UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended AUGUST 1, 1999 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)

3050 Bowers Avenue

Santa Clara, California 95054-3299

(Address of principal executive offices, including zip code)

(408) 727-5555

(Registrant's telephone number, including area code)

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

Number of shares outstanding of the issuer's common stock as of August 1, 1999: 378,415,371

APPLIED MATERIALS, INC.

FORM 10-Q

INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited):

PART II. OTHER INFORMATION

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

APPLIED MATERIALS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(In thousands, except per share amounts)	Three Months Ended July 26, 1998	Three Months Ended Aug. 1, 1999	Nine Months Ended July 26, 1998	Nine Months Ended Aug. 1, 1999
Net sales..........................	$884,491	$1,433,510	$3,368,492	$3,293,613
Cost of products sold..............	490,102	734,895	1,790,373	1,756,654
Gross margin.......................	394,389	698,615	1,578,119	1,536,959
Operating expenses:				
Research, development and engineering..................	154,044	171,195	518,310	478,546
Marketing and selling...........	79,896	87,627	250,974	235,560
General and administrative......	69,667	99,634	212,180	242,113
Non-recurring items.............	35,000	--	67,227	5,000
Income from operations............	55,782	340,159	529,428	575,740
Non-recurring income..............	--	--	80,000	20,000

Interest expense	11,282	11,883	35,031	34,947
Interest income	18,868	25,950	58,377	75,352
Income before taxes	63,368	354,226	632,774	636,145
Provision for income taxes	15,851	109,810	215,143	197,205
Net income	$47,517	$244,416	$417,631	$438,940
Earnings per share:				
Basic	$0.13	$0.65	$1.14	$1.17
Diluted	$0.13	$0.61	$1.10	$1.11
Weighted average number of shares:				
Basic	366,942	376,901	366,584	373,815
Diluted	378,072	397,877	378,808	394,196

See accompanying notes to consolidated condensed financial statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED BALANCE SHEETS*

(In thousands)	Oct. 25, 1998	Aug. 1, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$575,205	$577,999
Short-term investments	1,188,351	1,680,616
Accounts receivable, net	764,472	1,107,712
Inventories	555,881	575,333
Deferred income taxes	337,906	335,213
Other current assets	97,140	127,003
Total current assets	3,518,955	4,403,876
Property, plant and equipment, net	1,261,520	1,195,337
Other assets	149,217	167,658
Total assets	$4,929,692	$5,766,871
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable	$644	$876
Current portion of long-term debt	7,367	6,361
Accounts payable and accrued expenses	1,041,341	1,118,863
Income taxes payable	68,974	275,927
Total current liabilities	1,118,326	1,402,027
Long-term debt	616,572	611,920
Deferred income taxes and other liabilities	74,173	85,041
Total liabilities	1,809,071	2,098,988

Stockholders' equity:		
Common stock	3,679	3,784
Additional paid-in capital	792,145	918,883
Retained earnings	2,328,940	2,767,880
Accumulated other comprehensive income/(loss)	(4,143)	(22,664)
Total stockholders' equity	3,120,621	3,667,883
Total liabilities and stockholders' equity	$4,929,692	$5,766,871

* Amounts as of August 1, 1999 are unaudited. Amounts as of October 25, 1998 are from the October 25, 1998 audited financial statements.

See accompanying notes to consolidated condensed financial statements.

APPLIED MATERIALS, INC.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In thousands)	Nine Months Ended July 26, 1998	Nine Months Ended Aug. 1, 1999
Cash flows from operating activities:		
Net income	$417,631	$438,940
Adjustments required to reconcile net income to cash provided by operations:		
Acquired in-process research and development expense	32,227	--
Depreciation and amortization	211,133	208,575
Deferred income taxes	(2,363)	2,541
Changes in assets and liabilities, net of amounts acquired:		
Accounts receivable, net	244,892	(345,711)
Inventories	43,603	(25,680)
Other current assets	(105,076)	(27,336)
Other assets	(8,844)	(31,538)
Accounts payable and accrued expenses	(175,530)	84,639
Income taxes payable	(56,169)	205,361
Other liabilities	11,441	9,706
Cash provided by operations	612,945	519,497
Cash flows from investing activities:		
Capital expenditures, net of retirements	(375,435)	(145,800)
Cash paid for licensed technology	(32,227)	--
Proceeds from sales of short-term investments	618,324	703,979
Purchases of short-term investments	(739,122)	(1,196,244)

Cash used for investing...........................	(528,460)	(638,065)
Cash flows from financing activities:		
Short-term debt activity, net....................	(55,239)	1,338
Long-term debt activity, net.....................	(7,117)	(6,620)
Common stock transactions, net...................	(81,635)	128,402
Cash provided by/(used for) financing............	(143,991)	123,120
Effect of exchange rate changes on cash..........	(1,480)	(1,758)
Increase/(decrease) in cash and cash equivalents..	(60,986)	2,794
Cash and cash equivalents - beginning of period...	448,043	575,205
Cash and cash equivalents - end of period.........	$387,057	$577,999

For the nine months ended July 26, 1998, cash payments for interest and income taxes were $23,524 and $257,417, respectively. For the nine months ended August 1, 1999, cash payments for interest were $24,261 and net income tax refunds were $21,470.

See accompanying notes to consolidated condensed financial statements.

APPLIED MATERIALS, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS *(Unaudited)*

NINE MONTHS ENDED AUGUST 1, 1999

1) Basis of Presentation

In the opinion of management, the unaudited consolidated condensed financial statements of Applied Materials, Inc. (Applied Materials) included herein have been prepared on a consistent basis with the October 25, 1998 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These interim consolidated condensed financial statements should be read in conjunction with the October 25, 1998 audited consolidated financial statements and notes thereto included in Applied Materials' 1998 Annual Report, which is incorporated by reference in Applied Materials' Form 10-K for the fiscal year ended October 25, 1998. Applied Materials' results of operations for the three and nine months ended August 1, 1999 are not necessarily indicative of future operating results.

Applied Materials' fiscal year ends on the last Sunday in October of each year. Fiscal 1998 contained 52 weeks, whereas fiscal 1999 will contain 53 weeks. For fiscal 1999, the first quarter contained 14 weeks, and all other quarters will contain 13 weeks.

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

2) Earnings Per Share

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

For purposes of computing diluted earnings per share, weighted average common share equivalents do not include stock options with an exercise price that exceeded the average fair market value of Applied Materials' common stock for the period. For the three months ended August 1, 1999, options to purchase approximately 78,000 shares of common stock at an average exercise price of $70.50 were excluded from the computation, and for the nine months ended August 1, 1999, options to purchase approximately 1,095,000 shares of common stock at an average exercise price of $61.63 were excluded from the computation.

3) Accounts Receivable, Net

Applied Materials has numerous agreements that allow it to sell certain accounts receivable at a discount to various financial institutions. Receivable sales have the effect of increasing cash and reducing accounts receivable and days sales outstanding. During the nine months ended August 1, 1999, Applied Materials sold $637 million of accounts receivable under these agreements. At August 1, 1999, $258 million of these receivables remained outstanding and subject to certain recourse provisions. Applied Materials does not expect these recourse provisions to have a material effect on its financial condition or results of operations. Discounting fees were not material for the nine months ended August 1, 1999, and were recorded as interest expense.

4) Inventories

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

	October 25, 1998	August 1, 1999
Customer service spares............	$239,139	$224,865
Raw materials......................	98,180	114,398
Work-in-process....................	126,533	154,257
Finished goods.....................	92,029	81,813
	$555,881	$575,333

5) Other Assets

The components of other assets are as follows (in thousands):

	October 25, 1998	August 1, 1999
Purchased technology, net..........	$91,218	$80,121
Goodwill, net......................	11,614	10,173
Other..............................	46,385	77,364

	$149,217	$167,658

Purchased technology and goodwill are presented at cost, net of accumulated amortization, and are being amortized over their estimated useful lives of eight years using the straight-line method. Applied Materials periodically analyzes these assets to determine whether an impairment in carrying value has occurred.

6) Accounts Payable and Accrued Expenses

The components of accounts payable and accrued expenses are as follows (in thousands):

	October 25, 1998	August 1, 1999
Accounts payable....................	$182,616	$311,061
Compensation and benefits..........	185,391	214,684
Installation and warranty..........	179,742	189,318
Restructuring......................	91,781	17,683
Other..............................	401,811	386,117
	$1,041,341	$1,118,863

7) Accrued Restructuring Costs

Restructuring activity was as follows (in thousands):

	Severance and Benefits	Facilities	Total
Balance, October 25, 1998..........	$35,286	$56,495	$91,781
Amount utilized....................	(30,132)	(43,966)	(74,098)
Balance, August 1, 1999............	$5,154	$12,529	$17,683

During the third fiscal quarter of 1999, $9 million of cash was used for restructuring costs. The majority of the remaining cash outlays of $18 million is expected to occur before the end of fiscal 1999.

8) Non-recurring Items (Operating Expenses)

Fiscal 1999

During the first fiscal quarter of 1999, Applied Materials recorded $5 million of pre-tax operating expenses in connection with its acquisition of Consilium, Inc., which was completed on December 11, 1998.

Fiscal 1998

Non-recurring items for the nine months ended July 26, 1998 consisted of a restructuring charge ($35 million) and in-process research and development expense ($32 million).

During the third fiscal quarter of 1998, in response to continued reductions in capital spending by semiconductor manufacturers, Applied Materials completed a voluntary separation plan and developed plans to consolidate certain facilities. In connection with these actions, Applied Materials recorded a pre-tax restructuring charge of $35 million.

During the first fiscal quarter of 1998, Applied Materials entered into an agreement with Trikon Technologies, Inc. for a non-exclusive, worldwide, perpetual license of MORI(TM) plasma source and Forcefill(TM) deposition technology. Because the development of this technology had not yet reached technological feasibility at the time of its acquisition and had no alternative future use for Applied Materials, Applied Materials recognized $32 million, including transaction costs, of acquired in-process research and development expense at the time of its acquisition.

9) Non-recurring Income

During the first fiscal quarter of 1998, Applied Materials settled all outstanding litigation with ASM International, N.V. (ASMI). As a result of this settlement, Applied Materials received a convertible note for $80 million and recorded the amount as non-recurring income. Applied Materials collected $15 million against the note in November 1997.

During the fourth fiscal quarter of 1998, Applied Materials determined, based on facts and circumstances known at the time, that collection of the remaining note balance was doubtful. Based on this determination, Applied Materials recorded a $65 million pre-tax, non-operating charge to fully reserve the outstanding note balance.

During the first fiscal quarter of 1999, and subsequent to the original maturity date of the note, Applied Materials received a $20 million payment from ASMI and recorded the amount as non-recurring income. ASMI's payment was made in accordance with a restructuring of ASMI's obligations under the November 1997 litigation settlement agreement. Pursuant to the new agreement, ASMI agreed to pay $20 million upon completion of the restructuring, $10 million on November 2, 1999 and $35 million no later than November 2, 2000. Applied Materials will recognize non-recurring income related to the remaining balance of the note receivable upon receipt of cash. Certain other obligations of ASMI were also modified under the new agreement; however, these modifications are not expected to be material to Applied Materials' financial condition or results of operations. Royalties received from ASMI pursuant to the settlement agreement have not been, and are not expected to be, material.

10) Stockholders' Equity

Comprehensive Income

Applied Materials adopted Statement of Financial Accounting Standards No. 130 (SFAS 130), "Reporting Comprehensive Income," in the first fiscal quarter of 1999. SFAS 130 establishes new rules for the reporting and display of comprehensive income and its components, but does not impact net income or total stockholders' equity. Components of comprehensive income, on an after-tax basis, are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	July 26, 1998	Aug. 1, 1999	July 26, 1998	Aug. 1, 1999
Net income......................	$47,517	$244,416	$417,631	$438,940
Foreign currency translation adjustments..................	(11,212)	(4,533)	(17,964)	(18,521)
Comprehensive income............	$36,305	$239,883	$399,667	$420,419

Accumulated other comprehensive income/(loss) presented in the accompanying consolidated condensed balance sheets consists entirely of foreign currency translation adjustments.

Stock Repurchase Program

Applied Materials is authorized to systematically repurchase shares of its common stock in the open market to reduce dilution resulting from its stock-based employee benefit and incentive plans. This authorization is effective until the March 2001 Annual Meeting of Stockholders. During the nine months ended August 1, 1999, Applied Materials repurchased 275,000 shares of its common stock at an average price of $72.80 per share, for a total cash outlay of $20 million, compared to 4,453,000 shares of common stock at an average price of $32.11 per share, for a total cash outlay of $143 million, during the nine months ended July 26, 1998.

Stockholder Rights Plan

In July 1999, the Board of Directors of Applied Materials adopted a stockholder rights plan. Applied Materials' prior stockholder rights plan expired in June 1999. Under the new plan, the Board declared and distributed a dividend of one preferred stock purchase right (a "Right") for each share of Applied Materials' common stock outstanding on July 18, 1999 and authorized the distribution of one Right for each subsequently issued common share. Each Right entitles the registered holder to purchase one ten-thousandth of a share of Applied Materials' Series A Junior Participating Preferred Stock at a price of $375. The Rights are attached to the common stock and are not represented by separate certificates. The Rights are not exercisable until ten business days following the earliest of either (i) a public announcement that a person or group of affiliated or associated persons has acquired, or has obtained the right to acquire (an "Acquiring Person"), beneficial ownership of 20 percent or more of Applied Materials' outstanding common stock (the "Stock Acquisition Date"), or (ii) the commencement of (or public announcement of an intention to make) a tender or exchange offer that would result, if successful, in the bidder becoming an Acquiring Person. In the event that any person or group becomes an Acquiring Person (other than as a result of a Permitted Offer; i.e., a tender offer or exchange offer for all outstanding common stock at a price determined by the Board to be fair and adequate to the stockholders, and otherwise in the best interests of Applied Materials and its stockholders), then each Right will entitle its holder to purchase, for $375, a number of shares of Applied Materials' common stock having a market value of $750. Any Rights held by the Acquiring Person will immediately become null and void. If after the Stock Acquisition Date, Applied Materials is acquired in a merger or other business combination or 50 percent or more of Applied Materials' assets or earning power (on a consolidated basis) is sold or transferred, each Right (except Rights which previously have been voided or exercised) will entitle its holder to purchase, for $375, common stock of the acquiring company having a market value of $750. Applied Materials may redeem the Rights at $.01 per Right, and may amend the Rights (other than with respect to principal economic terms) or extend the time during which the Rights may be redeemed, only prior to the tenth business day following the Stock Acquisition Date. Unless earlier redeemed, the Rights will expire on July 6, 2009.

11) <u>New Accounting Pronouncements</u>

In June 1999, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 137 (SFAS 137), "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133." SFAS 137 amends Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities," to defer its effective date to all fiscal quarters of all fiscal years beginning after June 15, 2000. Applied Materials is in the process of determining the effect of adopting SFAS 133, which will be effective for the first fiscal quarter of 2001.

12) <u>Pending Acquisition</u>

On May 28, 1999, Applied Materials announced that it had entered into an agreement to acquire Obsidian, Inc. (Obsidian), a developer of fixed-abrasive chemical mechanical polishing solutions to the semiconductor industry, in a stock-for-stock merger. The acquisition is subject to regulatory approval and certain other conditions, and will be accounted for as a purchase business combination. Applied Materials expects to issue a number of shares of its common stock, having a value up to approximately $150 million, to complete this transaction. The purchase price in excess of the fair value of Obsidian's net tangible assets will be allocated between intangible assets and in-process research and development expense.

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

In addition to historical statements, this Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements are those that use words such as "expects," "anticipates," "believes," "may," "will," "estimates" or similar expressions. These forward-looking statements reflect management's opinions only as of the date hereof, and Applied Materials, Inc. (Applied Materials) assumes no obligation to update this information. These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those stated or implied. Risks and uncertainties include, but are not limited to, those discussed below, particularly in the section entitled "Trends, Risks and Uncertainties". Other risks and uncertainties are disclosed in Applied Materials' prior SEC filings, including its Annual Report on Form 10-K for the fiscal year ended October 25, 1998 and its Quarterly Reports on Form 10-Q for subsequent interim periods.

Results of Operations

Demand for Applied Materials' products can change significantly from period to period as a result of numerous factors, including, but not limited to: 1) changes in global economic conditions, 2) changes in demand for semiconductors, 3) memory device price fluctuations, and 4) the advanced technology requirements of semiconductor manufacturers. For this and other reasons, Applied Materials' results of operations for the three and nine months ended August 1, 1999 may not necessarily be indicative of future operating results.

A severe semiconductor equipment industry downturn began during the first half of Applied Materials' fiscal 1998 as a result of the convergence of several factors: an economic crisis in Asia; semiconductor industry overcapacity (particularly DRAM devices); and reduced profitability for semiconductor manufacturers resulting from a movement among end users to sub-$1,000 personal computers (PCs). These factors caused semiconductor manufacturers to significantly reduce and delay investment in manufacturing equipment during the last half of fiscal 1998. During Applied Materials' fiscal 1999, the industry began to recover from this downturn, and Applied Materials was able to achieve a record level of quarterly new orders and net sales for its third fiscal quarter of 1999.

New Orders and Backlog

Applied Materials received record new orders of $1.5 billion for the third fiscal quarter of 1999, versus $1.4 billion for the second fiscal quarter of 1999 and $1.0 billion for the first fiscal quarter of 1999.

New orders by region were as follows (dollars in millions):

	Three Months Ended			
	May 2, 1999		August 1, 1999	
	($)	(%)	($)	(%)
North America*.....................	417	30	408	28

Europe	199	14	230	16
Japan	237	17	236	16
Korea	104	8	111	8
Taiwan	347	25	380	26
Asia-Pacific	85	6	94	6
Total	1,389	100	1,459	100

*
Primarily the United States

The increase in new orders from the second fiscal quarter of 1999 is primarily the result of the early stages of a broad-based recovery in the semiconductor industry that Applied Materials serves. This recovery was primarily fueled by strong consumer demand for communications and electronic products. In response to the recovery, semiconductor manufacturers placed significant orders for manufacturing equipment to enable them to increase manufacturing capacity, obtain advanced technology, and perform research and development for their next-generation products with design features below 0.18 micron. Applied Materials' backlog at August 1, 1999 was $1.3 billion, versus $1.4 billion at May 2, 1999 and $1.2 billion at January 31, 1999.

Net Sales

Applied Materials' net sales for the third fiscal quarter of 1999 increased 28 percent from the second fiscal quarter of 1999 primarily as a result of the broad-based recovery in the semiconductor industry discussed above. Applied Materials benefited from this recovery because of its strong product position in advanced applications for 0.18 micron and below device requirements. Net sales for the third fiscal quarter of 1999 increased 62 percent from the third fiscal quarter of 1998 due to the low level of business volume in the third fiscal quarter of 1998, as semiconductor manufacturers limited capital spending because of difficult industry conditions that began in early-to-mid 1998. Net sales for the nine months ended August 1, 1999 were comparable to those for the nine months ended July 26, 1998.

Net sales by region were as follows (dollars in millions):

	Three Months Ended				Nine Months Ended			
	July 26, 1998		August 1, 1999		July 26, 1998		August 1, 1999	
	($)	(%)	($)	(%)	($)	(%)	($)	(%)
North America*	332	38	483	34	1,268	38	1,225	37
Europe	193	22	201	14	548	16	468	14
Japan	129	14	237	16	555	17	569	17
Korea	47	5	57	4	129	4	207	6
Taiwan	156	18	366	26	717	21	643	20
Asia-Pacific	27	3	90	6	151	4	182	6
Total	884	100	1,434	100	3,368	100	3,294	100

*
Primarily the United States

Gross Margin

Applied Materials' gross margin was 48.7 percent for the third fiscal quarter of 1999, compared to 46.3 percent for the second fiscal quarter of 1999 and 44.6 percent for the third fiscal quarter of 1998. The increases were caused primarily by higher business volume and the favorable effects of Applied Materials' restructuring and other operational programs established within the last year. These programs emphasize cost control and productivity improvements. Applied Materials' gross margin was 46.7 percent for the nine months ended August 1, 1999, consistent with 46.8 percent for the nine months ended July 26, 1998.

Operating Expenses (Excluding Non-Recurring Items)

Excluding non-recurring items, operating expenses as a percentage of net sales were 25 percent for the three months ended August 1, 1999, compared to 34 percent for the third fiscal quarter of 1998. In terms of absolute dollars, operating expenses for the three months ended August 1, 1999 were higher than those for the comparable period of fiscal 1998 due primarily to increased research and development (R&D) and general and administrative (G&A) spending. R&D spending was increased to support development efforts for 0.18 micron and below technology, applications incorporating new materials such as copper and low-k dielectrics, and equipment capable of processing 300mm wafers. G&A spending increased as a result of investments in various information technology programs, including the implementation of a new enterprise computing system and Year 2000 compliance, and higher costs of incentive and benefit programs linked to Applied Materials' operating performance. Operating expenses, excluding non-recurring items, were 29 percent of net sales for both the nine months ended July 26, 1998 and August 1, 1999.

Non-Recurring Items (Operating Expenses)

Non-recurring items for the nine months ended July 26, 1998 consisted of a $35 million restructuring charge incurred during the third fiscal quarter of 1998, for costs associated with an employee voluntary separation plan and consolidation of certain facilities to address the adverse implications of the semiconductor industry downturn, and $32 million of in-process research and development expense recorded during the first fiscal quarter of 1998 for the acquisition of perpetual rights to certain licensed technology. Applied Materials recorded a $5 million charge in the first fiscal quarter of 1999 for expenses in connection with an acquisition.

Non-Recurring Income

Non-recurring income for both the nine months ended July 26, 1998 and August 1, 1999 related to Applied Materials' settlement of all outstanding litigation with ASM International, N.V. See Note 9 of Notes to Consolidated Condensed Financial Statements, incorporated herein by reference.

Interest Expense

Interest expense was $12 million for the three months ended August 1, 1999, $11 million for the three months ended July 26, 1998, and $35 million for both the nine months ended July 26, 1998 and August 1, 1999. Applied Materials' outstanding interest-bearing obligations and interest rates did not change significantly from period to period.

Interest Income

Interest income was $26 million for the three months ended August 1, 1999, an increase from $19 million for the three months ended July 26, 1998. For the nine months ended August 1, 1999, interest income was $75 million, an increase from $58 million for the nine months ended July 26, 1998. The increases resulted primarily from higher average cash, cash equivalents and short-term investment balances.

Provision for Income Taxes

Applied Materials' effective income tax rate for the three and nine months ended August 1, 1999 was 31 percent, versus 25 percent and 34 percent for the three and nine months, respectively, ended July 26, 1998. The 25 percent effective income tax rate for the three months ended July 26, 1998 was the result of the cumulative effect of a change in Applied Materials' fiscal 1998 effective income tax rate from 35 percent to 34 percent during the third fiscal quarter of 1998. The decrease from 34 percent for the nine months ended July 26, 1998 to 31 percent for the nine months ended August 1, 1999 is due primarily to the reinstatement of the federal research and development (R&D) tax credit and favorable California income tax legislation with respect to R&D and manufacturers investment tax credits.

Pending Acquisition

See Note 12 of Notes to Consolidated Condensed Financial Statements, incorporated herein by reference.

Financial Condition, Liquidity and Capital Resources

Applied Materials had cash, cash equivalents and short-term investments of $2.3 billion, representing 39 percent of total assets, at August 1, 1999. Applied Materials' ratio of current assets to current liabilities was 3.1:1 at both August 1, 1999 and October 25, 1998.

For the nine months ended August 1, 1999, Applied Materials generated $519 million of cash from operations. Operating cash flow was favorably impacted by Applied Materials' ability to manage its working capital in a period of significant revenue growth. Receivables turnover was favorable due to the sale of certain accounts receivable and improved collections. In addition, inventory turnover improved as a result of reductions in factory cycle times during a period of rapid revenue growth. For further details, see the Consolidated Condensed Statements of Cash Flows.

During the nine months ended August 1, 1999, Applied Materials sold $637 million of accounts receivable, which has the effect of increasing cash and reducing accounts receivable and days sales outstanding. See Note 3 of Notes to Consolidated Condensed Financial Statements, incorporated herein by reference.

As of August 1, 1999, Applied Materials' principal sources of liquidity consisted of $2.3 billion of cash, cash equivalents and short-term investments and approximately $600 million of existing credit facilities. Applied Materials' liquidity is affected by many factors, some of which are based on the normal ongoing operations of the business, and others of which relate to the uncertainties of global economies and the semiconductor and semiconductor equipment industries. Although Applied Materials' cash requirements will fluctuate based on the timing and extent of these factors, 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 Materials' liquidity requirements for the next 12 months.

Trends, Risks and Uncertainties

Industry Volatility

The semiconductor equipment industry has historically been cyclical and subject to sudden changes in supply and demand. The variability of overall semiconductor unit volume demand contributes significantly to the volatility of the semiconductor equipment industry. Although semiconductors are used in many different products, the markets for the products are interrelated to various degrees. The timing, length and severity of these cycles are difficult to predict. During periods of reduced and declining demand, Applied Materials must be able to quickly and effectively align its cost structure with prevailing market conditions, and motivate and retain key employees. During periods of rapid growth, Applied Materials must be able to acquire and/or develop sufficient manufacturing capacity to meet customer demand, and hire and assimilate a sufficient number of qualified people. There can be no assurance that Applied Materials will be able to achieve these objectives in a timely manner during these industry cycles.

DRAM Prices

DRAM device prices improved during early fiscal 1999 to levels that enabled DRAM manufacturers to operate profitably and invest in new equipment, but then fluctuated significantly during the second and third fiscal quarters of 1999. If DRAM prices decline to levels that do not allow manufacturers to operate profitably, these manufacturers may cancel or delay orders for Applied Materials' products, which could materially and adversely affect Applied Materials' financial condition and results of operations.

PC Demand

Further shifts in demand from more expensive, high-performance products to lower-priced products (sub-$1,000 PCs), or lower overall demand for PCs, could result in reduced profitability for, and lower capital spending by, semiconductor manufacturers. This could materially and adversely affect demand for Applied Materials' products.

Highly Competitive Industry and Rapid Technological Change

Applied Materials operates in a highly competitive industry characterized by increasingly rapid technological changes. Applied Materials' competitive advantage and future success depend on its ability to develop new products and technologies, develop new markets in the semiconductor industry for its products and services, introduce new products to the marketplace in a timely manner, qualify new products with its customers and commence and change production to meet customer demands.

New products and technologies include those for new materials (including copper and low-k dielectrics), 300mm wafers, and 0.18 micron and below devices. The introduction of new products and technologies grows increasingly complex over time. If Applied Materials does not develop and introduce new products and technologies in a timely manner in response to changing market conditions or customer requirements, its financial condition and results of operations could be materially and adversely affected.

Applied Materials seeks to develop new technologies from both internal and external sources. As part of this effort, Applied Materials may 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) difficulties and increased costs in connection with integration of the operations, technologies and products of the acquired companies; 2) possible write-downs of impaired assets; 3) diversion of management's attention from other operational matters; and 4) the potential loss of key employees of the acquired companies. The inability to effectively manage these risks could materially and adversely affect Applied Materials' business, financial condition and results of operations.

Asian Economies

Although Asian economies have stabilized to some degree compared to early-to-mid fiscal 1998, and certain countries such as Taiwan have relatively healthy economies, Applied Materials remains cautious about general macroeconomic developments in Asia, particularly in Japan. Japan's economy is important to the overall financial health of the region and if it remains stagnant or deteriorates, the economies of other countries, particularly those in Asia, could also be negatively affected. Negative economic developments in Asia could have a material adverse effect on demand for Applied Materials' products.

Global Business

Applied Materials sells systems and provides services to customers located throughout the world. Managing global operations and sites located throughout the world presents challenges associated with, among other things, cultural diversities and organizational alignment. Moreover, each region in the global semiconductor equipment market exhibits unique characteristics that can cause capital equipment investment patterns to vary significantly from period to period. Periodic economic downturns, trade balance issues, political instability and fluctuations in interest and currency exchange rates are all risks that could materially and adversely affect demand for Applied Materials' products and services.

Dependence Upon Key Suppliers

Applied Materials uses numerous vendors to supply parts, components and subassemblies (collectively "parts") for the manufacture and support of its products. Although Applied Materials makes reasonable efforts to ensure that parts are available from multiple suppliers, this is not always possible; accordingly, certain key parts may be obtained only from a single supplier or a limited group of suppliers. These suppliers are, in some cases, thinly capitalized, independent companies that generate significant portions of their business from Applied Materials and/or a small group of other companies in the semiconductor and/or semiconductor equipment industry. Applied Materials has sought, and will continue to seek, to minimize the risk of production and service interruptions and/or shortages of key parts by: 1) selecting and qualifying alternative suppliers for key parts; 2) monitoring the financial stability of key suppliers; and 3) maintaining appropriate inventories of key parts. There can be no assurance that Applied Materials' results of operations will not be materially and adversely affected if, in the future, Applied Materials does not receive sufficient parts to meet its requirements in a timely and cost-effective manner.

Backlog

Applied Materials' backlog increased from $917 million at October 25, 1998 to $1.3 billion at August 1, 1999. Applied Materials schedules production of its systems based upon order backlog and customer commitments. Backlog includes only orders for which written authorizations have been accepted and shipment dates within 12 months have been assigned. However, customers generally may delay delivery of products or cancel orders. Due to possible customer changes in delivery schedules and cancellation of orders, Applied Materials' backlog at any particular date is not necessarily indicative of actual sales for any succeeding period. A reduction of backlog during any particular period could have a material adverse effect on Applied Materials' business, financial condition and results of operations.

Year 2000 Readiness

Applied Materials has established a Year 2000 Program Office to address certain Year 2000 issues. This office focuses on four key readiness programs: 1) Internal Infrastructure Readiness, addressing internal hardware and software, including both information technology and non-information technology systems; 2) Supplier Readiness, addressing the preparedness of suppliers providing material incorporated into Applied Materials' products; 3) Product Readiness, addressing product functionality; and 4) Customer Readiness, addressing customer support and transactional activity. For each readiness area, Applied Materials is systematically performing a global risk assessment, conducting testing and remediation (renovation and implementation), developing contingency plans to mitigate unknown and anticipated risks, and communicating Year 2000 information to employees, suppliers, customers and other third parties. The information provided herein is a "Year 2000 Readiness Disclosure" for purposes of the Year 2000 Information and Readiness Disclosure Act.

Internal Infrastructure Readiness Program

This program is intended to encompass all major categories of hardware and applications in use by Applied Materials, including those used for manufacturing, engineering, sales, finance and human resources. Applied Materials, assisted by a third party, completed an inventory of applications and information technology hardware and categorized them as either "mission critical" or "non-mission critical" based upon certain factors, such as whether a failure of the application or hardware could cause personal injury or significant disruption to any portion of Applied Materials' business. All mission critical applications have been remediated, tested as appropriate, and determined to be Year 2000 ready. Substantially all mission critical hardware, including hubs, routers, telecommunication equipment, workstations and other items, has also been remediated, tested as appropriate, and determined to be Year 2000 ready, with any remaining items to be completed by September 30, 1999. Applied Materials has also completed its evaluation of desktop computers and is in the process of replacing computers that are not Year 2000 ready.

In addition to applications and information technology hardware, Applied Materials has assessed its non-information technology systems, including embedded systems, facilities and other operations, such as financial, banking, security and utility systems. Substantially all mission critical items have been remediated, tested as appropriate, and determined to be Year 2000 ready, with any remaining activity to be completed by September 30, 1999.

Applied Materials has adopted Year 2000 change control procedures to validate that any replacement, modification or upgrade of mission critical applications, information technology hardware and non-information technology systems is Year 2000 ready. A contingency plan to address the impact of unknown and anticipated risks related to Applied Materials' internal infrastructure is in the process of being developed and will continue to be revised and tested during the remainder of calendar 1999.

Supplier Readiness Program

This program focuses on minimizing two areas of risk associated with suppliers: 1) a supplier's product integrity; and 2) a supplier's ability to continue providing products and services in accordance with Applied Materials' standards and requirements. Applied Materials has identified and contacted key suppliers regarding their relative risks in these two areas. To date, Applied Materials has received responses from over 95 percent of its suppliers, most of which indicate that the suppliers, and the products they provide to Applied Materials, are either Year 2000 ready or will be made Year 2000 ready before the year 2000. Applied Materials engaged an external consultant to conduct on-site audits of 220 key suppliers. Based on the results of these audits, Applied Materials is in the process of developing a supplier action list and contingency plan for those suppliers that do not appear to be making sufficient progress towards Year 2000 readiness. The contingency plan may include the identification of alternate suppliers or increasing Applied Materials' inventory levels for critical parts.

In addition to these activities, Applied Materials relies on commercial or governmental suppliers for infrastructure-related services, including utilities, transportation, financial, governmental, communications and other services. These suppliers pose an undetermined risk to Applied Materials' facilities and operations worldwide. Applied Materials is developing a readiness plan based on the geographic location of Applied Materials' facilities and the infrastructure suppliers used to support these facilities. This plan will include information on current suppliers, and alternate suppliers, if available, to better enable continuation of services in these worldwide locations. In some cases, alternate suppliers of these services, such as electrical utilities, are unavailable, and failure by a supplier could impact Applied Materials. The severity of the impact would be greatest if Applied Materials' manufacturing facilities in the United States were affected. This readiness plan will incorporate a contingency plan focused on those countries in which Applied Materials believes that the Year 2000 issue may most severely affect suppliers of infrastructure services.

Product Readiness Program

This program focuses on identifying and resolving Year 2000 issues existing in Applied Materials' products. The program encompasses a number of activities, including testing, evaluation, engineering and manufacturing implementation. Applied Materials has completed a Year 2000 readiness evaluation for its current generation of released products based on a series of industry-recognized esting scenarios. In connection with Applied Materials' Year 2000 readiness evaluation, Applied Materials identified Year 2000 issues in the two major categories of machine control software and product embedded processors, and performed impact studies for each product based on a representative configuration. In addition, by focusing on Applied Materials' parts most likely to include embedded processors with date-related functions, Applied Materials narrowed the number of parts requiring further evaluation from several thousand to approximately 600. These 600 parts were evaluated further and tested as required.

Applied Materials' evaluation indicated that no human or equipment safety impacts or product process control impacts are expected due to the Year 2000 problem, but that certain screen displays, log files and interface programs may be affected. Applied Materials has taken corrective action to address these affected displays, files and programs, and has remediated any affected embedded processors. In addition, Applied Materials has informed customers of certain potential product-specific impacts of the Year 2000 on Applied Materials' products. Testing and engineering activity for Applied Materials' current generation of products is complete, and unless otherwise requested by a customer, all products that shipped on or after January 1, 1999 were Year 2000 ready.

Customer Readiness Program

This program focuses on customer support issues, including the coordination of retrofit activity for older generation products, testing existing customer electronic transaction capability and providing other services to Applied Materials' customers. Applied Materials, in cooperation with its customers, has completed an inventory and assessment of products in use at substantially all of its customers' sites. Applied Materials is offering different upgrade packages for its products, including various parts, software and services in the form of "Year 2000 ready kits." As of July 31, 1999, installation of upgrades for systems that shipped after January 1, 1997 were approximately 90 percent complete. Substantially all remaining upgrades for products shipped before or after January 1, 1997 are dependent upon specific customer requirements and schedules. In particular, many of Applied Materials' customers located in Japan have elected not to implement Applied Materials' upgrade packages. In addition to other activities under the Customer Readiness Program, Applied Materials plans to make a customer support team available to customers experiencing difficulty with Applied Materials' products at the time of the year 2000 transition.

Consilium

In conjunction with Applied Materials' due diligence examination of Consilium Inc. (Consilium), which was acquired in December 1998, Applied Materials conducted a limited evaluation of Consilium's Year 2000 readiness. Since then, Applied Materials has further evaluated certain areas related to Consilium's internal information technology, suppliers and products. Most of Consilium's Year 2000 programs related to internal infrastructure and suppliers are either modeled after, or fully integrated into, Applied Materials' Internal Infrastructure and Supplier Readiness Programs. Consilium's internal applications and hardware are in the process of being upgraded and/or converted to Applied Materials' Year 2000 standards. This process is expected to be complete by September 30, 1999, and the estimated costs have been included in Applied Materials' overall Year 2000 Program projection. Consilium's products are "Year 2000 Compliant" as defined by agreements with its customers, provided that the products are used in accordance with related documentation and the underlying operating system of the host machine and any other software used in conjunction with Consilium's products are also Year 2000 Compliant. Certain prior versions of Consilium's products require an upgrade to become Year 2000 Compliant. These upgrades are available to Consilium customers as a standard component of Consilium's maintenance program. Consilium has contacted or attempted to contact all customers that are believed to have received a non-Year 2000 Compliant version of its product, and has personnel available to assist its customers in their Year 2000 remediation efforts.

Consilium has received information from its suppliers regarding Year 2000 issues, but has not specifically tested software obtained from its suppliers or software that is incorporated into Consilium's products at the specific request of its customers. Consilium is in the process of evaluating situations in which it installed such software, testing certain software it believes may be affected by the Year 2000 issue and communicating with customers regarding these activities, as applicable. Despite Consilium's testing, and whatever assurances Consilium may receive from developers of products incorporated into its products, Consilium's products may contain undetected errors or defects associated with the Year 2000 issue. Further, prior versions of its products, and certain software provided by third parties or its customers and incorporated into Consilium's products, may not be Year 2000 compliant.

Estimated Costs

Applied Materials estimates that total Year 2000 costs will range from $30 million to $40 million, with $22 million spent as of August 1, 1999. This amount includes costs to support customer satisfaction programs and services and other internal costs, but does not include the cost of internal hardware and software that was to be replaced in the normal course of business but has been accelerated because of Year 2000 capability concerns. The remaining costs are expected to be incurred for remediation of non-mission critical internal systems, contingency planning, customer support programs and program office management. There can be no assurance, however, that there will not be a delay in, or increased costs associated with, the programs described in this section.

Most Likely Worst Case Scenario

Applied Materials believes that the most likely worst-case scenario for Year 2000 problems relates to problems with the systems of third party suppliers, rather than with Applied Materials' products. The greatest risks are with suppliers of Applied Materials' facilities and infrastructure services, such as electrical utilities, transportation, financial services, governmental services, and communication services, as well as with suppliers of critical materials for which there is no reasonable business alternative. There can be no assurance as to whether suppliers will sufficiently address Year 2000 issues and be able to continue to provide products and services to Applied Materials in a timely manner, or whether Applied Materials' contingency plans will effectively address such issues. As a result, Applied Materials' ability to fulfill customer orders or meet other requirements could be affected, and Applied Materials' financial condition and results of operations could therefore also be materially and adversely affected.

Risks Associated with the Year 2000 Problem

This discussion broadly addresses Applied Materials' efforts to identify and address its and applicable third parties' Year 2000 issues with respect to Applied Materials' four readiness programs. Applied Materials believes it has taken steps to identify and remediate Year 2000 issues under its various readiness programs. However, there can be no assurance that product testing has identified all Year 2000-related issues or that Applied Materials will effectively address every failure of its products resulting from Year 2000 issues. Among other risks, such failures could result in claims against Applied Materials, increased warranty or service costs, or delay or loss of revenue, any of which could materially and adversely affect Applied Materials' financial condition and results of operations. Furthermore, if efforts to identify and address Year 2000 issues in Applied Materials' customer and supply base and infrastructure are not successful, Applied Materials may experience significant unanticipated problems that could materially and adversely affect Applied Materials' financial condition and results of operations. In particular, the effects of the Year 2000 issue on Applied Materials' customers, including those of a customer's failure to install Applied Materials upgrade packages, are unknown, and could result in the customer delaying orders for Applied Materials' products and could otherwise materially and adversely affect Applied Materials' financial condition and results of operations. Finally, significant litigation regarding Year 2000 issues is possible, especially as it relates to software companies such as Consilium. It is uncertain whether, or to what extent, Applied Materials may be affected by such litigation.

Foreign Currency

Significant operations of Applied Materials are conducted in foreign currencies, primarily Japanese yen. Applied Materials actively manages its exposure to changes in currency exchange rates, but there can be no assurance that future changes in currency exchange rates will not have a material and adverse effect on Applied Materials' financial condition or results of operations.

Euro Conversion

On January 1, 1999, 11 of the 15 member countries of the European Union established fixed conversion rates between each of their existing sovereign currencies and the Single European Currency (the "euro"). The participating countries adopted the euro as their common legal currency on that date, with a transition period through January 1, 2002 regarding certain elements of the euro change. In early January, Applied Materials implemented changes to its internal systems to make them euro capable. The cost of systems modifications to date has not been material, nor are future systems modifications expected to be material. Applied Materials does not expect the transition to, or use of, the euro to materially and adversely affect its business, financial condition or results of operations.

Litigation

Applied Materials is currently involved in litigation regarding patent infringement, intellectual property rights, antitrust and other matters (see Part II, Item 1 of this report), and could become involved in additional litigation in the future. Applied Materials from time to time receives and makes inquiries regarding possible patent infringement, and is subject to various other legal proceedings and claims, either asserted or unasserted. Any such claims, whether with or without merit, could be time-consuming and expensive to defend and could divert management's attention and resources. There can be no assurance regarding the outcome of current or future litigation or patent infringement inquiries.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Significant operations of Applied Materials are conducted in foreign currencies, primarily Japanese yen. Forward exchange and currency option contracts are purchased to hedge certain existing firm commitments and foreign currency denominated transactions expected to occur during the next year. Gains and losses on these contracts are recognized in income when the related transactions being hedged are recognized. Because the effect of movements in currency exchange rates on forward exchange and currency option contracts generally offsets the related effect on the underlying items being hedged, these financial instruments are not expected to subject Applied Materials 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 nine months ended July 26, 1998 or August 1, 1999.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

AG

In April 1997, Applied Materials initiated a lawsuit against AG Associates, Inc. (AG) (case no. C-97-20375-RMW) in the United States District Court for the Northern District of California, alleging infringement of certain patents concerning rapid thermal processing (RTP) technology. In October 1997, AG filed counterclaims against Applied Materials alleging patent infringement concerning related technology.

Discovery in Applied Materials' case against AG has commenced, and trial has been set for March 2000. In addition, in August 1998, AG filed two separate patent infringement lawsuits against Applied Materials, one in the United States District Court for the Northern District of California (case no. C-98-03044-WHO) and one in the United States District Court for the District of Delaware (civil action no. 98-479). On February 2, 1999, the Delaware District Court issued an order transferring their case to the Northern District of California (case no. C-98-20883-RMW). No trial dates have been set in these actions. Applied Materials continues to believe it has meritorious claims and defenses against AG and intends to pursue them vigorously.

KLA

As a result of Applied Materials' acquisition of Orbot Instruments, Ltd. (Orbot), Applied Materials is involved in a lawsuit captioned KLA Instruments Corporation (KLA) v. Orbot (case no. C-93-20886-JW) in the United States District Court for the Northern District of California. KLA alleges that Orbot infringes a patent regarding equipment for the inspection of masks and reticles, and seeks an injunction, damages and such other relief as the Court may find appropriate. There has been limited discovery, but no trial date has been set. Management believes it has meritorious defenses and intends to pursue them vigorously.

Varian and Novellus

On June 13, 1997, Applied Materials filed a lawsuit against Varian Associates, Inc. (Varian) captioned Applied Materials, Inc. v. Varian Associates, Inc. (case no. C-97-20523-RMW), alleging infringement of several of Applied Materials' patents concerning physical vapor deposition (PVD) technology. The complaint was later amended on July 7, 1997 to include Novellus Systems, Inc. (Novellus) as a defendant as a result of Novellus' acquisition of Varian's thin film systems PVD business. Applied Materials seeks damages for past infringement, a permanent injunction, treble damages for willful infringement, pre-judgment interest and attorneys' fees. Varian answered the complaint by denying all allegations, counterclaiming for declaratory judgment of invalidity and unenforceability and alleging conduct by Applied Materials in violation of antitrust laws. On June 23, 1997, Novellus filed a separate lawsuit against Applied Materials captioned Novellus Systems, Inc. v. Applied Materials, Inc. (case no. C-97-20551-EAI), alleging infringement by Applied Materials of three patents concerning PVD technology that were formerly owned by Varian. On July 8, 1997, Varian filed a separate lawsuit against Applied Materials captioned Varian Associates, Inc. v. Applied Materials, Inc. (case no. C-97-20597-PVT). On July 16, 1999, Varian was granted leave to file a First Amended Complaint alleging a broad range of conduct in violation of federal antitrust laws and state unfair competition and business practice laws. Discovery has commenced in these actions, but no trial dates have been set. Management believes it has meritorious claims and defenses and intends to pursue them vigorously.

OKI

In November 1997, OKI Electric Industry Co., Ltd. (OKI) filed suit against one of Applied Materials' wholly-owned subsidiaries, Applied Materials Japan (AMJ), in Tokyo District Court in Japan, alleging that AMJ is obligated to indemnify OKI for a portion of patent license royalties paid by OKI to Texas Instruments, Inc. Several hearings have been held, but no trial date has been set. Management believes that it has meritorious defenses and intends to pursue them vigorously.

Applied Materials 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, management does not believe that any of these legal matters will have a material adverse effect on Applied Materials' financial condition or results of operations.

Item 5. Other Information

The ratio of earnings to fixed charges for the nine months ended July 26, 1998 and August 1, 1999, and for each of the last five fiscal years, was as follows:

Fiscal Year					Nine Months Ended	
					July 26,	Aug. 1,
1994	1995	1996	1997	1998	1998	1999

13.37x	21.25x	20.14x	18.96x	6.92x	12.39x	12.63x

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:

3(i)(a) Certificate of Designation, Preferences and Rights of the Terms of the Series A Junior Participating Preferred Stock of Applied Materials, Inc., dated as of July 7, 1999.

3(i)(b) Certificate of Incorporation of Applied Materials, Inc., as amended to July 12, 1999.

3(ii)(a) Amendment to the Bylaws of Applied Materials, Inc., dated as of June 23, 1999.

3(ii)(b) Amendment to the Bylaws of Applied Materials, Inc., dated as of July 7, 1999.

3(ii)(c) Bylaws of Applied Materials, Inc., as amended and restated through July 7, 1999 (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated July 7, 1999).

4.1 Rights Agreement, dated as of July 7, 1999, between Applied Materials, Inc. and Harris Trust and Savings Bank, as Rights Agent (incorporated herein by reference to Exhibit 1 to the Company's Registration Statement on Form 8-A, dated July 9, 1999).

27.0 Financial Data Schedule for the nine months ended August 1, 1999: filed electronically.

b) A Current Report on Form 8-K, dated July 7, 1999, was filed during the quarter ended August 1, 1999, reporting a dividend distribution of preferred stock purchase rights to Applied Materials' common stockholders. This item was reported under Item 5 of such Form 8-K.

SIGNATURES

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

Delaware	**94-1655526**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification Number)*

September 14, 1999

APPLIED MATERIALS, INC.
By: /s/ Joseph R. Bronson

Joseph R. Bronson
Senior Vice President, Chief Financial Officer,
Chief Administrative Officer, and Member, Office of the President
By: /s/ Michael K. O'Farrell

EXHIBIT INDEX

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APPLIED MATERIALS, INC.
CERTIFICATE
OF DESIGNATION, PREFERENCES AND RIGHTS
OF THE TERMS OF THE
SERIES A JUNIOR PARTICIPATING PREFERRED STOCK

Pursuant to Section 151 of the General Corporation Law of the State of Delaware

We, Joseph J. Sweeney, Vice President, Legal Affairs and Intellectual Property, and Barry Quan, Assistant Secretary, of Applied Materials, Inc., organized and existing under the General Corporation Law of the State of Delaware, in accordance with the provisions of Section 103 thereof, DO HEREBY CERTIFY:

That pursuant to the authority conferred upon the Board of Directors by the Certificate of Incorporation of the Corporation, the Board of Directors on July 7, 1999, adopted the following resolution creating a series of One Hundred Ten Thousand (110,000) shares of Preferred Stock designated as Series A Junior Participating Preferred Stock:

RESOLVED, that pursuant to the authority vested in the Board of Directors of the Corporation in accordance with the provisions of its Certificate of Incorporation, a series of Preferred Stock of the Corporation be and it hereby is created, and that the designation and amount thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

Section 1. Designation and Amount. The shares of such series shall be designated as "Series A Junior Participating Preferred Stock" (the "Series A Preferred Stock") and the number of shares constituting such series shall be One Hundred Ten Thousand (110,000).

Section 2. Dividends and Distributions.

(A) The dividend rate on the shares of Series A Preferred Stock shall be for each quarterly dividend (hereinafter referred to as a "quarterly dividend period"), which quarterly dividend periods shall commence on February 1, May 1, August 1 and November 1, in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date") (or in the case of original issuance, from the date of original issuance) and shall end on and include the day next preceding the first date of the next quarterly dividend period, at a rate per quarterly dividend period (rounded to the nearest cent) equal to the greater of (a) $1.00 or (b) subject to the provisions for adjustment hereinafter set forth, 10,000 times the aggregate per share amount of all cash dividends, and 10,000 times the aggregate per share amount (payable in cash, based upon the fair market value at the time the non-cash dividend or other distribution is declared as determined in good faith by the Board of Directors) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock, par value $0.01 per share, of the Corporation (the "Common Stock"), or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared (but not withdrawn) on the Common Stock during the immediately preceding quarterly dividend period, or, with respect to the first quarterly dividend period, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In the event the Corporation shall at any time after July 7, 1999 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series A Preferred Stock, unless the date of issue of such shares is prior to the record date for the first quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 45 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 10,000 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein, in the Certificate of Incorporation or by law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) Except as set forth herein, in the Certificate of Incorporation and in the Bylaws, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. Reacquired Shares. Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Section 5. Liquidation, Dissolution or Winding Up.

(A) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of the Series A Preferred Stock shall be entitled to receive, prior to any distribution (either as dividends or upon liquidation, dissolution or winding up) to the holders of stock ranking junior to the Series A Preferred Stock, the greater of (a) $1.00 per share, plus accrued dividends to the date of distribution, whether or not earned or declared, or (b) an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 10,000 times the aggregate amount to be distributed per share to holders of Common Stock. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event pursuant to clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 6. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series A Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 10,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. No Redemption. The shares of Series A Preferred Stock shall not be redeemable.

Section 8. Fractional Shares. Series A Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and have the benefit of all other rights of holders of Series A Preferred Stock. All payments made with respect to fractional shares hereunder shall be rounded to the nearest whole cent.

Section 9. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 9, purchase or otherwise acquire such shares at such time and in such manner.

Section 10. Ranking. The Series A Preferred Stock shall be junior to all other Series of the Corporation's preferred stock as to the payment of dividends and the distribution of assets, except to the extent a series is made pari passu with the Series A Preferred Stock.

Section 11. Amendment. The Certificate of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of two-thirds or more of the outstanding shares of Series A Preferred Stock voting together as a single class.

IN WITNESS WHEREOF, we have executed and subscribed this Certificate and do affirm the foregoing as true under the penalties of perjury this 9th day of July, 1999.

/s/ Joseph J. Sweeney
Vice President, Legal Affairs
and Intellectual Property

Attest:

/s/ Barry Quan
Assistant Secretary

CERTIFICATE OF INCORPORATION
OF
APPLIED MATERIALS, INC.
(as amended to July 12, 1999)

FIRST: The name of the corporation is Applied Materials, Inc.

SECOND: The address of the corporation's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at that address is The Corporation Trust Company.

THIRD: The name and mailing address of the incorporator of the corporation is:
Donald A. Slichter
Orrick, Herrington & Sutcliffe
55 Almaden Boulevard
San Jose, California 95113

FOURTH: The nature of the business or purposes to be conducted or promoted by the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

FIFTH:
1. The corporation is authorized to issue two classes of shares to be designated, respectively, "Preferred Stock" and "Common Stock." The number of shares of Preferred Stock authorized to be issued is One Million (1,000,000) and the number of shares of Common Stock authorized to be issued is One Billion One Hundred Million (1,100,000,000). The stock, whether Preferred Stock or Common Stock, shall have a par value of $.01 per share.

2. The shares of Preferred Stock may be issued from time to time in one or more series. The Board of Directors is authorized, by filing a certificate pursuant to the applicable law of the State of Delaware, to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers, preferences and rights of the shares of each such series and the qualifications, limitations or restrictions thereof, including but not limited to the fixing or alteration of the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price or prices, and the liquidation preferences of any wholly unissued series of shares of Preferred Stock; and to increase or decrease the number of shares of any series subsequent to the issue of shares of that series, but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series.

SIXTH: In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to adopt, amend and repeal from time to time any or all of the bylaws of the corporation, including bylaw amendments increasing or reducing the authorized number of directors.

SEVENTH: No action shall be taken by the stockholders except at an annual or special meeting of stockholders. No action shall be taken by stockholders by written consent.

EIGHTH: Elections of directors need not be by written ballot unless the bylaws of the corporation shall so provide.

NINTH:
1. The affirmative vote of the holders of not less than sixty-six and sixty-seven hundredths percent (66.67%) of the outstanding shares of "Voting Stock" (as hereinafter defined) shall be required for the approval or authorization of any "Business Combination" (as hereinafter defined) of this corporation or any subsidiary of this corporation with any "Related Person" (as hereinafter defined), notwithstanding the fact that no vote may be required or that a lesser percentage may be specified by law, in any agreement with any national securities exchange

or otherwise; provided, however, that the sixty-six and sixty-seven hundredths percent (66.67%) voting requirement shall not be applicable and such Business Combination shall require only such affirmative vote as is required by law, any agreement with any national securities exchange or otherwise if:

(a) The "Continuing Directors" (as hereinafter defined) of this corporation by at least a majority vote have expressly approved such Business Combination either in advance of or subsequent to such Related Person becoming a Related Person; or

(b) All of the following conditions are met:

(i) The cash or "Fair Market Value" (as hereinafter defined) as of the date of the consummation of the Business Combination (the "Combination Date") of the property, securities or other consideration to be received per share by holders of a particular class or series of capital stock, as the case may be, of this corporation in the Business Combination is not less than the highest of:

(A) the highest per share price (including brokerage commissions, transfer taxes and soliciting dealers' fees) paid by or on behalf of the Related Person in acquiring beneficial ownership of any of its holdings of such class or series of capital stock of this corporation (i) within the two-year period immediately prior to the Combination Date or (ii) in the transaction or series of transactions in which the Related Person became a Related Person, whichever is higher; or

(B) the Fair Market Value per share of the shares of capital stock being acquired in the Business Combination (i) as of the Combination Date or (ii) the date on which the Related Person became a Related Person, whichever is higher; or

(C) in the case of Common Stock, the per share book value of the Common Stock as reported at the end of the fiscal quarter immediately prior to the Combination Date, and in the case of Preferred Stock, the highest preferential amount per share to which the holders of shares of such class or series of Preferred Stock would be entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the corporation, regardless of whether the Business Combination to be consummated constitutes such an event.

The provision of this paragraph l(b)(i) shall be required to be met with respect to every class or series of outstanding capital stock, whether or not the Related Person has previously acquired any shares of a particular class or series of capital stock. In all of the above instances, appropriate adjustments shall be made for recapitalizations and for stock dividends, stock splits and like distributions; and

(ii) The consideration to be received by holders of a particular class or series of capital stock shall be in cash or in the same form as previously has been paid by or on behalf of the Related Person in connection with its direct or indirect acquisition of beneficial ownership of shares of such class or series of stock. If the consideration so paid for any such shares varied as to form, the form of consideration for such shares shall be either cash or the form used to acquire beneficial ownership of the largest number of shares of such class or series of capital stock previously acquired by the Related Person; and

(iii) After such Related Person has become a Related Person and prior to the consummation of such Business Combination: (a) except as approved by a majority of the Continuing Directors, there shall have been no failure to declare and pay at the regular date therefor any full quarterly dividends (whether or not cumulative) on the outstanding Preferred Stock; (b) there shall have been (1) no reduction in the annual rate of dividends paid on the Common Stock (except as necessary to reflect any subdivision of the Common Stock), except as approved by a majority of the Continuing Directors, and (2) an increase in such annual rate of dividends as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of the Common Stock, unless the failure so to increase such annual rate is approved by a majority of the

Continuing Directors; and (c) such Related Person shall have not become the beneficial owner of any additional shares of Voting Stock except as part of the transaction which results in such Related Person becoming a Related Person; and

(iv) After such Related Person has become a Related Person, such Related Person shall not have received the benefit, directly or indirectly (except as proportionately as a stockholder), of any loans, advances, guarantees, pledges or other financial assistance or any tax credits or other tax advantages provided by the corporation, whether in anticipation of or in connection with such Business Combination or otherwise; and

(v) A proxy or information statement describing the proposed Business Combination and complying with the requirements of the Securities Exchange Act of 1934 and the rules and regulations thereunder (or any subsequent provisions replacing such Act, rules or regulations) shall be mailed to public stockholders of the corporation at least 30 days prior to the consummation of such Business Combination (whether or not such proxy or information statement is required to be mailed pursuant to such Act or subsequent provisions).

2. For purposes of this Article NINTH:

(a) The term "Business Combination" shall mean any (i) merger or consolidation of this corporation or a Subsidiary (as hereinafter defined) of this corporation with a Related Person or any other corporation which is or after such merger or consolidation would be an "Affiliate" or "Associate" (as hereinafter defined) of a Related Person, (ii) sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) with any Related Person or any Affiliate or Associate of any Related Person, of all or any "Substantial Part" (as hereinafter defined) of the assets of this corporation or of a Subsidiary of this corporation to a Related Person or any Affiliate or Associate of any Related Person, (iii) adoption of any plan or proposal for the liquidation or dissolution of this corporation proposed by or on behalf of a Related Person or any Affiliate or Associate of any Related Person, (iv) sale, lease, exchange or other disposition, including without limitation a mortgage or other security device, of all or any Substantial Part of the assets of a Related Person or any Affiliate or Associate of any Related Person to this corporation or a Subsidiary of this corporation, (v) issuance or pledge of securities of this corporation or a Subsidiary of this corporation to or with a Related Person or any Affiliate or Associate of any Related Person, (vi) reclassification of securities (including any reverse stock split) or recapitalization of this corporation or any other transaction that would have the effect, either directly or indirectly, of increasing the proportionate share of any class of equity or convertible securities of this corporation or any Subsidiary of this corporation which is directly or indirectly beneficially owned by any Related Person or any Affiliate or Associate of any Related Person, and (vii) agreement, contract or other arrangement providing for any of the transactions described in this definition of Business Combination.

(b) The term "person" shall mean any individual, firm, corporation or other entity and shall include any group comprised of any person and any other person with whom such person or any Affiliate or Associate of such person has any agreement, arrangement or understanding, directly or indirectly, for the purpose of acquiring, holding, voting or disposing of Voting Stock of this corporation.

(c) The term "Related Person" shall mean any person (other than this corporation, or any Subsidiary and other than any profit-sharing, employee stock ownership or other employee benefit plan of this corporation or any Subsidiary or any trustee of or fiduciary with respect to any such plan when acting in such capacity) who or which:

(i) is the beneficial owner (as hereinafter defined) of fifteen percent (15%) or more of the Voting Stock;
(ii) is an Affiliate or Associate of this corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner of fifteen percent (15%) or more of the Voting Stock; or
(iii) is an assignee of or has otherwise succeeded to the beneficial ownership of any shares of Voting Stock which were at any time within the two-year period immediately prior to such time beneficially owned by any Related Person, if such assignment or succession shall have occurred in the

course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

(d) A person shall be a "beneficial owner" of any Voting Stock:

(i) which such person or any of its Affiliates or Associates beneficially owns, directly or indirectly,
(ii) which such person or any of its Affiliates or Associates has, directly or indirectly, (a) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (b) the right to vote pursuant to any agreement, arrangement or understanding; or
(iii) which are beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

(e) For the purposes of determining whether a person is a Related Person pursuant to subparagraph (c) of this paragraph 2, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of subparagraph (d) of this paragraph 2 but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(f) The terms "Affiliate" or "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on January 12, 1987.

(g) The term "Subsidiary" means any corporation of which a majority of any class of equity securities is owned, directly or indirectly, by this corporation; provided, however, that for the purposes of the definition of Related Person set forth in subparagraph (c) of this paragraph 2, the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity securities is owned, directly or indirectly, by this corporation.

(h) The term "Continuing Director" means any member of the Board of Directors, while such person is a member of the Board of Directors, who is not an Affiliate, Associate or a representative of the Related Person involved in a proposed Business Combination and was a member of the Board of Directors prior to the time that the Related Person became a Related Person, and any successor of a Continuing Director, while such successor is a member of the Board of Directors, who is not an Affiliate, Associate or a representative of the Related Person and is recommended or elected to succeed a Continuing Director by a majority of Continuing Directors. Each initial director of this corporation elected by the incorporator of this corporation shall be a Continuing Director for purposes of this Article NINTH.

(i) The term "Substantial Part" shall mean more than twenty percent (20%) of the Fair Market Value, as determined by a majority of the Continuing Directors, of the total consolidated assets of this corporation and its Subsidiaries taken as a whole as of the end of its most recent fiscal year ended prior to the time the determination is being made.

(j) For the purposes of paragraph l(b)(i) of this Article NINTH, the term "other consideration to be received" shall include, without limitation, capital stock retained by the shareholders.

(k) The term "Voting Stock" shall mean all of the outstanding shares of Common Stock and the outstanding shares of Preferred Stock entitled to vote on each matter on which the holders of record of Common Stock shall be entitled to vote, and each reference to a proportion of shares of Voting Stock shall refer to such proportion of the votes entitled to be cast by such shares voting as one class.

(l) The term "Fair Market Value" means (i) in case of capital stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for the New York Stock Exchange Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Act of 1934 on which such stock is listed, or, if such stock is not listed on any such stock exchange, the highest closing sale price with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any successor system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined in good faith by a majority of the Continuing Directors; and (ii) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined in good faith by a majority of the Continuing Directors.

(m) A Related Person shall be deemed to have acquired a share of the Voting Stock of this corporation at the time when such Related Person became the beneficial owner thereof. If a majority of the Continuing Directors is not able to determine the price at which a Related Person has acquired a share of Voting Stock of this corporation, such price shall be deemed to be the Fair Market Value of the shares in question at the time when the Related Person became the beneficial owner thereof. With respect to shares owned by Affiliates, Associates or other persons whose ownership is attributed to a Related Person under the foregoing definition of Related Person, the price deemed to be paid therefor by such Related Person shall be the price paid upon the acquisition thereof by such Affiliate, Associate or other person, or, if such price is not determinable by a majority of the Continuing Directors, the Fair Market Value of the shares in question at the time when the Affiliate, Associate or other such person became the beneficial owner thereof.

3. The fact that any Business Combination complies with the provisions of paragraph l(b) of this Article NINTH shall not be construed to impose any fiduciary duty, obligation or responsibility on the Board of Directors, or any member thereof, to approve such Business Combination or recommend its adoption or approval to the shareholders of this corporation, nor shall such compliance limit, prohibit or otherwise restrict in any manner the Board of Directors, or any member thereof, with respect to evaluations of or actions and responses taken with respect to such Business Combination.

4. A majority of the Continuing Directors of the corporation shall have the power and duty to determine for the purposes of this Article NINTH, on the basis of information known to them after reasonable inquiry, (A) whether a person is a Related Person, (B) the number of shares of Voting Stock beneficially owned by any person, and (C) whether a person is an Affiliate or Associate of another. A majority of the Continuing Directors of the corporation shall have the further power to interpret all of the terms and provisions of this Article NINTH.

TENTH: A director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived an improper personal benefit.

ELEVENTH:

1. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director, officer, employee or agent, of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the corporation to the fullest extent authorized by the Delaware General Corporation Law, against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to

the benefit of his or her heirs, executors and administrators; provided, however, that, except as provided in paragraph 2 hereof, the corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors of the corporation. The right to indemnification conferred in this Article shall be a contract right.

2. If a claim under paragraph 1 of this Article is not paid in full by the corporation within 30 days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the corporation) that the claimant has not met the standards of conduct which make it permissible under the Delaware General Corporation Law for the corporation to indemnify the claimant for the amount claimed.

3. The right to indemnification conferred in this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

4. The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law.

TWELFTH: The corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred on stockholders herein are granted subject to this reservation. Notwithstanding the foregoing, the provisions set forth in Articles NINTH, TENTH, ELEVENTH and TWELFTH may not be amended or repealed in any respect unless such amendment or repeal is approved by the affirmative vote of not less than sixty-six and sixty-seven hundredths percent (66.67%) of the total voting power of all outstanding shares of stock in this corporation entitled to vote thereon.

THE UNDERSIGNED, being the incorporator hereinbefore named, for the purpose of forming a corporation to do business both within and without the State of Delaware, and in pursuance of the Delaware Corporation Law, does hereby make and file this Certificate.

/s/ Donald A. Slichter
Donald A. Slichter

RESOLUTIONS OF THE
BOARD OF DIRECTORS OF
APPLIED MATERIALS, INC.

Adopted on June 23, 1999

AMENDMENT TO BYLAWS

RESOLVED, that Article III, Section 3.1, of the bylaws of the corporation be amended to read as follows:

"3.1 Powers. The business and affairs of the corporation shall be managed by or under the direction of the board of directors, except as otherwise provided in the General Corporation Law of the State of Delaware or in the certificate of incorporation."

RESOLVED FURTHER, that the Secretary of the corporation hereby is directed to include in the corporate minute books copies of the foregoing amendment to the bylaws of the corporation; and

RESOLVED FURTHER, that the proper officers of the corporation are, and each hereby is, authorized and directed, jointly and severally, for and on behalf and in the name of the corporation, to do or cause to be done any and all acts, including but not limited to the execution and delivery of any and all papers, agreements, documents, instruments and certificates, as such officers may deem necessary or appropriate to carry out the purposes and intent of the foregoing resolutions, and the performance of any such acts, including but not limited to the execution and delivery by such officers of any such papers, agreements, documents, instruments and certificates, shall conclusively establish the authority of such officers therefor; and

RESOLVED FURTHER, that any actions taken by such officers prior to this action by the Board of Directors approving the foregoing resolutions that are within the authority conferred hereby are hereby ratified, confirmed and approved as the acts and deeds of the corporation.

RESOLUTIONS OF THE
BOARD OF DIRECTORS OF
APPLIED MATERIALS, INC.

AMENDMENT OF BYLAWS

Adopted on July 7, 1999

RESOLVED, that Article VIII, Section 8.1, of the bylaws of the Corporation be amended to read as follows:

"8.1 Amendment. The bylaws of the corporation may be altered, amended or repealed or new bylaws may be adopted by either the (i) board of directors or (ii) stockholders upon the affirmative vote of the holders of not less than a majority of the total voting power of all issued and outstanding shares of stock in this corporation entitled to vote thereon."

RESOLVED FURTHER, that the Secretary of the Corporation hereby is directed to include in the corporate minute books copies of the foregoing amendment to the bylaws of the Corporation; and

RESOLVED FURTHER, that the proper officers of the Corporation are, and each hereby is, authorized and directed, jointly and severally, for and on behalf and in the name of the Corporation, to do or cause to be done any and all acts, including but not limited to the execution and delivery of any and all papers, agreements, documents, instruments and certificates, as such officers may deem necessary or appropriate to carry out the purposes and intent of the foregoing resolution, and the performance of any such acts, including but not limited to the execution and delivery by such officers of any such papers, agreements, documents, instruments and certificates, shall conclusively establish the authority of such officers therefor; and

RESOLVED FURTHER, that any actions taken by such officers prior to this action by the Board of Directors approving the foregoing resolutions that are within the authority conferred hereby are hereby ratified, confirmed and approved as the acts and deeds of the Corporation.

5
THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED AUGUST 1, 1999.

1,000

9-MOS
OCT-31-1999
OCT-26-1998
AUG-1-1999
577,999
1,680,616
1,107,712
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0
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438,940
1.17
1.11

ITEM IS SHOWN NET OF ALLOWANCE, CONSISTENT WITH BALANCE SHEET PRESENTATION.
ITEM CONSISTS OF LONG TERM DEBT.
ITEM CONSISTS OF RESEARCH, DEVELOPMENT AND ENGINEERING EXPENSES.
ITEM CONSISTS OF BASIC EARNINGS PER SHARE.

Michael K. O'Farrell
Vice President, Global Controller and Principal Accounting Officer