APPLIED MATERIALS INC /DE
Form 10-Q
August 20, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 26, 2015
or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 000-06920
Applied Materials, Inc.
(Exact name of registrant as specified in its charter)

Delaware	94-1655526
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3050 Bowers Avenue, P.O. Box 58039 Santa Clara, California	95052-8039
(Address of principal executive offices)	(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Number of shares outstanding of the issuer’s common stock as of July 26, 2015: 1,200,619,417

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(In millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	July 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
	(Unaudited)			
Net sales	$2,490	$2,265	$7,291	$6,808
Cost of products sold	1,472	1,273	4,298	3,924
Gross profit	1,018	992	2,993	2,884
Operating expenses:				
Research, development and engineering	372	357	1,088	1,068
Marketing and selling	112	108	332	324
General and administrative	135	126	392	375
Loss (gain) on derivatives associated with terminated business combination	3	10	(89)	9
Total operating expenses	622	601	1,723	1,776
Income from operations	396	391	1,270	1,108
Interest expense	24	24	71	72
Interest and other income, net	3	3	2	14
Income before income taxes	375	370	1,201	1,050
Provision for income taxes	46	69	160	234
Net income	$329	$301	$1,041	$816
Earnings per share:				
Basic	$0.27	$0.25	$0.85	$0.67
Diluted	$0.27	$0.24	$0.84	$0.66
Weighted average number of shares:				
Basic	1,221	1,218	1,225	1,213
Diluted	1,231	1,233	1,238	1,230

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Three Months Ended		Nine Months Ended	
	July 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
	(Unaudited)			
Net income	$329	$301	$1,041	$816
Other comprehensive income (loss), net of tax:				
Change in unrealized net gain on investments	1	(1)	(3)	(1)
Change in unrealized net loss on derivative investments	(5)	—	(5)	(2)
Change in defined and postretirement benefit plans	—	—	(43)	—
Change in cumulative translation adjustments	11	—	9	(1)
Other comprehensive income (loss), net of tax	7	(1)	(42)	(4)
Comprehensive income	$336	$300	$999	$812

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(In millions)

	July 26, 2015	October 26, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$2,574	$3,002
Short-term investments	169	160
Accounts receivable, net	1,991	1,670
Inventories	1,739	1,567
Other current assets	570	568
Total current assets	7,043	6,967
Long-term investments	958	935
Property, plant and equipment, net	882	861
Goodwill	3,304	3,304
Purchased technology and other intangible assets, net	811	951
Deferred income taxes and other assets	155	156
Total assets	$13,153	$13,174
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, notes payable and accrued expenses	$2,162	$1,883
Customer deposits and deferred revenue	858	940
Total current liabilities	3,020	2,823
Long-term debt	1,547	1,947
Other liabilities	609	536
Total liabilities	5,176	5,306
Stockholders' equity:		
Common stock	12	12
Additional paid-in capital	6,485	6,384
Retained earnings	13,747	13,072
Treasury stock	(12,149)	(11,524)
Accumulated other comprehensive loss	(118)	(76)
Total stockholders' equity	7,977	7,868
Total liabilities and stockholders' equity	$13,153	$13,174

Amounts as of July 26, 2015 are unaudited. Amounts as of October 26, 2014 are derived from the October 26, 2014 audited consolidated financial statements.
See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC
CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions)

Nine Months Ended July 26, 2015	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income (Loss)	Total
	(Unaudited)							
Balance at October 26, 2014	1,221	$12	$6,384	$13,072	717	$(11,524)	$ (76)	$7,868
Net income	—	—	—	1,041	—	—	—	1,041
Other comprehensive loss, net of tax	—	—	—	—	—	—	(42)	(42)
Dividends	—	—	—	(366)	—	—	—	(366)
Share-based compensation	—	—	141	—	—	—	—	141
Issuance under stock plans, net of a tax benefit of $54 and other	12	—	(40)	—	—	—	—	(40)
Common stock repurchases	(32)	—	—	—	32	(625)	—	(625)
Balance at July 26, 2015	1,201	$12	$6,485	$13,747	749	$(12,149)	$ (118)	$7,977

Nine Months Ended July 27, 2014	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income (Loss)	Total
	(Unaudited)							
Balance at October 27, 2013	1,204	$12	$6,151	$12,487	717	$(11,524)	$ (38)	$7,088
Net income	—	—	—	816	—	—	—	816
Other comprehensive loss, net of tax	—	—	—	—	—	—	(4)	(4)
Dividends	—	—	—	(365)	—	—	—	(365)
Share-based compensation	—	—	132	—	—	—	—	132
Issuance under stock plans, net of a tax benefit of $26 and other	14	—	17	—	—	—	—	17
Balance at July 27, 2014	1,218	$12	$6,300	$12,938	717	$(11,524)	$ (42)	$7,684

See accompanying Notes to Consolidated Condensed Financial Statements.

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

	Nine Months Ended	
	July 26, 2015	July 27, 2014
	(Unaudited)	
Cash flows from operating activities:		
Net income	$1,041	$816
Adjustments required to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	275	281
Share-based compensation	141	132
Excess tax benefits from share-based compensation	(54)	(26)
Deferred income taxes and other	89	70
Changes in operating assets and liabilities:		
Accounts receivable	(322)	11
Inventories	(172)	(133)
Other assets	(2)	79
Accounts payable and accrued expenses	(174)	(75)
Customer deposits and deferred revenue	(82)	271
Income taxes payable	(72)	13
Other liabilities	24	(46)
Cash provided by operating activities	692	1,393
Cash flows from investing activities:		
Capital expenditures	(164)	(178)
Proceeds from sales and maturities of investments	900	702
Purchases of investments	(960)	(632)
Cash used in investing activities	(224)	(108)
Cash flows from financing activities:		
Proceeds from common stock issuances and other	43	67
Common stock repurchases	(625)	—
Excess tax benefits from share-based compensation	54	26
Payments of dividends to stockholders	(368)	(363)
Cash used in financing activities	(896)	(270)
Increase (decrease) in cash and cash equivalents	(428)	1,015
Cash and cash equivalents — beginning of period	3,002	1,711
Cash and cash equivalents — end of period	$2,574	$2,726
Supplemental cash flow information:		
Cash payments for income taxes	$258	$108
Cash refunds from income taxes	$10	$33
Cash payments for interest	$85	$85

See accompanying Notes to Consolidated Condensed Financial Statements.

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APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Basis of Presentation

Basis of Presentation

In the opinion of management, the unaudited interim consolidated condensed financial statements of Applied Materials, Inc. and its subsidiaries (Applied or the Company) included herein have been prepared on a basis consistent with the October 26, 2014 audited consolidated financial statements and include all material adjustments, consisting of normal recurring adjustments, necessary to fairly present the information set forth therein. These unaudited interim consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Applied’s Annual Report on Form 10-K for the fiscal year ended October 26, 2014 (2014 Form 10-K). Applied’s results of operations for the three and nine months ended July 26, 2015 are not necessarily indicative of future operating results. Applied’s fiscal year ends on the last Sunday in October of each year. Fiscal 2015 and 2014 each contain 52 weeks, and the first nine months of fiscal 2015 and 2014 each contained 39 weeks.

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

Out of Period Adjustment

During the second quarter of fiscal 2015, Applied recorded an adjustment primarily to correct an error in the recognition of cost of sales in the U.S. related to intercompany sales. While this error had no impact on Applied’s consolidated cost of sales, it resulted in overstating profitability in the U.S. and the provision for income taxes, income taxes payable and other tax balance sheet accounts in each year since fiscal 2010. The impact of the adjustment to the nine months ended July 26, 2015 was a decrease to the provision for income taxes of $35 million and a corresponding increase in net income, resulting in an increase in diluted earnings per share of $0.03. Applied determined that the impact of the error on the originating periods was immaterial, and accordingly, a restatement of prior period amounts was not considered necessary. Applied also believes that the impact of correcting the error in fiscal 2015 will not be material.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates. On an ongoing basis, Applied evaluates its estimates, including those related to accounts receivable and sales allowances, fair values of financial instruments, inventories, intangible assets and goodwill, useful lives of intangible assets and property and equipment, fair values of share-based awards, and income taxes, among others. Applied bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Revenue Recognition

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

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

Recent Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (FASB) issued authoritative guidance that requires inventory to be measured at the lower of cost and net realizable value instead of at lower of cost or market. This guidance does not apply to inventory that is measured using last-in, first out (LIFO) or the retail inventory method but applies to all other inventory including those measured using first-in, first-out (FIFO) or the average cost method. The authoritative guidance will be effective for Applied in the first quarter of fiscal 2018 and should be applied prospectively. Early adoption is permitted as of the beginning of an interim or annual reporting period. Applied is currently evaluating the effect of this new guidance on Applied's consolidated financial statements.

In May 2015, the FASB issued authoritative guidance to remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The new guidance also removes the requirement of certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The guidance becomes effective retrospectively for Applied in the first quarter of fiscal 2017. Early adoption is permitted. The adoption of this guidance will only impact disclosures in Applied's financial statements.

In April 2015, the FASB issued authoritative guidance for customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This guidance will not change accounting for service contracts. The guidance becomes effective for Applied in the first quarter of fiscal 2017 and may be adopted either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. Early adoption is permitted. Applied is currently evaluating the effect of this new guidance on Applied's financial position, results of operations and its ongoing financial reporting, including the selection of a transition method.

In April 2015, the FASB issued authoritative guidance that requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, consistent with debt discounts. The authoritative guidance is effective for Applied in the first quarter of fiscal 2017 and should be applied retrospectively. Early adoption is permitted. The adoption of this guidance is not expected to have a significant impact on Applied's consolidated financial statements.

In May 2014, the FASB issued authoritative guidance that requires revenue recognition to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new standard will supersede most current revenue recognition guidance, including industry-specific guidance. Entities will have the option of using either a full retrospective or modified retrospective approach to adopting the guidance. Under the modified approach, an entity would recognize the cumulative effect of initially applying the guidance with an adjustment to the opening balance of retained earnings in the period of adoption. In addition, the modified approach will require additional disclosures. In August 2015, the FASB issued an amendment to defer the effective date by one year and allow entities to early adopt no earlier than the original effective date. With this amendment, the guidance will be effective for Applied in the first quarter of fiscal 2019. Applied is currently evaluating the effect of this new guidance on Applied's financial position, results of operations and its ongoing financial reporting, including the selection of a transition method.

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

Note 2 Earnings Per Share

Basic earnings per share is determined using the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined using the weighted average number of common shares and potential common shares (representing the dilutive effect of stock options, restricted stock units, and employee stock purchase plan shares) outstanding during the period. Applied's net income has not been adjusted for any period presented for purposes of computing basic or diluted earnings per share due to the Company's non-complex capital structure.

	Three Months Ended		Nine Months Ended	
	July 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
	(In millions, except per share amounts)			
Numerator:				
Net income	$329	$301	$1,041	$816
Denominator:				
Weighted average common shares outstanding	1,221	1,218	1,225	1,213
Effect of dilutive stock options, restricted stock units and employee stock purchase plan shares	10	15	13	17
Denominator for diluted earnings per share	1,231	1,233	1,238	1,230
Basic earnings per share	$0.27	$0.25	$0.85	$0.67
Diluted earnings per share	$0.27	$0.24	$0.84	$0.66
Potentially dilutive securities	—	—	1	—

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

APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Note 3 Cash, Cash Equivalents and Investments
Summary of Cash, Cash Equivalents and Investments
The following tables summarize Applied's cash, cash equivalents and investments by security type:

July 26, 2015	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In millions)			
Cash	$422	$—	$—	$422
Cash equivalents:				
Money market funds	2,152	—	—	2,152
Total Cash equivalents	2,152	—	—	2,152
Total Cash and Cash equivalents	$2,574	$—	$—	$2,574
Short-term and long-term investments:				
U.S. Treasury and agency securities	$82	$—	$—	$82
Non-U.S. government securities*	9	—	—	9
Municipal securities	390	1	—	391
Commercial paper, corporate bonds and medium-term notes	239	—	1	238
Asset-backed and mortgage-backed securities	274	—	1	273
Total fixed income securities	994	1	2	993
Publicly traded equity securities	28	29	—	57
Equity investments in privately-held companies	77	—	—	77
Total short-term and long-term investments	$1,099	$30	$2	$1,127
Total Cash, Cash equivalents and Investments	$3,673	$30	$2	$3,701

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

APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

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

Maturities of Investments

The following table summarizes the contractual maturities of Applied’s investments at July 26, 2015:

	Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	$156	$156
Due after one through five years	559	559
Due after five years	4	4
No single maturity date**	380	408
	$1,099	$1,127

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

Gains and Losses on Investments

During the three and nine months ended July 26, 2015, gross realized gains and losses on investments were not material. During the three and nine months ended July 27, 2014, gross realized gains on investments were $9 million and $21 million, respectively, and gross realized losses on investments were not material.

At July 26, 2015 and October 26, 2014, gross unrealized losses related to Applied's investment portfolio were not material. Applied regularly reviews its investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether an unrealized loss is considered to be temporary, or other-than-temporary and therefore impaired, include: the length of time and extent to which fair value has been lower than the cost basis; the financial condition, credit quality and near-term prospects of the investee; and whether it is more likely than not that Applied will be required to sell the security prior to recovery. Generally, the contractual terms of investments in marketable securities do not permit settlement at prices less than the amortized cost of the investments. Applied determined that the gross unrealized losses on its marketable securities at July 26, 2015 and July 27, 2014 were temporary in nature and therefore it did not recognize any impairment of its marketable securities during the three and nine months ended July 26, 2015 or July 27, 2014. Impairment charges on equity investments in privately-held companies during the three and nine months ended July 26, 2015 were $1 million and $9 million, respectively. Impairment charges on equity investments in privately-held companies during the three and nine months ended July 27, 2014 were $7 million and $13 million, respectively. These impairment charges are included in interest and other income, net in the Consolidated Condensed Statement of Operations.

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

Note 4 Fair Value Measurements

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

Fair Value Hierarchy

Applied uses the following fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 — Quoted prices in active markets for identical assets or liabilities;
- Level 2 — Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Applied’s investments consist primarily of debt securities that are classified as available-for-sale and recorded at their fair values. In determining the fair value of investments, Applied uses pricing information from pricing services that value securities based on quoted market prices and models that utilize observable market inputs. In the event a fair value estimate is unavailable from a pricing service, Applied generally obtains non-binding price quotes from brokers.

Applied then reviews the information provided by the pricing services or brokers to determine the fair value of its short-term and long-term investments. In addition, to validate pricing information obtained from pricing services, Applied periodically performs supplemental analysis on a sample of securities. Applied reviews any significant unanticipated differences identified through this analysis to determine the appropriate fair value.

Investments with remaining effective maturities of 12 months or less from the balance sheet date are classified as short-term investments. Investments with remaining effective maturities of more than 12 months from the balance sheet date are classified as long-term investments. As of July 26, 2015, substantially all of Applied’s available-for-sale, short-term and long-term investments were recognized at fair value that was determined based upon observable inputs.

APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Assets Measured at Fair Value on a Recurring Basis
Financial assets (excluding cash balances) measured at fair value on a recurring basis are summarized below:

	July 26, 2015			October 26, 2014		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	(In millions)					
Assets:						
Money market funds	$2,152	$—	$2,152	$2,494	$—	$2,494
U.S. Treasury and agency securities	62	20	82	43	19	62
Non-U.S. government securities	—	9	9	—	14	14
Municipal securities	—	391	391	—	393	393
Commercial paper, corporate bonds and medium-term notes	—	238	238	—	224	224
Asset-backed and mortgage-backed securities	—	273	273	—	286	286
Publicly traded equity securities	57	—	57	50	—	50
Foreign exchange derivative assets	—	2	2	—	52	52
Total	$2,271	$933	$3,204	$2,587	$988	$3,575

There were no transfers between Level 1 and Level 2 fair value measurements during the three and nine months ended July 26, 2015 or July 27, 2014. Applied did not have any financial assets measured at fair value on a recurring basis within Level 3 fair value measurements as of July 26, 2015 or October 26, 2014.

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

Equity investments in privately-held companies are generally accounted for under the cost method of accounting and are periodically assessed for other-than-temporary impairment when an event or circumstance indicates that an other-than-temporary decline in value may have occurred. If Applied determines that an other-than-temporary impairment has occurred, the investment will be written down to its estimated fair value based on available information, such as pricing in recent rounds of financing, current cash positions, earnings and cash flow forecasts, recent operational performance and any other readily available market data. At July 26, 2015, equity investments in privately-held companies totaled $77 million, of which $69 million of investments were accounted for under the cost method of accounting and $8 million of investments had been measured at fair value on a non-recurring basis within Level 3 fair value measurements due to an other-than-temporary decline in value. At October 26, 2014, equity investments in privately-held companies totaled $66 million, of which $57 million of investments were accounted for under the cost method of accounting and $9 million of investments had been measured at fair value on a non-recurring basis within Level 3 fair value measurements due to an other-than-temporary decline in value. Impairment charges on equity investments in privately-held companies during the three and nine months ended July 26, 2015 were $1 million and $9 million, respectively. Impairment charges on equity investments in privately-held companies during the three and nine months ended July 27, 2014 were $7 million and $13 million, respectively.

Other

The carrying amounts of Applied's financial instruments, including cash and cash equivalents, accounts receivable, notes payable - short term, and accounts payable and accrued expenses, approximate fair value due to their short maturities. At July 26, 2015, the carrying amount of long-term debt was 1.5 billion and the estimated fair value was $1.7 billion. At October 26, 2014, the carrying amount of long-term debt was 1.9 billion and the estimated fair value was $2.2 billion. The estimated fair value of long-term debt is determined by Level 2 inputs and is based primarily on quoted market prices for the same or similar issues. See Note 10 of the Notes to the Consolidated Condensed Financial Statements for further detail of existing debt.

Note 5 Derivative Instruments and Hedging Activities

Derivative Financial Instruments

Applied conducts business in a number of foreign countries, with certain transactions denominated in local currencies, such as the Japanese yen, euro, Israeli shekel, Taiwanese dollar and Swiss franc. Applied uses derivative financial instruments, such as forward exchange contracts and currency option contracts, to hedge certain forecasted foreign currency denominated transactions expected to occur typically within the next 24 months. The purpose of Applied's foreign currency management is to mitigate the effect of exchange rate fluctuations on certain foreign currency denominated revenues, costs and eventual cash flows. The terms of currency instruments used for hedging purposes are generally consistent with the timing of the transactions being hedged.

Applied is also exposed to interest rate risk associated with its potential future borrowings. During the three months ended July 26, 2015, Applied entered into a series of forward-starting interest rate swap agreements, with a total notional amount of $600 million, to hedge against the variability of cash flows due to changes in the benchmark interest rate of fixed rate debt. These instruments were designated as cash flow hedges at inception. As of July 26, 2015, the fair value of interest rate swap agreements were not material.

Applied does not use derivative financial instruments for trading or speculative purposes. Derivative instruments and hedging activities, including foreign currency exchange contracts and interest rate swap agreements, are recognized on the balance sheet at fair value. Changes in the fair value of derivatives that do not qualify for hedge treatment, as well as the ineffective portion of any hedges, are recognized currently in earnings. All of Applied's derivative financial instruments are recorded at their fair value in other current assets or in accounts payable and accrued expenses.

Hedges related to anticipated transactions are designated and documented at the inception of the hedge as cash flow hedges and foreign exchange derivatives are typically entered into once per month. Cash flow hedges are evaluated for effectiveness quarterly. The effective portion of the gain or loss on these hedges is reported as a component of accumulated other comprehensive income or loss (AOCI) in stockholders' equity and is reclassified into earnings when the hedged transaction affects earnings. The majority of the after-tax net income or loss related to foreign exchange derivative instruments included in AOCI at July 26, 2015 is expected to be reclassified into earnings within 12 months. Changes in the fair value of currency forward exchange and option contracts due to changes in time value are excluded from the assessment of effectiveness. Both ineffective hedge amounts and hedge components excluded from the assessment of effectiveness are recognized in earnings. If the transaction being hedged is no longer probable to occur, or if a portion of any derivative is deemed to be ineffective, Applied promptly recognizes the gain or loss on the associated financial instrument in earnings. The amount recognized due to discontinuance of cash flow hedges that were probable not to occur by the end of the originally specified time period was not significant for the three and nine months ended July 26, 2015 and July 27, 2014.

Additionally, forward exchange contracts are generally used to hedge certain foreign currency denominated assets or liabilities. These derivatives are typically entered into once per month and are not designated for hedge accounting treatment. Accordingly, changes in the fair value of these hedges are recorded in earnings to offset the changes in the fair value of the assets or liabilities being hedged.

Following the announcement of the proposed business combination with Tokyo Electron Limited (TEL) in September 2013, Applied purchased foreign exchange option contracts to limit its foreign exchange risk associated with the proposed combination. The derivatives used to hedge currency exposure did not qualify for hedge accounting treatment. These derivatives were marked to market at the end of each reporting period with gains and losses recorded as part of operating expenses. Due to the termination of the proposed business combination with TEL on April 26, 2015, these foreign exchange option contracts were sold during the third quarter of fiscal 2015. At October 26, 2014, the fair value of these foreign exchange option contracts was approximately $52 million. During the three and nine months ended July 26, 2015, Applied recorded a loss of $3 million and a gain of $89 million, respectively, related to these contracts. During the three and nine months ended July 27, 2014, Applied recorded an unrealized loss of $10 million and $9 million, respectively, related to these contracts. The cash flow impact of these derivatives has been classified as operating cash flows in the Consolidated Condensed Statements of Cash Flows.

Other than the foreign exchange option contracts discussed in the preceding paragraph, the fair values of other foreign exchange derivative instruments at July 26, 2015 and October 26, 2014 were not material.

APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

The effects of derivative instruments and hedging activities on the Consolidated Condensed Statements of Operations were as follows:

		Three Months Ended					
		July 26, 2015			July 27, 2014		
		Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing	Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing
	Location of Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in AOCI	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in Income	Gain or (Loss) Recognized in AOCI	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in Income
		(In millions)					
Derivatives in Cash Flow Hedging Relationships							
Foreign exchange contracts	Cost of products sold	$5	$ 2	$ (1)	$1	$ —	$ —
Foreign exchange contracts	General and administrative	—	3	—	—	—	—
Interest rate swaps	Interest expense	(8)	—	—	—	—	—
Total		$(3)	$ 5	$ (1)	$1	$ —	$ —

		Nine Months Ended					
		July 26, 2015			July 27, 2014		
		Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing	Effective Portion		Ineffective Portion and Amount Excluded from Effectiveness Testing
	Location of Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in AOCI	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in Income	Gain or (Loss) Recognized in AOCI	Gain or (Loss) Reclassified from AOCI into Income	Gain or (Loss) Recognized in Income
		(In millions)					
Derivatives in Cash Flow Hedging Relationships							
Foreign exchange contracts	Cost of products sold	$10	$ 15	$ (3)	$5	$ 4	$ (2)
		—	(5)	(1)	—	3	(1)

Foreign exchange contracts	General and administrative						
Interest rate swaps	Interest expense	(8)	—	—	—	—	—
Total		$2	$ 10	$ (4)	$5	$ 7	$ (3)

	Location of Gain or (Loss) Recognized in Income	Amount of Gain or (Loss) Recognized in Income Three Months Ended July 26, 2015	Three Months Ended July 27, 2014	Nine Months Ended July 26, 2015	Nine Months Ended July 27, 2014
		(In millions)			
Derivatives Not Designated as Hedging Instruments					
Foreign exchange contracts	General and administrative	$8	$(11)	$120	$2
Total		$8	$(11)	$120	$2

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Credit Risk Contingent Features

If Applied’s credit rating were to fall below investment grade, it would be in violation of credit risk contingent provisions of the derivative instruments discussed above, and certain counterparties to the derivative instruments could request immediate payment on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk related contingent features that were in a net liability position was immaterial as of July 26, 2015.

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

Note 6 Accounts Receivable, Net

Applied has agreements with various financial institutions to sell accounts receivable and discount promissory notes from selected customers. Applied sells its accounts receivable without recourse. Applied, from time to time, also discounts letters of credit issued by customers through various financial institutions. The discounting of letters of credit depends on many factors, including the willingness of financial institutions to discount the letters of credit and the cost of such arrangements.

Applied did not factor any accounts receivable during the three and nine months ended July 26, 2015 or the three months ended July 27, 2014. Applied factored accounts receivable of $45 million during the nine months ended July 27, 2014. Applied did not discount letters of credit during the three and nine months ended July 26, 2015 or three months ended July 27, 2014. Applied discounted $29 million of letters of credit issued by customers during the nine months ended July 27, 2014. Applied did not discount promissory notes during the three and nine months ended July 26, 2015 and July 27, 2014. Financing charges on the sale of receivables and discounting of letters of credit are included in interest expense in the accompanying Consolidated Condensed Statements of Operations and were not material for all periods presented.

Accounts receivable are presented net of allowance for doubtful accounts of $57 million at July 26, 2015 and $58 million at October 26, 2014. Applied sells its products principally to manufacturers within the semiconductor, display and solar industries. While Applied believes that its allowance for doubtful accounts is adequate and represents its best estimate as of July 26, 2015, it continues to closely monitor customer liquidity and industry and economic conditions, which may result in changes to Applied’s estimates regarding collectability.

Note 7 Balance Sheet Detail

	July 26, 2015	October 26, 2014
	(In millions)	
Inventories		
Customer service spares	$353	$316
Raw materials	438	405
Work-in-process	329	316
Finished goods	619	530
	$1,739	$1,567

Included in finished goods inventory are $97 million at July 26, 2015, and $104 million at October 26, 2014, of newly-introduced systems at customer locations where the sales transaction did not meet Applied’s revenue recognition criteria as set forth in Note 1. Finished goods inventory includes $184 million and $164 million of evaluation inventory at July 26, 2015 and October 26, 2014, respectively.

	July 26, 2015	October 26, 2014
	(In millions)	
Other Current Assets		
Deferred income taxes, net	$227	$232
Prepaid income taxes and income taxes receivable	153	79
Prepaid expenses and other	190	257
	$570	$568

	Useful Life	July 26, 2015	October 26, 2014
	(In years)	(In millions)	
Property, Plant and Equipment, Net			
Land and improvements		$161	$156
Buildings and improvements	3-30	1,276	1,227
Demonstration and manufacturing equipment	3-5	917	829
Furniture, fixtures and other equipment	3-15	572	575
Construction in progress		51	61
Gross property, plant and equipment		2,977	2,848
Accumulated depreciation		(2,095)	(1,987)
		$882	$861

APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

	July 26, 2015	October 26, 2014
	(In millions)	
Accounts Payable, Notes Payable and Accrued Expenses		
Accounts payable	$693	$613
Compensation and employee benefits	463	524
Notes payable, short-term	400	—
Warranty	125	113
Dividends payable	120	122
Income taxes payable	40	142
Other accrued taxes	50	51
Interest payable	14	30
Other	257	288
	$2,162	$1,883

	July 26, 2015	October 26, 2014
	(In millions)	
Customer Deposits and Deferred Revenue		
Customer deposits	$200	$286
Deferred revenue	658	654
	$858	$940

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

	July 26, 2015	October 26, 2014
	(In millions)	
Other Liabilities		
Deferred income taxes	$50	$32
Income taxes payable	200	225
Defined and postretirement benefit plans	255	208
Other	104	71
	$609	$536

Note 8 Business Combination

On September 24, 2013, Applied and TEL entered into a Business Combination Agreement, which was intended to effect a strategic combination of their respective businesses into a new combined company, and was subject to regulatory approvals. On April 26, 2015, Applied and TEL announced that they had mutually agreed to terminate the Business Combination Agreement. No termination fee is payable by either Applied or TEL.

Note 9 Goodwill, Purchased Technology and Other Intangible Assets

Goodwill and Purchased Intangible Assets

Applied’s methodology for allocating the purchase price relating to purchase acquisitions is determined through established and generally accepted valuation techniques. Goodwill is measured as the excess of the purchase price over the sum of the amounts assigned to tangible and identifiable intangible assets acquired less liabilities assumed. Applied assigns assets acquired (including goodwill) and liabilities assumed to one or more reporting units as of the date of acquisition. Typically, acquisitions relate to a single reporting unit and thus do not require the allocation of goodwill to multiple reporting units. If the products obtained in an acquisition are assigned to multiple reporting units, the goodwill is distributed to the respective reporting units as part of the purchase price allocation process.

Goodwill and purchased intangible assets with indefinite useful lives are not amortized, but are reviewed for impairment annually during the fourth quarter of each fiscal year and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The process of evaluating the potential impairment of goodwill and intangible assets requires significant judgment, especially in emerging markets. Applied regularly monitors current business conditions and considers other factors including, but not limited to, adverse industry or economic trends, restructuring actions and lower projections of profitability that may impact future operating results.

To test goodwill for impairment, Applied first performs a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, Applied then performs the two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. Under the two-step goodwill impairment test, Applied would in the first step compare the estimated fair value of each reporting unit to its carrying value. Applied determines the fair value of each of its reporting units based on a weighting of income and market approaches. If the carrying value of a reporting unit exceeds its fair value, Applied would then perform the second step of the impairment test in order to determine the implied fair value of the reporting unit’s goodwill. If Applied determines that the carrying value of a reporting unit’s goodwill exceeds its implied fair value, Applied would record an impairment charge equal to the difference.

During the third quarter of fiscal 2015, Applied implemented a new management structure, which resulted in changes in Applied’s reporting units. Applied determined its reporting units by first identifying its operating segments, and then assessing whether components of these operating segments constitute a business for which discrete financial information is available and where segment management regularly reviews the operating results of that component. Applied aggregates reporting units within an operating segment that have similar economic characteristics and are similar in nature of their products and services, production processes, type or class of customers, distribution methods and operational environment. As a result of the change in management structure, there were no changes in Applied’s reportable segments identified in Note 16, Industry Segment Operations. However, Applied identified three reporting units, which include Transistor and Interconnect Group, Patterning and Packaging Group, and Imaging and Process Control Group, which combine to form the Silicon Systems Group reporting segment. The new management structure did not affect Applied Global Services, Display and Energy and Environmental Solutions.

Based on these changes, Applied performed a goodwill impairment test for Silicon Systems Group immediately before the change in reporting units, allocated goodwill to each reporting unit in Silicon Systems Group based on the estimated fair value of each reporting unit and, then performed another goodwill impairment test for each of the new reporting units within the Silicon Systems Group.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

In performing the goodwill impairment test, Applied utilized both the discounted cash flow method (weighted 75%) and the guideline company method (weighted 25%) to estimate the fair value of the reporting units. The estimates used in the impairment testing were consistent with the discrete forecasts that Applied uses to manage its business, and considered any significant developments that occurred during the quarter. Under the discounted cash flow method, cash flows beyond the discrete forecasts were estimated using a terminal growth rate, which considered the long-term earnings growth rate specific to the reporting units. The estimated future cash flows were discounted to present value using each reporting unit's weighted average cost of capital. The weighted average cost of capital measures a reporting unit's cost of debt and equity financing weighted by the percentage of debt and equity in a reporting unit's target capital structure. In addition, the weighted average cost of capital was derived using both known and estimated market metrics, and was adjusted to reflect both the timing and risks associated with the estimated cash flows. The tax rate used in the discounted cash flow method was the median tax rate of comparable companies and reflected Applied's current international structure, which is consistent with the market participant perspective. Under the guideline company method, market multiples were applied to forecasted revenues and earnings before interest, taxes, depreciation and amortization. The market multiples used were consistent with comparable publicly-traded companies and considered each reporting unit's size, growth and profitability relative to its comparable companies. Based on Applied’s analysis, the estimated fair value exceeded the carrying value for Silicon Systems Group as a single reporting unit and for each new reporting unit subsequent to the change, and therefore, the second step of the goodwill impairment test was not required.

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

Details of goodwill and other indefinite-lived intangible assets as of July 26, 2015 and October 26, 2014 were as follows:

	July 26, 2015			October 26, 2014		
	Goodwill	Other Intangible Assets	Total	Goodwill	Other Intangible Assets	Total
	(In millions)					
Silicon Systems Group	$2,151	$—	$2,151	$2,151	$103	$2,254
Applied Global Services	1,027	6	1,033	1,027	6	1,033
Display	126	18	144	126	18	144
Energy and Environmental Solutions	—	2	2	—	—	—
Carrying amount	$3,304	$26	$3,330	$3,304	$127	$3,431

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

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

	July 26, 2015	October 26, 2014
	(In millions)	

Purchased technology, net	$618	$636
Intangible assets - finite-lived, net	167	188
Intangible assets - indefinite-lived	26	127
Total	$811	$951

APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Finite-Lived Purchased Intangible Assets

Applied amortizes purchased intangible assets with finite lives using the straight-line method over the estimated economic lives of the assets, ranging from 1 to 15 years.

Applied evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset group may not be recoverable. Applied assesses the fair value of the assets based on the amount of the undiscounted future cash flow that the assets are expected to generate and recognizes an impairment loss when estimated undiscounted future cash flow expected to result from the use of the asset, plus net proceeds expected from disposition of the asset, if any, are less than the carrying value of the asset. When Applied identifies an impairment, Applied reduces the carrying value of the group of assets to comparable market values, when available and appropriate, or to its estimated fair value based on a discounted cash flow approach.

Intangible assets, such as purchased technology, are generally recorded in connection with a business acquisition. The value assigned to intangible assets is usually based on estimates and judgments regarding expectations for the success and life cycle of products and technology acquired. Applied evaluates the useful lives of its intangible assets each reporting period to determine whether events and circumstances require revising the remaining period of amortization. In addition, Applied reviews intangible assets for impairment when events or changes in circumstances indicate their carrying value may not be recoverable. Management considers such indicators as significant differences in actual product acceptance from the estimates, changes in the competitive and economic environments, technological advances, and changes in cost structure.

Details of finite-lived intangible assets were as follows:

	July 26, 2015			October 26, 2014		
	Purchased Technology	Other Intangible Assets	Total	Purchased Technology	Other Intangible Assets	Total
	(In millions)					
Gross carrying amount:						
Silicon Systems Group	$1,449	$252	$1,701	$1,346	$252	$1,598
Applied Global Services	29	44	73	28	44	72
Display	110	33	143	110	33	143
Energy and Environmental Solutions	4	12	16	5	17	22
Gross carrying amount	$1,592	$341	$1,933	$1,489	$346	$1,835
Accumulated amortization:						
Silicon Systems Group	$(835)	$(90)	$(925)	$(716)	$(77)	$(793)
Applied Global Services	(25)	(44)	(69)	(24)	(44)	(68)
Display	(110)	(33)	(143)	(110)	(31)	(141)
Energy and Environmental Solutions	(4)	(7)	(11)	(3)	(6)	(9)
Accumulated amortization	$(974)	$(174)	$(1,148)	$(853)	$(158)	$(1,011)
Carrying amount	$618	$167	$785	$636	$188	$824

APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Details of amortization expense by segment were as follows:

	Three Months Ended		Nine Months Ended	
	July 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
	(In millions)			
Silicon Systems Group	$45	$42	$132	$126
Applied Global Services	—	—	1	3
Display	—	1	2	2
Energy and Environmental Solutions	1	2	3	5
Total	$46	$45	$138	$136

Amortization expense was charged to the following categories:

	Three Months Ended		Nine Months Ended	
	July 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
	(In millions)			
Cost of products sold	$40	$38	$120	$117
Research, development and engineering	1	1	1	1
Marketing and selling	5	5	15	16
General and administrative	—	1	2	2
Total	$46	$45	$138	$136

As of July 26, 2015, future estimated amortization expense is expected to be as follows:

	Amortization Expense (In millions)
2015 (remaining 3 months)	$48
2016	189
2017	186
2018	185
2019	66
Thereafter	111
Total	$785

APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Note 10 Borrowing Facilities and Debt

Applied has credit facilities for unsecured borrowings in various currencies of up to $1.6 billion, of which $1.5 billion is comprised of a committed revolving credit agreement with a group of banks that is scheduled to expire in May 2017. This agreement provides for borrowings in United States dollars at interest rates keyed to one of the two rates selected by Applied for each advance and includes financial and other covenants. Remaining credit facilities in the amount of approximately $64 million are with Japanese banks. Applied's ability to borrow under these facilities is subject to bank approval at the time of the borrowing request, and any advances will be at rates indexed to the banks' prime reference rate denominated in Japanese yen. No amounts were outstanding under any of these facilities at both July 26, 2015 and October 26, 2014, and Applied has not utilized these credit facilities.

Debt outstanding as of July 26, 2015 and October 26, 2014 was as follows:

	Principal Amount			
	July 26, 2015	October 26, 2014	Effective Interest Rate	Interest Pay Dates
	(In millions)			
Short-term debt:				
2.650% Senior Notes Due 2016	$400	$—	2.666%	June 15, December 15
Long-term debt:				
2.650% Senior Notes Due 2016	—	400	2.666%	June 15, December 15
7.125% Senior Notes Due 2017	200	200	7.190%	April 15, October 15
4.300% Senior Notes Due 2021	750	750	4.326%	June 15, December 15
5.850% Senior Notes Due 2041	600	600	5.879%	June 15, December 15
	1,550	1,950		
Total unamortized discount	(3)	(3)		
Total long-term debt	1,547	1,947		
Total debt	$1,947	$1,947		

APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Note 11 Restructuring Charges and Asset Impairments

From time to time, Applied initiates restructuring activities to appropriately align its cost structure and product investments based on changes in market condition and competitive environment as well as customer demand. Costs associated with restructuring actions can include termination benefits and related charges, in addition to facility closure, contract termination and other related activities. Restructuring charges and asset impairments are included in general and administrative expenses in the Consolidated Condensed Statements of Operations.

During the third quarter of fiscal 2015, Applied implemented cost reduction measures in its solar business to achieve a lower break-even level and improve business performance and incurred $17 million in restructuring charges and asset impairments and $34 million of inventory-related charges recorded in cost of products sold. These costs are reported in Applied Global Services and Energy and Environmental Solutions segments. Total costs expected to be incurred in implementing these actions are in the range of $45 million to $55 million. Applied expects to complete the principal activities related to these actions by the first quarter of fiscal 2016. As of July 26, 2015, the restructuring accruals related to these actions were $10 million, of which $8 million is related to severance and other employee cost accruals.

Note 12 Stockholders' Equity, Comprehensive Income and Share-Based Compensation
Accumulated Other Comprehensive Income (Loss)
Changes in the components of AOCI, net of tax, were as follows:

	Unrealized Gain on Investments, Net	Unrealized Loss on Derivative Instruments Qualifying as Cash Flow Hedges	Defined and Postretirement Benefit Plans	Cumulative Translation Adjustments	Total
	(in millions)				
Balance at October 26, 2014	$24	$—	$ (105)	$ 5	$(76)
Other comprehensive income (loss) before reclassifications	(3)	1	(45)	—	(47)
Amounts reclassified out of AOCI	—	(6)	2	9	5
Other comprehensive income (loss), net of tax	(3)	(5)	(43)	9	(42)
Balance at July 26, 2015	$21	$(5)	$ (148)	$ 14	$(118)

	Unrealized Gain on Investments, Net	Unrealized Gain on Derivative Instruments Qualifying as Cash Flow Hedges	Defined and Postretirement Benefit Plans	Cumulative Translation Adjustments	Total
	(in millions)				
Balance at October 27, 2013	$25	$2	$ (72)	$ 7	$(38)
	8	3	—	(1)	10

Other comprehensive income (loss) before reclassifications					
Amounts reclassified out of AOCI	(9)	(5)	—	—	(14)
Other comprehensive income (loss), net of tax	(1)	(2)	—	(1)	(4)
Balance at July 27, 2014	$24	$—	$ (72)	$ 6	$(42)

The increase in accumulated other comprehensive (loss) associated with pension liability during the nine months ended July 26, 2015 amounted to $43 million, net of income tax effect and was primarily due to lower discount rates used to determine the benefit obligation, taking into account prevailing interest rates.

APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

The effects on net income of amounts reclassified from AOCI for the three and nine months ended July 26, 2015 and July 27, 2014 were not material.

Stock Repurchase Program

On April 26, 2015, Applied's Board of Directors approved a common stock repurchase program authorizing up to $3.0 billion in repurchases over the three years ending April 2018. At July 26, 2015, $2.4 billion remained available for future stock repurchases under the new repurchase program. Applied's prior stock repurchase program ended March 2015.

The following table summarizes Applied’s stock repurchases for the three and nine months ended July 26, 2015:

	Three and Nine Months Ended July 26, 2015
	(In millions, except per share amounts)
Shares of common stock repurchased	32
Cost of stock repurchased	$625
Average price paid per share	$19.47

Applied did not purchase any shares of its common stock during the three and nine months ended July 27, 2014.

Applied records treasury stock purchases under the cost method using the first-in, first-out (FIFO) method. Upon reissuance of treasury stock, amounts in excess of the acquisition cost are credited to additional paid in capital. If Applied reissues treasury stock at an amount below its acquisition cost and additional paid in capital associated with prior treasury stock transactions is insufficient to cover the difference between the acquisition cost and the reissue price, this difference is recorded against retained earnings.

Dividends

In June 2015, March 2015 and December 2014, Applied's Board of Directors declared quarterly cash dividends in the amount of $0.10 per share. Dividends declared during the nine months ended July 26, 2015 and July 27, 2014 totaled $366 million and $365 million, respectively. Applied currently anticipates that cash dividends will continue to be paid on a quarterly basis, although the declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on Applied’s financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination by the Board of Directors that cash dividends are in the best interests of Applied’s stockholders.

Share-Based Compensation

Applied has a stockholder-approved equity plan, the Employee Stock Incentive Plan, which permits grants to employees of share-based awards, including stock options, restricted stock, restricted stock units, performance shares and performance units. In addition, the plan provides for the automatic grant of restricted stock units to non-employee directors and permits the grant of share-based awards to non-employee directors and consultants. Share-based awards made beginning in March 2012 under the plan may be subject to accelerated vesting under certain circumstances in the event of a change in control of Applied. Applied also has two Employee Stock Purchase Plans, one generally for United States employees and a second for employees of international subsidiaries (collectively, ESPP), which enable eligible employees to purchase Applied common stock.

During the three and nine months ended July 26, 2015 and July 27, 2014, Applied recognized share-based compensation expense related to stock options, ESPP shares, restricted stock, restricted stock units, performance shares and performance units. The effect of share-based compensation on the results of operations was as follows:

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

	Three Months Ended		Nine Months Ended	
	July 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
	(In millions)			
Cost of products sold	$14	$13	$43	$40
Research, development, and engineering	17	16	52	49
Marketing and selling	6	6	19	17
General and administrative	9	9	27	26
Total share-based compensation	$46	$44	$141	$132

The cost associated with share-based awards that are subject solely to time-based vesting requirements, less expected forfeitures, is recognized over the awards' service period for the entire award on a straight-line basis. The cost associated with performance-based equity awards is recognized for each tranche over the service period, based on an assessment of the likelihood that the applicable performance goals will be achieved.

At July 26, 2015, Applied had $289 million in total unrecognized compensation expense, net of estimated forfeitures, related to grants of share-based awards and shares issued under Applied's ESPP, which will be recognized over a weighted average period of 2.6 years. At July 26, 2015, there were 168 million shares available for grants of share-based awards under the Employee Stock Incentive Plan, and an additional 32 million shares available for issuance under the ESPP.

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

A summary of the changes in restricted stock units, restricted stock, performance shares and performance units outstanding under Applied's equity compensation plans during the nine months ended July 26, 2015 is presented below:

	Shares	Weighted Average Grant Date Fair Value
	(In millions, except per share amounts)	
Non-vested restricted stock units, restricted stock, performance shares and performance units at October 26, 2014	33	$12.59
Granted	10	$23.36
Vested	(15)	$11.95
Canceled	(1)	$14.94
Non-vested restricted stock units, restricted stock, performance shares and performance units at July 26, 2015	27	$16.44

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

With respect to the performance-based awards granted in fiscal 2013 and 2012, as of October 26, 2014, all performance goals had been fully achieved, but such awards remained subject to time-based vesting.

During the first quarter of fiscal 2015, certain executive officers were granted awards that are subject to the achievement of specified performance goals (performance-based awards). These performance-based awards become eligible to vest only if performance goals are achieved and will vest only if the grantee remains employed by Applied through each applicable vesting date. These performance-based awards require the achievement of targeted levels of adjusted annual operating profit margin. Additional shares become eligible for time-based vesting if Applied achieves certain levels of total shareholder return (TSR) relative to a peer group, comprised of companies in the Standard & Poor's 500 Information Technology Index, measured at the end of a two-year period.
The fair value of these performance-based awards is estimated on the date of grant and assumes that the specified performance goals will be achieved. If the goals are achieved, these awards vest over a specified remaining service period of generally three or four years, provided that the grantee remains employed by Applied through each scheduled vesting date. If the performance goals are not met as of the end of the performance period, no compensation expense is recognized and any previously recognized compensation expense is reversed. The expected cost of each award is reflected over the service period and is reduced for estimated forfeitures.

Employee Stock Purchase Plan
Under the ESPP, substantially all employees may purchase Applied common stock through payroll deductions at a price equal to 85 percent of the lower of the fair market value of Applied common stock at the beginning or end of each 6-month purchase period, subject to certain limits. Applied issued 2 million shares and 3 million shares during the nine months ended July 26, 2015 and July 27, 2014, respectively. Compensation expense is calculated using the fair value of the employees' purchase rights under the Black-Scholes model. Underlying assumptions used in the model and the weighted average estimated fair value of purchase rights under the ESPP are outlined in the following table:

	Nine Months Ended	
	July 26, 2015	July 27, 2014
ESPP:		
Dividend yield	1.56%	2.14%
Expected volatility	31.4%	25.3%
Risk-free interest rate	0.07%	0.08%
Expected life (in years)	0.5	0.5
Weighted average estimated fair value	$6.04	$4.07

Note 13 Employee Benefit Plans

Applied sponsors a number of employee benefit plans, including defined benefit plans of certain foreign subsidiaries, and a plan that provides certain medical and vision benefits to eligible retirees. A summary of the components of net periodic benefit costs of these defined and postretirement benefit plans is presented below:

	Three Months Ended		Nine Months Ended	
	July 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
	(In millions)			
Service cost	$4	$5	$11	$13
Interest cost	3	4	10	12
Expected return on plan assets	(4)	(4)	(12)	(10)
Amortization of actuarial loss	2	1	5	3
Settlement gain	—	—	(1)	—
Net periodic benefit cost	$5	$6	$13	$18

Note 14 Income Taxes

Applied’s effective tax rates for the third quarters of fiscal 2015 and 2014 were 12.3 percent and 18.6 percent, respectively. The effective tax rate for the third quarter of fiscal 2015 was lower than in the same period in the prior year primarily due to resolutions and changes related to income tax liabilities for prior years and changes in the geographical composition of income.

Applied's effective tax rates for the first nine months of fiscal 2015 and 2014 were 13.3 percent and 22.3 percent, respectively. The effective tax rate for the first nine months of fiscal 2015 was lower than in the same period in the prior year primarily due to an adjustment in the second quarter of fiscal 2015 to correct an error in the recognition of cost of sales in the U.S. related to intercompany sales, acquisition costs that became deductible in the second quarter of fiscal 2015 as a result of the termination of the proposed business combination with TEL, reinstatement of the U.S. federal research and development tax credit during the first quarter of fiscal 2015 which was retroactive to its expiration in December 2013, resolutions and changes related to income tax liabilities for prior years, and changes in the geographical composition of income.

The effective tax rate for the nine months ended July 26, 2015 includes the effect of an adjustment primarily to correct an error in the recognition of cost of sales in the U.S. related to intercompany sales. While this error had no impact on Applied’s consolidated cost of sales, it resulted in overstating profitability in the U.S. and the provision for income taxes, income taxes payable and other tax balance sheet accounts in each year since fiscal 2010. The impact of the adjustment to the nine months ended July 26, 2015 was a decrease in provision for income taxes of $35 million. See Note 1 of Notes to Consolidated Condensed Financial Statements.

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Note 15 Warranty, Guarantees and Contingencies
Warranty
Changes in the warranty reserves are presented below:

	Three Months Ended		Nine Months Ended	
	July 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
	(In millions)			
Beginning balance	$123	$109	$113	$102
Provisions for warranty	27	29	94	85
Consumption of reserves	(25)	(26)	(82)	(75)
Ending balance	$125	$112	$125	$112

Applied products are generally sold with a warranty for a 12-month period following installation. The provision for the estimated cost of warranty is recorded when revenue is recognized. Parts and labor are covered under the terms of the warranty agreement. The warranty provision is based on historical experience by product, configuration and geographic region. Quarterly warranty consumption is generally associated with sales that occurred during the preceding four quarters, and quarterly warranty provisions are generally related to the current quarter's sales.
Guarantees
In the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to third parties as required for certain transactions initiated by either Applied or its subsidiaries. As of July 26, 2015, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately $54 million. Applied has not recorded any liability in connection with these guarantee agreements beyond that required to appropriately account for the underlying transaction being guaranteed. Applied does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee agreements.
Applied also has agreements with various banks to facilitate subsidiary banking operations worldwide, including overdraft arrangements, issuance of bank guarantees, and letters of credit. As of July 26, 2015, Applied has provided parent guarantees to banks for approximately $100 million to cover these arrangements.

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Legal Matters

Korea Criminal Proceedings

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

Other Matters

From time to time, Applied receives notification from third parties, including customers and suppliers, seeking indemnification, litigation support, payment of money or other actions by Applied in connection with claims made against them. In addition, from time to time, Applied receives notification from third parties claiming that Applied may be or is infringing or misusing their intellectual property or other rights. Applied also is subject to various other legal proceedings and claims, both asserted and unasserted, that arise in the ordinary course of business.

Although the outcome of the above-described matters, claims and proceedings cannot be predicted with certainty, Applied does not believe that any will have a material effect on its consolidated financial condition or results of operations.

Note 16 Industry Segment Operations

Applied’s four reportable segments are: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. As defined under the accounting literature, Applied’s chief operating decision-maker has been identified as the President and Chief Executive Officer, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Segment information is presented based upon Applied’s management organization structure as of July 26, 2015 and the distinctive nature of each segment. Future changes to this internal financial structure may result in changes to Applied’s reportable segments.

Each operating segment is separately managed and has separate financial results that are reviewed by Applied’s chief operating decision-maker. Each reportable segment contains closely related products that are unique to the particular segment. Segment operating income is determined based upon internal performance measures used by Applied’s chief operating decision-maker.

Applied derives the segment results directly from its internal management reporting system. The accounting policies Applied uses to derive reportable segment results are substantially the same as those used for external reporting purposes. Management measures the performance of each reportable segment based upon several metrics including orders, net sales and operating income. Management uses these results to evaluate the performance of, and to assign resources to, each of the reportable segments. Applied does not allocate to its reportable segments certain operating expenses that it manages separately at the corporate level, which include costs related to share-based compensation; certain management, finance, legal, human resources, and research, development and engineering functions provided at the corporate level; and unabsorbed information technology and occupancy. In addition, Applied does not allocate to its reportable segments restructuring and asset impairment charges and any associated adjustments related to restructuring actions, unless these actions pertain to a specific reportable segment. Segment operating income excludes interest income/expense and other financial charges and income taxes. Management does not consider the unallocated costs in measuring the performance of the reportable segments.

The Silicon Systems Group segment includes semiconductor capital equipment for etch, rapid thermal processing, deposition, chemical mechanical planarization, metrology and inspection, wafer packaging, and ion implantation.

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

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

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

APPLIED MATERIALS, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS - (Continued)

Net sales and operating income (loss) for each reportable segment were as follows:

	Three Months Ended		Nine Months Ended	
	Net Sales	Operating Income (Loss)	Net Sales	Operating Income (Loss)
	(In millions)			
July 26, 2015:				
Silicon Systems Group	$1,635	$411	$4,641	$1,092
Applied Global Services	665	170	1,894	493
Display	151	25	589	137
Energy and Environmental Solutions	39	(52)	167	(61)
Total Segment	$2,490	$554	$7,291	$1,661
July 27, 2014:				
Silicon Systems Group	$1,476	$381	$4,544	$1,086
Applied Global Services	567	154	1,608	427
Display	119	25	425	77
Energy and Environmental Solutions	103	24	231	18
Total Segment	$2,265	$584	$6,808	$1,608

Reconciliations of total segment operating results to Applied consolidated totals were as follows:

	Three Months Ended		Nine Months Ended	
	July 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
	(In millions)			
Total segment operating income	$554	$584	$1,661	$1,608
Corporate and unallocated costs	(154)	(160)	(430)	(441)
Certain items associated with terminated business combination	(1)	(23)	(50)	(50)
(Loss) gain on derivatives associated with terminated business combination	(3)	(10)	89	(9)
Income from operations	$396	$391	$1,270	$1,108

The following customers accounted for at least 10 percent of Applied’s net sales for the nine months ended July 26, 2015, which were for products in multiple reportable segments.

	Percentage of Net Sales
Samsung Electronics Co., Ltd.	17 %
Taiwan Semiconductor Manufacturing Company Limited	15 %

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

The following management's discussion and analysis is provided in addition to the accompanying consolidated condensed financial statements and notes to assist in understanding Applied's results of operations and financial condition. Financial information as of July 26, 2015 should be read in conjunction with the financial statements for the fiscal year ended October 26, 2014 contained in the Company's Form 10-K filed December 17, 2014.

This report contains forward-looking statements that involve a number of risks and uncertainties. Examples of forward-looking statements include those regarding Applied's future financial or operating results, cash flows and cash deployment strategies, declaration of dividends, share repurchases, business strategies and priorities, costs and cost controls, products, competitive positions, management's plans and objectives for future operations, research and development, strategic acquisitions and investments, growth opportunities, restructuring activities, backlog, working capital, liquidity, investment portfolio and policies, taxes, supply chain, manufacturing properties, legal proceedings and claims, customer demand and spending, end-use demand, market and industry trends and outlooks, general economic conditions and other statements that are not historical facts, as well as their underlying assumptions. Forward-looking statements include statements may contain words such as "may," "will," "should," "could," "would," "expect "plan," "anticipate," "believe," "estimate," "potential" and "continue," the negative of these terms, or other comparable terminology. All forward-looking statements are subject to risks and uncertainties and other important factors, including those discussed in Part II, Item 1A, "Risk Factors," below and elsewhere in this report. These and many other factors could affect Applied's future financial condition and operating results and could cause actual results to differ materially from expectations based on forward-looking statements made in this document or elsewhere by Applied or on its behalf. Forward-looking statements are based on management's estimates, projections and expectations as of the date hereof, and Applied undertakes no obligation to revise or update any such statements.

Overview

Applied provides manufacturing equipment, services and software to the global semiconductor, flat panel display, solar photovoltaic (PV) and related industries. Applied's customers include manufacturers of semiconductor wafers and chips, flat panel liquid crystal and other displays, solar PV cells and modules, and other electronic devices. These customers may use what they manufacture in their own end products or sell the items to other companies for use in advanced electronic components. Applied operates in four reportable segments: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. A summary of financial information for each reportable segment is found in Note 16 of Notes to Consolidated Condensed Financial Statements. A discussion of factors that could affect Applied's operations is set forth under "Risk Factors" in Part II, Item 1A, which is incorporated herein by reference. Product development and manufacturing activities occur primarily in the United States, Europe, Israel, and Asia. Applied's broad range of equipment and service products are highly technical and are sold primarily through a direct sales force.

Applied's results are driven primarily by worldwide demand for semiconductors, which in turn depends on end-user demand for electronic products. Each of Applied's businesses is subject to cyclical industry conditions, as demand for manufacturing equipment and services can change depending on supply and demand for chips, display technologies, solar PVs and other electronic devices, as well as other factors, such as global economic and market conditions, and the nature and timing of technological advances in fabrication processes. In addition, a significant driver in the semiconductor and display industries is end-demand for mobile consumer products, which is characterized by seasonality that impacts the timing of customer investments in manufacturing equipment and, in turn, Applied's business. In light of these conditions, Applied's results can vary significantly year-over-year, as well as quarter-over-quarter.

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The following tables present certain significant measurements for the periods indicated:

	Three Months Ended			Change	
	July 26, 2015	April 26, 2015	July 27, 2014	Q3 2015 over Q2 2015	Q3 2015 over Q3 2014
	(In millions, except per share amounts and percentages)				
New orders	$2,892	$2,515	$2,479	$377	$413
Net sales	$2,490	$2,442	$2,265	$48	$225
Gross profit	$1,018	$1,016	$992	$2	$26
Gross margin	40.9 %	41.6 %	43.8 %	(0.7) points	(2.9) points
Operating income	$396	$416	$391	$(20)	$5
Operating margin	15.9 %	17.0 %	17.3 %	(1.1) points	(1.4) points
Net income	$329	$364	$301	$(35)	$28
Earnings per diluted share	$0.27	$0.29	$0.24	$(0.02)	$0.03
Non-GAAP Adjusted Results					
Non-GAAP adjusted gross profit	$1,093	$1,055	$1,030	$38	$63
Non-GAAP adjusted gross margin	43.9 %	43.2 %	45.5 %	0.7 points	(1.6) points
Non-GAAP adjusted operating income	$517	$476	$477	$41	$40
Non-GAAP adjusted operating margin	20.8 %	19.5 %	21.1 %	1.3 points	(0.3) points
Non-GAAP adjusted net income	$410	$362	$349	$48	$61
Non-GAAP adjusted earnings per diluted share	$0.33	$0.29	$0.28	$0.04	$0.05

	Nine Months Ended		Change
	July 26, 2015	July 27, 2014	YTD Q3 2015 over YTD Q3 2014
	(In millions, except per share amounts and percentages)		
New orders	$7,680	$7,393	$287
Net sales	$7,291	$6,808	$483
Gross profit	$2,993	$2,884	$109
Gross margin	41.1 %	42.4 %	(1.3) points
Operating income	$1,270	$1,108	$162
Operating margin	17.4 %	16.3 %	1.1 points
Net income	$1,041	$816	$225
Earnings per diluted share	$0.84	$0.66	$0.18
Non-GAAP Adjusted Results			
Non-GAAP adjusted gross profit	$3,147	$3,001	$146
Non-GAAP adjusted gross margin	43.2 %	44.1 %	(0.9) points
Non-GAAP adjusted operating income	$1,440	$1,339	$101
Non-GAAP adjusted operating margin	19.8 %	19.7 %	0.1 points
Non-GAAP adjusted net income	$1,110	$976	$134

Non-GAAP adjusted earnings per diluted share	$0.90	$0.79	$0.11

Reconciliations of non-GAAP adjusted measures are presented below under "Non-GAAP Adjusted Results." Fiscal 2015 and 2014 each contain 52 weeks, and the first nine months of fiscal years 2015 and 2014 each contained 39 weeks.

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Mobility, and the increasing technological functionality of mobile devices, continues to be the largest drivers of semiconductor industry spending. The first nine months of fiscal 2015 were characterized by improved demand for semiconductor equipment, with increased investment in technology upgrades and additional capacity by memory customers. Demand from foundry customers reflected investments in new technology at advanced nodes, driven by demand for advanced mobile chips. For the remainder of the year, Applied anticipates lower foundry spending primarily due to customers managing excess inventory, improving yields and re-using equipment. Mobility represents a significant driver of display industry spending, which has resulted in continued manufacturing capacity expansion for mobile applications. Demand for larger LCD TVs is also a factor for display industry investments, although demand for TV manufacturing equipment remains susceptible to highly cyclical conditions. Investment in solar equipment remained low due to ongoing excess manufacturing capacity in the industry. Gross margin challenges are expected in the next few quarters primarily due to higher demand for mobility display equipment and semiconductor equipment from memory customers.

On April 26, 2015, Applied and Tokyo Electron Limited (TEL) announced that they had mutually agreed to terminate their previously announced Business Combination Agreement, which was entered into on September 24, 2013 and intended to effect a strategic combination of their respective business into a new combined company. No termination fee is payable by either Applied or TEL.

Results of Operations

New Orders

New orders by reportable segment for the periods indicated were as follows:

	Three Months Ended						Change	
	July 26, 2015		April 26, 2015		July 27, 2014		Q3 2015 over Q2 2015	Q3 2015 over Q3 2014
	(In millions, except percentages)							
Silicon Systems Group	$2,007	69%	$1,704	68%	$1,565	63%	18%	28%
Applied Global Services	561	20%	641	25%	552	22%	(12)%	2%
Display	295	10%	120	5%	296	12%	146%	—%
Energy and Environmental Solutions	29	1%	50	2%	66	3%	(42)%	(56)%
Total	$2,892	100%	$2,515	100%	$2,479	100%	15%	17%

	Nine Months Ended				Change
	July 26, 2015		July 27, 2014		YTD Q3 2015 over YTD Q3 2014
	(In millions, except percentages)				
Silicon Systems Group	$5,137	67%	$4,798	65%	7%
Applied Global Services	1,892	24%	1,686	23%	12%
Display	522	7%	715	10%	(27)%
Energy and Environmental Solutions	129	2%	194	2%	(34)%
Total	$7,680	100%	$7,393	100%	4%

New orders for the third quarter of fiscal 2015 increased compared to the prior quarter primarily due to higher orders for semiconductor and display equipment, partially offset by lower orders for solar equipment, semiconductor spares and 200mm equipment. The Silicon Systems Group's proportion of total new orders relative to other segments slightly increased compared to the prior quarter and continues to constitute the majority of total new orders.

New orders for the third quarter of fiscal 2015 increased compared to the same period in the prior year due to higher orders in semiconductor equipment, partially offset by lower orders for solar equipment. New orders for the first nine months of fiscal 2015 slightly increased compared to the same periods in the prior year primarily due to higher demand for semiconductor equipment, spares and services, partially offset by lower demand for display and solar equipment.

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

	Three Months Ended						Change	
	July 26, 2015		April 26, 2015		July 27, 2014		Q3 2015 over Q2 2015	Q3 2015 over Q3 2014
	(In millions, except percentages)							
Taiwan	$828	29%	$589	23%	$497	20%	41%	67%
China	442	15%	352	14%	384	16%	26%	15%
Korea	349	12%	607	24%	217	9%	(43)%	61%
Japan	727	25%	365	15%	378	15%	99%	92%
Southeast Asia	142	5%	103	4%	177	7%	38%	(20)%
Asia Pacific	2,488	86%	2,016	80%	1,653	67%	23%	51%
United States	262	9%	368	15%	680	27%	(29)%	(61)%
Europe	142	5%	131	5%	146	6%	8%	(3)%
Total	$2,892	100%	$2,515	100%	$2,479	100%	15%	17%

	Nine Months Ended				Change
	July 26, 2015		July 27, 2014		YTD Q3 2015 over YTD Q3 2014
	(In millions, except percentages)				
Taiwan	$1,962	26%	$2,141	29%	(8)%
China	1,090	14%	1,306	18%	(17)%
Korea	1,502	20%	835	11%	80%
Japan	1,334	17%	744	10%	79%
Southeast Asia	330	4%	299	4%	10%
Asia Pacific	6,218	81%	5,325	72%	17%
United States	1,041	14%	1,604	22%	(35)%
Europe	421	5%	464	6%	(9)%
Total	$7,680	100%	$7,393	100%	4%

The changes in new orders from customers in Japan, Taiwan, Korea, the United States and China in the third quarter of fiscal 2015 compared to the prior quarter primarily reflected changes in customer mix for semiconductor equipment, with the decrease in orders from customers in the United States primarily due to a decrease in foundry orders. In addition, the change in new orders from customers in China in the third quarter of fiscal 2015 compared to the prior quarter reflected higher orders for display equipment. The decrease in new orders from customers in Korea was partially offset by higher demand in display equipment.

The changes in new orders from customers in Korea, Japan, the United States and Taiwan in the third quarter and first nine months of fiscal 2015 compared to the same periods in the prior year primarily reflected changes in customer mix for semiconductor equipment, with the decrease in orders from customers in the United States primarily due to a decrease in foundry orders. The increase in new orders from customers in China for the third quarter of fiscal 2015 compared to the same period in the prior year primarily reflected higher demand in semiconductor equipment, which was offset by lower demand in TV manufacturing equipment. The decrease in new orders from customers in China for the first nine months of fiscal 2015 compared to the same period in the prior year reflected lower demand for TV manufacturing equipment than in the prior year.

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Changes in backlog during the nine months ended July 26, 2015 were as follows:

	July 26, 2015
	(In millions)
Beginning balance	$2,917
New orders	7,680
Net sales	(7,291)
Net adjustments	(206)
Ending balance	$3,100

Backlog consists of: (1) orders for which written authorizations have been accepted and assigned shipment dates are within the next 12 months, or shipment has occurred but revenue has not been recognized; and (2) contractual service revenue and maintenance fees to be earned within the next 12 months. Applied's backlog at any particular time is not necessarily indicative of actual sales for any future periods due to the potential for customer changes in delivery schedules or cancellation of orders. Approximately 72 percent of backlog as of the end of the third quarter of fiscal 2015 is anticipated to be shipped within the next two quarters. Backlog adjustments were negative during the first nine months of fiscal 2015 and totaled $206 million, primarily consisting of order cancellations, unfavorable foreign currency impacts and other adjustments.

Backlog by reportable segment as of the end of the most recent three fiscal quarters was as follows:

	July 26, 2015		April 26, 2015		January 25, 2015		Q3 2015 over Q2 2015	Q3 2015 over Q1 2015
	(In millions, except percentages)							
Silicon Systems Group	$1,763	57%	$1,468	53%	$1,369	49%	20%	29%
Applied Global Services	691	22%	813	29%	837	30%	(15)%	(17)%
Display	524	17%	371	13%	418	15%	41%	25%
Energy and Environmental Solutions	122	4%	130	5%	154	6%	(6)%	(21)%
Total	$3,100	100%	$2,782	100%	$2,778	100%	11%	12%

Total backlog in the third quarter of fiscal 2015 compared to the prior quarter increased primarily due to an increase in new orders during the third quarter due to the higher demand for display and semiconductor equipment. In the third quarter of fiscal 2015, approximately 65 percent of net sales in the Silicon Systems Group, Applied's largest business segment, were for orders received and shipped within the quarter, which was flat from the prior quarter.

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Net Sales

Net sales by reportable segment for the periods indicated were as follows:

	Three Months Ended						Change	
	July 26, 2015		April 26, 2015		July 27, 2014		Q3 2015 over Q2 2015	Q3 2015 over Q3 2014
	(In millions, except percentages)							
Silicon Systems Group	$1,635	66%	$1,560	64%	$1,476	65%	5%	11%
Applied Global Services	665	26%	646	26%	567	25%	3%	17%
Display	151	6%	163	7%	119	5%	(7)%	27%
Energy and Environmental Solutions	39	2%	73	3%	103	5%	(47)%	(62)%
Total	$2,490	100%	$2,442	100%	$2,265	100%	2%	10%

	Nine Months Ended				Change
	July 26, 2015		July 27, 2014		YTD Q3 2015 over YTD Q3 2014
	(In millions, except percentages)				
Silicon Systems Group	$4,641	64%	$4,544	67%	2%
Applied Global Services	1,894	26%	1,608	24%	18%
Display	589	8%	425	6%	39%
Energy and Environmental Solutions	167	2%	231	3%	(28)%
Total	$7,291	100%	$6,808	100%	7%

Net sales for the third quarter of fiscal 2015 slightly increased compared to the prior quarter led by higher customer spending on semiconductor equipment and 200mm equipment systems, partially offset by lower customer spending on solar equipment. The Silicon Systems Group’s relative share of total net sales increased compared to the prior quarter and still remains the largest contributor of net sales.

For the third quarter and first nine months of fiscal 2015 compared to the same periods in the prior year, net sales increased primarily due to greater customer investments in semiconductor equipment, spares and services, 200mm equipment systems and display equipment.

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

	Three Months Ended						Change	
	July 26, 2015		April 26, 2015		July 27, 2014		Q3 2015 over Q2 2015	Q3 2015 over Q3 2014
	(In millions, except percentages)							
Taiwan	$751	30%	$455	19%	$598	26%	65%	26%
China	282	11%	412	17%	288	13%	(32)%	(2)%
Korea	308	12%	449	18%	226	10%	(31)%	36%
Japan	271	11%	257	10%	229	10%	5%	18%
Southeast Asia	94	4%	87	4%	81	4%	8%	16%
Asia Pacific	1,706	68%	1,660	68%	1,422	63%	3%	20%
United States	650	26%	632	26%	683	30%	3%	(5)%
Europe	134	6%	150	6%	160	7%	(11)%	(16)%

Total	$2,490	100%	$2,442	100%	$2,265	100%	2%	10%

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	Nine Months Ended				Change
	July 26, 2015		July 27, 2014		YTD Q3 2015 over YTD Q3 2014
	(In millions, except percentages)				
Taiwan	$1,725	24%	$2,084	31%	(17)%
China	1,082	15%	1,305	19%	(17)%
Korea	1,221	17%	778	11%	57%
Japan	759	10%	608	9%	25%
Southeast Asia	266	3%	220	3%	21%
Asia Pacific	5,053	69%	4,995	73%	1%
United States	1,811	25%	1,333	20%	36%
Europe	427	6%	480	7%	(11)%
Total	$7,291	100%	$6,808	100%	7%

The changes in net sales from customers in Taiwan, China and Korea in the third quarter of fiscal 2015 compared to the prior quarter primarily reflected changes in customer mix for semiconductor equipment, as well as lower customer spending on display equipment by customers in China in the third quarter of fiscal 2015 compared to the prior quarter. The changes in net sales from customers in Taiwan, Korea and Japan in the third quarter of fiscal 2015 compared to the same period in fiscal 2014 primarily reflected changes in customer mix for semiconductor equipment. The changes in net sales from customers in Korea, the United States, Japan, Taiwan and China in the first nine months of fiscal 2015 compared to the same period in fiscal 2014 primarily reflected changes in customer mix for semiconductor equipment. The decrease in net sales from customers in China was partially offset by higher customer spending on display equipment.

Gross Margin

Gross margins for the periods indicated were as follows:

	Three Months Ended						Change		Nine Months Ended				Change
	July 26, 2015		April 26, 2015		July 27, 2014		Q3 2015 over Q2 2015	Q3 2015 over Q3 2014	July 26, 2015		July 27, 2014		YTD Q3 2015 over YTD Q3 2014
	(In millions, except percentages)												
Gross profit	$1,018		$1,016		$992		$2	$26	$2,993		$2,884		$109
Gross margin	40.9	%	41.6	%	43.8	%	(0.7) points	(2.9) points	41.1	%	42.4	%	(1.3) points
Non-GAAP Adjusted Results													
Non-GAAP adjusted gross profit	$1,093		$1,055		$1,030		$38	$63	$3,147		$3,001		$146
Non-GAAP adjusted gross margin	43.9	%	43.2	%	45.5	%	0.7 points	(1.6) points	43.2	%	44.1	%	(0.9) points

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

Gross profit and non-GAAP adjusted gross profit in the third quarter of fiscal 2015 increased compared to the prior quarter, primarily reflecting higher net sales, but gross margin decreased primarily due to $34 million of inventory charges associated with the restructuring actions in the solar business during the quarter. Details on restructuring charges and asset impairments are included in Note 11 of the Notes to the Consolidated Condensed Financial Statements. Non-GAAP adjusted gross margin in the third quarter of fiscal 2015 increased compared to the prior quarter primarily due to favorable product mix.

Gross profit and non-GAAP adjusted gross profit in the third quarter and first nine months of fiscal 2015 increased compared to the same periods in the prior year, primarily due to higher net sales, but gross margin and non-GAAP adjusted gross margin decreased primarily due to unfavorable changes in product mix and the absence of a recovery of a regional customs duty assessment charge recorded in fiscal 2014.

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Gross profit and non-GAAP adjusted gross profit during each of the three months ended July 26, 2015, April 26, 2015 and July 27, 2014 included $14 million, $14 million and $13 million, respectively, of share-based compensation expense. Gross profit and non-GAAP adjusted gross profit during the nine months ended July 26, 2015 and July 27, 2014 included $43 million and $40 million, respectively, of share-based compensation expense.

Research, Development and Engineering

Research, Development and Engineering (RD&E) expenses for the periods indicated were as follows:

	Three Months Ended			Change		Nine Months Ended		Change
	July 26, 2015	April 26, 2015	July 27, 2014	Q3 2015 over Q2 2015	Q3 2015 over Q3 2014	July 26, 2015	July 27, 2014	YTD Q3 2015 over YTD Q3 2014
	(In millions)							
Research, development and engineering	$372	$365	$357	$7	$15	$1,088	$1,068	$20

Applied's future operating results depend to a considerable extent on its ability to maintain a competitive advantage in the equipment and service products it provides. Development cycles range from 12 to 36 months depending on whether the product is an enhancement of an existing product, which typically has a shorter development cycle, or a new product, which typically has a longer development cycle. Most of Applied's existing products resulted from internal development activities and innovations involving new technologies, materials and processes. In certain instances, Applied acquires technologies, either in existing or new product areas, to complement its existing technology capabilities and to reduce time to market.

Management believes that it is critical to continue to make substantial investments in RD&E to assure the availability of innovative technology that meets the current and projected requirements of its customers' most advanced designs. Applied has maintained and intends to continue its commitment to investing in RD&E in order to continue to offer new products and technologies. RD&E expenses increased during the third quarter and first nine months of fiscal 2015 compared to the prior quarter and the same periods in the prior year, reflecting ongoing investment in product development initiatives. RD&E expenses during the three months ended July 26, 2015, April 26, 2015 and July 27, 2014 included $17 million, $17 million and $16 million, respectively, of share-based compensation expense. RD&E expense during the nine months ended July 26, 2015 and July 27, 2014 included $52 million and $49 million, respectively, of share-based compensation expense.

Marketing and Selling

Marketing and selling expenses for the periods indicated were as follows:

	Three Months Ended			Change		Nine Months Ended		Change
	July 26, 2015	April 26, 2015	July 27, 2014	Q3 2015 over Q2 2015	Q3 2015 over Q3 2014	July 26, 2015	July 27, 2014	YTD Q3 2015 over YTD Q3 2014
	(In millions)							
Marketing and selling	$112	$109	$108	$3	$4	$332	$324	$8

Marketing and selling expenses remained relatively flat for the third quarter and first nine months of fiscal 2015 compared to the prior quarter and the same periods in fiscal 2014. Marketing and selling expenses during the three months ended July 26, 2015, April 26, 2015 and July 27, 2014 included $6 million, $7 million and $6 million, respectively, of share-based compensation expense. Marketing and selling expenses during the nine months ended July 26, 2015 and July 27, 2014 included $19 million and $17 million, respectively, of share-based compensation expense.

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General and Administrative

General and administrative (G&A) expenses for the periods indicated were as follows:

	Three Months Ended			Change		Nine Months Ended		Change
	July 26, 2015	April 26, 2015	July 27, 2014	Q3 2015 over Q2 2015	Q3 2015 over Q3 2014	July 26, 2015	July 27, 2014	YTD Q3 2015 over YTD Q3 2014
	(In millions)							
General and administrative	$135	$140	$126	$(5)	$9	$392	$375	$17

G&A expenses for the third quarter of fiscal 2015 decreased compared to the prior quarter primarily due to lower acquisition-related and integration costs related to the terminated business combination with TEL, which was terminated in April 2015, partially offset by restructuring charges. G&A expenses for the third quarter of fiscal 2015 increased compared to the same period in the prior year primarily attributable to the restructuring charges, partially offset by lower acquisition-related and integration costs related to the terminated business combination with TEL. G&A expenses for the first nine months of fiscal 2015 increased compared to the same period of the prior year primarily attributable to the restructuring charges.

During the third quarter of fiscal 2015, Applied implemented cost reduction measures in its solar business to achieve a lower break-even level and improve business performance. Restructuring charges and asset impairments amounted to $17 million during the third quarter of fiscal 2015 related to these actions and were included in G&A expenses. Details on restructuring charges and asset impairments are included in Note 11 of the Notes to the Consolidated Condensed Financial Statements.

G&A expenses during the three months ended July 26, 2015, April 26, 2015 and July 27, 2014 each included $9 million, of share-based compensation expense. G&A expenses during the nine months ended July 26, 2015 and July 27, 2014 included $27 million and $26 million, respectively, of share-based compensation expense.

Loss (gain) on Derivatives Associated with Terminated Business Combination

	Three Months Ended			Change		Nine Months Ended		Change
	July 26, 2015	April 26, 2015	July 27, 2014	Q3 2015 over Q2 2015	Q3 2015 over Q3 2014	July 26, 2015	July 27, 2014	YTD Q3 2015 over YTD Q3 2014
	(In millions)							
Loss (gain) on derivatives associated with terminated business combination	3	(14)	10	$17	$(7)	(89)	9	$(98)

Changes in gain or loss on derivatives associated with terminated business combinations with TEL result from sale of derivative contracts and exchange rate fluctuations. Due to the termination of the proposed business combination, the derivatives were sold during the third quarter of fiscal 2015. For further details, see Note 5 of Notes to Consolidated Condensed Financial Statements.

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Interest Expense and Interest and Other Income (Loss), net

Interest expense and interest and other income, net for the periods indicated were as follows:

	Three Months Ended			Change		Nine Months Ended		Change
	July 26, 2015	April 26, 2015	July 27, 2014	Q3 2015 over Q2 2015	Q3 2015 over Q3 2014	July 26, 2015	July 27, 2014	YTD Q3 2015 over YTD Q3 2014
	(In millions)							
Interest expense	$24	$24	$24	$—	$—	$71	$72	$(1)
Interest and other income (loss), net	$3	$(3)	$3	$6	$—	$2	$14	$(12)

Interest expense remained flat in the third quarter and first nine months of fiscal 2015 compared to the prior quarter and to the same periods in fiscal 2014. Interest expenses incurred were primarily associated with the senior unsecured notes issued in June 2011.

The change in interest and other income (loss), net in the third quarter of fiscal 2015 compared to the prior quarter was due to lower impairment of strategic investments recorded during the quarter. The change in interest and other income (loss), net in the first nine months of fiscal 2015 compared to the same period in fiscal 2014 was primarily due to lower realized gains on sales of strategic investments during the first nine months of fiscal 2015.

Income Taxes

Provision for income taxes and effective tax rates for the periods indicated were as follows:

	Three Months Ended			Change		Nine Months Ended		Change
	July 26, 2015	April 26, 2015	July 27, 2014	Q3 2015 over Q2 2015	Q3 2015 over Q3 2014	July 26, 2015	July 27, 2014	YTD Q3 2015 over YTD Q3 2014
	(In millions, except percentages)							
Provision for income taxes	$46	$25	$69	$21	$(23)	$160	$234	$(74)
Effective tax rate	12.3 %	6.4 %	18.6 %	5.9 points	(6.3) points	13.3 %	22.3 %	(9.0) points

Applied’s effective tax rate is affected by the geographical composition of income, which includes jurisdictions with income tax incentives and differing tax rates. It is also affected by discrete events that are not consistent from period to period, such as changes in income tax laws and regulations and the resolution of income tax filings.

Applied’s effective tax rate for the third quarter of fiscal 2015 was higher than the rate for the prior quarter due primarily to an adjustment in the second quarter of fiscal 2015 to correct an error in the recognition of cost of sales in the U.S. related to intercompany sales and acquisition costs that became deductible in the second quarter of fiscal 2015 as a result of the termination of the proposed business combination with TEL, partially offset by resolutions and changes related to income tax liabilities for prior years and changes in the geographical composition of income.

The effective tax rate for the third quarter of fiscal 2015 was lower than in the same period in the prior year primarily due to resolutions and changes related to income tax liabilities for prior years and changes in the geographical composition of income.

The effective tax rate for the first nine months of fiscal 2015 was lower than in the same period in the prior year primarily due to an adjustment in the second quarter of fiscal 2015 to correct an error in the recognition of cost of sales in the U.S. related to intercompany sales, acquisition costs that became deductible in the second quarter of fiscal 2015 as a result of the termination of the proposed business combination with TEL, reinstatement of the U.S. federal research and development tax credit during the first quarter of fiscal 2015 which was retroactive to its expiration in December 2013, resolutions and changes related to income tax liabilities for prior years, and changes in the geographical composition of income.

The effective tax rate for the nine months ended July 26, 2015 includes the effect of an adjustment primarily to correct an error in the recognition of cost of sales in the U.S. related to intercompany sales. While this error had no impact on Applied’s consolidated cost of sales, it resulted in overstating profitability in the U.S. and the provision for income taxes, income taxes payable and other tax balance sheet accounts in each year since fiscal 2010. The impact of the adjustment to the nine months ended July 26, 2015 was a decrease in provision for income taxes of $35 million. See Note 1 of Notes to Consolidated Condensed Financial Statements.

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Segment Information

Applied reports financial results in four segments: Silicon Systems Group, Applied Global Services, Display, and Energy and Environmental Solutions. A description of the products and services, as well as financial data, for each reportable segment can be found in Note 16 of Notes to Consolidated Condensed Financial Statements. Applied does not allocate to its reportable segments certain operating expenses that it manages separately at the corporate level. These unallocated costs include costs for share-based compensation; certain management, finance, legal, human resource, and RD&E functions provided at the corporate level; and unabsorbed information technology and occupancy. In addition, Applied does not allocate to its reportable segments restructuring and asset impairment charges and any associated adjustments related to restructuring actions, unless these actions pertain to a specific reportable segment.

The results for each reportable segment are discussed below.

Silicon Systems Group Segment

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

The competitive environment for the Silicon Systems Group in the first nine months of fiscal 2015 reflected continued investment by semiconductor manufacturers. DRAM and NAND manufacturers increased investments in technology upgrades and additional capacity. Foundry investments reflected demand for new technology as customers ramp wafer starts at advanced nodes to meet demand for advanced mobile chips, but decreased primarily due to customers managing excess inventory, improving yields and re-using equipment.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	July 26, 2015	April 26, 2015	July 27, 2014	Q3 2015 over Q2 2015		Q3 2015 over Q3 2014	
	(In millions, except percentages and ratios)						
New orders	$2,007	$1,704	$1,565	$303	18%	$442	28%
Net sales	1,635	1,560	1,476	75	5%	159	11%
Book to bill ratio	1.2	1.1	1.1				
Operating income	411	374	381	37	10%	30	8%
Operating margin	25.1 %	24.0 %	25.8 %		1.1 points		(0.7) points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income	$455	$418	$423	37	9%	32	8%
Non-GAAP adjusted operating margin	27.8 %	26.8 %	28.7 %		1.0 points		(0.9) points

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	Nine Months Ended			Change	
	July 26, 2015		July 27, 2014	YTD Q3 2015 over YTD Q3 2014	
	(In millions, except percentages and ratios)				
New orders	$5,137		$4,798	$339	7%
Net sales	4,641		4,544	97	2%
Book to bill ratio	1.1		1.1		
Operating income	1,092		1,086	6	1%
Operating margin	23.5	%	23.9	%	(0.4) points
Non-GAAP Adjusted Results					
Non-GAAP adjusted operating income	$1,223		$1,213	10	1%
Non-GAAP adjusted operating margin	26.4	%	26.7	%	(0.3) points

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

New orders for the Silicon Systems Group by end use application for the periods indicated were as follows:

	Three Months Ended			Nine Months Ended	
	July 26, 2015	April 26, 2015	July 27, 2014	July 26, 2015	July 27, 2014
Foundry	32%	36%	50%	34%	53%
Memory	57%	52%	36%	54%	36%
Logic and other	11%	12%	14%	12%	11%
	100%	100%	100%	100%	100%

New orders for the third quarter of fiscal 2015 increased compared to the prior quarter primarily due to higher demand from memory customers. Net sales for the third quarter of fiscal 2015 increased sequentially primarily due to higher spending from foundry customers, partially offset by lower spending from memory customers. Approximately 65 percent of net sales in the third quarter of fiscal 2015 were for orders received and shipped within the quarter. Operating margin and non-GAAP adjusted operating margin increased compared to the prior quarter primarily due to higher net sales and favorable changes in product mix. In the third quarter of fiscal 2015, three customers accounted for approximately 56 percent of this segment's total new orders and three customers accounted for approximately 45 percent of this segment's total net sales.

New orders and net sales for the third quarter and first nine months of fiscal 2015 increased compared to the same periods in fiscal 2014 primarily due to increased demand and higher spending from memory and logic customers, partially offset by lower demand from foundry customers. Operating income and non-GAAP adjusted operating income increased in the third quarter and first nine months of fiscal 2015 compared to the same periods in the prior year, reflecting the increase in net sales. Operating margin and non-GAAP adjusted operating margin in the third quarter and the first nine months of fiscal 2015 decreased compared to the comparable periods in fiscal 2014, despite the increase in net sales, primarily due to unfavorable changes in product mix.

The following regions accounted for at least 30 percent of total net sales for the Silicon Systems Group segment for one or more of the periods indicated:

	Three Months Ended			Change	
	July 26, 2015	April 26, 2015	July 27, 2014	Q3 2015 over Q2 2015	Q3 2015 over Q3 2014

	(In millions, except percentages)							
Taiwan	$594	36%	$306	20%	$466	32%	94%	27%
United States	$478	29%	$438	28%	$544	37%	9%	(12)%

	Nine Months Ended				Change
	July 26, 2015		July 27, 2014		YTD Q3 2015 over YTD Q3 2014
	(In millions, except percentages)				
Taiwan	$1,283	28%	$1,711	38%	(25)%
United States	$1,290	28%	$934	21%	38%

Applied Global Services Segment

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

Industry conditions that affected Applied Global Services' sales of spares and services during the first nine months of fiscal 2015 were principally semiconductor manufacturers' wafer starts, as well as utilization rates.

Certain significant measures for the periods indicated were as follows:

	Three Months Ended						Change				
	July 26, 2015		April 26, 2015		July 27, 2014		Q3 2015 over Q2 2015			Q3 2015 over Q3 2014	
	(In millions, except percentages and ratios)										
New orders	$561		$641		$552		$(80	)	(12)%	$9	2%
Net sales	665		646		567		19		3%	98	17%
Book to bill ratio	0.8		1.0		1.0						
Operating income	170		170		154		—		—%	16	10%
Operating margin	25.6	%	26.3	%	27.2	%			(0.7) points		(1.6) points
Non-GAAP Adjusted Results											
Non-GAAP adjusted operating income	173		170		154		3		2%	19	12%
Non-GAAP adjusted operating margin	26.0	%	26.3	%	27.2	%			(0.3) points		(1.2) points

	Nine Months Ended				Change	
	July 26, 2015		July 27, 2014		YTD Q3 2015 over YTD Q3 2014	
	(In millions, except percentages and ratios)					
New orders	$1,892		$1,686		$206	12%
Net sales	1,894		1,608		286	18%
Book to bill ratio	1.0		1.0			
Operating income	493		427		66	15%
Operating margin	26.0	%	26.6	%		(0.6) points
Non-GAAP Adjusted Results						
Non-GAAP adjusted operating income	$497		$430		67	16%
Non-GAAP adjusted operating margin	26.2	%	26.7	%		(0.5) points

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

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New orders for the third quarter of fiscal 2015 decreased compared to the prior quarter primarily due to lower demand for semiconductor spares and 200mm equipment systems. Net sales for the third quarter of fiscal 2015 increased from the prior quarter primarily due to higher investment in 200mm equipment systems. Operating income and non-GAAP adjusted operating income for the third quarter of fiscal 2015 compared to the prior quarter were relatively flat, while operating margin and non-GAAP adjusted operating margin for the third quarter of fiscal 2015 decreased compared to the prior quarter, primarily due to increased research and development expenses and sales initiatives. Operating income for the third quarter of fiscal 2015 included $3 million of inventory charges related to cost reduction measures taken in the third quarter of fiscal 2015, which was recorded in cost of products sold. Details on restructuring charges and asset impairments are included in Note 11 of the Notes to the Consolidated Condensed Financial Statements.
New orders for the third quarter of fiscal 2015 increased compared to the same period in the prior year due to the higher demand for semiconductor services, partially offset by lower demand for 200mm equipment systems. New orders for the first nine months and net sales for the third quarter and first nine months of fiscal 2015 increased compared to the same periods in the prior year mainly due to higher demand for semiconductor spares, services and 200mm equipment systems. Operating income and non-GAAP adjusted operating income increased in the third quarter and first nine months of fiscal 2015 compared to the same periods in the prior year, reflecting the increase in net sales. Operating margin and non-GAAP adjusted operating margin in the third quarter and first nine months of fiscal 2015 decreased compared to the same periods in fiscal 2014, despite the increase in net sales, primarily due to the absence of a recovery of a regional custom duty assessment charge recorded in fiscal 2014.
There was no single region that accounted for at least 30 percent of total net sales for the Applied Global Services segment for any of the periods presented.

Display Segment

The Display segment encompasses products for manufacturing liquid crystal displays (LCDs), organic light-emitting diodes (OLEDs), and other display technologies for TVs, personal computers (PCs), tablets, smart phones, and other consumer-oriented devices. The segment is focused on expanding its presence through technologically-differentiated equipment for manufacturing large-scale TVs; new markets such as low temperature polysilicon (LTPS), metal oxide, and touch panel sectors; and development of products that enable cost reductions through productivity and uniformity. Display industry growth depends primarily on consumer demand for increasingly larger and more advanced LCD TVs and high resolution displays for next generation mobile devices.
The market environment for Applied's Display segment in the first nine months of fiscal 2015 has been characterized by continued demand for manufacturing equipment for TV and high-end mobile devices, although this sector remains susceptible to highly cyclical conditions. Uneven order and revenue patterns in the Display segment can cause significant fluctuations quarter-over-quarter, as well as year-over year.
Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	July 26, 2015	April 26, 2015	July 27, 2014	Q3 2015 over Q2 2015		Q3 2015 over Q3 2014	
	(In millions, except percentages and ratios)						
New orders	$295	$120	$296	$175	146%	$(1)	—%
Net sales	151	163	119	(12)	(7)%	32	27%
Book to bill ratio	2.0	0.7	2.5				
Operating income	25	40	25	(15)	(38)%	—	—%
Operating margin	16.6%	24.5%	21.0%		(7.9) points		(4.4) points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income	$26	$40	$26	(14)	(35)%	—	—%
Non-GAAP adjusted operating margin	17.2%	24.5%	21.8%		(7.3) points		(4.6) points

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	Nine Months Ended		Change	
	July 26, 2015	July 27, 2014	YTD Q3 2015 over YTD Q3 2014	
	(In millions, except percentages and ratios)			
New orders	$522	$715	$(193)	(27)%
Net sales	589	425	164	39%
Book to bill ratio	0.9	1.7		
Operating income	137	77	60	78%
Operating margin	23.3 %	18.1 %		5.2 points
Non-GAAP Adjusted Results				
Non-GAAP adjusted operating income	$139	$79	60	76%
Non-GAAP adjusted operating margin	23.6 %	18.6 %		5.0 points

Reconciliations of non-GAAP adjusted measures are presented below under "Non-GAAP Adjusted Results."
New orders for the third quarter of fiscal 2015 increased compared to the prior quarter primarily due to an increase in TV manufacturing equipment orders, while net sales were lower compared to the prior quarter due to timing of shipments of TV manufacturing equipment. Operating income, operating margin, non-GAAP adjusted operating income and non-GAAP adjusted operating margin decreased compared to the prior quarter, as a result of unfavorable product mix and additional inventory charges. Two customers accounted for approximately 85 percent of new orders for this segment during the third quarter of fiscal 2015. Three customers accounted for approximately 85 percent of net sales for the Display segment in the third quarter of fiscal 2015, with one customer accounting for more than 30 percent of net sales.
New orders for the third quarter of fiscal 2015 were flat compared to the same period in the prior year. New orders for the first nine months of fiscal 2015 decreased compared to the same period in the prior year primarily due to lower TV manufacturing equipment orders. Net sales for the third quarter and first nine months of fiscal 2015 were higher compared to the same periods in the prior year mainly due to shipments of TV equipment during fiscal 2015. Operating income and non-GAAP adjusted operating income were relatively flat for the third quarter of fiscal 2015 compared to the same period in the prior year, while operating margin and non-GAAP adjusted operating margin decreased primarily due to the sale of tools in fiscal 2014 for which inventory had been fully reserved previously. Operating income, operating margin and non-GAAP adjusted operating income and non-GAAP adjusted operating margin increased for the first nine months of fiscal 2015 from the same period in the prior year, reflecting higher net sales and favorable product mix.
The following regions accounted for at least 30 percent of total net sales for the Display segment for one or more of the periods indicated:

	Three Months Ended						Change	
	July 26, 2015		April 26, 2015		July 27, 2014		Q3 2015 over Q2 2015	Q3 2015 over Q3 2014
	(In millions, except percentages)							
China	$97	64%	$138	85%	$65	55%	(30)%	49%
Korea	$50	33%	$16	10%	$36	30%	213%	39%

Nine Months Ended		Change
July 26, 2015	July 27, 2014	YTD Q3 2015 over

	YTD Q3 2014				
	(In millions, except percentages)				
China	$474	80%	$355	84%	34%
Korea	$105	18%	$41	10%	156%

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Energy and Environmental Solutions Segment

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

Certain significant measures for the periods indicated were as follows:

	Three Months Ended			Change			
	July 26, 2015	April 26, 2015	July 27, 2014	Q3 2015 over Q2 2015		Q3 2015 over Q3 2014	
	(In millions, except percentages and ratios)						
New orders	$29	$50	$66	$(21)	(42)%	$(37)	(56)%
Net sales	39	73	103	(34)	(47)%	(64)	(62)%
Book to bill ratio	0.7	0.7	0.6				
Operating income (loss)	(52)	(5)	24	(47)	(940)%	(76)	(317)%
Operating margin	(133.3)%	(6.8)%	23.3%		(126.5) points		(156.6) points
Non-GAAP Adjusted Results							
Non-GAAP adjusted operating income (loss)	(2)	(4)	25	2	50%	(27)	(108)%
Non-GAAP adjusted operating margin	(5.1)%	(5.5)%	24.3%		0.4 points		(29.4) points

	Nine Months Ended		Change	
	July 26, 2015	July 27, 2014	YTD Q3 2015 over YTD Q3 2014	
	(In millions, except percentages and ratios)			
New orders	$129	$194	$(65)	(34)%
Net sales	167	231	(64)	(28)%
Book to bill ratio	0.8	0.8		
Operating income (loss)	(61)	18	(79)	(439)%
Operating margin	(36.5)%	7.8%		(44.3) points
Non-GAAP Adjusted Results				
Non-GAAP adjusted operating income (loss)	$(9)	$22	(31)	(141)%
Non-GAAP adjusted operating margin	(5.4)%	9.5%		(14.9) points

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

Financial results during the periods presented remained at low levels due to continued excess manufacturing capacity in the solar industry. One customer accounted for approximately 67 percent of new orders and two customers accounted for approximately 30 percent of net sales for this segment during the third quarter of fiscal 2015.

Operating loss for the third quarter of fiscal 2015 included $17 million in restructuring charges and asset impairments and $31 million of inventory charges recorded in cost of products sold, related to cost reduction measures taken in the third quarter of fiscal 2015. Details on restructuring charges and asset impairments are included in Note 11 of the Notes to the Consolidated Condensed Financial Statements.

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The following region accounted for at least 30 percent of total net sales for the Energy and Environmental Solutions segment for one or more of the periods presented:

	Three Months Ended						Change	
	July 26, 2015		April 26, 2015		July 27, 2014		Q3 2015 over Q2 2015	Q3 2015 over Q3 2014
	(In millions, except percentages)							
China	$15	38%	$24	33%	$72	70%	(38)%	(79)%

	Nine Months Ended				Change
	July 26, 2015		July 27, 2014		YTD Q3 2015 over YTD Q3 2014
	(In millions, except percentages)				
China	$69	41%	$148	64%	(53)%

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Financial Condition, Liquidity and Capital Resources

Applied's cash, cash equivalents and investments consist of the following:

	July 26, 2015	October 26, 2014
	(In millions)	
Cash and cash equivalents	$2,574	$3,002
Short-term investments	169	160
Long-term investments	958	935
Total cash, cash-equivalents and investments	$3,701	$4,097

Sources and Uses of Cash

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

	Nine Months Ended	
	July 26, 2015	July 27, 2014
	(In millions)	
Cash provided by operating activities	$692	$1,393
Cash used in investing activities	$(224)	$(108)
Cash used in financing activities	$(896)	$(270)

Operating Activities

Cash from operating activities for the nine months ended July 26, 2015 was $692 million, which reflects net income adjusted for the effect of non-cash charges and changes in working capital components. Non-cash charges included depreciation, amortization, share-based compensation and deferred income taxes. Cash from operating activities reflected increases in accounts receivable and inventories, and decreases in accounts payable, accrued expenses and customer deposits.

Applied did not discount promissory notes or utilize programs to discount letters of credit issued by customers during the three and nine months ended July 26, 2015 or the three months ended July 27, 2014. Applied discounted $29 million of letters of credit issued by customers during the nine months ended July 27, 2014. Discounting of letters of credit depends on many factors, including the willingness of financial institutions to discount the letters of credit and the cost of such arrangements. Applied did not factor any accounts receivable during the three and nine months ended July 26, 2015 or the three months ended July 27, 2014, and factored accounts receivable of $45 million during the nine months ended July 27, 2014.

Applied’s working capital was $4.0 billion at July 26, 2015 and $4.1 billion at October 26, 2014.

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

	July 26, 2015	April 26, 2015	July 27, 2014
Days sales outstanding	73	67	65
Days inventory outstanding	108	109	111
Days payable outstanding	43	41	42

Days sales outstanding varies due to the timing of shipments and payment terms. Days sales outstanding increased in the third quarter of fiscal 2015 compared to the prior quarter primarily due to slower collections. Days inventory outstanding decreased slightly during the third quarter of fiscal 2015 compared to the prior quarter reflecting higher cost of products sold. Days payable outstanding increased slightly during the third quarter of fiscal 2015 compared to the prior quarter primarily reflecting higher accounts payable balances at the end of the current quarter.

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Investing Activities

Applied used $224 million of cash in investing activities during the nine months ended July 26, 2015. Purchases of investments, net of proceeds from sales and maturities of investments, totaled $60 million and capital expenditures were $164 million during the nine months ended July 26, 2015.

Financing Activities

Applied used cash for financing activities in the amount of $896 million during the nine months ended July 26, 2015, consisting primarily of $625 million in repurchases of common stock, $368 million in payment of cash dividends to stockholders, offset by excess tax benefits from share-based compensation of $54 million and proceeds from common stock issuances and other of $43 million.

In June 2015, March 2015 and December 2014, Applied's Board of Directors declared quarterly cash dividends in the amount of $0.10 per share. Applied currently anticipates that cash dividends will continue to be paid on a quarterly basis, although the declaration of any future cash dividend is at the discretion of the Board of Directors and will depend on Applied’s financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination by the Board of Directors that cash dividends are in the best interests of Applied’s stockholders.

Applied has credit facilities for unsecured borrowings in various currencies of up to $1.6 billion, of which $1.5 billion is comprised of a committed revolving credit agreement with a group of banks that is scheduled to expire in May 2017. This agreement provides for borrowings in United States dollars at interest rates keyed to one of the two rates selected by Applied for each advance and includes financial and other covenants with which Applied was in compliance at July 26, 2015. Remaining credit facilities in the amount of approximately $64 million are with Japanese banks. Applied’s ability to borrow under these facilities is subject to bank approval at the time of the borrowing request, and any advances will be at rates indexed to the banks’ prime reference rate denominated in Japanese yen. No amounts were outstanding under any of these facilities at both July 26, 2015 and October 26, 2014, and Applied has not utilized these credit facilities.

In fiscal 2011, Applied established a short-term commercial paper program of up to $1.5 billion. At July 26, 2015 and October 26, 2014, Applied did not have any commercial paper outstanding, but may issue commercial paper notes under this program from time to time in the future.

Applied had senior unsecured notes in the aggregate principal amount of $1.95 billion outstanding as of July 26, 2015. The indentures governing these notes include covenants with which Applied was in compliance at July 26, 2015. See Note 10 of Notes to Consolidated Condensed Financial Statements for additional discussion of existing debt. Applied may seek to refinance its existing debt and may incur additional indebtedness depending on Applied's capital requirements and the availability of financing.

In the ordinary course of business, Applied provides standby letters of credit or other guarantee instruments to third parties as required for certain transactions initiated by either Applied or its subsidiaries. As of July 26, 2015, the maximum potential amount of future payments that Applied could be required to make under these guarantee agreements was approximately $54 million. Applied has not recorded any liability in connection with these guarantee agreements beyond that required to appropriately account for the underlying transaction being guaranteed. Applied does not believe, based on historical experience and information currently available, that it is probable that any amounts will be required to be paid under these guarantee agreements.

Applied also has agreements with various banks to facilitate subsidiary banking operations worldwide, including overdraft arrangements, issuance of bank guarantees, and letters of credit. As of July 26, 2015, Applied Materials, Inc. has provided parent guarantees to banks for approximately $100 million to cover these arrangements.

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Others

Applied's investment portfolio consists principally of investment grade money market mutual funds, U.S. Treasury and agency securities, municipal bonds, corporate bonds and mortgage-backed and asset-backed securities, as well as equity securities. Applied regularly monitors the credit risk in its investment portfolio and takes appropriate measures, which may include the sale of certain securities, to manage such risks prudently in accordance with its investment policies. During the three and nine months ended July 26, 2015, Applied did not recognize any impairment of its fixed income or publicly traded equity securities. At July 26, 2015, gross unrealized losses due to a decrease in the fair value of certain fixed income securities were not material.

During the three and nine months ended July 26, 2015, Applied did not record a bad debt provision. While Applied believes that its allowance for doubtful accounts at July 26, 2015 is adequate, it will continue to closely monitor customer liquidity and economic conditions.

As of July 26, 2015, approximately $2.8 billion of cash, cash equivalents and marketable securities held by foreign subsidiaries may be subject to U.S. taxes if repatriated for U.S. operations. Of this amount, Applied intends to indefinitely reinvest approximately $2.4 billion of these funds outside of the U.S. and does not plan to repatriate these funds. For the remaining cash, cash equivalents and marketable securities held by foreign subsidiaries, U.S. taxes have been provided for in the financial statements.

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

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Critical Accounting Policies and Estimates

The preparation of consolidated financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions and estimates that affect the amounts reported. Note 1 of Notes to Consolidated Financial Statements in Applied's Annual Report on Form 10-K and Note 1 of Notes to Consolidated Condensed Financial Statements in this report describe the significant accounting policies used in the preparation of the consolidated financial statements. Certain of these significant accounting policies are considered to be critical accounting policies.

A critical accounting policy is defined as one that is both material to the presentation of Applied's consolidated financial statements and that requires management to make difficult, subjective or complex judgments that could have a material effect on Applied's financial condition or results of operations. Specifically, these policies have the following attributes: (1) Applied is required to make assumptions about matters that are highly uncertain at the time of the estimate; and (2) different estimates Applied could reasonably have used, or changes in the estimate that are reasonably likely to occur, would have a material effect on Applied's financial condition or results of operations.

Estimates and assumptions about future events and their effects cannot be determined with certainty. Applied bases its estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. These estimates may change as new events occur, as additional information is obtained and as Applied's operating environment changes. These changes have historically been minor and have been included in the consolidated financial statements as soon as they became known. In addition, management is periodically faced with uncertainties, the outcomes of which are not within its control and will not be known for prolonged periods of time. These uncertainties include those discussed in Part II, Item 1A, "Risk Factors." Based on a critical assessment of its accounting policies and the underlying judgments and uncertainties affecting the application of those policies, management believes that Applied's consolidated financial statements are fairly stated in accordance with accounting principles generally accepted in the United States of America, and provide a meaningful presentation of Applied's financial condition and results of operations.

Management believes that the following are critical accounting policies and estimates:

Revenue Recognition

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

Warranty Costs

Applied provides for the estimated cost of warranty when revenue is recognized. Estimated warranty costs are determined by analyzing specific product, current and historical configuration statistics and regional warranty support costs. Applied's warranty obligation is affected by product and component failure rates, material usage and labor costs incurred in correcting product failures during the warranty period. As Applied's customer engineers and process support engineers are highly trained and deployed globally, labor availability is a significant factor in determining labor costs. The quantity and availability of critical replacement parts is another significant factor in estimating warranty costs. Unforeseen component failures or exceptional component performance can also result in changes to warranty costs. If actual warranty costs differ substantially from Applied's estimates, revisions to the estimated warranty liability would be required, which could have a material adverse effect on Applied's business, financial condition and results of operations.

Allowance for Doubtful Accounts

Applied maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. This allowance is based on historical experience, credit evaluations, specific customer collection history and any customer-specific issues Applied has identified. Changes in circumstances, such as an unexpected material adverse change in a major customer's ability to meet its financial obligation to Applied or its payment trends, may require Applied to further adjust its estimates of the recoverability of amounts due to Applied, which could have a material adverse effect on Applied's business, financial condition and results of operations.

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Inventory Valuation

Inventories are generally stated at the lower of cost or market, with cost determined on a first-in, first-out basis. The carrying value of inventory is reduced for estimated obsolescence by the difference between its cost and the estimated market value based upon assumptions about future demand. Applied evaluates the inventory carrying value for potential excess and obsolete inventory exposures by analyzing historical and anticipated demand. In addition, inventories are evaluated for potential obsolescence due to the effect of known and anticipated engineering change orders and new products. If actual demand were to be substantially lower than estimated, additional adjustments for excess or obsolete inventory may be required, which could have a material adverse effect on Applied's business, financial condition and results of operations.

Goodwill and Intangible Assets

Applied reviews goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable, and also annually reviews goodwill and intangibles with indefinite lives for impairment. Intangible assets, such as purchased technology, are generally recorded in connection with a business acquisition. The value assigned to intangible assets is usually based on estimates and judgments regarding expectations for the success and life cycle of products and technology acquired. If actual product acceptance differs significantly from the estimates, Applied may be required to record an impairment charge to reduce the carrying value of the reporting unit to its estimated fair value. The fair value of a reporting unit is estimated using both the income approach and the market approach taking into account such factors as future anticipated operating results and estimated cost of capital. Management uses significant judgment when assessing goodwill for potential impairment, especially in emerging markets. A severe decline in market conditions could result in an unexpected impairment charge for impaired goodwill, which could have a material adverse effect on Applied's business, financial condition and results of operations.

Income Taxes

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

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

The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Resolution of these uncertainties in a manner inconsistent with Applied's expectations could have a material impact on Applied's results of operations and financial condition.

Non-GAAP Adjusted Results

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

The following tables present a reconciliation of the GAAP and non-GAAP adjusted consolidated results:
APPLIED MATERIALS, INC.
UNAUDITED RECONCILIATION OF GAAP TO NON-GAAP ADJUSTED RESULTS

(In millions, except percentages)	Three Months Ended July 26, 2015	Three Months Ended April 26, 2015	Three Months Ended July 27, 2014	Nine Months Ended July 26, 2015	Nine Months Ended July 27, 2014
Non-GAAP Adjusted Gross Profit					
Reported gross profit - GAAP basis	$1,018	$1,016	$992	$2,993	$2,884
Certain items associated with acquisitions[1]	41	39	38	120	116
Inventory charges related to restructuring[3]	34	—	—	34	—
Acquisition integration costs	—	—	—	—	1
Non-GAAP adjusted gross profit	$1,093	$1,055	$1,030	$3,147	$3,001
Non-GAAP adjusted gross margin	43.9 %	43.2 %	45.5 %	43.2 %	44.1 %
Non-GAAP Adjusted Operating Income					
Reported operating income - GAAP basis	$396	$416	$391	$1,270	$1,108
Certain items associated with acquisitions[1]	47	45	44	138	135
Acquisition integration costs	1	—	9	2	30
Loss (gain) on derivatives associated with terminated business combination, net	3	(14)	10	(89)	9
Certain items associated with terminated business combination[2]	1	29	23	50	50
Restructuring, inventory charges and asset impairments[3, 4]	50	—	—	50	7
Foreign exchange loss due to functional currency change[5]	19	—	—	19	—
Non-GAAP adjusted operating income	$517	$476	$477	$1,440	$1,339
Non-GAAP adjusted operating margin	20.8 %	19.5 %	21.1 %	19.8 %	19.7 %
Non-GAAP Adjusted Net Income					
Reported net income - GAAP basis[6]	$329	$364	$301	$1,041	$816
Certain items associated with acquisitions[1]	47	45	44	138	135
Acquisition integration costs	1	—	9	2	30
Loss (gain) on derivatives associated with terminated business combination, net	3	(14)	10	(89)	9
Certain items associated with terminated business combination[2]	1	29	23	50	50
Restructuring, inventory charges and asset impairments[3, 4]	50	—	—	50	7
Impairment (gain on sale) of strategic investments, net	(1)	6	(1)	6	(4)
Foreign exchange loss due to functional currency change[5]	19	—	—	19	—
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items[6]	(21)	(54)	(19)	(92)	(22)
Income tax effect of non-GAAP adjustments	(18)	(14)	(18)	(15)	(45)
Non-GAAP adjusted net income	$410	$362	$349	$1,110	$976

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

2

These items are incremental charges related to the terminated business combination agreement with Tokyo Electron Limited, consisting of acquisition-related and integration planning costs.

3 Results for the three and nine months ended July 26, 2015 primarily included $34 million of inventory charges and $17 million of restructuring charges and asset impairments related to cost reductions in the solar business.

4 Results for the nine months ended July 27, 2014 included a $7 million of employee-related costs related to the restructuring program announced on October 3, 2012.

5 Results for the three and nine months ended July 26, 2015 included a $19 million foreign exchange loss due to an immaterial correction of an error related to functional currency change.

6 Amounts for the three months ended April 26, 2015 and nine months ended July 26, 2015 included an adjustment to decrease the provision for income taxes by $39 million and $35 million, respectively, with a corresponding increase in net income, resulting in an increase in diluted earnings per share of $0.03. The adjustment was excluded in Applied's non-GAAP adjusted results and was made primarily to correct an error in the recognition of cost of sales in the U.S. related to intercompany sales, which resulted in overstating profitability in the U.S. and the provision for income taxes in immaterial amounts in each year since fiscal 2010.

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

(In millions, except per share amounts)	Three Months Ended July 26, 2015	April 26, 2015	July 27, 2014	Nine Months Ended July 26, 2015	July 27, 2014
Non-GAAP Adjusted Earnings Per Diluted Share					
Reported earnings per diluted share - GAAP basis[1]	$0.27	$0.29	$0.24	$0.84	$0.66
Certain items associated with acquisitions	0.03	0.03	0.03	0.10	0.09
Acquisition integration costs	—	—	0.01	—	0.02
Certain items associated with terminated business combination	—	0.02	0.02	0.03	0.04
Gain on derivative associated with terminated business combination, net	—	(0.01)	—	(0.05)	—
Restructuring, inventory charges and asset impairments	0.03	—	—	0.03	—
Reinstatement of federal R&D tax credit, resolution of prior years' income tax filings and other tax items[1]	(0.02)	(0.04)	(0.02)	(0.07)	(0.02)
Foreign exchange loss due to functional currency change	0.02	—	—	0.02	—
Non-GAAP adjusted earnings per diluted share	0.33	0.29	0.28	0.90	0.79
Weighted average number of diluted shares	1,231	1,241	1,233	1,238	1,230

1 Amounts for the three months ended April 26, 2015 and nine months ended July 26, 2015 included an adjustment to decrease the provision for income taxes by $39 million and $35 million, respectively, with a corresponding increase in net income, resulting in an increase in diluted earnings per share of $0.03. The adjustment was excluded in Applied's non-GAAP adjusted results and was made primarily to correct an error in the recognition of cost of sales in the U.S. related to intercompany sales, which resulted in overstating profitability in the U.S. and the provision for income taxes in immaterial amounts in each year since fiscal 2010.

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The following table presents a reconciliation of the GAAP and non-GAAP adjusted segment results:

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

(In millions, except percentages)	Three Months Ended July 26, 2015		April 26, 2015		July 27, 2014		Nine Months Ended July 26, 2015		July 27, 2014	
SSG Non-GAAP Adjusted Operating Income										
Reported operating income - GAAP basis	$411		$374		$381		$1,092		$1,086	
Certain items associated with acquisitions[1]	44		44		42		131		126	
Acquisition integration costs	—		—		—		—		1	
Non-GAAP adjusted operating income	$455		$418		$423		$1,223		$1,213	
Non-GAAP adjusted operating margin	27.8	%	26.8	%	28.7	%	26.4	%	26.7	%
AGS Non-GAAP Adjusted Operating Income										
Reported operating income - GAAP basis	$170		$170		$154		$493		$427	
Certain items associated with acquisitions[1]	—		—		—		1		3	
Inventory charges related to restructuring[2]	3		—		—		3		—	
Non-GAAP adjusted operating income	$173		$170		$154		$497		$430	
Non-GAAP adjusted operating margin	26.0	%	26.3	%	27.2	%	26.2	%	26.7	%
Display Non-GAAP Adjusted Operating Income										
Reported operating income - GAAP basis	$25		$40		$25		$137		$77	
Certain items associated with acquisitions[1]	1		—		1		2		2	
Non-GAAP adjusted operating income	$26		$40		$26		$139		$79	
Non-GAAP adjusted operating margin	17.2	%	24.5	%	21.8	%	23.6	%	18.6	%
EES Non-GAAP Adjusted Operating Income (Loss)										
Reported operating income (loss) - GAAP basis	$(52	)	$(5	)	$24		$(61	)	$18	
Certain items associated with acquisitions[1]	2		1		1		4		4	
Restructuring, inventory charges and asset impairments[2]	48		—		—		48		—	
Non-GAAP adjusted operating income (loss)	$(2	)	$(4	)	$25		$(9	)	$22	
Non-GAAP adjusted operating margin	(5.1	)%	(5.5	)%	24.3	%	(5.4	)%	9.5	%

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

2 Results for the three and nine months ended July 26, 2015 included a $34 million of inventory charges and $17 million of restructuring charges and asset impairments related to cost reductions in the solar business.

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

Item 3: Quantitative and Qualitative Disclosures About Market Risk

Applied is exposed to interest rate risk related to its investment portfolio and debt issuances. Applied's investment portfolio includes fixed-income securities with a fair value of approximately $1.0 billion at July 26, 2015. These securities are subject to interest rate risk and will decline in value if interest rates increase. Based on Applied's investment portfolio at July 26, 2015, an immediate 100 basis point increase in interest rates would result in a decrease in the fair value of the portfolio of approximately $15 million. While an increase in interest rates reduces the fair value of the investment portfolio, Applied will not realize the losses in the consolidated statement of operations unless the individual fixed-income securities are sold prior to recovery or the loss is determined to be other-than-temporary. At July 26, 2015, the carrying amount of long-term debt issued by Applied was $1.5 billion with an estimated fair value of $1.7 billion. A hypothetical decrease in interest rates of 100 basis points would result in an increase in the fair value of Applied's long-term debt issuances of approximately $157 million at July 26, 2015.

Certain operations of Applied are conducted in foreign currencies, such as Japanese yen, euro, Israeli shekel, Taiwanese dollar and Swiss franc. Applied enters into currency forward exchange and option contracts to hedge a portion of, but not all, existing and anticipated foreign currency denominated transactions generally expected to occur within the next 24 months. Gains and losses on these contracts are generally recognized in income at the time that the related transactions being hedged are recognized. Because the effect of movements in currency exchange rates on currency forward exchange and option contracts generally offsets the related effect on the underlying items being hedged, these financial instruments are not expected to subject Applied to risks that would otherwise result from changes in currency exchange rates. Applied does not use derivative financial instruments for trading or speculative purposes.

Applied is also exposed to interest rate risk associated with its potential future borrowings. During the three months ended July 26, 2015, Applied entered into a series of forward-starting interest rate swap agreements to hedge against the variability of cash flows due to changes in the benchmark interest rate of fixed rate debt. Gains and losses on these contracts are generally recognized in income at the time that the related debt being hedged is recognized. Because the effect of movements in interest rates generally offset the related effect on the underlying items being hedged, these financial instruments are not expected to subject Applied to risks that would otherwise result from changes in interest rates.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

As of the end of the period covered by this report, management of Applied conducted an evaluation, under the supervision and with the participation of Applied's Chief Executive Officer and Chief Financial Officer, of the effectiveness of Applied's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the Exchange Act). Based upon that evaluation, Applied's Chief Executive Officer and Chief Financial Officer concluded that Applied's disclosure controls and procedures were effective as of the end of the period covered by this report in ensuring that information required to be disclosed was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to provide reasonable assurance that information required to be disclosed by Applied in such reports is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the third quarter of fiscal 2015, there were no changes in the internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Exchange Act, that materially affected, or are reasonably likely to materially affect, Applied's internal control over financial reporting.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A: Risk Factors

The risk factors set forth below include any material changes to, and supersede the description of, the risk factors disclosed in Part I, Item 1A of Applied’s 2014 Form 10-K. These factors could materially and adversely affect Applied’s business, financial condition or results of operations and cause reputational harm, and they should be carefully considered in evaluating the Company and its business, in addition to other information presented elsewhere in this report.

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

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

To meet rapidly changing demand in the industries it serves, Applied must accurately forecast demand and effectively manage its resources and production capacity for each of its segments as well as across multiple segments, and may incur unexpected or additional costs to align its business operations. During periods of increasing demand for its products, Applied must have sufficient manufacturing capacity and inventory to meet customer demand; effectively manage its supply chain; attract, retain and motivate a sufficient number of qualified employees; and continue to control costs. During periods of decreasing demand, Applied must reduce costs and align its cost structure with prevailing market conditions; effectively manage its supply chain; and motivate and retain key employees.

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

Uncertain global economic conditions along with uncertainties in the financial markets, national debt and fiscal concerns in various regions, and government austerity measures, are posing challenges to the industries in which Applied operates. The markets for semiconductors and flat panel displays in particular depend largely on consumer spending, while the solar market depends in part on government incentives and the availability of financing for PV installations. Economic uncertainty and related factors exacerbate negative trends in business and consumer spending and may cause certain Applied customers to push out, cancel, or refrain from placing orders for equipment or services, which may in turn reduce Applied's net sales, reduce backlog, and affect Applied’s ability to convert backlog to sales. Uncertain market conditions, difficulties in obtaining capital, or reduced profitability may also cause some customers to scale back operations, exit businesses, merge with other manufacturers, or file for bankruptcy protection and potentially cease operations, which can also result in lower sales and/or additional inventory or bad debt expense for Applied. These conditions may similarly affect key suppliers, which could impair their ability to deliver parts and result in delays for Applied’s products or added costs. In addition, these conditions may lead to strategic alliances by, or consolidation of, other equipment manufacturers, which could adversely affect Applied’s ability to compete effectively.

Uncertainty about future economic and industry conditions also makes it more challenging for Applied to forecast its operating results, make business decisions, and identify and prioritize the risks that may affect its businesses, sources and uses of cash, financial condition and results of operations. Applied may be required to implement additional cost reduction efforts, including restructuring activities, which may adversely affect Applied’s ability to capitalize on opportunities. In addition, Applied maintains an investment portfolio that is subject to general credit, liquidity, foreign exchange, market and interest rate risks. The risks to Applied’s investment portfolio may be exacerbated if financial market conditions deteriorate and, as a result, the value and liquidity of the investment portfolio, as well as returns on pension assets, could be negatively impacted and lead to impairment charges. Applied also maintains cash balances in various bank accounts globally in order to fund normal operations. If any of these financial institutions becomes insolvent, it could limit Applied's ability to access cash in the affected accounts.

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

The global semiconductor, flat panel display, solar and related industries in which Applied operates are characterized by ongoing changes affecting some or all of these industries that impact demand for and/or the profitability of Applied's products, including:

- the nature, timing and degree of visibility of changes in end demand for electronic products, including those related to fluctuations in consumer buying patterns tied to seasonality or the introduction of new products, and the effects of these changes on foundry and other customers' businesses and, in turn, on demand for Applied's products;
- increasing capital requirements for building and operating new fabrication plants and customers' ability to raise the necessary capital;
- differences in growth rates among the semiconductor, display and solar industries;
- the increasing importance of establishing, improving and maintaining strong relationships with customers;
- the increasing cost and complexity for customers to move from product design to volume manufacturing, which may slow the adoption rate of new manufacturing technology;
- the need to continually reduce the total cost of manufacturing system ownership, due in part to greater demand for lower-cost consumer electronics compared to business information technology spending;
- the heightened importance to customers of system reliability and productivity and the effect on demand for fabrication systems as a result of their increasing productivity, device yield and reliability;
- manufacturers' ability to reconfigure and re-use fabrication systems;
- the increasing importance of, and difficulties in, developing products with sufficient differentiation to influence customers' purchasing decisions;
- requirements for shorter cycle times for the development, manufacture and installation of manufacturing equipment;
- price and performance trends for semiconductor devices, displays and solar PVs, and the corresponding effect on demand for such products;
- the increasing importance of the availability of spare parts to maximize the time that customers' systems are available for production;
- the increasing role for and complexity of software in Applied products; and
- the increasing focus on reducing energy usage and improving the environmental impact and sustainability associated with manufacturing operations.

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

The largest proportion of Applied's consolidated net sales and profitability has been and continues to be derived from sales of manufacturing equipment by the Silicon Systems Group to the global semiconductor industry. In addition, a majority of the revenues of Applied Global Services is from sales of service products to semiconductor manufacturers. The semiconductor industry is characterized by ongoing changes particular to this industry that impact demand for and/or the profitability of Applied's semiconductor equipment and service products, including:

- the increasing cost of research and development due to many factors, including: decreasing linewidths on a chip, the use of new materials, new and more complex device structures, more applications and process steps, increasing chip design costs, and the increasing cost and complexity of integrated manufacturing processes;
- the need to reduce product development time, despite the increasing difficulty of technical challenges;
- the growing number of types and varieties of semiconductors and number of applications across multiple substrate sizes;
- the increasing cost and complexity for semiconductor manufacturers to move more technically advanced capability and smaller linewidths to volume manufacturing, and the resulting impact on the rates of technology transition and investment in capital equipment;
- challenges in generating organic growth given semiconductor manufacturers' levels of capital expenditures and the allocation of capital investment to market segments that Applied does not serve, such as lithography, or segments where Applied's products have lower relative market presence;
- the importance of increasing market positions in under-penetrated segments, such as etch and inspection;

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- the growing demand for mobility products, such as tablets and smartphones, and corresponding industry investment in devices that require fewer Applied products to manufacture, such as NAND flash memory, than are needed to make devices used in other applications, such as DRAM for personal computers;
- the adoption of cloud-based memory storage particularly for mobility products, and the associated inhibiting effect on NAND bit growth rates;
- the increasing frequency and complexity of technology transitions and inflections, such as 3-D transistors and advanced interconnects, and Applied’s ability to timely and effectively anticipate and adapt to these changes;
- shorter cycle times between order placements by customers (particularly foundries) and product shipment, which may lead to inventory write-offs and manufacturing inefficiencies that decrease gross margin;
- competitive factors that make it difficult to enhance position, including challenges in securing development-tool-of-record (DTOR) and production-tool-of-record (PTOR) positions with customers;
- shifts in sourcing strategies by computer and electronics companies that impact the equipment requirements of Applied's foundry customers;
- the concentration of new wafer starts in Korea and Taiwan, where Applied’s service penetration and service-revenue-per-wafer-start have been lower than in other regions; and
- the increasing fragmentation of semiconductor markets, leading certain markets to become too small to support the cost of a new fabrication plant, while others require less technologically advanced products.

Applied must accurately forecast, and allocate appropriate resources and investment towards addressing, key technology changes and inflections in order to enable opportunities for gains.

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

The global flat panel display industry historically has experienced considerable volatility in capital equipment investment levels, due in part to the limited number of display manufacturers, the concentrated nature of end-use applications, excess production capacity relative to end-use demand, and panel manufacturer profitability. Industry growth has depended primarily on consumer demand for increasingly larger and more advanced TVs and, more recently, on demand for smartphones and other mobile devices, which demand is highly sensitive to cost and improvements in technologies and features. The display industry is characterized by ongoing changes particular to this industry that impact demand for and/or the profitability of Applied's display products, including:

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

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

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

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

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

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

- identify and address technology inflections, market changes, new applications, customer requirements and end-use demand;
- develop new products (including disruptive technologies), improve and/or develop new applications for existing products, and adapt similar products for use by customers in different applications and/or markets with varying technical requirements;
- differentiate its products from those of competitors and any disruptive technologies, meet customers' performance specifications, appropriately price products, and achieve market acceptance;
- maintain operating flexibility to enable different responses to different markets, customers and applications;
- enhance its worldwide operations across all business segments to reduce cycle time, enable continuous quality improvement, reduce costs, and enhance design for manufacturability and serviceability;
- focus on product development and sales and marketing strategies that address customers' high value problems and foster strong customer relationships;

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- allocate resources, including people and R&D funding, among Applied's products and between the development of new products and the enhancement of existing products, as most appropriate and effective for future growth;
- reduce the cost and improve the productivity of capital invested in R&D activities;
- accurately forecast demand, work with suppliers and meet production schedules for its products;
- improve its manufacturing processes and achieve cost efficiencies across product offerings;
- adapt to changes in value offered by companies in different parts of the supply chain;
- qualify products for evaluation and, in turn, volume manufacturing with its customers; and
- implement changes in its design engineering methodology, including those that enable reduction of material costs and cycle time, greater commonality of platforms and types of parts used in different systems, greater effectiveness of product life cycle management, and reduced energy usage and environmental impact.

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

Applied's semiconductor customer base historically has been, and is becoming even more, highly concentrated as a result of economic and industry conditions. In the first nine months of fiscal 2015, two semiconductor manufacturers accounted for approximately 42 percent of Silicon Systems Group net sales and two customers accounted for 32 percent of Applied's consolidated net sales. Applied's display customer base is also highly concentrated, while concentration within Applied's solar customer base varies depending on the product line but is increasing due to challenging industry conditions. Applied's customer base is also geographically-concentrated. See Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for tabular presentations of net sales by geographic region.

In addition, certain customers have experienced significant ownership or management changes, consolidated with other manufacturers, outsourced manufacturing activities, or engaged in collaboration or cooperation arrangements with other manufacturers. Customers have entered into strategic alliances or industry consortia that have increased the influence of key industry participants in technology decisions made by their partners. Also, certain customers are making an increasingly greater percentage of their respective industry's capital equipment investments. Further, claims or litigation involving key industry participants have resulted and may continue to result in changes in their sourcing strategies and other outcomes.

In this environment, contracts or orders from a relatively limited number of manufacturers have accounted for, and are expected to continue to account for, a substantial portion of Applied's business. The mix and type of customers, and sales to any single customer, may vary significantly from quarter to quarter and from year to year. As Applied's products are configured to customer specifications, changing, rescheduling or canceling orders may result in significant, non-recoverable costs. If customers do not place orders, or they substantially reduce, delay or cancel orders, Applied may not be able to replace the business, which could have a material adverse effect on the Company's results of operations. Major customers may also seek, and on occasion receive, pricing, payment, intellectual property-related, or other commercial terms that are less favorable to Applied.

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

In the third quarter of fiscal 2015, approximately 74 percent of Applied's net sales were to customers in regions outside the United States. Moreover, China now represents the largest market for various electronic products, such as TVs, PCs, and smartphones. Certain of Applied's R&D and manufacturing facilities, as well as suppliers to Applied, are also located outside the United States, including in Singapore, Taiwan, China, Korea, Israel, Germany and Italy. Applied is also expanding its business and operations in new countries. The global nature of Applied's business and operations, combined with the need to continually improve the Company's operating cost structure, presents challenges, including but not limited to those arising from:

- varying regional and geopolitical business conditions and demands;
- political and social attitudes, laws, rules, regulations and policies within countries that favor domestic companies over non-domestic companies, including customer- or government-supported efforts to promote the development and growth of local competitors;
- customer- or government-supported efforts to influence Applied to conduct more of its operations and sourcing in a particular country, such as Korea and China;
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variations among, and changes in, local, regional, national or international laws and regulations (including intellectual property, labor, tax, and import/export laws), as well as the interpretation and application of such laws and regulations;

- global trade issues, including those related to the interpretation and application of import and export licenses, as well as international trade disputes;

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- positions taken by governmental agencies regarding possible national commercial and/or security issues posed by international business operations;
- fluctuating raw material, commodity, energy and shipping costs or shipping delays;
- challenges associated with managing more geographically diverse operations and projects, which require an effective organizational structure and appropriate business processes, procedures and controls;
- a more diverse workforce with different experience levels, cultures, customs, business practices and worker expectations;
- variations in the ability to develop relationships with local customers, suppliers and governments;
- fluctuations in interest rates and currency exchange rates, including the relative strength or weakness of the U.S. dollar against the Japanese yen, euro, Taiwanese dollar, Israeli shekel or Chinese yuan;
- the need to provide sufficient levels of technical support in different locations around the world;
- political instability, natural disasters (such as earthquakes, floods or storms), pandemics, social unrest, terrorism or acts of war in locations where Applied has operations, suppliers or sales, or that may influence the value chain of the industries that Applied serves;
- the need for an effective business continuity plan if a disaster or other event occurs that could disrupt business operations;
- the need to regularly reassess the size, capability and location of global infrastructure and make appropriate changes;
- cultural and language differences;
- difficulties and uncertainties associated with the entry into new countries;
- hiring and integration of an increasing number of new workers, including in countries such as India and China;
- the increasing need for the workforce to be more mobile and work in or travel to different regions;
- uncertainties with respect to economic growth rates in various countries; and
- uncertainties with respect to growth rates for the manufacture and sale of semiconductors, displays and solar PVs in the developing economies of certain countries.

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

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

Applied has made, and in the future may make, acquisitions of or investments in companies, technologies or products in existing, related or new markets for Applied. Business combinations, acquisitions and investments involve numerous risks that vary depending on their scale and nature, including but not limited to:

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

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- failure to commercialize purchased technologies;
- initial dependence on unfamiliar supply chains or relatively small supply partners;
- inability to capitalize on characteristics of new markets that may be significantly different from Applied's existing markets and where competitors may have stronger market positions and customer relationships;
- failure to attract, retain and motivate key employees;
- the potential impact of the announcement or consummation of a proposed transaction on relationships with third parties;
- potential changes in Applied's credit rating, which could adversely impact the Company's access to and cost of capital;
- reductions in cash balances and/or increases in debt obligations to finance activities associated with a transaction, which reduce the availability of cash flow for general corporate or other purposes;
- exposure to new operational risks, rules, regulations, worker expectations, customs and practices to the extent acquired businesses are located in regions where Applied has not historically conducted business;
- challenges associated with managing new, more diverse and more widespread operations, projects and people;
- inability to obtain and protect intellectual property rights in key technologies;
- inadequacy or ineffectiveness of an acquired company's internal financial controls, disclosure controls and procedures, and/or environmental, health and safety, anti-corruption, human resource, or other policies or practices;
- impairment of acquired intangible assets and goodwill as a result of changing business conditions, technological advancements or worse-than-expected performance of the segment;
- the risk of litigation or claims associated with a proposed or completed transaction;
- unknown, underestimated and/or undisclosed commitments or liabilities; and
- the inappropriate scale of acquired entities' critical resources or facilities for business needs.

Applied also makes strategic investments in other companies, including companies formed as joint ventures, which may decline in value and/or not meet desired objectives. The success of these investments depends on various factors over which Applied may have limited or no control and, particularly with respect to joint ventures, requires ongoing and effective cooperation with strategic partners. The risks to Applied's strategic investment portfolio may be exacerbated by unfavorable financial market and macroeconomic conditions and, as a result, the value of the investment portfolio could be negatively impacted and lead to impairment charges.

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

As part of its growth strategy, Applied must successfully expand into related or new markets and industries, either with its existing products or with new products developed internally or obtained through acquisitions. The entry into different markets involves additional challenges, including those arising from:

- the need to devote additional resources to develop new products for, and operate in, new markets;
- the need to develop new sales and technical marketing strategies, cultivate relationships with new customers and meet different customer service requirements;
- differing rates of profitability and growth among multiple businesses;
- Applied's ability to anticipate demand, capitalize on opportunities, and avoid or minimize risks;
- the complexity of managing multiple businesses with variations in production planning, execution, supply chain management and logistics;
- the adoption of new business models, business processes and systems;
- Applied's ability to rapidly expand or reduce its operations to meet increased or decreased demand, respectively, and the associated effect on working capital;
- new materials, processes and technologies;
- the need to attract, motivate and retain employees with skills and expertise in these new areas;
- new and more diverse customers and suppliers, including some with limited operating histories, uncertain and/or limited funding, evolving business models and/or locations in regions where Applied does not have, or has limited, operations;
- new or different competitors with potentially more financial or other resources, industry experience and/or established customer relationships;

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- entry into new industries and countries, with differing levels of government involvement, laws and regulations, and business, employment and safety practices;
- third parties’ intellectual property rights; and
- the need to comply with, or work to establish, industry standards and practices.

In addition, Applied from time to time receives funding from United States and other government agencies for certain strategic development programs to increase its research and development resources and address new market opportunities. As a condition to this government funding, Applied may be subject to certain record-keeping, audit, intellectual property rights-sharing and/or other obligations.

Manufacturing interruptions or delays could affect Applied’s ability to meet customer demand and lead to higher costs, while the failure to estimate customer demand accurately could result in excess or obsolete inventory.

Applied’s business depends on its timely supply of equipment, services and related products that meet the rapidly changing technical and volume requirements of its customers, which depends in part on the timely delivery of parts, components and subassemblies (collectively, parts) from suppliers, including contract manufacturers. Some key parts are subject to long lead-times and/or obtainable only from a single supplier or limited group of suppliers, and some sourcing or subassembly is provided by suppliers located in countries other than the countries where Applied conducts its manufacturing, including China and Korea. Cyclical industry conditions and the volatility of demand for manufacturing equipment increase capital, technical, operational and other risks for Applied and for companies throughout its supply chain. Further, these conditions may cause some suppliers to scale back operations, exit businesses, merge with other companies, or file for bankruptcy protection and possibly cease operations. Applied may also experience significant interruptions of its manufacturing operations, delays in its ability to deliver products or services, increased costs or customer order cancellations as a result of:

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

If a supplier fails to meet Applied’s requirements concerning quality, cost, socially-responsible business practices, or other performance factors, Applied may transfer its business to alternative sources, which could entail manufacturing delays, additional costs, or other difficulties. In addition, if Applied needs to rapidly increase its business and manufacturing capacity to meet increases in demand or expedited shipment schedules, this may exacerbate any interruptions in Applied’s manufacturing operations and supply chain and the associated effect on Applied’s working capital. Moreover, if actual demand for Applied’s products is different than expected, Applied may purchase more/fewer parts than necessary or incur costs for canceling, postponing or expediting delivery of parts. If Applied purchases inventory in anticipation of customer demand that does not materialize, or if customers reduce or delay orders, Applied may incur excess inventory charges.

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The ability to attract, retain and motivate key employees is vital to Applied's success.
Applied's success, competitiveness and ability to execute on its global strategies and maintain a culture of innovation depend in large part on its ability to attract, retain and motivate key employees, especially in critical positions. Achieving this objective may be difficult due to many factors, including fluctuations in global economic and industry conditions, management changes, Applied's organizational structure, hiring practices of competitors and other companies, cost reduction activities (including workforce reductions and unpaid shutdowns), availability of career development opportunities, the ability to obtain necessary authorizations for workers to provide services outside their home countries, and the effectiveness of Applied's compensation and benefit programs, including its share-based programs. Restructuring programs present particular challenges to the extent they involve the departure of knowledgeable and experienced employees and the resulting need to identify and train existing or new workers to perform necessary functions, which may result in unexpected costs, reduced productivity, and/or difficulties with respect to internal processes and controls.
Applied is exposed to various risks related to protection and enforcement of intellectual property rights.
Applied's success depends in significant part on the protection of its intellectual property and other rights. Infringement of Applied's rights by a third party, such as the unauthorized manufacture or sale of equipment or spare parts, could result in uncompensated lost market and revenue opportunities for Applied. Policing any unauthorized use of intellectual property is difficult and costly and Applied cannot be certain that the measures it has implemented will prevent misuse. Applied's intellectual property rights may not provide significant competitive advantages if they are circumvented, invalidated, rendered obsolete by the rapid pace of technological change, or if Applied does not adequately protect or assert these rights or obtain necessary licenses on commercially reasonable terms. Furthermore, the laws and practices of other countries, including China, India, Taiwan and Korea, permit the protection and enforcement of Applied's rights to varying extents, which may not be sufficient to adequately protect Applied's rights. In addition, changes in intellectual property laws or their interpretation, such as recent changes in U.S. patent laws, may impact Applied's ability to protect and assert its intellectual property rights, increase costs and uncertainties in the prosecution of patent applications and enforcement or defense of issued patents, and diminish the value of Applied's intellectual property.

Applied is exposed to risks related to cybersecurity threats and incidents.
In the conduct of its business, Applied collects, uses, transmits and stores data on information technology systems. This data includes confidential information belonging to Applied or its customers or other business partners, as well as personally-identifiable information of individuals. Applied has experienced, and expects to continue to be subject to, cybersecurity threats and incidents, ranging from employee error or misuse to individual attempts to gain unauthorized access to information systems to sophisticated and targeted measures known as advanced persistent threats, none of which have been material to the Company to date. Applied devotes significant resources to network security, data encryption and other measures to protect its systems and data from unauthorized access or misuse. However, depending on their nature and scope, cybersecurity incidents could result in business disruption; the misappropriation, corruption or loss of confidential information and critical data (Applied's and that of third parties); reputational damage; litigation with third parties; diminution in the value of Applied's investment in research, development and engineering; data privacy issues; and increased cybersecurity protection and remediation costs.

Applied is exposed to various risks related to legal proceedings.
Applied from time to time is, and in the future may be, involved in legal proceedings or claims regarding patent infringement, intellectual property rights, antitrust, environmental regulations, securities, contracts, product performance, product liability, unfair competition, misappropriation of trade secrets, employment, workplace safety, and other matters. Applied also on occasion receives notification from customers who believe that Applied owes them indemnification or other obligations related to claims made against such customers by third parties.
Legal proceedings and claims, whether with or without merit, and associated internal investigations, may (1) be time-consuming and expensive to prosecute, defend or conduct; (2) divert management's attention and other Applied resources; (3) inhibit Applied's ability to sell its products; (4) result in adverse judgments for damages, injunctive

relief, penalties and fines; and/or (5) negatively affect Applied’s business. There can be no assurance regarding the outcome of current or future legal proceedings, claims or investigations.

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

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

In addition, Applied must regularly implement or update comprehensive programs and processes to better align its global organizations, including initiatives to enhance its supply chain and improve back office and information technology infrastructure for more efficient transaction processing. The implementation of new processes and additional functionality to the existing systems entails certain risks, including difficulties with changes in business processes that could disrupt Applied's operations, such as its ability to track orders and timely ship products, project inventory requirements, manage its supply chain and aggregate financial and operational data. During transitions Applied must continue to rely on legacy information systems, which may be costly or inefficient, while the implementation of new initiatives may not achieve the anticipated benefits and may divert management's attention from other operational activities, or have other unintended consequences.

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

Applied may incur impairment charges to goodwill or long-lived assets.

Applied has a significant amount of goodwill and other acquired intangible assets related to acquisitions. Goodwill and purchased intangible assets with indefinite useful lives are not amortized, but are reviewed for impairment annually during the fourth quarter of each fiscal year, and more frequently when events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The review compares the fair value for each of Applied's reporting units to its associated carrying value, including goodwill. Factors that could lead to impairment of goodwill and intangible assets include adverse industry or economic trends, reduced estimates of future cash flows, declines in the market price of Applied common stock, changes in Applied's strategies or product portfolio, and restructuring activities. Applied's valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and projections of future operating performance. Applied may be required to record future charges to earnings during the period in which an impairment of goodwill or intangible assets is determined to exist.

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

As a global company, Applied is subject to taxation in the United States and various other countries. Significant judgment is required to determine and estimate worldwide tax liabilities. Applied's future annual and quarterly tax rates could be affected by numerous factors, including changes in the: (1) applicable tax laws; (2) amount and composition of pre-tax income in countries with differing tax rates; (3) plans of the Company to indefinitely reinvest certain funds held outside of the U.S.; and (4) valuation of Applied's deferred tax assets and liabilities. As of July 26, 2015, Applied intends to permanently reinvest approximately $2.4 billion of these funds outside of the U.S. and does not plan to repatriate these funds.

To better align with the international nature of its business, Applied conducts certain manufacturing, supply chain, and other operations in Asia, bringing these activities closer to customers and reducing operating costs. Applied has received authorization to use tax incentives that provide that income earned in certain countries outside the U.S. will be subject to tax holidays or reduced income tax rates. To obtain the benefit of these tax incentives, Applied must meet requirements relating to various activities. Applied's ability to realize benefits from these incentives could be materially affected if, among other things, applicable requirements are not met or Applied incurs net losses for which it cannot claim a deduction.

In addition, Applied is subject to regular examination by the Internal Revenue Service and other tax authorities, and from time to time initiates amendments to previously filed tax returns. Applied regularly assesses the likelihood of favorable or unfavorable outcomes resulting from these examinations and amendments to determine the adequacy of its provision for income taxes, which requires estimates and judgments. Although Applied believes its tax estimates are reasonable, there can be no assurance that the tax authorities will agree with such estimates. Applied may have to engage in litigation to achieve the results reflected in the estimates, which may be time-consuming and expensive. There can be no assurance that Applied will be successful or that any final determination will not be materially different from the treatment reflected in Applied's historical income tax provisions and accruals.

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

Applied is subject to environmental and safety regulations in connection with its global business operations, including but not limited to: regulations related to the development, manufacture and use of its products; recycling and disposal of materials used in its products or in producing its products; the operation of its facilities; and the use of its real property. The failure or inability to comply with existing or future environmental and safety regulations, such as those related to climate change, could result in: (1) significant remediation liabilities; (2) the imposition of fines; (3) the suspension or termination of the development, manufacture, sale or use of certain of its products; (4) limitations on the operation of its facilities or ability to use its real property; and/or (5) a decrease in the value of its real property.

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

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

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table provides information as of July 26, 2015 with respect to the shares of common stock repurchased by Applied during the third quarter of fiscal 2015.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Aggregate Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Program*	Maximum Dollar Value of Shares That May Yet be Purchased Under the Program*
	(In millions, except per share amounts)				
Month #1 (April 27, 2015 to May 24, 2015)	3.0	$20.10	$61	3.0	$ 2,939
Month #2 (May 25, 2015 to June 21, 2015)	12.2	$20.02	244	12.2	$ 2,695
Month #3 (June 22, 2015 to July 26, 2015)	16.9	$18.96	320	16.9	$ 2,375
Total	32.1	$19.47	$625	32.1	

* On April 26, 2015, the Board of Directors approved a common stock repurchase program authorizing up to $3.0 billion in repurchases over the three years ending April 2018.

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Item 6. Exhibits

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

Exhibit No.	Description	Incorporated by Reference Form	File No.	Exhibit No.	Filing Date
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†				
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002†				
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002‡				
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002‡				
101.INS	XBRL Instance Document‡				
101.SCH	XBRL Taxonomy Extension Schema Document‡				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document‡				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document‡				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document‡				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document‡				

† Filed herewith.

‡ Furnished herewith.

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SIGNATURES

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

APPLIED MATERIALS, INC.

By:	/s/ ROBERT J. HALLIDAY Robert J. Halliday Senior Vice President, Chief Financial Officer (Principal Financial Officer)
August 20, 2015	
By:	/s/ CHARLES W. READ Charles W. Read Corporate Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)
August 20, 2015	