loss) per share:			
Basic	\$ 0.26	\$ -	\$ 0.26
Diluted	\$ 0.26	\$ -	\$ 0.26
Weighted average number of shares:			
Basic	1,696,544	1,696,544	1,696,544
Diluted	1,721,690	1,721,690	1,721,690

(1) Reported results of operations are presented in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

(3) There were no special items for the third fiscal quarter of 2004. Therefore, ongoing results are the same as reported results of operations.

APPLIED MATERIALS, INC.  
SUPPLEMENTAL CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
- ONGOING BASIS  
(UNAUDITED)

Nine Months Ended

July 27, 2003

(In thousands, except per share amounts)	Reported(1)	Special Items(2)	Ongoing Results
Net sales	\$3,256,293	\$ -	\$3,256,293
Cost of products sold	2,146,209	(142,404)	(a) 2,003,805
Gross margin	1,110,084	142,404	1,252,488
Operating expenses:			
Research, development and engineering	692,668	(13,916)	(b) 678,752
Marketing and selling	253,906	-	253,906
General and administrative	223,306	-	223,306
Restructuring, asset impairments and other charges	258,250	(258,250)	(c) -
Income/(loss) from operations	(318,046)	414,570	96,524
Interest expense	35,185	-	35,185
Interest income	119,759	-	119,759
Income/(loss) before income taxes	(233,472)	414,570	181,098
Provision for/(benefit from) income taxes	(68,874)	122,298	(d) 53,424
Net income/(loss)	\$ (164,598)	\$ 292,272	\$ 127,674
Earnings/(loss) per share:			
Basic	\$ (0.10)	\$ 0.18	\$ 0.08
Diluted	\$ (0.10)	\$ 0.17	\$ 0.08
Weighted average number of shares:			
Basic	1,655,430	1,655,430	1,655,430
Diluted	1,655,430	1,685,001	1,685,001

(1) Reported results of operations are presented in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

(2) Special items for the nine months ended July 27, 2003 consisted of the following:

(a) Charges to cost of products sold for inventory write-offs as a result of the implementation of the global spares distribution system and refocused product efforts, which included the Etec mask pattern products.

(b) Charges to research, development and engineering expense for laboratory tool write-offs as a result of refocused product efforts associated with realignment activities.

(c) Restructuring, asset impairments and other charges consisted of reduction in the workforce, the consolidation of facilities and impairment of certain assets associated with realignment activities.

(d) Provision for the tax effect of special items.

APPLIED MATERIALS, INC.  
SUPPLEMENTAL CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS  
- ONGOING BASIS  
(UNAUDITED)

Nine Months Ended

August 1, 2004

(In thousands, except per share amounts)	Reported(1)	Special Items(3)	Ongoing Results
Net sales	\$5,809,705	\$ -	\$5,809,705
Cost of products sold	3,135,663	-	3,135,663
Gross margin	2,674,042	-	2,674,042
Operating expenses:			
Research, development and engineering	743,601	-	743,601
Marketing and selling	285,886	-	285,886
General and administrative	251,145	-	251,145
Restructuring, asset impairments and other charges	167,459	(167,459) (e)	-
Income/(loss) from operations	1,225,951	167,459	1,393,410
Interest expense	36,971	-	36,971
Interest income	82,362	-	82,362
Income/(loss) before income taxes	1,271,342	167,459	1,438,801
Provision for/(benefit from) income taxes	375,047	49,400 (f)	424,447
Net income/(loss)	\$ 896,295	\$ 118,059	\$1,014,354
Earnings/(loss) per share:			
Basic	\$ 0.53	\$ 0.07	\$ 0.60
Diluted	\$ 0.52	\$ 0.07	\$ 0.59
Weighted average number of shares:			
Basic	1,689,573	1,689,573	1,689,573
Diluted	1,727,626	1,727,626	1,727,626

(1) Reported results of operations are presented in accordance with U.S. Generally Accepted Accounting Principles (GAAP).

(3) Special items for the nine months ended August 1, 2004, all of which occurred in the first fiscal quarter of 2004, consisted of the following:

(e) Restructuring, asset impairments and other charges resulting primarily from the consolidation of facilities associated with realignment activities.

(f) Provision for the tax effect of special items.

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SOURCE: Applied Materials, Inc.