

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark one)

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

For the quarterly period ended April 27, 2003

or

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

For the transition period from to

Commission file number 0-6920

Applied Materials, Inc.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction
of incorporation or organization)*

**3050 Bowers Avenue,
Santa Clara, California**

(Address of principal executive offices)

94-1655526

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

95054-3299

(Zip Code)

Registrant's telephone number, including area code

(408) 727-5555

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

Number of shares outstanding of the issuer's common stock as of April 27, 2003: 1,657,391,045

PART I.

FINANCIAL INFORMATION

Item 1. *Financial Statements*

APPLIED MATERIALS, INC.

Consolidated Condensed Statements of Operations

(Unaudited)

	Three Months Ended		Six Months Ended	
	April 28, 2002	April 27, 2003	April 28, 2002	April 27, 2007
	(In thousands, except per share amounts)			
Net sales	\$1,156,472	\$1,107,177	\$2,156,932	\$2,161,386
Cost of products sold	693,732	734,403	1,308,740	1,398,230
Gross margin	462,740	372,774	848,192	763,156
Operating expenses:				
Research, development and engineering	256,879	232,438	503,678	475,643
Marketing and selling	90,084	83,568	173,888	175,785
General and administrative	76,415	78,198	146,458	150,999
Restructuring, asset impairments and other charges	—	92,731	85,479	192,069
Income/(loss) from operations	39,362	(114,161)	(61,311)	(231,340)
Interest expense	11,097	12,217	23,088	23,559
Interest income	45,537	38,256	93,669	73,628
Income/(loss) before income taxes	73,802	(88,122)	9,270	(181,271)
Provision/(benefit) for income taxes	21,772	(25,996)	2,735	(53,475)
Net income/(loss)	\$ 52,030	\$ (62,126)	\$ 6,535	\$ (127,796)
Earnings/(loss) per share:				
Basic	\$ 0.03	\$ (0.04)	\$ —	\$ (0.08)
Diluted	\$ 0.03	\$ (0.04)	\$ —	\$ (0.08)
Weighted average number of shares:				
Basic	1,643,317	1,655,927	1,639,871	1,652,981
Diluted	1,719,777	1,655,927	1,708,669	1,652,981

See accompanying notes to consolidated condensed financial statements.

APPLIED MATERIALS, INC.

Consolidated Condensed Balance Sheets*

	October 27, 2002	April 27, 2003
	<u>(In thousands)</u>	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,284,791	\$1,427,621
Short-term investments	3,644,735	3,792,123
Accounts receivable, net	1,046,016	742,063
Inventories	1,273,816	1,114,726
Deferred income taxes	565,936	578,153
Other current assets	257,499	204,402
	<hr/>	<hr/>
Total current assets	8,072,793	7,859,088
Property, plant and equipment, net	1,764,937	1,661,988
Other assets	387,035	402,819
	<hr/>	<hr/>
Total assets	\$10,224,765	\$9,923,895
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	\$ 40,323	\$ —
Current portion of long-term debt	9,453	9,821
Accounts payable and accrued expenses	1,348,156	1,256,126
Income taxes payable	103,524	10,967
	<hr/>	<hr/>
Total current liabilities	1,501,456	1,276,914
Long-term debt	573,853	570,153
Deferred income taxes and other liabilities	129,807	138,906
	<hr/>	<hr/>
Total liabilities	2,205,116	1,985,973
	<hr/>	<hr/>
Stockholders' equity:		
Common stock	16,480	16,574
Additional paid-in capital	2,022,546	2,041,467
Retained earnings	5,962,014	5,834,218
Accumulated other comprehensive income	18,609	45,663
	<hr/>	<hr/>
Total stockholders' equity	8,019,649	7,937,922
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$10,224,765	\$9,923,895
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* Amounts as of April 27, 2003 are unaudited. Amounts as of October 27, 2002 are from the October 27, 2002 audited financial statements.

See accompanying notes to consolidated condensed financial statements.

APPLIED MATERIALS, INC.

Consolidated Condensed Statements of Cash Flows

(Unaudited)

	Six Months Ended	
	April 28, 2002	April 27, 2003
	(In thousands)	
Cash flows from operating activities:		
Net income/(loss)	\$ 6,535	\$ (127,796)
Adjustments required to reconcile income/(loss) from continuing operations to cash provided by operating activities:		
Depreciation and amortization	188,700	201,751
Deferred income taxes	7,613	2,243
Non-cash portion of restructuring, asset impairments and other charges	27,605	30,844
Acquired in-process research and development expense	8,000	—
Changes in assets and liabilities, net of amounts acquired:		
Accounts receivable, net	(206,017)	314,608
Inventories	222,869	166,355
Other current assets	(27,934)	55,212
Other assets	698	(25,086)
Accounts payable and accrued expenses	(185,530)	(127,187)
Income taxes payable	81,112	(93,468)
Other liabilities	(2,142)	3,387
Cash provided by continuing operations	<u>121,509</u>	<u>400,863</u>
Cash flows from investing activities:		
Capital expenditures, net of retirements	(199,412)	(101,118)
Cash paid for acquisitions, net of cash acquired	(107,462)	—
Proceeds from sales and maturities of short-term investments	951,805	1,055,077
Purchases of short-term investments	(1,242,068)	(1,185,809)
Cash used for investing	<u>(597,137)</u>	<u>(231,850)</u>
Cash flows from financing activities:		
Short-term debt activity, net	45,431	(41,949)
Long-term debt activity, net	18,644	(4,196)
Common stock transactions, net	103,090	19,015
Cash provided by/(used for) financing	<u>167,165</u>	<u>(27,130)</u>
Effect of exchange rate changes on cash	<u>(5,386)</u>	<u>947</u>
Increase/(decrease) in cash and cash equivalents	(313,849)	142,830
Cash and cash equivalents — beginning of period	1,356,304	1,284,791
Cash and cash equivalents — end of period	<u>\$ 1,042,455</u>	<u>\$ 1,427,621</u>

Cash payments for interest (in thousands) were \$20,046 for the six months ended April 28, 2002 and \$19,980 for the six months ended April 27, 2003. Net cash activities for income taxes (in thousands) were \$90,296 of refunds for the six months ended April 28, 2002 and \$45,343 of payments for the six months ended April 27, 2003.

See accompanying notes to consolidated condensed financial statements.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)
SIX MONTHS ENDED APRIL 27, 2003

1) Basis of Presentation and Stock-Based Compensation

Basis of Presentation

In the opinion of management, the unaudited interim consolidated condensed financial statements of Applied Materials, Inc. (Applied) included herein have been prepared on a basis consistent with the October 27, 2002 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These unaudited interim consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Applied's Form 10-K for the fiscal year ended October 27, 2002. Applied's results of operations for the three and six months ended April 27, 2003 are not necessarily indicative of future operating results.

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

Certain prior year amounts have been reclassified to conform to the fiscal 2003 financial statement presentation.

During the second fiscal quarter of 2003, Applied reviewed the functional currencies of certain subsidiaries in Europe and Japan and determined that the United States dollar was more appropriate as the functional currency due to changes in facts, circumstances, scope of operations and business practices. The change in functional currencies did not have a material effect on Applied's results of operations and financial position during the second fiscal quarter of 2003.

Stock-Based Compensation

During the second fiscal quarter of 2003, Statement of Financial Accounting Standards No. 148 (SFAS 148), "Accounting for Stock-Based Compensation — Transition and Disclosure — An Amendment of FASB Statement No. 123" became effective for Applied.

Applied measures compensation expense for its stock-based employee compensation plans using the intrinsic value method. As the exercise price of all options granted under these plans was equal to the fair market price of the underlying common stock on the grant date, no stock-based employee compensation cost is recognized in the consolidated condensed statements of operations.

In accordance with SFAS 148 and Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), Applied's option expense is computed using the Black-Scholes option pricing model. This model was developed for use in estimating the value of traded options that have no vesting restrictions and are fully transferable. Applied's employee stock options have characteristics significantly different from those of traded options; therefore, in the opinion of management, the Black-Scholes option pricing model required by SFAS 148 and SFAS 123, does not necessarily provide a reliable measure of the fair value of Applied's options.

To comply with SFAS 148, Applied is presenting the following table to illustrate the effect on the net income/ (loss) and earnings/ (loss) per share if it had applied the fair value recognition provisions of SFAS 123, as amended, to options granted under the stock-based employee compensation plans. For purposes

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

of this pro forma disclosure, the estimated value of the options is amortized ratably to expense over the options' vesting periods.

	Three Months Ended		Six Months Ended	
	April 28, 2002	April 27, 2003	April 28, 2002	April 27, 2003
	(In thousands, except per share amounts)			
Reported net income/(loss)	\$ 52,030	\$ (62,126)	\$ 6,535	\$ (127,796)
Stock compensation expense, net of tax	(74,046)	(100,343)	(158,837)	(194,314)
Pro forma net loss	\$(22,016)	\$(162,469)	\$(152,302)	\$(322,110)
Basic income/(loss) per share:				
Reported	\$ 0.03	\$ (0.04)	\$ —	\$ (0.08)
Pro forma	\$ (0.01)	\$ (0.10)	\$ (0.09)	\$ (0.19)
Diluted income/(loss) per share:				
Reported	\$ 0.03	\$ (0.04)	\$ —	\$ (0.08)
Pro forma	\$ (0.01)	\$ (0.10)	\$ (0.09)	\$ (0.19)

Based on the Black-Scholes option pricing model, the weighted average estimated fair value of employee stock option grants was \$10.87 and \$5.97 for the three months ended April 28, 2002 and April 27, 2003, respectively, and was \$10.87 and \$6.27 for the six months ended April 28, 2002 and April 27, 2003, respectively. The weighted average estimated fair value of purchase rights granted under employee stock purchase plans (ESPP) was \$6.29 and \$4.11 for the three months ended April 28, 2002 and April 27, 2003, respectively, and was \$6.29 and \$4.90 for the six months ended April 28, 2002 and April 27, 2003, respectively. In calculating the pro forma compensation, the fair value of each stock option grant and stock purchase right is estimated on the date of grant using the Black-Scholes option pricing model and the following assumptions:

	Three Months Ended		Six Months Ended	
	April 28, 2002	April 27, 2003	April 28, 2002	April 27, 2003
Stock Options:				
Dividend yield	None	None	None	None
Expected volatility	69%	69%	69%	69%
Risk-free interest rate	3.58%	2.01%	3.58%	2.09%
Expected life (in years)	3.6	3.6	3.6	3.6
ESPP:				
Dividend yield	None	None	None	None
Expected volatility	69%	69%	69%	69%
Risk-free interest rate	2.42%	1.19%	2.42%	1.44%
Expected life (in years)	0.5	0.5	0.5	0.5

2) Earnings/ Loss Per Share

Basic earnings/loss per share has been determined using the weighted average number of common shares outstanding during the period. Diluted earnings per share has been determined using the weighted average number of common shares and equivalents (representing the dilutive effect of stock options) outstanding during the period. Applied's net income/loss has not been adjusted for any period presented for purposes of computing basic or diluted earnings/loss per share.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

For purposes of computing diluted earnings/loss per share, weighted average common share equivalents do not include stock options with an exercise price that exceeded the average fair market value of Applied's common stock for the period. For the three and six months ended April 28, 2002, options to purchase approximately 15,012,000 and 21,715,000 shares of common stock at an average exercise price of \$34.89 and \$31.45 were excluded from the computation. For the three and six months ended April 27, 2003, options to purchase approximately 173,908,000 and 172,698,000 shares of common stock at an average exercise price of \$20.11 and \$20.15 were excluded from the computation.

3) Accounts Receivable, Net

Applied has agreements with various financial institutions to sell accounts receivable from selected customers. Applied sold accounts receivable under these agreements of \$103 million and \$172 million for the three months ended April 28, 2002 and April 27, 2003, respectively, and sold \$302 million and \$294 million for the six months ended April 28, 2002 and April 27, 2003, respectively. Discounting fees were approximately \$1 million and \$1.5 million for the three months ended April 28, 2002 and April 27, 2003, respectively, and were approximately \$2 million for each of the six months ended April 28, 2002 and April 27, 2003. Discounting fees were recorded as interest expense. At April 27, 2003, \$94 million of sold receivables remained outstanding under these agreements. A portion of these sold receivables is subject to certain recourse provisions. Applied has not experienced any losses under these recourse provisions.

4) Inventories

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

	October 27, 2002	April 27, 2003
Customer service spares	\$ 644,352	\$ 547,322
Raw materials	191,956	158,116
Work-in-process	195,409	169,601
Finished goods	242,099	239,687
	<u>\$1,273,816</u>	<u>\$1,114,726</u>

5) Other Assets

Components of other assets were as follows (in thousands):

	October 27, 2002	April 27, 2003
Purchased technology, net	\$ 112,920	\$ 99,286
Goodwill, net	202,290	223,521
Other long-term assets	71,825	80,012
	<u>\$387,035</u>	<u>\$402,819</u>

Purchased technology and other intangible assets are amortized over their estimated useful lives of five to 10 years using the straight-line method.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

Components of intangible assets were as follows (in thousands):

	October 27, 2002		April 27, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Purchased technology	\$312,529	\$199,609	\$321,129	\$221,843
Other intangible assets	23,600	7,390	23,600	9,170
	<u>\$336,129</u>	<u>\$206,999</u>	<u>\$344,729</u>	<u>\$231,013</u>
Unamortized intangible assets:				
Goodwill	\$248,160	\$ 45,870	\$269,391	\$ 45,870

Aggregate amortization expense was \$26 million and \$24 million for the six month periods ended April 28, 2002 and April 27, 2003, respectively. As of April 27, 2003, future estimated amortization expense is expected to be: \$24 million for the remainder of fiscal 2003, \$48 million for fiscal 2004, \$19 million for fiscal 2005, \$13 million for fiscal 2006, \$5 million for fiscal 2007 and \$4 million thereafter. In connection with the adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," as of the beginning of fiscal 2002, goodwill is no longer amortized but reviewed periodically for impairment.

During fiscal 2001, Applied established a venture capital fund, Applied Materials Ventures I, L.P. (Ventures I), to invest in privately-held, early-stage companies engaged in developing communications components, systems and sub-systems. Ventures I's investment objectives were subsequently expanded to include systems, devices and processing technology based on nanotechnology for specific applications and products. Ventures I is a limited partnership with Applied as the sole limited partner and an independent party as the general partner. Applied has committed to fund \$50 million in capital contributions, but has reserved the option to discontinue capital contributions at \$25 million. Applied's capital contributions to Ventures I totaled approximately \$9 million at October 27, 2002 and \$11 million at April 27, 2003. As provided for in the partnership agreement, the general partner has control over investment decisions and operations of Ventures I. Accordingly, Applied accounts for its investment using the equity method. Capital contributions, net of the pro rata share of Ventures I's results of operations, have been included in other assets and totaled \$6 million at October 27, 2002 and \$7 million at April 27, 2003. Applied does not expect its investment in Ventures I to have a material effect on its financial condition or results of operation.

In January 2003, the Financial Accounting Standard Board (FASB) issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." FIN 46 provides guidance on the identification, classification and accounting of variable interest entities. If certain criteria are met, Applied may be required to consolidate Ventures I during the fourth fiscal quarter of 2003. Applied is in the process of assessing the effect of FIN 46, and does not expect the adoption of FIN 46, which will be effective for interim or annual reporting periods beginning after June 15, 2003, to have a material impact on its financial condition or results of operations.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

6) Accounts Payable, Accrued Expenses and Guarantees

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

	October 27, 2002	April 27, 2003
Accounts payable	\$ 269,275	\$ 202,586
Compensation and benefits	255,231	152,477
Installation and warranty	214,004	176,725
Deferred revenue	117,827	214,718
Other	491,819	509,620
	\$1,348,156	\$1,256,126

Applied adopted FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Indebtedness of Others" during the first fiscal quarter of 2003. FIN 45 requires disclosures concerning Applied's obligations under certain guarantees.

Pursuant to FIN 45, Applied is required to disclose product warranty reserves activity. Applied products are generally sold with a 12-month warranty period following installation. 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.

Changes in the warranty reserves during the second fiscal quarter of 2003 were as follows (in thousands):

Balance, October 27, 2002	\$168,175
Provisions for warranty	29,224
Consumption of reserves	(39,717)
	157,682
Balance, January 26, 2003	157,682
Provisions for warranty	26,247
Consumption of reserves	(40,605)
	143,324
Balance, April 27, 2003	\$143,324

During the ordinary course of business, Applied also provides standby letters of credit or other guarantee instruments to certain parties as required. As of April 27, 2003, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements is approximately \$45 million. Applied has not recorded any liability in connection with these guarantee arrangements 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 arrangements.

Additionally, Applied guarantees payments for certain wholly-owned subsidiary short-term borrowings, term loans and overdraft facilities totaling \$173 million. Under these arrangements, in the event a subsidiary does not make the required payments, Applied could be required to fulfill these obligations. The total amount outstanding as of April 27, 2003 under these arrangements was \$17 million and was recorded on Applied's consolidated condensed balance sheet. Applied also guarantees payments for certain wholly-owned subsidiary lease obligations, which could require Applied to pay approximately \$3 million per quarter in the event the subsidiary does not make the required payments. These leases will expire between 2004 and 2014. As of April 27, 2003, Applied has not recorded any liability related to guarantees of wholly-owned subsidiary

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

obligations. Applied does not expect, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under wholly-owned subsidiary guarantees.

In connection with certain business combinations and purchased technology acquisitions, Applied was subject to contingent consideration arrangements at April 27, 2003. These arrangements are based upon sales volume or other events taking place subsequent to the acquisition. Depending upon the circumstances of each agreement, the payment of the contingency will result in an increase to goodwill or a charge to operating expenses. Amounts paid under these arrangements have not had, and are not expected to have, a material effect on Applied's financial condition or results of operations.

7) Restructuring, Asset Impairments and Other Charges

During the second fiscal quarter of 2003, Applied initiated the 2003 Realignment Plan (the Plan) to realign its infrastructure with current business conditions, resulting in restructuring, asset impairments, and other charges of \$93 million, or \$0.04 per share. As a result of the Plan, Applied will reduce its global workforce by approximately 2,000 positions or 14 percent. The majority of the affected employees are based in Santa Clara, California and Austin, Texas and represent multiple company activities and functions. The restructuring, asset impairments and other charges of \$93 million during the second fiscal quarter of 2003 included \$29 million of non-cash items, primarily for fixed asset write-offs. The majority of the cash outlays are anticipated to occur during fiscal 2003.

During the first fiscal quarter of 2003, Applied recorded a pre-tax restructuring charge of \$99 million, or \$0.04 per share, for employee-related costs and consolidation of facilities. As a result of this action, Applied reduced its global workforce by approximately 1,750 positions or 11 percent. The majority of the affected employees were based in Santa Clara, California and Austin, Texas and represented multiple company activities and functions. The restructuring charge of \$99 million included no non-cash items. The majority of the cash outlays have been incurred or are anticipated to occur in fiscal 2003.

Restructuring and other items for the first fiscal quarter of 2002 totaled \$85 million, or \$0.04 per share. During the first fiscal quarter of 2002, Applied recorded \$8 million for in-process research and development expense in connection with its acquisitions of Schlumberger's electron-beam wafer inspection business and Global Knowledge Services, Inc. (GKS). For further details regarding these acquisitions, see Note 10. Also during the first fiscal quarter of 2002, Applied recorded a pre-tax restructuring charge of \$77 million for employee-related costs, consolidation of facilities and other costs, and reduced its global workforce by approximately 1,100 positions, or six percent. The majority of the affected employees were based in Santa Clara, California and Austin, Texas, and represented multiple company activities and functions. The restructuring charge of \$77 million consisted of \$49 million of cash outlays and \$28 million of non-cash charges, primarily for fixed asset write-offs.

At April 27, 2003, the restructuring reserve consisted of \$8 million related to a restructuring implemented in the fourth fiscal quarter of 2001, \$10 million related to the restructuring implemented in the first fiscal quarter of 2002, \$18 million related to the restructuring implemented in the first fiscal quarter of 2003 and \$52 million related to the restructuring implemented in the second fiscal quarter of 2003. Prior years'

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

restructuring reserves were mainly for lease commitments. Restructuring activity for the second fiscal quarter of 2003 was as follows (in thousands):

	<u>Severance and Benefits</u>	<u>Facilities</u>	<u>Other</u>	<u>Total</u>
Balance, October 27, 2002	\$ 1,993	\$32,015	\$ 3,300	\$ 37,308
Provision	80,133	19,205	—	99,338
Cash outlays	(37,868)	(7,667)	(800)	(46,335)
Balance, January 26, 2003	44,258	43,553	2,500	90,311
Provision	62,300	1,500	28,900	92,700
Cash outlays	(54,385)	(9,102)	(1,173)	(64,660)
Non-cash charges	—	(1,944)	(28,900)	(30,844)
Balance, April 27, 2003	\$ 52,173	\$34,007	\$ 1,327	\$ 87,507

8) Derivative Financial Instruments

In accordance with Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities," all of Applied's derivative financial instruments, consisting of forward exchange contracts and currency option contracts such as Japanese yen, euro and British pounds are recorded at their fair value on the balance sheet, either in other current assets or accounts payable and accrued expenses. Changes in the fair value of derivatives that do not qualify for hedge treatment, as well as the ineffective portion of any hedges, must be recognized currently in earnings. The effective portion of the gain or loss is reported as a component of accumulated other comprehensive income in stockholders' equity, and is reclassified into earnings when the hedged transaction affects earnings. All amounts included in accumulated other comprehensive income at April 27, 2003 will be reclassified to earnings within 12 months. Changes in the fair value of currency option contracts due to changes in time value are excluded from the assessment of effectiveness, and are recognized in cost of products sold. The change in option time value was not material for the three and six months ended April 28, 2002 or April 27, 2003. If the transaction being hedged fails to occur, or if a portion of any derivative is ineffective, Applied immediately recognizes the gain or loss on the associated financial instrument in general and administrative expenses. The amounts recognized due to the anticipated transactions failing to occur were not material for the three and six months ended April 28, 2002 and April 27, 2003.

Derivative-related activity in accumulated other comprehensive income for the six months ended April 27, 2003 decreased by \$4 million, which was comprised of a \$2 million net increase in fair value of derivatives, offset by \$6 million of net gains reclassified from accumulated other comprehensive income to earnings.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

9) Stockholders' Equity

Comprehensive Income/(Loss)

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

	Three Months Ended		Six Months Ended	
	April 28, 2002	April 27, 2003	April 28, 2002	April 27, 2003
Net income/(loss)	\$ 52,030	\$(62,126)	\$ 6,535	\$(127,796)
Change in unrealized gain/(loss) on investments	(7,695)	(1,725)	(22,723)	18,429
Change in unrealized gain/(loss) on derivative instruments designated and qualifying as cash flow hedges	(10,057)	(3,477)	(3,038)	(3,996)
Foreign currency translation adjustments	(123)	(1,915)	(15,465)	12,621
Comprehensive income/(loss)	\$ 34,155	\$(69,243)	\$ (34,691)	\$(100,742)

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

	October 27, 2002	April 27, 2003
Unrealized gain on investments	\$ 41,257	\$ 59,686
Unrealized gain on derivative instruments designated and qualifying as cash flow hedges	5,987	1,991
Cumulative translation adjustments	(28,635)	(16,014)
Accumulated other comprehensive income	\$ 18,609	\$ 45,663

Stock Repurchase Program

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

During the six months ended April 28, 2002, Applied repurchased 776,000 shares of its common stock at an average price of \$25.22 for a cash outlay of \$20 million. During the six months ended April 27, 2003, Applied repurchased 7,068,000 shares of its common stock at an average price of \$14.14, for a total cash outlay of \$100 million.

10) Business Combinations

On November 20, 2001, Applied acquired the assets of Schlumberger's electron-beam wafer inspection business for \$66 million in cash. In connection with this acquisition, Applied recorded acquired in-process research and development expense of \$6 million and goodwill of \$81 million, net of adjustments to the initial purchase price allocation, partially offset by net liabilities acquired of \$21 million. The amount of acquired in-

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

process research and development expense was determined by identifying research projects for which technological feasibility had not been established and for which no alternative future use existed. The value of the projects identified as in-process was determined by calculating the total development costs incurred, estimating the portion of development costs related to the aspect of the project that Applied expected to utilize, and then calculating the current value of these historical development costs using a Consumer Price Index adjustment.

On December 3, 2001, Applied acquired GKS, a provider of advanced data mining services to improve semiconductor manufacturing yield and efficiency, for \$16 million in cash. In connection with this acquisition, Applied recorded acquired in-process research and development expense of \$2 million, goodwill of \$6 million, purchased technology of \$4 million and other items of \$4 million. The amount of acquired in-process research and development expense was determined by identifying research projects for which technological feasibility had not been established and for which no alternative future use existed. The value of the projects identified as in-process was determined by estimating the future cash flows from the projects once commercially feasible, discounting the net cash flows back to their present value at a rate commensurate with the level of risk and maturity of the projects, and then applying a percentage-of-completion to the calculated value.

On April 8, 2002, Applied acquired Electron Vision Corporation, a designer, manufacturer and seller of e-beam stabilization and curing tools for the semiconductor, thin film head and micro-fabrication industries, for \$26 million in cash. In connection with this acquisition, Applied recorded goodwill of \$13 million, net of adjustments to the initial purchase price allocation, and purchased technology of \$16 million, partially offset by other items of \$3 million, primarily for deferred tax liabilities.

On April 18, 2003, Applied acquired Boxer Cross, Inc., a producer of a new class of in-line monitoring systems that provide customers with critical electrical measurement data for controlling semiconductor processes, for \$14 million in cash. In connection with this acquisition, Applied recorded goodwill of \$18 million, net of adjustments to the initial purchase price allocation, and purchased technology of \$3 million, partially offset by other items of \$7 million, primarily for deferred tax assets and other liabilities. The in-process research and development expense was immaterial.

For all of the purchase business combinations discussed above, the results of operations prior to the acquisition dates were not material in relation to those of Applied for any of the periods presented herein. Goodwill is not amortized but is reviewed periodically for impairment, and purchased technology is amortized over its useful life of five to 10 years. These acquisitions have not had, and are not expected to have, a material effect on Applied's financial condition or results of operations.

11) Notes Payable

Applied has credit facilities for unsecured borrowings in Japanese yen up to approximately \$160 million. The credit facilities are primarily with Japanese banks at rates indexed to their prime reference rate. No amounts were outstanding under these credit facilities at April 27, 2003.

12) New Accounting Pronouncements

In April 2002, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 145 (SFAS 145), "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS 145 eliminates SFAS 4, "Reporting Gains and Losses from Extinguishment of Debt," which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item. Under SFAS 145, such gains and losses should be classified as extraordinary only if they meet the criteria of APB Opinion No. 30. In addition, SFAS 145 amends SFAS 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS — (Continued)

(Unaudited)

transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Applied does not expect the adoption of SFAS 145, which will become effective at varying dates from May 2002 to Applied's fiscal 2003, to have a material effect on its financial condition or results of operations.

In November 2002, The Emerging Issues Task Force reached a consensus on Issue No. 00-21 (EITF 00-21), "Revenue Arrangements with Multiple Deliverables." EITF 00-21 provides guidance on accounting for arrangements that involve the delivery of performance of multiple products, services and/or rights to use assets. Applied is in the process of assessing the effect of EITF 00-21 and does not expect the adoption of EITF 00-21, which will apply to revenue arrangements beginning in Applied's fourth fiscal quarter of 2003, to have a material effect on its financial condition or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51." FIN 46 provides guidance on: 1) the identification of entities for which control is achieved through means other than through voting rights, known as "variable interest entities" (VIEs); and 2) which business enterprise is the primary beneficiary and when it should consolidate the VIE. This new model for consolidation applies to entities: 1) where the equity investors (if any) do not have a controlling financial interest; or 2) whose equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that both the primary beneficiary and all other enterprises with a significant variable interest in a VIE make additional disclosures. FIN 46 is effective for all new VIEs created or acquired after January 31, 2003. For VIEs created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003. Certain disclosures are effective immediately. Applied is in the process of assessing the effect of FIN 46, but does not expect its implementation to have a material effect on its financial condition or results of operations.

In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 (SFAS 149), "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This statement amends SFAS 133 to provide clarification on the financial accounting and reporting of derivative instruments and hedging activities and requires contracts with similar characteristics to be accounted for on a comparable basis. Applied is in the process of assessing the effect of SFAS 149 and does not expect the adoption of it, which will be effective for contracts entered into or modified after June 30, 2003, to have a material effect on its financial condition or results of operations.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 (SFAS 150), "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS 150 establishes standards on the classification and measurement of financial instruments with characteristics of both liabilities and equity. SFAS 150 will become effective for financial instruments entered into or modified after May 31, 2003. Applied is in the process of assessing the effect of SFAS 150 and does not expect the implementation of the pronouncement to have a material effect on its financial condition or results of operations.

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

Certain information contained in this Quarterly Report on Form 10-Q is forward-looking in nature. All statements in this Quarterly Report on Form 10-Q, including those made by management of Applied Materials, Inc. and its subsidiaries (Applied), other than statements of historical fact, are forward-looking statements. Examples of forward-looking statements include statements regarding Applied's future financial results, operating results, business strategies, projected costs, products, competitive positions and plans and objectives of management for future operations. These forward-looking statements are based on management's estimates, projections and assumptions as of the date hereof and include the assumptions that underlie such statements. Forward-looking statements may contain words such as "may," "will," "should," "would," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," or the negative of these terms or other comparable terminology. Any expectations based on these forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in the following section entitled "Trends, Risks and Uncertainties." Other risks and uncertainties are disclosed in Applied's prior SEC filings, including its Annual Report on Form 10-K for the fiscal year ended October 27, 2002. These and many other factors could affect Applied's future financial and operating results, and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by Applied or on its behalf. Applied assumes no obligation to update the information in this Quarterly Report on Form 10-Q.

Results of Operations

Applied is a supplier of semiconductor manufacturing equipment and services to the global semiconductor industry. Business activity in the semiconductor and semiconductor manufacturing equipment industries has been cyclical; for this and other reasons, Applied's results of operations for the three and six months ended April 27, 2003 may not necessarily be indicative of future operating results.

The continued and prolonged industry downturn, which Applied believes is the most severe decline in the history of the semiconductor industry, has resulted in a significant decrease in demand for manufacturing equipment. Inventory buildups in telecommunication products, slower than expected personal computer sales and slow global economic growth have caused semiconductor companies to re-evaluate their capital spending and reschedule or cancel existing orders. These factors resulted in sequential declines in orders that began in the first fiscal quarter of 2001 and continued through the fourth fiscal quarter of 2001. Flat orders in the first fiscal quarter of 2002 were followed by a slight improvement in orders in the second and third fiscal quarters of 2002 as customers reacted to an increase in demand for logic integrated circuits. When the anticipated business did not meet customer expectations, these customers reduced or deferred capital equipment spending. At the same time, these customers were faced with weak market conditions, geopolitical uncertainties, financing difficulties and other challenges. These factors resulted in further sequential declines in orders from the third fiscal quarter of 2002 through the second fiscal quarter of 2003.

Applied received new orders of \$971 million for the second fiscal quarter of 2003 compared to \$1.0 billion for the first fiscal quarter of 2003 and \$1.7 billion for the second fiscal quarter of 2002, reflecting the continued and prolonged downturn in the semiconductor industry.

New orders by region for the two past consecutive quarters were as follows (dollars in millions):

	Three Months Ended			
	January 26, 2003		April 27, 2003	
	(\$)	(%)	(\$)	(%)
Japan	217	21	274	28
Europe	180	18	245	25
North America*	273	27	222	23
Korea	78	8	114	12
Taiwan	139	14	66	7
Asia-Pacific**	129	12	50	5
Total	1,016	100	971	100

* Primarily the United States.

** Includes China.

Applied's backlog for the most recent three fiscal quarters was as follows: \$2.8 billion at April 27, 2003, compared to \$3.1 billion at January 26, 2003 and \$3.2 billion at October 27, 2002. Backlog consists only of orders for which written authorizations have been accepted, shipment dates within 12 months have been assigned and revenue has not been recognized. Due to possible customer changes in delivery schedules and cancellations of orders, Applied's backlog at any particular date is not necessarily indicative of actual sales for any future periods.

During fiscal 2002, net sales remained relatively flat for the first and second fiscal quarters, followed by a modest increase in the third fiscal quarter. In the fourth fiscal quarter of 2002, net sales declined slightly from the third fiscal quarter of 2002 and declined further during the first fiscal quarter of 2003. Net sales for the second fiscal quarter of 2003 increased five percent from the preceding quarter of 2003 but decreased four percent from the second fiscal quarter of 2002. Net sales for the six months ended April 27, 2003 remained flat with the six months ended April 28, 2002. The overall sales level remained relatively low, reflecting the continued uncertainties associated with the prolonged downturn and the macro-economic climate discussed previously. Net sales by region for the second fiscal quarters of 2002 and 2003 were as follows (dollars in millions):

	Three Months Ended				Six Months Ended			
	April 28, 2002		April 27, 2003		April 28, 2002		April 27, 2003	
	(\$)	(%)	(\$)	(%)	(\$)	(%)	(\$)	(%)
North America*	353	31	285	26	690	32	648	30
Korea	122	11	210	19	211	10	380	18
Japan	132	11	182	16	337	16	370	17
Europe	144	12	161	15	311	14	305	14
Asia-Pacific**	108	9	167	15	200	9	258	12
Taiwan	297	26	102	9	408	19	200	9
Total	1,156	100	1,107	100	2,157	100	2,161	100

* Primarily the United States.

** Includes China.

As indicated in the above table, revenue from all the other regions remained relatively consistent with the prior year's level, except for Korea, Japan and Taiwan. Revenue from Korea increased significantly from the prior year due to customers' fab upgrades and purchases of new 300mm tools. Revenue in Japan increased from the prior year due to an increase in customers' investments for new technology implementation. The

revenue decrease in Taiwan reflected lowered factory utilization, which drove the reduced capital investment plans.

In response to the industry downturn, Applied announced a 2003 Realignment Plan (the Plan) on March 17, 2003 in order to align its infrastructure with business conditions. Applied expects to incur pretax charges of up to \$425 million over four quarters starting from the second fiscal quarter of 2003. The Plan has two elements: first, restructuring actions (including consolidation of facilities and a reduction in workforce); and second, refocused product development and cost reduction programs. Both parts of the Plan will result in charges to income across multiple categories, as incurred, such as cost of products sold and operating expenses. During the second fiscal quarter of 2003, Applied began implementing the Plan and incurred pretax charges totaling approximately \$152 million. Activities to date consisted principally of employee-related actions, facilities consolidation, refocused product development and cost reduction programs. These charges were incurred across the following categories: restructuring, asset impairments and other charges of \$93 million; costs of products sold of \$49 million; and research, development and engineering expense of \$10 million.

Gross margin was 33.7 percent for the second fiscal quarter of 2003, compared to 37.0 percent for the first fiscal quarter of 2003 and 40.0 percent for the second fiscal quarter of 2002. Gross margin was 35.3 percent for the six months ended April 27, 2003 compared to 39.3 percent for the six months ended April 28, 2002. The decrease in gross margin during the first six months of fiscal 2003 was mainly due to charges incurred from the refocused product development and cost reduction programs associated with the Plan.

Operating expenses included expenses related to research, development and engineering (RD&E), marketing and selling (M&S), general and administrative (G&A), and restructuring, asset impairments and other. Expenses related to RD&E, M&S and G&A were \$394 million for the second fiscal quarter of 2003, compared to \$408 million for the first fiscal quarter of 2003 and \$423 million for the second fiscal quarter of 2002. These expenses were \$802 million for the six months ended April 27, 2003, versus \$824 million for the comparable period of fiscal 2002. The reduction in these expenses was attributable to ongoing cost control measures and reduction of discretionary spending.

Operating expenses also included restructuring, asset impairments and other charges, which for the second fiscal quarter of 2003 totaled \$93 million. There were no such charges during the second fiscal quarter of fiscal 2002. Restructuring, asset impairments and other charges were \$192 million and \$85 million for the six months ended April 27, 2003 and April 28, 2002, respectively. These charges consisted of employee related costs and consolidation of facilities to better realign Applied's infrastructure with business conditions. For further details, see Note 7 of Notes to Consolidated Condensed Financial Statements.

Net interest income was \$34 million and \$26 million for the three months ended April 28, 2002 and April 27, 2003, respectively, and was \$71 million and \$50 million for the six months ended April 28, 2002 and April 27, 2003, respectively. Lower net interest income in 2003 was principally attributable to lower average interest rates.

Financial Condition, Liquidity and Capital Resources

During the second fiscal quarter of 2003, Applied increased its cash, cash equivalents and short-term investments by \$290 million from October 27, 2002 to \$5.22 billion at April 27, 2003. Applied generally has generated cash from operating activities, primarily from net income/loss, as adjusted to exclude the effect of non-cash charges, and working capital management. Applied has not undertaken any significant external financing activities for several years.

Applied generated cash from operating activities of \$401 million for the six months ended April 27, 2003. The primary sources of cash were from an effect of non-cash charges, such as depreciation and amortization expenses, reductions in accounts receivable and inventories, which were offset by a decrease in payables and the net loss for the six months ended April 27, 2003. Applied utilized programs to sell accounts receivable of \$294 million for the six months ended April 27, 2003. These receivable sales had the effect of increasing cash and reducing accounts receivable and days sales outstanding. Applied has not experienced any losses under

these programs. Days sales outstanding was 61 days at the end of the second fiscal quarter of 2003, compared to 77 days at the end of the first fiscal quarter of 2003. For further details regarding accounts receivable sales, see Note 3 of Notes to Consolidated Condensed Financial Statements. Inventories were reduced by \$159 million during the six months ended April 27, 2003, due primarily to product refocus efforts and ongoing inventory management and reduction programs.

Applied used \$232 million of cash for investing activities during the six months ended April 27, 2003. Capital expenditures, net of retirements, were \$101 million. The majority of capital expenditures consisted of the purchase of facilities in Hillsboro, Oregon for \$52 million that was previously held under a synthetic lease. The remainder of the capital spending consisted of expenditures for application laboratories, equipment and related facilities. Investing activities also included purchases and sales of short-term investments, which used \$131 million of cash.

Applied used \$27 million of cash for financing activities for the six months ended April 27, 2003, consisting of repayments of debt and repurchases of stock, offset by issuances of common stock under employee stock plans.

To date, Applied has not declared or paid cash dividends to its stockholders due to a number of factors, including the volatile nature of the semiconductor industry and Applied's intention to reinvest in its business.

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

Critical Accounting Policies

The preparation of 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. Please see the discussion of critical accounting policies in Applied's Annual Report on Form 10-K for the fiscal year ended October 27, 2002.

Trends, Risks and Uncertainties

The industry that Applied serves is highly volatile and unpredictable.

As a supplier to the semiconductor industry, Applied is subject to the business cycles that characterize the industry — the timing, length and volatility of these cycles are difficult to predict. The semiconductor industry has historically been cyclical because of sudden changes in demand for semiconductors and manufacturing capacity, including capacity utilizing the latest technology. The rate of changes in demand, including end demand, is accelerating, and the effect of these changes on Applied is occurring sooner, exacerbating the volatility of these cycles. These changes have affected the timing and amounts of customers' capital equipment purchases and investments in new technology, and continue to affect Applied's net sales, gross margin and results of operations. In addition to affecting Applied's customers and suppliers, these business cycles also challenge key management, engineering and other employees of Applied.

During periods of declining demand for semiconductor manufacturing equipment, customers typically reduce purchases, delay delivery of products and/or cancel orders. During downturns, Applied must be able to timely align its cost structure with prevailing market conditions, to successfully manage its assets, and to effectively motivate and retain key employees. Historically, Applied has reduced its workforce, consolidated facilities and reallocated resources during downturns.

The semiconductor equipment industry is currently experiencing a continued and prolonged downturn, which management believes is the most severe decline in history. In response to this downturn, Applied initiated the Plan announced on March 17, 2003 in order to better align its infrastructure with business conditions. If Applied is unable to implement the Plan according to the timetable and to the extent

anticipated, if implementation negatively affects Applied's net sales or profitability, or if Applied does not maintain cost controls that effectively align its costs with market conditions, Applied's business, financial condition or results of operations may be negatively affected. Management cannot predict the timing of a recovery and the industry's rate of growth in such a recovery, both of which will be affected by many factors, including the global uncertainties discussed herein.

During periods of rapid growth, Applied must be able to acquire and/or develop sufficient manufacturing capacity and inventory to meet customer demand, and to attract, hire, assimilate and retain a sufficient number of qualified people. If Applied is unable to achieve its objectives in a timely manner during changes in business conditions, there could be a material adverse effect on its business, financial condition and results of operations.

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

For the first half of fiscal 2003, approximately 70 percent of Applied's revenues resulted from sales outside the United States, with an increasing percentage of sales to customers in Asia. Certain manufacturing facilities and suppliers of Applied are also located outside the United States. Managing Applied's global operations presents challenges, including periodic regional economic downturns, trade balance issues, varying business conditions and demands, political instability, variations in enforcement of intellectual property and contract rights in different jurisdictions, differences in the ability to develop relationships with suppliers and other local businesses, changes in U.S. and international laws and regulations including U.S. export restrictions, fluctuations in interest and currency exchange rates, the ability to provide sufficient levels of technical support in different locations, cultural differences, shipping delays and terrorist acts or acts of war, among other risks. Many of these challenges are present in China, which represents a large potential market for semiconductor equipment and is where Applied anticipates significant opportunity for growth. Global uncertainties with respect to: 1) economic growth rates in various countries, including countries affected by Severe Acute Respiratory Syndrome (SARS); 2) sustainability of demand for electronics products; 3) capital spending by semiconductor manufacturers; 4) price weakness for certain semiconductor devices; and 5) political instability, terrorism, acts of war, or epidemics in regions where Applied has operations or sales, including Asia and Israel, may also affect Applied's business, financial condition and results of operations.

Applied operates in a highly competitive industry characterized by increasingly rapid technological changes.

While operating in a highly competitive environment, Applied's future success is heavily dependent upon effective development, commercialization and customer acceptance of its new products over those of its competitors. Specifically, these risks may include, but are not limited to, Applied's ability to timely and cost effectively: 1) develop new products, services and technologies, including those utilizing new materials, such as copper and low-k materials; 2) develop improvements to existing products, services and technologies; 3) develop new markets in the semiconductor industry for Applied's products and services; 4) introduce new products and services to the marketplace; 5) achieve market acceptance and accurately forecast product demand; 6) qualify new or improved products for volume manufacturing with its customers; 7) commence and adjust production to meet customer demands; and 8) price products and services appropriately. The development, introduction and support of an increasingly broad set of new or improved products and technologies, including those enabling the transition to smaller device feature sizes, new materials and 300mm wafers, grow increasingly complex and expensive over time. Such new or improved products may involve higher costs and reduced efficiencies compared to Applied's more established products and could adversely affect Applied's gross margins. If Applied does not develop and introduce new or improved products, services and technologies in a timely and cost-effective manner in response to changing market conditions or customer requirements, its competitive position, financial condition and results of operations could be materially and adversely affected.

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

The semiconductor industry is characterized by ongoing changes. More complex technology requirements, the changing information technology cost structure, the increasing significance of consumer electronics as a driver for chip demand and the related focus on lower prices, and the growing type and variety of chips and applications, have created challenges for Applied. These factors, along with the increasing segmentation of applications in the semiconductor industry and resulting greater differentiation of interests among semiconductor manufacturers, as well as an increasing percentage of business from customers in Asia, are increasing the need for customer partnering, collective research and development efforts and process integration support, and are driving the importance of spares and services as an expanding portion of semiconductor equipment suppliers' business. If Applied does not successfully manage the risks resulting from these changes, its business, financial condition and results of operation could be materially and adversely affected.

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

Applied's customer base is highly concentrated. Orders from a relatively limited number of semiconductor manufacturers have accounted for, and likely will continue to account for, a substantial portion of Applied's net sales, which may lead customers to demand pricing and other terms less favorable to Applied. In addition, sales to any single customer may vary significantly from quarter to quarter. If current customers delay, cancel or do not place orders, Applied may not be able to replace these orders with new orders. As Applied's products are configured to customer specifications, changing, rescheduling or canceling orders may result in significant and often non-recoverable costs. The resulting fluctuations in the amount of and terms of orders could have a material adverse effect on Applied's business, financial condition and results of operations.

Manufacturing interruptions or delays could affect Applied's ability to meet customer demand.

Applied's business depends on its ability to manufacture products that meet the rapidly changing demands of its customers. Applied's ability to manufacture depends in part on the timely delivery of parts, components, and subassemblies (collectively parts) from suppliers. Some key parts may be obtained only from a single supplier or a limited group of suppliers. In addition, Applied outsources certain manufacturing activities. Significant interruptions of manufacturing operations as a result of the failure or inability of suppliers to timely deliver quality parts, outsourcing difficulties, natural disasters (such as earthquakes or tornadoes), or other causes (such as information technology or infrastructure failures, regional economic downturns, political instability, terrorism, acts of war, or epidemics) could result in delayed product deliveries or manufacturing inefficiencies. Any or all of these factors could materially and adversely affect Applied's business, financial condition and results of operations.

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

Applied's success depends in large part on its ability to attract, retain and motivate key employees, including those in managerial, technical, marketing and support roles. Achieving this objective may be difficult due to global economic uncertainty, the current industry downturn, workforce reductions and changes in management. If Applied does not successfully attract, retain or motivate key employees, the Company's operating results and ability to capitalize on its opportunities may be adversely affected.

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

Applied is subject to various risks related to: 1) new, different, inconsistent or even conflicting laws, rules and regulations that may be enacted by legislative bodies and/or regulatory agencies in the regions in which Applied operates and with which Applied must comply; and 2) disagreements or disputes between national or regional regulatory agencies related to international trade.

For example, the World Trade Organization (WTO) has determined that the U.S. Foreign Sales Corporation (FSC) and Extraterritorial Income (ETI) exclusion constitute prohibited export subsidies warranting the possible imposition of trade sanctions on certain goods, including semiconductor manufacturing equipment. Applied has benefited from FSC and ETI tax provisions. The elimination of these tax benefits or

imposition of sanctions could materially and adversely affect Applied's financial condition and results of operations.

During fiscal 2002, Applied filed an application with the SEC for an exemptive order confirming that it is not subject to the Investment Company Act of 1940 (the Act), which requires companies primarily engaged in the business of investing in securities to comply with additional rules and regulations. Largely due to the industry downturn, Applied's ratios of investments to total assets and of interest income to net income have increased, resulting in the risk that Applied could be deemed to be covered by the Act. If the SEC does not grant the exemption, Applied may have to take other actions that could adversely affect its results of operations in order not to be subject to the Act.

Applied is subject to risks of non-compliance with environmental and safety regulations.

Applied is subject to environmental and safety regulations in connection with its business operations, including but not limited to regulations related to the development, manufacturing and use of its products. Failure or inability to comply with existing or future environmental and safety regulations could result in significant remediation liabilities, the imposition of fines and/or the suspension or termination of development, manufacturing or use of certain of its products, each of which could have a material adverse effect on Applied's business, financial condition and results of operations.

Applied is exposed to risks associated with acquisitions.

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

Applied is exposed to various risks related to legal proceedings or claims.

Applied currently is, and in the future may be, involved in legal proceedings or claims regarding patent infringement, intellectual property rights, antitrust, environmental regulations, securities, contracts, employment and other matters (see Part II below). In addition, from time to time, Applied receives notification from customers who believe that Applied owes them indemnification or other obligations related to infringement claims made against the customers by third parties. These legal proceedings and claims, whether with or without merit, are time-consuming and expensive to prosecute or defend and divert management's attention and resources. There can be no assurance regarding the outcome of current or future legal proceedings or claims. In addition, Applied's intellectual property rights may not provide significant competitive advantages if they are circumvented, invalidated or obsoleted by the rapid pace of technological change. Furthermore, the laws of other countries permit the protection of Applied's proprietary rights to varying extents, compared to U.S. laws. Applied's success is dependent in part upon the protection of its intellectual property rights. Infringement of Applied's rights by a third party could result in uncompensated lost market and revenue opportunities for Applied. If Applied is not able to resolve a claim, negotiate a settlement of the matter, obtain necessary licenses on commercially reasonable terms, and/or successfully prosecute or defend its position, Applied's business, financial condition and results of operations could be materially and adversely affected.

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

Applied purchases forward exchange and currency option contracts to hedge certain existing and anticipated foreign currency denominated transactions expected to occur during the next year. Gains and losses on these contracts are generally recognized in income when the related transactions being hedged are recognized. Because the effect of movements in currency exchange rates on forward exchange and currency

option contracts generally offsets the related effect on the underlying items being hedged, these financial instruments are not expected to subject Applied to risks that would otherwise result from changes in currency exchange rates. Net foreign currency gains and losses were not material for the three or six months ended April 27, 2003.

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

Item 4. *Controls and Procedures*

Based on their evaluation as of a date within 90 days of the filing date of this Quarterly Report on Form 10-Q, Applied's principal executive officer and principal financial officer have concluded that Applied's disclosure controls and procedures as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the Exchange Act) are effective to ensure that information required to be disclosed by Applied in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

There were no significant changes in Applied's internal controls or other factors that could significantly affect these controls subsequent to the date of their evaluation and up to the filing date of this Quarterly Report on Form 10-Q. Since there were no significant deficiencies or material weaknesses identified, no corrective actions were required.

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 are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

PART II.

OTHER INFORMATION

Item 1. *Legal Proceedings*

Novellus

On June 13, 1997, after Varian Associates, Inc. (Varian) failed to respond to requests by Applied to discuss certain patent issues, Applied filed a lawsuit against Varian captioned Applied Materials, Inc. v. Varian Associates, Inc. (case no. C-97-20523-RMW) in the United States District Court for the Northern District of California, alleging infringement of several of Applied's patents concerning PVD technology. On July 7, 1997, Applied amended that action to allege infringement of those same Applied PVD patents against Novellus Systems, Inc. (Novellus) and to add Novellus as a defendant, as a result of Novellus' acquisition of Varian's thin film systems PVD business. On June 23, 1997, Novellus filed a separate lawsuit against Applied captioned Novellus Systems, Inc. v. Applied Materials, Inc. (case no. C-97-20551-EAI) in the United States District Court for the Northern District of California, alleging infringement by Applied of several PVD technology patents that were formerly owned by Varian. Novellus seeks damages for past infringement, a permanent injunction, treble damages for willful infringement, pre-judgment interest and attorneys' fees. In September 2000, Applied and Varian settled their disputes, and on October 3, 2000, Applied's claims against Varian and Varian's claims and counterclaims against Applied were dismissed with prejudice with respect to the Inova system as it was made and sold as of May 7, 1997. The litigation with Novellus continues. Discovery has closed in the actions. The trial date of May 27, 2003 has been rescheduled to January 20, 2004. Applied believes it has meritorious claims and defenses and intends to pursue them vigorously.

Axcelis Technologies

On January 8, 2001, Axcelis Technologies, Inc. (Axcelis), formerly a subsidiary of Eaton Corporation, filed a lawsuit in the United States District Court for the District of Massachusetts, captioned Axcelis Technologies, Inc. v. Applied Materials, Inc. (case no. 01-10029 DPW). The lawsuit alleges that Applied infringes a patent concerning ion implantation owned by Axcelis. The complaint also alleges various Massachusetts state and common law tortious interference and unfair competition claims. Axcelis seeks a preliminary and permanent injunction, damages, costs and attorneys' fees. On April 12, 2001, Applied answered the complaint by denying all allegations and counterclaimed for declaratory judgment of invalidity and non-infringement, and violations of various unfair and deceptive trade practices laws. Applied seeks damages, a permanent injunction, costs and attorneys' fees. Fact and expert discovery have closed. On December 10, 2002, the Court issued a ruling interpreting the claims of the patent. Summary judgment motions have been filed and argued and are pending before the Court. The previously set trial date of May 27, 2003 has been rescheduled. Trial on infringement issues only is now scheduled to begin on June 16, 2003. Applied believes it has meritorious defenses and counterclaims to the action and intends to pursue them vigorously.

Linear Technology

On March 2, 2001, Linear Technology Corp. (LTC) filed a third party complaint against Applied in the United States District Court for the Eastern District of Texas, captioned Texas Instruments, Inc. v. Linear Technology Corp. v. Applied Materials, Inc. (case no. 2-01-CV4 (DF)). The complaint against Applied alleged that Applied is obligated to indemnify LTC and defend LTC for certain claims in the underlying patent infringement lawsuit brought by Texas Instruments, Inc. (TI) against LTC. The complaint also alleged claims for breach of contract, breach of warranty, and various unfair business practices. In the complaint, LTC alleged that, before LTC purchased certain equipment from Applied, Applied failed to disclose to LTC that TI previously had won a jury verdict against Hyundai Electronics Industries Co., Ltd. (Hyundai) for patent infringement based on Hyundai's use of certain semiconductor equipment including some Applied tools. LTC's Texas lawsuit against Applied sought indemnification and damages from Applied and an order requiring Applied to defend LTC in the underlying lawsuit with TI. On January 15, 2002, the Court granted TI's motion to sever Applied and the other third party defendants from the action and dismissed LTC's action

against Applied and the other third party defendants without prejudice. On March 12, 2002, LTC filed a complaint against Applied in the Superior Court for the County of Santa Clara, captioned Linear Technology Corp. v. Applied Materials, Inc., Novellus Systems, Inc. and Tokyo Electron Ltd., (case no. CV806004) alleging claims for breach of contract, fraud and deceit, negligent misrepresentation, suppression of fact, unfair competition, breach of warranty, express contractual indemnity, implied equitable indemnity and declaratory relief. On November 12, 2002, LTC filed an amended complaint in the Santa Clara action asserting essentially the same claims as in the original complaint but adding an additional assertion that LTC and TI have settled their litigation. In the amended complaint, LTC seeks damages, punitive damages, injunctive relief and restitution. LTC also seeks costs and attorneys' fees including costs and attorneys' fees for the TI litigation. LTC has also asserted similar claims against certain other semiconductor equipment manufacturers. Applied's motion to dismiss the amended complaint was granted in part. No trial date has been set. Applied believes that it has meritorious defenses and intends to pursue them vigorously.

Semitool

On June 11, 2001, Semitool, Inc. (Semitool) filed a lawsuit against Applied in the United States District Court for the Northern District of California, captioned Semitool, Inc. v. Applied Materials, Inc. (case no. CV-01-2277 CRB). The lawsuit alleged that Applied infringed a patent concerning seed repair and electroplating owned by Semitool. Semitool sought a preliminary and permanent injunction, damages, costs and attorneys' fees. On July 12, 2001, before Applied had answered the complaint, Semitool voluntarily dismissed its action against Applied in the Northern District of California. On the same day, Semitool filed a substantially identical action against Applied in the United States District Court for the District of Oregon captioned Semitool, Inc. v. Applied Materials, Inc. (case no. CV'01-1066 AS). On July 13, 2001, Applied filed a declaratory judgment action against Semitool in the Northern District of California captioned Applied Materials, Inc. v. Semitool, Inc. (case no. CV-01-2673 BZ). In that action, Applied seeks a declaration that Applied has not infringed the Semitool patent and that Semitool's patent is invalid and unenforceable. Applied also seeks costs and attorneys' fees. The California Court has ordered Applied's action against Semitool transferred to the District of Oregon. The actions are proceeding together in Oregon. Semitool has also asserted similar claims against certain other semiconductor equipment manufacturers. The Oregon Court has issued an order interpreting the patent claims and has rescheduled the trial date from June 30, 2003 to February 3, 2004. Applied believes it has meritorious claims and defenses and intends to pursue them vigorously.

David Scharf

On July 31, 2001, David Scharf, an individual, filed a lawsuit against Applied in the United States District Court for the Central District of California, captioned David Scharf v. Applied Materials, Inc. (case no. 01-06580 AHM). The lawsuit alleges that Applied has infringed, has induced others to infringe and has contributed to others' infringement of a patent concerning color synthesizing scanning electron microscope technology. Mr. Scharf seeks a preliminary and permanent injunction, damages and costs. Applied has answered the complaint and counterclaimed for declaratory judgment of non-infringement and invalidity. On May 10, 2002, Mr. Scharf filed a request for re-examination of his own patent. On June 26, 2002, the case was removed from the Court's active docket after the parties stipulated to stay the case pending the results of that re-examination. On July 11, 2002, Applied filed its own request for re-examination of Scharf's patent with the Patent and Trademark Office. Applied's request for re-examination was granted on September 19, 2002. Applied believes it has meritorious defenses and counterclaims and intends to pursue them vigorously.

ASMI

On August 27, 2002, ASM America, Inc. and ASM International, N.V. (collectively ASMI) filed a lawsuit against Applied in the United States District Court for the District of Arizona, captioned ASM America, Inc. and ASM International, N.V. v. Applied Materials, Inc. (case no. Civ'02 1660 PHX SMM). The lawsuit seeks a judicial declaration that ASMI does not infringe six patents belonging to Applied that relate to remote cleaning of CVD chambers and to deposition of silicon nitride. The suit also seeks a judicial

declaration that two of those six patents are invalid. On December 16, 2002, Applied responded to the complaint by denying the allegations and counterclaiming for infringement of two of the patents related to remote cleaning of CVD chambers. Applied seeks damages, a preliminary and permanent injunction, costs and attorneys' fees. Applied also moved to dismiss the complaint with respect to four of the patents and moved for a more definitive statement with respect to two of ASMI's causes of action. ASMI moved for summary judgment that it has not infringed the same four patents that are the subject of Applied's motion to dismiss. No trial date has been set. Applied believes it has meritorious defenses and counterclaims and intends to pursue them vigorously.

Varian Semiconductor Equipment Associates, Inc.

On September 13, 2002, Varian Semiconductor Equipment Associates, Inc. filed a demand for arbitration with the American Arbitration Association asserting that Applied Materials has breached a patent license agreement between Varian and Applied Materials dated January 1, 1992. Varian seeks to recover royalties, interest and attorneys' fees. The arbitration hearing on whether the products are covered by the license agreement has concluded. On May 2, 2003, the arbitration panel issued an interim decision finding that some, but not all, of the products at issue were subject to the agreement. The arbitration panel next will consider whether the asserted claims of the patents under which those products were found to be covered are valid. Applied Materials believes that it has meritorious defenses and intends to pursue them vigorously.

Robert Bosch GmbH

On October 10, 2002, Robert Bosch GmbH (Bosch), a German company, filed a lawsuit against Applied in the United States District Court for the District of Delaware, captioned Robert Bosch GmbH v. Applied Materials, Inc. (civil action no. 02-1523). The lawsuit alleges that Applied infringes two patents owned by Bosch related to anisotropic etching. Bosch seeks a preliminary and permanent injunction, damages, costs and attorneys' fees. Applied has answered the complaint and counterclaimed for declaratory judgment of non-infringement and invalidity. No trial date has been set. Applied believes it has meritorious defenses and intends to pursue them vigorously.

From time to time, Applied receives notification from customers claiming that such customers are entitled to indemnification or other obligations from Applied related to infringement claims made against the customers by third parties. In addition, Applied is subject to various other legal proceedings and claims, either asserted or unasserted, that arise in the ordinary course of business. Although the outcome of these claims cannot be predicted with certainty, Applied does not believe that any of these other existing legal matters will have a material adverse effect on its financial condition or results of operations.

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

The Annual Meeting of Stockholders was held on March 20, 2003 in Santa Clara, California. Ten incumbent directors were re-elected without opposition to serve one-year terms in office. The results of this election were as follows:

Name of Director	Votes For (Shares)	Votes Withheld (Shares)
James C. Morgan	1,443,683,692	28,299,801
Dan Maydan	1,449,437,834	22,545,659
Michael H. Armacost	1,404,741,883	67,241,610
Deborah A. Coleman	1,403,535,353	68,448,140
Herbert M. Dwight, Jr.	1,415,522,011	56,461,482
Philip V. Gerdine	1,405,391,456	66,592,037
Paul R. Low	1,415,456,048	56,527,445
Steven L. Miller	1,364,395,636	107,587,857
Gerhard H. Parker	1,406,790,629	65,192,864
Stan Shih	1,406,240,814	65,742,679

Item 5. Other Information

1. Earnings/ Loss to Fixed Charges

The ratio of earnings/(loss) to fixed charges for the six months ended April 28, 2002 and April 27, 2003, and for each of the last five fiscal years, was as follows:

Fiscal Year					Six Months Ended	
1998	1999	2000	2001	2002	April 28, 2002	April 27, 2003
7.56x	14.03x	32.82x	11.80x	4.58x	1.23x	(1.66)x

2. Other Matters

On April 30, 2003, Applied announced the appointment of Michael R. Splinter as president, chief executive officer (CEO) and a member of its Board of Directors. As CEO, Mr. Splinter succeeded James C. Morgan, who will continue as chairman of the Board of Directors, and as president, he succeeded Dan Maydan, who will be president emeritus and remain a member of the Board of Directors. Before joining Applied, Mr. Splinter worked for nearly 20 years at Intel Corporation, where most recently, he was executive vice president and director of the Sales and Marketing Group.

Item 6. Exhibits and Reports on Form 8-K

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

Exhibit No.	Description
10.1	Applied Materials, Inc. Stock Purchase Plan for Offshore Employees, as amended on April 16, 2002
10.2	Term Sheet for employment of Michael R. Splinter
10.3	Restricted Stock Agreement for Michael R. Splinter
10.4	Program for Accounts Receivable Transfer Agreement dated April 9, 2003 between Applied Materials, Inc. and Bank of America, N.A.*
99.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Confidential treatment has been requested with respect to portions of this exhibit.

b) Reports on Form 8-K:

1. A Report on Form 8-K was furnished on January 31, 2003. The report contained information announcing Applied Materials, Inc.'s press release issued on January 31, 2003.

2. A Report on Form 8-K was furnished on March 17, 2003. The report contained information announcing Applied Materials, Inc.'s press release issued on March 17, 2003.

SIGNATURES

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

APPLIED MATERIALS, INC.

June 11, 2003

By: /s/ JOSEPH R. BRONSON

Joseph R. Bronson
*Executive Vice President
and Chief Financial Officer
(Principal Financial Officer)*

By: /s/ NANCY H. HANDEL

Nancy H. Handel
*Group Vice President,
Deputy Chief Financial Officer
and Corporate Controller
(Principal Accounting Officer)*

APPLIED MATERIALS, INC.

SARBANES-OXLEY ACT SECTION 302(a) CERTIFICATION

I, Michael R. Splinter, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ MICHAEL R. SPLINTER

Michael R. Splinter
*President and
Chief Executive Officer*

Date: June 11, 2003

I, Joseph R. Bronson, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ JOSEPH R. BRONSON

Joseph R. Bronson
*Executive Vice President
and Chief Financial Officer*

Date: June 11, 2003

EXHIBIT INDEX

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APPLIED MATERIALS, INC.
STOCK PURCHASE PLAN
FOR OFFSHORE EMPLOYEES
(AS AMENDED THROUGH APRIL 16, 2002)

1. ESTABLISHMENT; PURPOSE

Effective as of October 16, 1995, the Corporation hereby establishes the Applied Materials, Inc. Employees' Stock Purchase Plan for Offshore Employees on the following terms and conditions. The Plan is intended to encourage ownership of Common Stock of the Corporation by selected Offshore Employees of Affiliates of the Company ("Eligible Employees") and to provide incentives for them to exert maximum efforts for the success of the Corporation. By extending to Eligible Employees the opportunity to acquire proprietary interests in the Corporation and to participate in its success, the Plan may be expected to benefit the Corporation and its shareholders by making it possible to attract and retain qualified employees.

2. DEFINITIONS

The following words and phrases shall have the following meanings unless a different meaning is plainly required by the context:

2.1 "Affiliate" means any direct or indirect subsidiary of the Corporation which has been designated by the Board as a corporation employees of which may participate in the Plan.

2.2 "Board" means the Board of Directors of the Corporation, as from time to time constituted.

2.3 "Common Stock" means the common stock of the Corporation.

2.4 "Corporation" means Applied Materials, Inc., a Delaware Corporation.

2.5 "Eligible Employee" means any Offshore Employee eligible to participate in the Plan in accordance with Section 5.

2.6 "Grant Date" means that date specified by the Board of the Committee for the granting of options in an Offering under the Plan.

2.7 "Offshore Employee" means a natural person employed by an Affiliate who is neither a U.S. citizen nor a U.S. resident for U.S. tax purposes.

2.8 "Option" means an option to acquire Common Stock under the terms of this Plan.

2.9 "Participating Employee" means, with respect to each Offering under the Plan, any Eligible Employee who has elected to participate in accordance with Section 7.

2.10 "Plan" means this Stock Purchase Plan for Offshore Employees as amended from time to time.

2.11 "Plan Administrator" means the employee or employees of the Corporation selected by the Board or the Committee (if authorized by the Board under Section 4.3) to perform certain ministerial duties in the administration of the Plan.

3. STOCK SUBJECT TO THE PLAN

No more than 12,800,000 shares of Common Stock may be issued upon the exercise of Options granted under the Plan, subject to adjustments as provided in Section 9, which may be unissued shares, reacquired shares, or shares brought on the market. If any Option which shall have been granted shall expire or terminate for any reason without having been exercised in full, the unpurchased shares shall again become available for purposes of the Plan (unless the Plan shall have been terminated).

4. ADMINISTRATION

4.1 The Plan shall be administered by the Board except to the extent that the Board shall delegate responsibility for the administration of the Plan as stated in Section 4.3.

4.2 The Board shall have the plenary power, subject to and within the limits of the express provisions of the Plan:

(a) To construe and interpret the Plan and Options granted under it, and to establish, amend and revoke rules and regulations for its administration. The Board, in the exercise of this power, shall generally determine all questions of policy and expediency that may arise, and may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any instrument associated with the Plan, in such manner and to such extent as the Board shall deem necessary to make the Plan fully effective.

(b) To establish the terms of each Offering of Common Stock under the Plan.

4.3 The Board, by resolution, may delegate responsibility for the administration of the Plan or any part thereof, to a committee (the "Committee") composed of members of the Board. The Board may from time to time remove members from, or add members to, the Committee. Vacancies on the Committee, howsoever caused, shall be filled by the Board. To the extent that responsibility for the administration of the Plan is delegated to the Committee, the Committee shall have the powers theretofore possessed by the Board, and to the extent that the Committee has been authorized to act, all references in this Plan to the Board shall include the Committee, subject, however, to such resolutions, not inconsistent with the provisions of the Plan, as, from time to time, may be adopted by the Board. The Board at any time, by resolution, may revoke such delegation and re-vest in the Board all or any part of the responsibility for the administration of the Plan.

4.4 The Board or Committee (if authorized by the Board) may delegate to the Plan Administrator the responsibility to perform certain ministerial duties in the administration of the Plan as are specified in the Plan. To the extent that the Board or Committee has not delegated such duties to the Plan Administrator, all references in this Plan to Plan Administrator shall include Board or Committee, as appropriate.

5. ELIGIBILITY

The Committee shall designate the Eligible Employees who shall be eligible to participate in any Offering under the Plan.

6. OFFERINGS

During the term of the Plan, the Corporation will make one or more Offerings ("Offering") in which Options to purchase Common Stock will be granted to Eligible Employees under the Plan. The terms and conditions of Options to be granted in any such Offering will be determined by the Board under Section 7. In connection with any Offering, if the number of shares for which Eligible Employees elect to participate shall be greater than the shares remaining available, the available shares shall, at the end of the Offering Period, be allocated among the Participating Employees pro rata on the basis of the number of shares for which each has elected to participate.

7. TERMS AND CONDITIONS OF OPTIONS

7.1 Subject to the limitations herein contained, the Board shall determine the terms of Options in each Offering all of which shall be granted on the same date (the "Grant Date").

7.2 The Option price per share for each Offering shall be as determined by the Board.

7.3 The expiration date of the Options granted under each Offering shall be determined by the Board on or prior to the Grant Date for such Offering.

7.4 All Eligible Employees to whom Options are granted shall be entitled to purchase the number of full shares as shall be established by the Board at the Grant Date. Each eligible Employee may elect to participate for less than the maximum number of shares which he or she is entitled to purchase under his or her Option. If an Eligible Employee elects to participate for less than the maximum number of shares which he or she is entitled to purchase, his or her Option shall at that time terminate and become void to the extent of the number of shares for which he or she does not elect to participate.

7.5 Each Eligible Employee who desires to participate in an Offering shall elect to do so by completing and delivering to the Plan Administrator or a person designated by the Plan Administrator in a timely fashion such form or forms as may be prescribed by the Board.

7.6 A Participating Employee shall exercise his or her Option by delivering notice of exercise to the Plan Administration or a person designated by the Plan Administrator at such time and in such form and manner as the Board shall prescribe.

7.7 Upon exercise of an Option, full payment for the shares subject to the Option shall be made in such form or manner as the Board shall fix.

7.8 The Board may (but is not required to) establish on such terms and conditions as it shall determine a payroll deduction system for the purchase of shares covered by the Options hereunder. If there are payroll deductions under any Offering, the Corporation or an Affiliate shall maintain a payroll deduction account for each Participating Employee. The Board may (but is not required to) provide for interest at such rate as the Board shall determine to be credited to the payroll deduction accounts.

7.9 The Board shall establish rules, terms and conditions for each Offering governing the exercise of outstanding Options in the event of a Participating Employee's termination of employment or change in employment status.

7.10 The Corporation will seek to obtain from each regulatory committee or agency having jurisdiction such authority as may be required to issue and sell shares of Common Stock to satisfy Options granted under the Plan. Inability of the Corporation to obtain from any such regulatory commission or agency authority which counsel for the Corporation deems necessary for the lawful issuance and sale of its Common Stock to satisfy Options granted under the Plan, shall relieve the Corporation from any liability for failure to issue and sell Common Stock to satisfy such Options pending the time when such authority is obtained or is obtainable.

7.11 Neither an Eligible Employee to whom an Option is granted under the Plan nor his or her transferee shall have any rights as a stockholder with respect to any shares covered by his or her Option until the date of the issuance of a stock certificate to him for such shares.

7.12 Options granted under the Plan shall not be transferable, except by will or by the laws of descent and distribution, and may be exercised during the lifetime of a Participating Employee only by him.

7.13 Each Option granted under the Plan shall be evidenced by such instrument or documentation, if any, as the Board shall establish, which shall be dated the Grant Date and shall comply with and be subject to the terms and conditions of the Plan.

7.14 Nothing in the Plan or in any Option granted under the Plan shall confer on any Participating Employee any right to continue in the employ of the Corporation or any of its Affiliates or to interfere in any way with the right of the Corporation or any of its Affiliates to terminate his or her employment at any time.

8. FUNDS

Any amounts held by any Affiliate in payroll deduction accounts under the Plan may be used for any corporate purpose of the Affiliate.

9. ADJUSTMENT IN NUMBER OF SHARES AND IN OPTION PRICE

In the event there is any change in the Common Stock through declarations of stock dividends or stock split-ups, recapitalizations resulting in stock split-ups, or combinations or exchanges of shares, or otherwise, appropriate adjustments in the number of shares available for Option, as well as the shares subject to any Option and the Option price thereof, shall be made, provided that no fractional shares shall be subject to an Option and each Option shall be adjusted down to the nearest full share.

10. AMENDMENT OF THE PLAN

The Board at any time, and from time to time, may amend the Plan, provided, however, the rights and obligations under the Option granted before an amendment of the Plan is made effective shall not be altered or impaired by the amendment without the consent of the Eligible Employee to whom the Option was granted or the person to whom rights under the Option shall have passed by will or by the laws of descent and distribution.

11. TERMINATION OR SUSPENSION OF THE PLAN

The Board may at any time suspend or terminate the Plan. No Offering shall be made under the Plan while it is suspended or after it is terminated.

12. EXECUTION

IN WITNESS WHEREOF, Applied Materials, Inc., by its duly authorized officer, has executed the Plan on the date indicated below.

APPLIED MATERIALS, INC.

Dated: _____

By _____
Title: _____

TERM SHEET
APRIL 21, 2003

- 1. POSITION. President and Chief Executive Officer, reporting to the Board of Directors.
- 2. START DATE. As soon as possible, but no later than May 1, 2003.
- 3. BOARD MEMBERSHIP. You will be elected a member of the Board of Directors effective on your start date. No additional compensation will be paid for Board service. You agree to resign from the Board upon termination of employment, unless requested to continue.
- 4. BASE SALARY. Base Salary in the amount of \$900,000. Base salary will be subject to annual review.
- 5. INCENTIVE BONUS. Annual Target Bonus of 175% of base salary multiplied by a revenue factor and a PAT factor, the same as the senior executive bonus plan. Bonuses are based on fiscal year performance and paid in December based on the achievement of performance objectives determined by the Board each year as part of the senior executive bonus formula. For 2003 your bonus will be pro-rated, based on the number of days you are employed prior to fiscal year end.
- 6. STOCK OPTIONS. You will be granted an Option to purchase 1,200,000 shares of the Company's Common Stock upon Committee approval. The option will have an exercise price equal to the fair market value of the Company's Common Stock on the grant date. These options shall vest 25% on July 15, 2004 and 25% on July 15 of each of the next 3 years. The options will have a ten-year term. The remaining terms of the grant will be governed by the terms of the Company's Stock Option Plan and the standard form option agreement.
- 7. "MAKE WHOLE" COMPENSATION. Company recognizes that you would be foregoing a substantial amount of unvested "in the money" stock option value by leaving your present employer to join Applied Materials. This amount is estimated to be approximately \$3,000,000. In an effort to address this issue we will provide you with a Restricted Stock Grant of 300,000 shares of the Company's Common Stock vesting 50% on October 1, 2003 and 50% on October 1, 2004.
- 8. BENEFITS. You will be entitled to participate in all employee benefit plans or programs of the Company, generally available to any of its senior level executive employees. Details of these programs will be provided separately. You will also be eligible for relocation benefits in accordance with Company policy and applicable laws.
- 9. TERMINATION COMPENSATION. For termination other than for cause you will receive a payment equal to one year of your then current base salary and 100% of the target bonus compensation for that year. You will also be allowed to exercise all stock options vesting within one year from date of termination.

If the provisions covered by this term sheet are acceptable, please indicate your acceptance by signing and dating this document. The Board of Directors will review for approval as soon as possible.

For: Applied Materials, Inc.

Accepted: /s/ MICHAEL R. SPLINTER

By: /s/ JAMES C. MORGAN

Date: April 21, 2003

Date: April 21, 2003

APPLIED MATERIALS, INC.

RESTRICTED STOCK AGREEMENT

Applied Materials, Inc. (the "Company") hereby grants you, Michael R. Splinter (the "Employee"), a grant of restricted stock. The date of this Agreement is May 20, 2003. Subject to the provisions of Appendix A (attached), the principal features of this grant are as follows:

NUMBER OF SHARES OF RESTRICTED STOCK: 300,000 PURCHASE PRICE PER SHARE: US \$0.01

SCHEDULED VESTING DATES/PERIOD OF RESTRICTION: -----	NUMBER OF SHARES -----
October 1, 2003	150,000
October 1, 2004	150,000

IMPORTANT:

Your signature below indicates your agreement and understanding that this grant is subject to all of the terms and conditions contained in Appendix A. For example, important additional information on vesting and forfeiture of the Shares covered by this grant is contained in Paragraphs 4 through 6 of Appendix A. PLEASE BE SURE TO READ ALL OF APPENDIX A, WHICH CONTAINS THE SPECIFIC TERMS AND CONDITIONS OF THIS AGREEMENT.

APPLIED MATERIALS, INC.

EMPLOYEE

/s/ JAMES C. MORGAN

/s/ MICHAEL R. SPLINTER

James C. Morgan,
 Chairman of the Board of Directors

Michael R. Splinter

Date: May 20, 2003

Date: May 20, 2003

APPENDIX A - TERMS AND CONDITIONS OF RESTRICTED STOCK GRANT

1. Definitions. As used herein, the following definitions will apply:

(a) "Affiliate" means any corporation or any other entity (including, but not limited to, partnerships and joint ventures) controlling, controlled by, or under common control with the Company.

(b) "Board" means the Board of Directors of the Company.

(c) "Committee" means the Human Resources and Compensation Committee of the Board.

(d) "Common Stock" means the Common Stock of the Company.

(e) "Restricted Stock" means the Shares issued to the Employee pursuant to this Agreement.

(f) "Shares" means shares of Common Stock.

2. Grant. The Company hereby grants to the Employee the right to purchase 300,000 Shares of Restricted Stock for \$0.01 per Share, subject to all of the terms and conditions in this Agreement. The Employee has until May 30, 2003 to make such purchase after which date he will have no further right to purchase the Shares of Restricted Stock under this Agreement.

3. Shares Held in Escrow. Unless and until the Shares of Restricted Stock will have vested in the manner set forth in paragraphs 4 or 5, such Shares will be issued in the name of the Employee and held by the Secretary of the Company as escrow agent (the "Escrow Agent"), and will not be sold, transferred or otherwise disposed of, and will not be pledged or otherwise hypothecated. The Company may instruct the transfer agent for its Common Stock to place a legend on the certificates representing the Restricted Stock or otherwise note its records as to the restrictions on transfer set forth in this Agreement. The certificate or certificates representing such Shares will not be delivered by the Escrow Agent to the Employee unless and until the Shares have vested and all other terms and conditions in this Agreement have been satisfied.

4. Vesting Schedule. Except as provided in Section 5, and subject to Section 6, 150,000 Shares subject to this grant will vest on October 1, 2003 and the remaining 150,000 Shares subject to this grant will vest on October 1, 2004. Vesting actually will occur only if the Company or an Affiliate employs the Employee through the applicable vesting date.

5. Committee Discretion. The Committee, in its discretion, may accelerate the vesting of the balance, or some lesser portion of the balance, of the unvested Shares of Restricted Stock at any time. If so accelerated, such Shares will be considered as having vested as of the date specified by the Committee.

6. Forfeiture. Notwithstanding any contrary provision of this Agreement, the balance of the Shares of Restricted Stock that have not vested pursuant to paragraphs 4 or 5 will thereupon be forfeited and automatically transferred to and reacquired by the Company at no cost to the Company upon the date the Employee's employment with the Company or an Affiliate terminates for any reason. The Employee will not be entitled to a refund of the price paid for any Shares returned to the Company pursuant to this paragraph 6. The Employee hereby appoints the Escrow Agent with full power of substitution, as the Employee's true and lawful attorney-in-fact with irrevocable power and authority in the name and on behalf of the Employee to take any action and execute all documents and instruments, including, without limitation, stock powers which may be necessary to transfer the certificate or certificates evidencing such unvested Shares to the Company upon such violation.

7. Death of Employee. Any distribution or delivery to be made to the Employee under this Agreement will, if the Employee is then deceased, be made to the Employee's designated beneficiary, or if no beneficiary survives the Employee, to the administrator or executor of the Employee's estate. Any such transferee must furnish the Company with (a) written notice of his or her status as transferee, and (b) evidence satisfactory to the Company to establish the validity of the transfer and compliance with any laws or regulations pertaining to said transfer.

8. Withholding of Taxes. Notwithstanding any contrary provision of this Agreement, no certificate representing the Shares may be released from the escrow established pursuant to paragraph 3 unless and until satisfactory arrangements (as determined by the Committee) will have been made by the Employee with respect to the payment of income and employment taxes which the Company determines must be withheld with respect to such Shares. The Committee, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit the Employee to satisfy such tax withholding obligation, in whole or in part by (a) electing to have the Company withhold otherwise deliverable Shares of Restricted Stock, or (b) delivering to the Company already vested and owned Shares having a fair market value equal to the minimum amount required to be withheld.

9. Rights as Stockholder. Neither the Employee nor any person claiming under or through the Employee will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the Employee or the Escrow Agent. Except as provided in Section 11, after such issuance, recordation and delivery, the Employee will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares.

10. No Effect on Employment. The Employee's employment with the Company and its Affiliates is on an at-will basis only. Accordingly, the terms of the Employee's employment with the Company and its Affiliates will be determined from time to time by the Company or the Affiliate employing the Employee (as the case may be), and the Company or the Affiliate will have the right, which is hereby expressly reserved, to terminate or change the terms of the employment of the Employee at any time for any reason whatsoever, with or without good cause.

11. Changes in Shares. In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, split-up, Share combination, or other change in the corporate structure of the Company affecting the Shares, the Shares will be increased, reduced or otherwise changed, and by virtue of any such change the Employee will in his capacity as owner of unvested Shares of Restricted Stock that have been awarded to him (the "Prior Shares") be entitled to new or additional or different shares of stock, cash or securities (other than rights or warrants to purchase securities); such new or additional or different shares, cash or securities will thereupon be considered to be unvested Restricted Stock and will be subject to all of the conditions and restrictions which were applicable to the Prior Shares pursuant to this Agreement. If the Employee receives rights or warrants with respect to any Prior Shares, such rights or warrants may be held or exercised by the Employee, provided that until such exercise any such rights or warrants and after such exercise any shares or other securities acquired by the exercise of such rights or warrants will be considered to be unvested Restricted Stock and will be subject to all of the conditions and restrictions which were applicable to the Prior Shares pursuant to this Agreement. The Committee in its absolute discretion at any time may accelerate the vesting of all or any portion of such new or additional shares of stock, cash or securities, rights or warrants to purchase securities or shares or other securities acquired by the exercise of such rights or warrants.

12. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company, in care of Secretary of the Company, at Applied Materials, Inc., 2881 Scott Blvd., M/S 2064, Santa Clara, CA 95050, or at such other address as the Company may hereafter designate in writing.

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

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

15. Additional Conditions to Release from Escrow. If at any time the Company will determine, in its discretion, that the listing, registration or qualification of the Shares of Restricted Stock upon any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory authority is necessary or desirable as a condition to the release of such Shares from the escrow established pursuant to paragraph 3, such release will not occur unless and until such listing, registration, qualification, consent or approval will have been effected or obtained free of any conditions not acceptable to the Company. The Company will make all reasonable efforts to meet the requirements of any such state or federal law or securities exchange and to obtain any such consent or approval of any such governmental authority.

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

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

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

19. Modifications to the Agreement. This Agreement constitutes the entire understanding of the parties on the subjects covered. The Employee expressly warrants that he is not accepting this Agreement in reliance on any promises, representations, or inducements other than those contained herein. Modifications to this Agreement can be made only in an express written contract executed by a duly authorized officer of the Company.

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

21. Additional Actions. The parties will execute such further instruments and take such further action as may reasonably be necessary to carry out the intent of this Agreement.

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PROGRAM FOR ACCOUNTS RECEIVABLE TRANSFER AGREEMENT

THIS PROGRAM FOR ACCOUNTS RECEIVABLE TRANSFER AGREEMENT is made this 9th day of April, 2003 between BANK OF AMERICA, N.A. (together with any successor, "BofA") and APPLIED MATERIALS, INC., a Delaware corporation ("Client").

Recitals

Client from time to time will own accounts receivable resulting from Client's, or Client's wholly-owned subsidiaries', sale of products or services. Client wishes to sell certain accounts receivable to BofA in accordance with the terms hereof. For purposes hereof, terms defined in Annex I hereto shall have the respective meanings assigned therein.

Therefore, for good and valuable consideration, the parties agree as follows:

1. Purchase of Receivables.

(a) In connection with the execution and delivery of this Agreement, Client shall sell to BofA Receivables owned by Client, and BofA shall purchase such Receivables from Client, on the terms set forth herein and on the initial Schedule A hereto (such Schedule A and each other Schedule A hereto being incorporated herein by reference). After the date hereof, Client may from time to time (x) seek the right to sell to BofA other Receivables owned by Client and (y) submit a proposed related Schedule A, in form and substance satisfactory to BofA, executed by Client. Within 5 days after the initial tender of Receivables in connection with any proposed Schedule A, BofA shall notify Client if BofA wishes to accept the proposed Schedule A and purchase any or all of such Receivables. The purchase of any such Receivables by BofA shall be made pursuant to the terms hereof.

All Purchased Receivables shall be evidenced by invoices (in electronic or paper form), which invoices shall comport with the following as specified on the relevant Schedule A: (i) the tenors of the Minimum Invoice Tenor Period and Maximum Invoice Tenor Period, (ii) the Minimum Invoice Amount, and (iii) no grace period related thereto shall exceed the Past Due Grace Period. Without limiting the other terms of this Agreement, BofA's purchase of Receivables of an Approved Account Debtor shall be subject to the following conditions: (A) Client shall submit an executed Schedule A relating to such Receivables, which shall contain the relevant terms and conditions with respect thereto, (B) BofA shall sign such Schedule A and return it to Client, (C) the aggregate amount of such Receivables being purchased shall be equal to the relevant Required Amount, (D) the relevant Schedule A shall contain the Effective Date. All Receivables purchased by BofA shall be purchased on a non-recourse basis (other than with respect to the limited repurchase obligations provided herein). It is the express intention of the parties to this Agreement that the purchase of Receivables hereunder shall be, and shall be construed as, a true sale of such Receivables by Client to BofA. Client acknowledges that the representations and warranties made herein (including without limitation in Section 4) are a material inducement of BofA's purchase of the Receivables to be purchased hereunder.

On or prior to the date hereof, Client shall have furnished to BofA such authorizing corporate resolutions, corporate organizational documents and legal opinions (covering, at a minimum, (x) due authorization, execution and delivery, (y) enforceability and perfection and (z) true sale) as BofA may request.

(b) The parties agree as follows with respect to Receivables that are being purchased by BofA pursuant to Schedule A-1 and that BofA elects to purchase in connection with any other executed Schedule A submitted by Client to BofA:

(1) The purchase price (the "Purchase Price") for each Receivable purchased shall be the percentage of the face value thereof as set forth on the relevant Schedule A with respect to such Receivable.

(2) The parties shall consummate Client's sale of the subject Receivables as promptly as practicable after BofA's election to purchase such Receivables. The parties shall take the following actions to effect each such purchase and sale:

(i) On each Effective Date, BofA shall pay Client an amount equal to the aggregate Purchase Price for the Receivables to be purchased on such date, which shall be wired to the following account: Bank: Mellon Bank N.A.; ABA: 043000261; Acct. No.: 020-8830; For: Applied Materials, Inc..

(ii) With respect to all Remittances of cash required to be paid over to BofA pursuant to Section 1(b)(4), Client shall make such payment in the form of a wire transfer to the following account: Bank: Bank of America, N.A., New York, NY; ABA: 026 009 593; Account No.: 6550-219386; For: Rate Derivative Settlements - Attn: Chuck Linton.

(iii) Client shall execute and deliver to BofA an assignment of or schedule of accounts with respect to (or both) each Receivable to be purchased in such form as BofA may require. In addition, Client shall deliver to BofA with respect to the Receivables to be purchased: (aa) if requested by BofA, a copy of the purchase order signed by the applicable Account Debtor; (bb) if requested by BofA, a valid invoice in the form currently used by Client with regard to the subject Receivables with evidence of shipment of goods in accordance with any applicable purchase order; and (cc) such other documents and certificates as BofA may reasonably request.

(3) From and after Client's sale and BofA's purchase of any Receivable, BofA shall (i) have exclusive control and shall be entitled to collect and receive all amounts payable under the Purchased Receivable and (ii) have a first claim to any rights under a policy of insurance relating to the Purchased Receivable. BofA shall from and after such time be vested with all of Client's rights in the Purchased Receivable including without limitation: (i) Client's right of replevin and reclamation with respect to the merchandise underlying the Purchased Receivable; and (ii) subject only to the rights assigned to Servicer under Section 6, Client's right to extend the time for payment under, or make any compromise, adjustment or modification with respect to, the Purchased Receivable. Without limiting the foregoing, Client hereby assigns to BofA all rights of Client under each Contract underlying a Purchased Receivable relating to the collectibility of payments thereunder, security interests and other liens created in connection therewith and the enforcement thereof, but BofA does not and shall not thereby assume any obligations of Client under any such Contract. Notwithstanding the foregoing, (i) Client shall perform all of its obligations (if any) pursuant to any contract or agreement relating to any Purchased Receivables to the same extent as if such Purchased Receivables had not been transferred hereunder (and the exercise by BofA of its rights hereunder shall not relieve Client from such obligations), (ii) Client shall pay when due any taxes payable by Client under applicable law, including any sales taxes payable in connection with Purchased Receivables and their creation and satisfaction, and (iii) BofA shall not have any obligation or liability with respect to any Purchased Receivable or any security or document or agreement related thereto, nor shall BofA be obligated to perform any of the obligations of Client or any Account Debtor

under any of the foregoing.

(4) All amounts received by Client with respect to Purchased Receivables shall be tracked (separately from amounts received by Client on Receivables of the same Account Debtor that do not constitute Purchased Receivables) and held in trust by Client for BofA, and Client (or Servicer, if different from Client) will deliver to BofA all amounts received with respect to Purchased Receivables (collectively, "Remittances"). BofA assumes no responsibility in the acceptance of checks or other forms of exchange in payment of the Purchased Receivables. Irrespective of whether or not a Termination Date has occurred, Client and/or Servicer will use commercially reasonable efforts to remit promptly to BofA all Remittances received on, or on account of, Purchased Receivables, but in no event later than 10 days after receipt.

(5) BofA shall not be obligated to purchase any Receivable hereunder unless and until: (i) BofA accepts the Receivable for sale in accordance with the terms hereof; and (ii) all other terms and conditions set forth herein with respect to such purchase shall have been satisfied. BofA's purchase of any Receivable or Receivables on one occasion shall not obligate BofA to purchase any other Receivable on any future occasion.

(6) All invoices relating to the Receivables to be purchased shall be in a form substantially similar to the form of invoice with respect to such Receivables initially reviewed and approved by BofA prior to the relevant Effective Date (or in such other form as BofA may from time to time approve).

(7) If an Approved Account Debtor, after receiving and accepting goods or services rendered (subject to all representations and warranties herein), has failed to pay a Purchased Receivable solely because of such Account Debtor's Financial Inability To Pay, BofA shall bear any loss thereon. If nonpayment is due to any other reason, however, each affected Purchased Receivable shall be subject to repurchase as provided in Section 9(a). Specifically, a Receivable shall be required to be repurchased by Client (i) if nonpayment is because of the assertion of any claim or dispute by an Account Debtor based on or arising out of its commercial dealings or transactions with Client, including without limitation, disputes, denial of a claim, lack of adequate delivery, quantity, quality, or other deficiency relating to the goods and services, or the exercise of any counterclaim or offset (whether or not such claim, dispute, counterclaim or offset relates to the specific Purchased Receivable), which claim, dispute, counterclaim or offset has resulted or in Client's good faith opinion is reasonably likely to result in a reduction of the amount receivable in respect of such Purchased Receivable, or (ii) if any representation or warranty made by Client to BofA with respect to such Purchased Receivable has been breached.

(c) The sale or other transfer or conveyance of Purchased Receivables do not create, nor are they intended to create, an assumption by BofA of any of Client's obligations in connection with such Receivables or any agreement or instrument relating thereto, including, without limitation, any obligation to any Account Debtor. Notwithstanding the foregoing, it is the further intention of the parties to this Agreement that, if a court of competent jurisdiction were to determine that such transfer of Purchased Receivables is not a sale, such transfer shall be deemed a grant of a first priority security interest in such Purchased Receivables to secure a debt (Client's return to BofA of the Purchase Price paid by BofA for the Purchased Receivables) or any of Client's obligations to BofA under this Agreement.

2. Term.

(a) The Client may, upon 60 days written notice to BofA, terminate this Agreement whereupon BofA shall have no further obligation to purchase, and Client shall have no further

obligation to sell any Receivable hereunder (but this Agreement shall remain effective as to Receivables purchased prior to such termination date).

(b) With respect to any Purchased Receivable, all Remittances in respect thereof shall be paid to BofA in accordance with the terms of Section 1(b)(4).

3. [INTENTIONALLY OMITTED.]

4. Representations and Warranties.

(a) Each Client and Servicer represents and warrants to BofA on the date hereof, on each applicable Effective Date and at each time Client submits to BofA a request that BofA purchase any Receivable that: (i) it is duly organized and validly existing and in good standing under the laws of the jurisdiction of its organization with the corporate power and authority to carry on its activities as now conducted and as contemplated under this Agreement, and to execute, deliver, perform and secure its obligations under this Agreement in accordance with its terms; (ii) the execution, delivery and performance by it of this Agreement (aa) have been duly authorized by all necessary action, and (bb) do not and will not conflict with, or result in a violation of, any applicable provision of existing law, rule or regulation applicable to it, any judgment, order or decree applicable to or binding on it, its charter or bylaws or any indenture, contract, agreement, mortgage, deed of trust or other instruments to which Client is a party or by which it or its property is bound; (iii) this Agreement has been duly authorized, executed and delivered by it, and is a legal, valid and binding obligation of it enforceable against it in accordance with its terms, except to the extent, if any, that the enforceability thereof may be limited by (aa) the effect of any applicable bankruptcy, insolvency, reorganization, moratorium, debt adjustment or other similar law or enactment now or hereafter enacted affecting the enforcement of creditors' rights generally and (bb) general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); (iv) all authorizations, permits, consents, approvals, licenses or exemptions from, registrations or filings with, or reports to, any governmental or regulatory unit or other party or entity necessary for it to enter into this Agreement and to perform its obligations hereunder have been obtained and remain in full force and effect, and no other such authorizations, permits, consents, approvals, licenses, exemptions, registrations, filings or reports are necessary for the due execution, delivery and performance by it of this Agreement; (v) no agreement exists between Client and any Account Debtor that could interfere with such Account Debtor's payment of and performance under the Receivables in accordance with the relevant invoices; (vi) each Contract underlying a Purchased Receivable, by its terms, is freely transferable; (vii) each Contract underlying a Purchased Receivable is governed according to the laws of a state of the United States of America; and (viii) each Contract underlying a Purchased Receivable contains (Y) no material restrictions or limitations on Client's (or its assignee's) ability to pursue collection of such Receivables and enforcement of such Contract and (Z) no mandatory arbitration provisions.

(b) Client acknowledges that as to each Receivable sold hereunder that it expressly represents, warrants, agrees (and furthermore acknowledges that BofA is expressly relying thereon) that immediately prior to the purchase of such Receivable by BofA pursuant to Section 1 hereof: (i) Client is the lawful owner of each such Receivable; (ii) each such Receivable shall be sold and assigned to BofA as absolute owner free and clear of all liens, claims and security interests; (iii) each such Receivable is for a certain, definite, undisputed and liquidated amount and represents an amount owed to Client as a result of a bona fide sale in the ordinary course of business of a product or service to an Approved Account Debtor who is not affiliated with Client; (iv) complete deliveries have been made under any agreement, representation or understanding with the applicable Account Debtor with respect to each such Receivable, and any contracts or agreements relating to each such Receivable have been delivered to BofA; (v) no such Receivable is past due (i.e., unpaid beyond the applicable Maximum Invoice Tenor Period) or for a face value less than the applicable Minimum Invoice Amount; (vi) the applicable Account Debtor is not, and will not be, entitled to any offset, deduction, counterclaim, contra account and/or other

credit with respect to such Receivable or will be subject to any dispute or claim by an Account Debtor including, but not limited to, with respect to price, terms, quality, quantity or delay in shipment; (vii) no such Receivable is or shall otherwise be subject to, any offset, counterclaim, contra account or any defense of any kind or character with respect to any such Receivable; (viii) Client does not have any knowledge of any fact that could reasonably be expected to affect the validity or collectibility of any such Receivable; (ix) no such Receivable represents a delivery of merchandise upon "consignment," "guaranteed sale," "sale or return," "payment on reorder" or similar terms; (x) the names of the Account Debtors and the amounts owing on the due dates of each such Receivable are correctly stated in all instruments of assignment, schedules, invoices or other documentation furnished by Client to BofA; (xi) no such Receivable has a due date that is more than the Maximum Invoice Tenor Period unless otherwise approved by BofA; (xii) no other sale, assignment or grant of a security interest or lien of any kind whatsoever presently exists or will thereafter be created in favor of any person or entity with respect to any such Receivable; (xiii) any and all information furnished by Client to BofA in connection with the sale of each such Receivable is and will be true and correct in all material respects at the time that such information is furnished to BofA; (xiv) Client has strictly complied with all applicable laws and regulations in connection with Client's sale of products or services giving rise to each such Receivable; (xv) all proceeds from the sale of such Receivables will be used by Client in accordance with requirements of law, and will not be used, directly or indirectly, to purchase or carry margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System) or to extend credit to others for the purpose of purchasing or carrying margin stock or to refund indebtedness originally incurred for such purpose; (xvi) each such Receivable is and will be payable in United States dollars; (xvii) each such Receivable constitutes an "account" as defined in Section 9-106 of the Uniform Commercial Code as in effect in the state of Client's formation and in the state of Client's principal place of business; and (xviii) the payment terms for each such Receivable require the relevant Account Debtor to pay such Receivable on or prior to the Stated Termination Date. Client acknowledges that the representations and warranties made herein are a material inducement to BofA's purchase of the Receivables to be purchased hereunder.

(c) Client authorizes BofA to represent and warrant to any subsequent transferee or assignee of any Receivable that at the date of purchase of the Receivable by BofA the Receivable represented a legally valid indebtedness of the applicable Account Debtor for the amount of such Receivable and that there were no known defaults, or counterclaims with respect to such Receivable. Client shall indemnify BofA from and against any liability incurred by BofA, or any claims made against BofA, as a result of any such representation or warranty by BofA.

5. Covenants of Client. Client and, to the extent applicable, Servicer shall comply with each of the following covenants during the term of this Agreement:

(a) Client shall deliver to BofA in form and detail satisfactory to BofA (but only to the extent Client is no longer subject to the public filing requirements of the Securities and Exchange Commission):

(i) as soon as available, but not later than 95 days after the end of each fiscal year, a copy of the audited consolidated balance sheet of Client as at the end of such year and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, and accompanied by the opinion of a nationally-recognized independent public accounting firm, which opinion shall state that such consolidated financial statements present fairly, in all material respects, the financial position for the periods indicated in conformity with Generally Accepted Accounting Principles applied on a basis consistent with prior years (except for changes agreed upon by Client and such auditors which are disclosed and described in such statements). Such opinion shall not be qualified or limited because of a restricted or limited examination by such accountant of any material portion of the records of Client; and

(ii) as soon as available, but not later than 50 days after the end of each of the first three fiscal quarters of each fiscal year, a copy of the unaudited consolidated balance sheet of Client as of the end of such quarter and the related consolidated statements of income and cash flows for the period commencing on the first day and ending on the last day of such quarter, and certified by any responsible financial officer of Client as being complete and correct and fairly presenting in all material respects, in accordance with Generally Accepted Accounting Principles, the financial position and the results of the operations of Client.

(b) Client and Servicer each shall do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights and privileges as a corporation or partnership, as the case may be, under the laws of its state of organization.

(c) Neither Client nor Servicer will create, incur, assume or suffer to exist any lien or other encumbrance (other than those arising hereunder and except for such non-consensual encumbrances as may arise in the ordinary course of Client's business) on: (i) the Purchased Receivables (whether now existing or hereafter arising) or (ii) any proceeds of the Purchased Receivables.

(d) [INTENTIONALLY OMITTED.]

(e) In connection with each Purchased Receivable and at its own expense, Client and Servicer each shall (i) on the applicable date of sale to BofA, indicate or cause to be indicated clearly and unambiguously in its accounting records and mark or cause to be marked on any paper invoice or the electronic ledger for any electronic invoice that such Receivable has been sold to BofA pursuant to this Agreement; (ii) ensure that its balance sheet indicates that the Purchased Receivables have been sold to BofA; (iii) not mislead any creditor with respect to BofA's ownership of the Purchased Receivables; (iv) inform any person or entity that may inquire that the Purchased Receivables have been sold to BofA without recourse; (v) not hold out the Purchased Receivables as being able to satisfy any obligation owed or that may be owed to any creditor or potential creditor of Client; and (vi) promptly (and in any event within five (5) days) upon the request of BofA, provide BofA with a list of, an accounts receivable aging report for and any other similar financial or accounting document relating to all Purchased Receivables.

(f) Client and Servicer each shall notify BofA in the event any of the following events occur as promptly as practical (but in any event within five (5) days) after a Responsible Officer of Client or Servicer, as applicable, becomes aware that such event has occurred or is reasonably likely to occur, and, with respect to clause (ii) below, deliver to BofA any related written correspondence:

(i) a Bankruptcy has occurred with respect to any Approved Account Debtor; or

(ii) the assertion of any dispute with respect to any Purchased Receivable by any Approved Account Debtor which dispute has resulted in or in Client's good faith opinion is reasonably likely to result in a reduction of the amount receivable in respect of such Purchased Receivable; or

(iii) a Servicer Default.

(g) Client and Servicer each shall do or cause to be done all things necessary or reasonably requested by BofA under any foreign laws applicable to an Approved Account Debtor to (i) ensure that BofA has and continues to have good title to the Purchased Receivables, and (ii) ensure that BofA has and continues to have the ability to enforce all rights purported to be transferred to BofA hereunder with respect to the Purchased Receivables.

(h) Client shall make no material change in its credit and collections procedures that would adversely affect the validity, enforceability or collectibility of the Purchased Receivables or materially adversely affect the ability of Client to perform its obligations hereunder without the prior written consent of BofA.

(i) Without the prior written consent of BofA, Client will not amend, modify or waive any term or condition of any Contract underlying any Purchased Receivable, which amendment, modification or waiver would adversely affect the validity, enforceability or collectibility of such Receivable or adversely affect BofA's right to collect any Purchased Receivable.

6. Servicing.

(a) Until BofA gives notice to Client of the designation of a new Servicer as provided herein, Client is hereby designated as, and hereby agrees to perform the duties and obligations of, the servicer pursuant to the terms hereof (the "Servicer") with respect to the Purchased Receivables; provided that, with respect to any group of Purchased Receivables, Client (solely in its capacity as Servicer) may, at any time, upon prior written notice to BofA, designate any affiliate of Client as sub-servicer hereunder; provided, however, that such affiliate shall not become Servicer and, notwithstanding any such delegation, Client shall remain liable for the performance of the duties and obligations of Servicer in accordance with the terms of this Agreement without diminution of such liability by virtue of such delegation and to the same extent and under the same terms and conditions as if Client alone were performing such duties and obligations. Client acknowledges that BofA has relied on the agreement of Client to act as Servicer hereunder in making its decision to execute and deliver this Agreement. Accordingly, Client agrees that it shall not voluntarily resign as Servicer. If an Event of Default or Servicer Default occurs hereunder, BofA may designate as Servicer with respect to all or any portion of the Purchased Receivables any person (including BofA or any of its affiliates) to succeed Client or any successor Servicer, on the condition in each case that any such person so designated shall agree to perform the duties and obligations of Servicer pursuant to the terms hereof, and Client agrees that it shall reimburse BofA for all costs, expenses or fees incurred by it as a result of, or in connection with, such designation; provided that the maximum amount of such costs, expenses or fees reimbursable by Client shall not exceed an amount, determined and payable monthly, ***** being serviced by the designated person on the first day of each month.

(b) Servicer shall take or cause to be taken all such action as may be necessary or advisable to administer, service and collect each Purchased Receivable from time to time, all at the Servicer's expense and in accordance with this Agreement and all applicable laws, rules and regulations, with reasonable care and diligence, and in accordance with any credit and collection policy agreed to by Client and BofA with respect to a Purchased Receivable; provided, however, that Servicer shall not extend the maturity of any Purchased Receivable without BofA's prior consent, which consent shall not be unreasonably withheld. In addition, Servicer shall remit any and all Remittances received with respect to any Purchased Receivables to BofA in accordance with the terms of Section 1(b)(4), and shall likewise forward all other payments and fees owed to BofA pursuant to the terms hereof. Without BofA's consent, Client, in its capacity as Servicer, shall not take any action (or omit to take any action that it would customarily take in servicing Receivables) where such action (or inaction) with respect to any Purchased Receivable is reasonably likely to impair BofA's rights therein or the enforceability, value or collectibility thereof. Without limiting the foregoing, Client, in its capacity as Servicer, shall not take any action (or omit to take any action that it would customarily take in servicing Receivables) that results in preferential treatment for Receivables of an Approved Account Debtor that do not constitute Purchased Receivables. Servicer shall have the right to directly communicate with any Account Debtor with respect to Purchased Receivables (and, in the case of clause (ii), to commence collection proceedings with BofA's consent on BofA's behalf): (i) to obtain current information not already provided on such Account Debtor's financial condition and creditworthiness, and (ii) to determine if any portion of any Purchased Receivable is past due. Notwithstanding anything to

the contrary contained herein, upon the occurrence and continuance of an Event of Default or to the extent any Purchased Receivable is Overdue, BofA may direct Servicer to commence or settle any legal action to enforce collection of any Purchased Receivable or to foreclose upon or repossess any underlying security related thereto.

(c) If Client is not Servicer, then Client shall deliver to Servicer and Servicer shall hold for the benefit of Client and BofA in accordance with their respective interests, all records and documents (including computer tapes or disks) with respect to each Purchased Receivable. Servicer shall hold (and shall cause each sub-servicer to hold) in trust (and, during the continuance of an Event of Default, at the request of BofA, segregate) for BofA's benefit, any Remittances received by Servicer (or any sub-servicer) with respect to the Purchased Receivables, and distribute the same to BofA in accordance with Section 1(b)(4) or otherwise upon BofA's direction. Servicer agrees to make its records, files and books of account available to BofA on request, and to allow BofA and its agents and representatives to visit Servicer's premises upon reasonable notice and during normal business hours to examine such records, files and books of account, to make copies or extracts thereof, and to conduct such examinations as BofA deems necessary. In addition, on the first business day of each month, Servicer shall deliver to BofA a statement of its account showing all accountings relating to all Purchased Receivables that were within 7 days of becoming Overdue during the immediately preceding month.

(d) For all Purchased Receivables which are within 7 days of becoming Overdue for any reason, including but not limited to those Purchased Receivables which are past due solely and exclusively as a result of an Account Debtor's Financial Inability To Pay, Servicer shall immediately notify BofA and provide to BofA, promptly (and in any event within one Business Day), each of the following: (i) a copy of the applicable Account Debtor's purchase order and/or a signed confirmation thereof; (ii) a copy of each outstanding invoice (in electronic or paper form) and all credit memoranda; (iii) a notarized statement of account; (iv) [reserved]; (v) a copy of Servicer's complete collection file on the applicable Account Debtor; (vi) all guarantees, collateral documents and security agreements relating to such Receivables, (vii) proof of delivery of goods or rendering of services relating to such Receivables, and (viii) such other documents and information that BofA may request relating to such Receivables. Further, with respect to any Purchased Receivable that is within 7 days of becoming Overdue, Servicer shall provide to BofA upon request (promptly, and in any event within one Business Day) (x) a true and complete copy of the Contract relating to such Receivable, together with any modifications or side letters related thereto, each written in English, and (y) any other evidence of nonpayment of such Receivable as may reasonably be requested by BofA. Upon any such Purchased Receivable becoming Overdue, Servicer shall immediately, on the date such Receivable becomes Overdue, provide to BofA (via telecopy, with an original to follow via overnight courier) a notarized certificate stating that such Receivable is in fact Overdue.

(e) The occurrence of any one or more of the following events shall constitute a "Servicer Default" hereunder:

(1) (a) Servicer shall fail to perform or observe any term, covenant or agreement hereunder and such failure shall remain unremedied for ten (10) days after notice or discovery thereof or (b) Servicer shall fail to make any payment or deposit to be made by it hereunder when due; or

(2) any representation, warranty, certification or statement made by the Servicer in this Agreement or in any other document shall prove to have been incorrect in any material respect when made or deemed made; or

(3) an Event of Default.

(f) Notwithstanding any other provision of this Agreement, during the continuance of Servicer Default, BofA may, by written notice to Client and/or Servicer (as applicable):

(1) direct the applicable Account Debtor(s) that payment of all amounts payable under any Purchased Receivable be made directly to BofA or its designee;

(2) instruct Client or Servicer (as applicable) to give notice of the applicable Account Debtor(s), which notice shall be given at Client's/Servicer's expense, directing that payment of all amounts payable under any Purchased Receivable be made directly to BofA or its designee; and/or

(3) terminate and replace Servicer.

(g) Client shall provide to Servicer on a timely basis all information needed for the servicing, administration and collection obligations of Servicer, including notice of the occurrence of any Event of Default or any event specified in Section 5(f) hereof as promptly as practicable (but in any event within five (5) days) after Client becomes aware, such event has occurred or will likely occur.

(h) If at any time (i) an Account Debtor remits payment to Client, in its capacity as Servicer hereunder, on account of Purchased Receivables prior to the applicable Grace Period Due Date of such Purchased Receivables, and Servicer in turn delivers such Remittances to BofA for receipt prior to such Grace Period Due Date, or (ii) Client remits to BofA the repurchase price in respect of any repurchased Receivable (such Receivable as repurchased pursuant to Section 1(b)(7) or Section 9(a)) prior to the applicable Grace Period Due Date for such repurchased Receivable, then in each case Servicer may deduct from such amount to be remitted an Incentive Servicing Credit as determined and provided by BofA. BofA shall calculate such Incentive Servicing Credit by multiplying (a) the dollar amount of the remittances to be received on such day times (b) a fraction, the numerator of which shall be determined by multiplying (x) BofA's referenced LIBOR rate then in effect, times (y) the number of days after such remittance day (on which such remittance will be received by BofA) until but not including the Grace Period Due Date, and the denominator of which shall be 360.

7. Attorney-in-Fact. Client hereby grants and conveys to BofA an irrevocable power of attorney (coupled with an interest) authorizing and permitting BofA, at its option, with or without notice to Client, to do any one of the following: (a) endorsing the name of Client upon any checks or other instruments that may come into BofA's possession in payment of Purchased Receivables; (b) endorsing the name of Client on any freight or express bill or bill of lading relating to any Purchased Receivables; (c) taking all action as BofA deems appropriate, including without limitation the execution and filing of financing statements, in the name of and on behalf of Client to perfect any of the security interests granted to BofA herein; provided, however, that BofA shall not exercise any such power until the occurrence and during the continuance of an Event of Default. Client agrees that neither BofA nor the attorney-in-fact will be liable for any acts of commission or omission nor for any error of judgment or mistake of fact or law except to the extent the same constitutes gross negligence or willful misconduct.

8. Waiver. The waiver by BofA of any particular breach by Client of a provision of this Agreement, or BofA's failure to exercise a right granted to it herein, shall not constitute a waiver of any subsequent breach or any other right.

9. Indemnity and Repurchase Obligations.

(a) BofA's purchase of a Receivable shall not relieve Client from any liability that might arise out of Client's breach of any representation, warranty, covenant or agreement hereunder, or out of any unauthorized or fraudulent acts of Client, its officers, employees or agents. In the event of (i) any breach of any representation and warranty set forth in Section 4

with respect to a Purchased Receivable or any such unauthorized or fraudulent act with respect to a Purchased Receivable which remains uncured for ten (10) days after notice thereof or (ii) an Account Debtor's failure to pay a Purchased Receivable for any reason other than a Financial Inability To Pay, Client agrees upon BofA's request, to repurchase such Receivable at a price equal to the outstanding balance thereof.

(b) If Client at any time becomes aware of any fact or occurrence that in and of itself or with the passage of time would be grounds for requiring Client to repurchase any Purchased Receivable under (a) above, Client will as promptly as practicable (but in any event within five (5) days) after Client becomes aware of such fact or occurrence notify BofA and either cure the cause for repurchase within ten (10) days (to the extent capable of being cured) or repurchase the Purchased Receivable at the price specified in (a) above.

(c) BofA will, upon payment by Client of all amounts due to BofA on account of any repurchased Purchased Receivable, transfer the Purchased Receivable and the rights thereto to Client. In the event Client repays BofA fully all amounts equating to the repurchase price plus any sum due BofA with respect to the Purchased Receivable, then any further payments received by BofA thereafter on such Receivable shall be remitted to Client.

(d) Client agrees to indemnify BofA from and against all losses, damages, liabilities and costs, including attorneys fees and expenses (whether incurred in connection with trial or appellate proceedings or otherwise), incurred by BofA as a result of or in connection with: (i) any claim or defense which any Account Debtor or other person may have or assert against Client or BofA in connection with Purchased Receivables or this Agreement; or (ii) any breach of any of Client's representations, warranties, covenants or agreements contained herein, in each case except to the extent (A) resulting from BofA's gross negligence or willful misconduct or (B) arising solely out of BofA's hedging activities with respect to or assignment of Purchased Receivables unless otherwise expressly provided herein.

(e) [INTENTIONALLY OMITTED.]

(f) The remedies set forth in this Agreement or otherwise available under applicable law shall be cumulative, and no election by BofA to exercise any remedy shall preclude it from thereafter exercising any other remedy.

10. Default and Remedies. An event of default ("Event of Default") shall be deemed to have occurred hereunder upon the occurrence of one or more of the following:

(a) Client shall fail to pay, (i) when and as required to be paid herein, any amount on account of repurchasing any Purchased Receivable, or (ii) within ten (10) days after the same shall become due, any other amount payable hereunder; or

(b) Servicer (i) commences any insolvency proceeding with respect to itself; or (ii) takes any action to effectuate or authorize the foregoing; or

(c) Any involuntary lien, garnishment, attachment or the like shall be issued against or shall attach to the Purchased Receivables, the Collateral or any portion thereof and the same is not released or Client fails to repurchase such Purchased Receivables within ten (10) days;

(d) (i) Any involuntary insolvency proceeding is commenced or filed against Servicer; or any writ, judgment, warrant of attachment, execution or similar process, is issued or levied against a substantial part of Servicer's properties, and any such proceeding or petition shall not be dismissed, or such writ, judgment, warrant of attachment, execution or similar process shall not be released, vacated or fully bonded within 60 days after commencement, filing or levy; (ii) Servicer admits the material allegations of a petition against it in any insolvency proceeding, or an order for relief (or similar order under non-U.S. law) is ordered in any insolvency proceeding; or

(iii) Servicer acquiesces in the appointment of a receiver, trustee, custodian, conservator, liquidator, mortgagee in possession (or agent therefor), or other similar person for itself or a substantial portion of its property or business; or

(e) Client, including in its role as Servicer hereunder, shall breach any covenant or agreement set forth herein, or any warranty or representation set forth herein shall be untrue when made, and the same is not cured to BofA's reasonable satisfaction within ten (10) days after such breach or occurrence;

(f) Any report, certificate, schedule, financial statement, profit and loss statement or other statement furnished by Servicer, or by any other person on behalf of Client, to BofA is not true and correct in any material respect as of the date given.

(g) A material adverse change shall have occurred in Servicer's financial conditions, business or operations that would materially impair Servicer's ability to perform its obligations hereunder.

Upon the occurrence and during the continuance of any such Event of Default, BofA (i) shall have no further obligation to take any action after Client's tender of Receivables for purchase and (ii) may immediately exercise its rights and remedies hereunder or pursuant to applicable law with respect to the Purchased Receivables, including giving notice to each Approved Account Debtor to remit payment of all amounts payable under any Purchased Receivable directly to BofA or to an account identified by BofA; provided, however, that BofA will hold all collections that are not Remittances in trust for Client and, subject to the provisions of Section 5(d) hereof, will deliver such collections to Client promptly.

11. Cumulative Rights; Waivers. All rights, remedies and powers granted to BofA in this Agreement, or in any other instrument or agreement between Client and BofA are cumulative and may be exercised singularly or concurrently with such other rights as BofA may have. These rights may be exercised from time to time as to all or any part of the Purchased Receivables as BofA in its reasonable discretion may determine. In the event BofA deems it necessary to seek equitable relief, including, but not limited to, injunctive or receivership remedies, as a result of Client's default, Client waives any requirement that BofA post or otherwise obtain or procure any bond. Alternatively, in the event BofA, in its sole and exclusive discretion, desires to procure and post a bond, BofA may procure and file with the court a bond in an amount up to and not greater than \$10,000,000.00 notwithstanding any common or statutory law requirement to the contrary. Upon BofA's posting of such bond it shall be entitled to all benefits as if such bond was posted in compliance with state law. Client also waives any right it may be entitled to, including an award of attorney's fees or costs, in the event any equitable relief sought by and awarded to BofA is thereafter, for whatever reason(s), vacated, dissolved or reversed.

12. Termination. No termination or cancellation (regardless of cause or procedure) of the transactions or relationship contemplated under this Agreement shall in any way affect or impair the obligations, duties and liabilities of Client or the rights of BofA relating to any transaction or event occurring prior to such termination or cancellation. All undertakings, agreements, indemnifications, covenants, warranties and representations contained herein shall survive such termination or cancellation.

13. Security Interest. It is the intention of the parties hereto that Client's transfer of Receivables to BofA shall constitute a sale and assignment, which sale and assignment shall be absolute, irrevocable and without recourse (other than with respect to the limited repurchase obligations provided herein) and shall provide BofA with the full benefits of ownership of the Purchased Receivables. Notwithstanding the foregoing, to protect BofA in the event that any transfer of Purchased Receivables is deemed by a court, contrary to the express intent of the parties, to constitute a pledge rather than a sale and assignment of such Purchased Receivables, Client does hereby grant to BofA a security interest in and lien upon all of Client's right, title and interest in and to the Purchased Receivables and all proceeds thereon (the "Collateral") to secure a debt (Client's return to BofA of the Purchase Price paid by BofA for the Purchased Receivables) or any of Client's obligations to BofA under this Agreement. Client agrees to

comply with all appropriate laws in order to perfect BofA's security interest in and to the Collateral, to execute any financing statements, continuations thereof, amendment thereto or additional documents as BofA may require. Client hereby authorizes BofA to prepare and file such financing statements (including renewal statements) or amendments thereof or supplements thereto or other instruments as BofA may from time to time deem necessary or appropriate in order to perfect and maintain the security interests granted hereunder in accordance with the UCC. Client shall not (a) alter its corporate existence or, in one transaction or in a series of transactions, merge into or consolidate with any other entity, or sell all or substantially all of its assets, (b) change its state of incorporation or formation or (c) change its registered corporate name, without, in each case, (i) providing 30 days prior written notice to BofA, (ii) providing such information as BofA may reasonably require in order to allow BofA to file appropriate amendments to any previously filed financing statements and (iii) executing any such additional documents as BofA may reasonably require in order to protect its rights and remedies hereunder. The occurrence and continuation of any Event of Default shall entitle BofA to all of the default rights and remedies (without limiting the other rights and remedies exercisable by BofA either prior or subsequent to an Event of Default) as available to a secured party under the Uniform Commercial Code in effect in any applicable jurisdiction.

14. Agreement of Client. During the continuation of an Event of Default, BofA is authorized to apply all funds received by it hereunder to Client's obligations hereunder in such order as BofA may elect.

15. Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be delivered by (a) personal delivery; (b) courier; (c) telecopy, or (d) certified or registered mail, postage prepaid to the address set forth below and shall be deemed given at the time of personal delivery or, if by mail, as of the date of first attempted delivery:

If to BofA, at: Bank of America, N.A.
100 North Tryon Street
NC1-007-06-07
Charlotte, NC 28255
Attn: William D. Hobbs
Telephone: 704-388-5914
Telecopy: 704-388-3336

With a copy to: Bank of America, N.A.
9 W. 57th Street
NY1-301-06-04
New York, NY 10019
Attn: Gabriella Morizio
Telephone: 212-933-2730
Telecopy: 212-933-2625

If to Client, at: Applied Materials, Inc.
2881 Scott Boulevard
M/S 2036
Santa Clara, CA 95050
Attn: Treasury Department
Telephone: 408-235-6765
Telecopy: 408-986-7825

With a copy to: Applied Materials, Inc.
2881 Scott Boulevard
M/S 2062
Santa Clara, CA 95050
Attn: Legal Department
Telephone: 408.563.4763

16. Account Statements. Absent manifest error, BofA's books and records shall be admissible in evidence without objection as prima facie evidence of the status of the accounts between BofA and Client.

17. Confidential Information.

(a) The parties agree that the negotiation, existence and terms of this Agreement shall constitute confidential information and each party shall keep the existence and terms of this Agreement confidential. Without limiting the foregoing, Client understands and acknowledges that the form and terms of this Agreement are proprietary trade products of BofA that BofA desires to keep confidential and Client agrees that except for disclosure on a confidential basis to Client's accountants, attorneys and other professional advisors retained by in connection with this Agreement or as may be required by law, the form and terms of this Agreement shall not be disclosed by Client in whole or in part to any other person or entity without BofA's prior written consent.

(b) The parties further agree that the information furnished by Client to BofA regarding any Account Debtor, Client's relationship with such Account Debtor and the goods and services furnished by Client to such Account Debtor shall constitute confidential information. BofA agrees not to disclose such information in whole or in part to any other person or entity without Client's prior written consent, except for disclosure (i) on a confidential basis to BofA's accountants, attorneys and other professional advisors retained by BofA in connection with this Agreement or in any way related to the Purchased Receivables; (ii) as may be required by law; or (iii) of the name of such Account Debtor, the amount of the related Purchased Receivable, the Minimum and Maximum Invoice Tenor Period for such Purchased Receivable and the quantity of goods purchased as specified in the Contract underlying such Purchased Receivable (which disclosure may include delivery of the invoice underlying such Purchased Receivable as required by the relevant hedge counterparty, in such redacted form as approved by BofA and Client, such approvals not to be unreasonably withheld) to the extent necessary to carry out any hedging activity by BofA related to the Purchased Receivables or assignment by BofA of its rights under this Agreement or in respect of the Purchased Receivables.

18. Miscellaneous.

(a) This Agreement shall be governed and construed in accordance with the laws of the State of New York without reference to the conflict of laws provisions thereof.

(b) Client shall not assign this Agreement without the prior written consent of BofA. This Agreement shall be deemed to be one of financial accommodation and not assumable by any debtor, trustee or debtor-in-possession in any bankruptcy proceeding without BofA's express written consent and may be suspended in the event a petition in bankruptcy is filed by or against Client.

(c) This Agreement shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective heirs, legal representatives, successors and permitted assigns.

(d) This Agreement contains the entire agreement between the parties hereto regarding the subject matter hereof, excepting only assignments and schedules thereto that may be executed from time to time. This Agreement shall not be modified except by written instrument signed by all of the parties hereto.

(e) Client agrees to execute such further instruments as may be required by BofA to evidence the transactions contemplated herein. If any provision of this Agreement is found invalid, the remaining provisions of this Agreement shall not be affected thereby.

(f) Nothing set forth herein or otherwise shall render the parties partners of one another.

(g) Client acknowledges that there is no, and it will not seek or attempt to establish any, fiduciary relationship between BofA and Client on Client's behalf, and Client waives any right to assert, now or in the future, the existence or creation of any such fiduciary relationship between BofA and Client in any action or proceeding (whether by way of claim, counterclaim, crossclaim or otherwise) for damages.

(h) BofA agrees that notwithstanding anything to the contrary set forth herein, unless and until such time as an Event of Default shall have occurred and be continuing or any Purchased Receivable shall be Overdue, BofA shall not, and shall not cause Servicer to, contact any Account Debtor directly for any reason with respect to any Purchased Receivable.

(i) This Agreement may be executed in a number of identical counterparts, each of which shall be deemed an original for all purposes and all of which constitute, collectively, one agreement.

19. Jury Trial Waiver; Jurisdiction. BOFA AND CLIENT HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT EITHER MAY HAVE TO A TRIAL BY JURY WITH RESPECT TO ANY LITIGATION BASED ON THIS AGREEMENT OR ANY TRANSACTIONS CONTEMPLATED HEREIN, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY RELATED DOCUMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY HERETO, OR TO ANY RELATED DOCUMENT. THE PARTIES CONSENT TO JURISDICTION AND VENUE IN THE STATE OR FEDERAL COURTS IN ANY CITY, COUNTY AND STATE OF NEW YORK. CLIENT FURTHER AGREES TO WAIVE ANY RIGHT IT MAY HAVE TO SEEK A CHANGE OF VENUE BASED ON INCONVENIENCE OF THE FORUM OR OTHERWISE. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES ENTERING INTO THE SUBJECT TRANSACTION.

IN WITNESS WHEREOF, the undersigned have duly executed this Agreement as of the date first above written.

Bank of America, N.A..

Applied Materials, Inc.

By:/s/ WILLIAM D. HOBBS

By: /s/ JOSEPH R. BROSON

Printed Name: William D. Hobbs

Printed Name: Joseph R. Bronson

Title: Senior Vice President

Title: Executive Vice President,
Global Executive Committee and Chief
Financial Officer

By: /s/ GEORGE S. DAVIS

Printed Name: George S. Davis

Title: Corporate Vice President and
Treasurer

DEFINITIONS

Account Debtor:	Each person or entity obligated to pay any Receivable.
Agreement:	The Program for Accounts Receivable Transfer Agreement to which this Annex I is attached (together with any applicable Schedule A), as amended, restated, extended, supplemented or otherwise modified in writing from time to time.
Approved Account Debtor:	Any Account Debtor listed on a Schedule A that has been executed by BofA.
Bankruptcy:	An Account Debtor (a) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (b) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (c) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (d) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (ii) is not dismissed, discharged, stayed or restrained in each case within 30 days of the institution or presentation thereof; (e) has a resolution passed for its winding-up, official management or liquidation (other than pursuant to a consolidation, amalgamation or merger); (f) seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (g) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; or (h) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (a) to (g) (inclusive).
BofA:	As defined in the introductory paragraph of the Agreement.
Client:	As defined in the introductory paragraph of the Agreement.
Collateral:	As defined in Section 13 of the Agreement.
Contract:	An agreement pursuant to which an Approved Account Debtor agrees to pay money to Client for products sold or services rendered by Client in the ordinary course of its business.

Credit Rating: With respect to Client or any Account Debtor, such person's issuer or counterparty credit rating as assigned by S&P, Moody's or any other nationally recognized ratings agency. To the extent applicable, the respective Credit Ratings of Client and the relevant Account Debtor as of the Effective Date are set forth on the applicable Schedule A.

Effective Date: The date set forth after such term on the applicable Schedule A, which represents the effective date of BofA's initial purchase of the subject Receivables.

Event of Default: As defined in Section 10 of the Agreement.

Financial Inability To Pay: An Account Debtor's failure to pay a Purchased Receivable for any reason other than one of the circumstances enumerated in Section 1(b)(7)(i) or such Account Debtor (A) (i) is dissolved (other than pursuant to a consolidation, amalgamation or merger); (ii) becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due; (iii) makes a general assignment, arrangement or composition with or for the benefit of its creditors; (iv) institutes or has instituted against it a proceeding seeking judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditor's rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (aa) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (bb) is not dismissed, discharged, stayed or restrained in each case within thirty (30) days of the institution or presentation thereof; (v) has a resolution passed for its winding-up, official management or liquidation; (vi) seeks or becomes subject to the appointment of an administrator, provisional liquidation, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets; (vii) has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 30 days thereafter; (viii) causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in clauses (i) to (vii) (inclusive); or (ix) takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts; or (B) also fails, after giving effect to any applicable grace period of the relevant obligation(s) of an Account Debtor (other than such Purchased Receivable), to make, when due, any payments equal to or exceeding \$10,000,000.00 under such obligations.

Grace Period Due Date: The last day of the applicable Past Due Grace Period, and the last day on which BofA shall receive payment of the Required Amount in

respect of a Purchased Receivable, as set forth in the applicable Schedule A.

Incentive Servicing Credit:

The credit given to Servicer, as determined by BofA, pursuant to Section 9(h) of the Agreement.

Maximum Invoice Tenor Period: The time period set forth after such term on the applicable Schedule A, which represents, in connection with Receivables that BofA has approved for purchase with respect to a specific Approved Account Debtor, the maximum payment terms (i.e., the time period following the invoice date within which the Account Debtor must pay the relevant invoice) afforded such Account Debtor in any invoice evidencing such Receivables.

Minimum Invoice Amount: The amount set forth after such term on the applicable Schedule A, which represents, in connection with Receivables that BofA has approved for purchase with respect to a specific Approved Account Debtor, the minimum payment amount specified in any invoice evidencing such Receivables.

Minimum Invoice Tenor Period: The time period set forth after such term on the applicable Schedule A, which represents, in connection with Receivables that BofA has approved for purchase with respect to a specific Approved Account Debtor, the minimum payment terms (i.e., the time period following the invoice date within which the Account Debtor must pay the relevant invoice) afforded such Account Debtor in any invoice evidencing such Receivables.

Moody's: Moody's Investors Service, Inc. or any successor.

Overdue: The status of any Purchased Receivable that remains unpaid following its Grace Period Due Date.

Past Due Grace Period: The time period set forth after such term on the applicable Schedule A, which represents, in connection with Receivables that BofA has approved for purchase with respect to a specific Approved Account Debtor, the maximum past due grace period (i.e., the time period following the invoice due date within which Client will accept payment on the relevant invoice without affording Client the ability to charge the Account Debtor a late fee, interest or other penalties) afforded such Account Debtor in any invoice evidencing such Receivables.

Purchase Price: As defined in Section 1(b)(1) of the Agreement.

Purchased Receivable: Any Receivable purchased by BofA pursuant to the Agreement.

Receivables: All receivables, instruments, accounts, chattel paper, payment intangibles, notes, contract rights and general intangibles resulting from Client's sale of products or services before, on or after the date hereof.

Remittances: As defined in Section 1(b)(4) of the Agreement.

Required Amount: The amount set forth after such term on the applicable Schedule A, which represents the stated value of Receivables that BofA has approved for purchase with respect to a specific Approved Account Debtor.

Responsible Officer: The assistant treasurer in charge of Client's Global Credit and Collections Department, or any equivalent officer with credit and collection responsibilities.

S&P: Standard & Poor's Ratings Services, a

division of The McGraw-Hill Companies, Inc.,
or any successor.

Schedule A: Any applicable Schedule A (which may be denoted Schedule A-1, etc.), in substantially the form of Annex II to the Agreement, attached and/or executed in connection with the Agreement, as such schedule is amended, restated, extended, supplemented or otherwise modified in writing from time to time.

Servicer: As defined in Section 6(a) of the Agreement.

Servicer Default: As defined in Section 6(e) of the Agreement.

Termination Date: With respect to Purchased Receivables under a particular Schedule A, the earlier of (a) the applicable Stated Termination Date and (b) the date specified in a writing from BofA to Client (which date may be the date of such writing).

FORM OF SCHEDULE A-__

Subject to Program for Accounts Receivable Transfer Agreement executed or to be executed by Client and Bank of America, N.A., the terms of which are hereby incorporated by reference

Subject to credit approval and satisfactory documentation

Client signature below mandates Bank of America to initiate Due Diligence

Effective Date: [_____]

Stated Termination Date: [_____]

Grace Period Due Date: [_____]

Client/Initial Servicer: [_____]

Client's Credit Rating: [_____]

Account Debtor: [_____]

Account Debtor's Credit Rating: [_____]

Account Debtor's Country
of Organization: [_____]

Receivables:

Required Amount: [__]
Minimum Invoice Tenor Period: [__] days
Maximum Invoice Tenor Period: [__] days
Minimum Invoice Amount: \$[__]
Past Due Grace Period: [__] days

Purchase Price: [_____]%

Due Diligence Expenses: For the account of Client/Initial Servicer

ACCEPTED AND AGREED:

Bank of America, N.A.

Applied Materials, Inc.

By: _____
Name: _____
Title: _____

By: _____
Name: _____
Title: _____

Prospective counterparties should conduct a thorough and independent review of the legal, tax and accounting aspects of any proposed transaction to determine its suitability in light of their particular circumstances. Although the indicative information set forth above is reflective of the terms, as of the specified date, under which Bank of America believes a contract might be structured, no assurance can be given that such a contract will in fact be executed.

APPLIED MATERIALS, INC.
SARBANES-OXLEY ACT SECTION 906 CERTIFICATION

In connection with this quarterly report on Form 10-Q of Applied Materials, Inc. for the period ended April 27, 2003, I, Michael R. Splinter, President and Chief Executive Officer of Applied Materials, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-Q for the period ended April 27, 2003 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
1. the information contained in this Form 10-Q for the period ended April 27, 2003 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: June 11, 2003

/S/ MICHAEL R. SPLINTER

Michael R. Splinter
President and
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Applied Materials, Inc. and will be retained by Applied Materials, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

APPLIED MATERIALS, INC.
SARBANES-OXLEY ACT SECTION 906 CERTIFICATION

In connection with this quarterly report on Form 10-Q of Applied Materials, Inc. for the period ended April 27, 2003, I, Joseph R. Bronson, Executive Vice President and Chief Financial Officer, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. this Form 10-Q for the period ended April 27, 2003 fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in this Form 10-Q for the period ended April 27, 2003 fairly presents, in all material respects, the financial condition and results of operations of Applied Materials, Inc. for the periods presented therein.

Date: June 11, 2003

/s/ JOSEPH R. BRONSON

Joseph R. Bronson
Executive Vice President
and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Applied Materials, Inc. and will be retained by Applied Materials, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.